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Rialto Energy Nails Down A New PSC Which Paves The Way For The Development Of The Gazelle Field In Cote d'Ivoire

Rob Shepherd, apart from being the new CEO of AIM and ASX-listed [Rialto Energy](#) is a droll and witty man with a good line in self depreciation. At the Oilbarrel conference last October 7 he said he would not be offended if some of the knowledgeable investors in the packed conference room started to walk out, “especially if you have been following the company for the past 18 months”. Rob was persuaded to join Rialto as interim CEO after a stint as CFO of Dominion Petroleum which was, like Rialto, focused on Africa. Dominion, of course was sold to London listed Ophir Energy in October 2011, a decision driven by funding challenges for the small cap trying to wildcat in deep water frontier areas

Joining Rialto must have been like jumping from the frying pan into the fire for Rob. As he said when he arrived at the company in October 2012, Rialto had been a “dog’s breakfast” since its 2012 debut on Aim. One of the reasons for the mess was the participation in the Starfish well offshore Ghana earlier this year. This was always a long shot and explorers will always drill more dry holes than they do discoveries. The problem at Rialto has been that its supposedly low risk wells on Block CI-202 offshore Cote d’Ivoire also proved disappointing. This meant Rialto had a severe funding problem and a PSC for the block with commitments it could not possibly meet

Since Rob’s arrival at the troubled Rialto, there has been a clear sweep at the top, G & A has been slashed, the dual listing is being reviewed, Vitol has been introduced as a partner, A\$14 million has been raised over the summer with the backing of key shareholders and the company has dealt with the painful issue of the overhanging rig contract, which led to a US\$11 million termination cost, on a US\$17 million fee arrangement for a rig that did nothing.

But then a turning point was reached. At the October conference Rob said he only felt brave enough to present at the gathering following September’s MoU with Vitol for a farm out on Block CI-202, which should pave the way for the renegotiation of the PSC. The MoU was an

important step because it should allow the development of the flagship field Gazelle gas field. But any development was contingent on the PSC being re-jigged.

Now the other shoe has dropped (just to mix my metaphors) in that the PSC has recently been renegotiated and this fulfils the last condition precedent to the completion of the MoU. The new PSC was signed in Abidjan on November 7. Rob has been full of praise for the helpfulness of the Cote d'Ivoire authorities and officials of the state owned oil and gas company PETROCI, which has an interest in the PSC.

Under the transaction Vitol has acquired 65 per cent of the shares in Rialto Cdl in exchange for providing US\$50 million of loan capital. The Vitol loan will fund the first US\$50 million of the Gazelle Field development work programme. This is good news if only because Vitol is technically experienced and well funded with assets in Rialto's area of operations in Cote d'Ivoire and Ghana.

But the Gazelle field is a material resource. Rialto is taking a conservative approach going for a low cost phased development targeting 40 bcf of 1P reserves and 80 bcf of 2P. It will take 14-18 months from the final investment decision to reach first gas.

But Vitol has not come in for a 40 bcf development and a US\$50 million investment. Total unrisks mean prospective recoverable resources have been estimated to be 897 mmbbl of liquids and 2,936 bcf of gas, suggesting significant exploration upside. Rob Shepherd says there are existing discoveries and shut-in fields as well as contingent resources in the immediate vicinity. The important thing Rob says is: "With the restructuring of the PSC we will have three years to drill our first exploration well compared to five months to drill two, which was the situation when I joined the company.