

Rialto CEO Interview Q3 FY13: High Impact Wells

Saturday, Feb 16 2013 by [Elias Jones](#)



Robert Shepherd, CEO Rialto Energy

Rialto Energy (LON:RIA) is a dual listed (ASX/AIM:RIA) oil and gas exploration company focused on the West Coast of Africa, notably in Ghana on a 12.5% participating interest alongside Ophir, and in Côte d'Ivoire, where Rialto is the Operator holding a 85% working interest in the CI-202 offshore block. Rialto Energy also hold a 12% working interest in the WA-399-P exploration permit, which is located in the Exmouth Sub-Basin on the North West Shelf, offshore Western Australia, alongside Apache the operators, where a commitment well is expected in 2014.

Rialto had a mixed year with the drill bit in 2012 and in November Rob Shepherd was appointed as interim Chief Executive Officer replacing Mr. Jeff Schrull who stepped down in order to relocate. Rob Shepherd previously held the position of Finance Director at AIM Listed, African focussed, Dominion Petroleum, which was acquired by Ophir Energy for around US\$220 million in February 2012.

Following the recent quarterly report and a visit to the Perth office, Rob Shepherd the Rialto Energy interim CEO has taken time out to discuss various aspects of the business, including, the West African licences, updated CPR, 2012 review, 2013 work programme and funding options.

As always, when looking at oil and gas exploration activity the risk element is high, and a dry or non-commercial well almost certainly results in a severe share price drop. Oil and gas exploration activity is also very costly business, hence the future economic outlook and the ability of an exploration company such as Rialto Energy to raise future capital to fund licence commitments along with its overheads also needs serious consideration, alongside factors such as oil/gas price risk, political risk, country/region stability etc.

Q1. Briefly, could you describe Rialto Energy's history, business model and mission?

As I only joined the Company in late November, I am probably not the most qualified to describe Rialto's history since inception. However, in terms of mission and business model, I think it is fundamentally about delivering optimum value to our shareholders. Our basic strategy is to identify and mature high impact exploration prospects and to mature potentially commercial discoveries. This does not mean we will always be drilling our prospects or developing our discoveries. If shareholder value can better be delivered by other means then we will look to pursue those options, but in the meantime the Company is set up to deliver value by moving forwards with its exploration and appraisal programme.

Some of the challenges we are currently facing arose due to the fact that the Company entered into a block where previous work had been carried out in some cases, three or four decades ago, and as a result, found itself having to drill the wells in 2012 without the benefit of the new blockwide 3D and modern interpretation techniques.

Given the fact that prior to Rialto's 2012 drilling campaign, 12 wells had previously been drilled on CI-202, (all of which had encountered hydrocarbons), it is apparent that source is clearly not the risk on the block. Rather, locating the thin sands is the challenge we face and this was not possible on the previously acquired seismic, but with the new data, we are confident that we can.

Q2. Why the focus on West Africa? And, how do you find operating in Ghana and Côte d'Ivoire, both with local stakeholders and the authorities?

West Africa is where the Company focused initially and it is where we see considerable opportunity to grow our business. There is no doubt over the geological opportunity in Africa – especially in the West Africa transform margin which is where Rialto's principal assets lie. From a personal standpoint, having previously been involved in other markets including the FSU, I find Africa is a place where you can do business. Certainly, Africa is alert to the significant place which it now holds in terms of satisfying the world's resources needs and the benefits these resources can bring to countries and local communities. Nations are working hard to develop a transparent and welcoming business environment.

Having previously been involved with East Africa, where the oil and gas business is relatively immature, it is very obvious to me that this is not the case in Cote D'Ivoire, which has both a well-established hydrocarbon industry and infrastructure. I have been fortunate enough to meet the Energy Minister, His Excellency M. Toungara twice since joining Rialto and I have been most impressed with his pragmatic approach to the issues we are facing and obvious willingness to engage with the industry as a whole.

