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## Oil Basins' softly, softly approach

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**MELBOURNE-based newcomer Oil Basins Limited has opted for a low-key, softly softly approach to its initial exploration program, but that does not mean it has shied away from a challenge. By RICK WILKINSON**



WILKINSON

The company's first well, expected during the third quarter of this year, will be an attempt to reverse the industry's frustratingly poor record in the onshore Canning Basin of Western Australia.

It has also forged a skilful 'options' deal for entry into a permit in Victoria's offshore Gippsland Basin.

Everything about OBL points to a carefully considered campaign. The company is being restructured and recapitalised from the shell of a former IT outfit called Saxon Investment Group whose shares on the ASX have been suspended for more than a decade.

The name was changed to Oil Basins Ltd early this month. Then a prospectus was issued inviting existing and new shareholders to participate in raising up to \$6.37m for an exploration program initially comprising two wells – one in the Canning Basin, flowed by one in offshore Gippsland.

Patersons Securities has underwritten a minimum requirement for \$2.5m. Patersons director of corporate finance Neil Doyle says OBL's capital structure will be tight.

"ASX waivers have enabled the recapitalisation to proceed by way of a three-for-two rights issue at 20c a share with options attached," he said.

"At minimum take-up, there will only be 33.74 million shares and 33.4m options. If the full \$6.37m is raised, there will be just 53.1m shares and 43.1m options."

Doyle himself is one of OBL's key instigators and a non-executive director of the reborn entity.

He is a qualified engineer with upstream operations experience at BHP Petroleum and Esso Australia and downstream operations with Shell. Later, he moved into senior management roles with several resource groups (notably Bell Resources) and investment banks (including JP Morgan). He has been largely responsible for assembling the company's portfolio and initiating the farm-ins.

Doyle is joined on the board in a non-executive capacity by solicitor Graeme Menzies of legal firm Menzies & Partners, who is also a director of Moby Oil & Gas and Octanex.

Sydney-based investment banker Kim McGrath, who was formerly with Bell Resources and Industrial Equity, and is now managing director of Delta Corporate Finance, is OBL executive chairman. McGrath is also chairman of Redbank Mines and Biolayer.

Experienced Melbourne-based geological consultant, Geoff Geary, will provide oil and gas expertise via a technical services agreement.

### **Canning Basin focus**

Doyle says OBL's Canning focus is very specific.

"We have farmed-in to the Blina Back Reef Play Joint Venture Area – the northeast sector of production licence L6 within permit EP129 – it's a 374 sq.km trapezium-shaped block northeast of the Blina oil field," he said.

"Our initial prospect, called Backreef, is in the trough between Blina and the Harold and Lukins wells of the 1980s," he said.

But Doyle is quick to point out the target is not a buried reef play like Blina as the reef plays in the Canning haven't worked well and even Blina hasn't lived up to its initial promise.

"Backreef is a stratigraphic play," he said.

"The seismic reflections in this area indicate the presence of interbedded alternating lithologies. The prospect is seen as an extensive sand lens that has been prognosed as a talus slope deposit formed behind the reef structure."

There are surface examples of the same type of feature not far away at Windjana Gorge, and several analogies around the world that host proven petroleum fields, according to Doyle.

"It's a high-risk long shot, but we're hoping this will be the key to an area where other play types have not delivered," he said.

If the target works there are several similar features in the block.

Licence L6 has recently been renewed for 21 years and doesn't need native title or environmental approvals for any new discoveries. The nearby Blina production system is under-used and Backreef could be brought onstream within months of any success.

The Backreef prospect was originally put forward by Kimberley Oil (now European Gas) in 2004 when Oilex was considering a farm-in, but the deal was never finalised. David Archibald, then Oilex managing director, is now involved with privately owned Perth company, Back Reef Oil, from which OBL is earning its 35% interest in the block.

Archibald is also a director of Canadian company Golden Dynasty Resources, the permit operator. OBL will pay for 70% of the Backreef-1 wildcat but costs are capped at \$1.5m, after which the group members will pay pro-rata.

Post-drill interests will be OBL (35%), Golden Dynasty (30%), Back Reef Oil (20%) and private individuals (15%).

### **Offshore Gippsland**

OBL's offshore Victorian permit is Vic/P41, which encircles but doesn't include, the Sole gas field in the eastern Gippsland Basin.

In early May, Doyle forged a deal with Eagle Bay Resources for the right to farm-in to 7.5% of the permit. A few days later, he negotiated an option for OBL to take up another 5% from Moby Oil & Gas.

This is an old-fashioned drilling option as there is no binding obligation to actually participate in a well. In fact, the combined deals can be looked at as an option on an interest in the permit itself.

"The 5% farm-in option with Moby can be exercised for an initial \$333,333 in payment of back costs," Doyle said.

"That will give us additional leverage on the potential prospective resources in the permit. However, the minimum raising of \$2.5m in our rights issue won't be enough to pay for participation in drilling any well in the permit after obligations in the Canning Basin are met.

"Clearly, the more we raise in excess of \$2.5m, the easier it will be to execute the Moby option and have sufficient additional funds for the permit commitments as they now stand."

To complete the 7.5% farm-in to Vic/P41, OBL will need to pay about \$2.45m towards the cost of a well (based on a total estimated well cost of \$13m).

Opting to take up the additional 5% from Moby will cost a further \$1.65m towards the cost of the well on Moby's account.

But neither financial decision is imminent because a well is not due until 2009. In any case, Doyle believes it is quite likely that financing will come from a third-party farminee.

"Vic/P41 has several strong prospects, including the Kipling, Benchley and Cotton fault closures that are on trend and analogous to the Kipper field to the west," he said.

"In addition, the Oscar lead is on trend with the nearby Basker/Manta fields."

Over the last two months, several larger explorers have shown an interest in this region, which could lead to a farm-in to the overall joint venture, according to Doyle.

"Whatever happens, OBL can keep going with its negotiated deals, or farm out a portion or, if necessary, drop out altogether," he said. "Much will depend on the outcome of our capital raising."

OBL hopes to complete the capital raising at the end of this month and rejoin the ASX in July.



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