With regards to Ghana, we only recently received approval to enter the Accra block so it is probably too early for us to comment, although it is clear that exciting things are happening in-country following notable recent discoveries. We are very excited to be part of it and look forward to our well in Q3 '13.

Q3. What is the environmental and social focus for Rialto Energy in the countries it operates in?

We seek to operate at the highest attainable standards and we are very proud of the fact that the International Finance Corporation (part of the World Bank) has acknowledged our operating standards and became a supportive cornerstone investor.

There is a rapidly growing domestic demand for energy in Cote D'Ivoire. We have a good relationship with the Government and work closely with Petroci, our partner and national oil company, to ensure that Rialto will play a pivotal role in helping the country meet that demand.

Like many companies, we have a strong focus on ensuring that the local communities where we work benefit from our involvement; we have therefore invested in education, health and other social improvement projects and our CSR footprint in the countries we operate in is a key consideration in everything we do.

Q4. Could you please sum up the exploration campaign and the seismic survey findings relating to the 2012 programme? Will the Hippo and Bubale discoveries find their way to market?

As previously highlighted, the newly interpreted block-wide 3D seismic has significantly improved our understanding of the geology of CI-202, enabling the identification of significant additional prospects and a better understanding of existing discoveries. We are currently working up five key prospects for drilling during 2013, and anticipate drilling between two (which is our minimum PSC commitment) and five, subject to financing.

With regards to the Hippo and Bubale discoveries, we do believe that these will find their way to market in time. The development of these discoveries, along with Gazelle which was the subject of the 2012 drilling programme, are currently being assessed as part of a wider regional infrastructure concept.

Q5. Rialto Energy has recently acquired a 12.5% interest in the Accra Block off of the coast of Ghana? What was the rationale behind this decision and what are your aspirations for the asset?

We are obviously very excited to have entered the block alongside Ophir Energy, and look forward to participating in the drilling of the Starfish prospect in Q3 this year, which on the previous operators numbers contains a gross mean unrisks recoverable resource of around 645 mln barrels (with an estimated chance of success of around 20%).

The entry into Ghana represents a diversification of our portfolio and a discovery at the Starfish well later this year could be truly transformational for Rialto and its shareholders

Q6. Could you please summarise the results of the recently published revised Resources Report and indicate how this information will be used with regard to future planning by Rialto?

The report, which summarised the work carried out by our independent auditor, RPS Energy, led to a 70% increase in the prospective resources on the block to around 1.4 bln boe (65% oil and 35% gas), with contingent resources of around 85 mmbbl. Most notable to me was the fact that the contingent resource at Gazelle represents only about 2% of the total contingent plus prospective resource on block. This is despite the fact that a lot of the negativity surrounding the Company has focused on the perceived disappointing results of the Gazelle campaign in 2012.

The resources report independently supports our belief that Rialto's block ci-202 is highly prospective, has been somewhat derisked by previous drilling and technical analysis and contains a significant number of exciting prospects and leads, some with relatively high chances of success in terms of exploration.

Q7. Could you please set out a rough timetable and forward programme concerning the Côte d'Ivoire licence and your aspirations for this project?

The Vantage Sapphire rig is on contract to us arriving in early May (based on the latest schedule) to drill between 2 and 3 wells as a base case. The rig is only four years old and is already drilling in Cote D'Ivoire. We are confident that given the chance to work with this excellent quality rig, Rialto's experienced drilling team can deliver a drilling campaign without the previous operational problems that those who have followed the Company will be aware of.

Aspirations are easy to set out: success in one or more of the prospects to be drilled, after which Rialto would of course be a wholly different company!

If we drill 3 wells, we would likely be drilling one gas and two oil prospects, which means we could be targeting total prospective mean gas resources of some 1.2 tcf and prospective mean oil resources of some 350 mmbbls.

In addition, success with any of these prospects could unlock the existing contingent oil and gas resources in Gazelle, Hippo, Bubale and Addax.

Q8. In terms of funding the planned work programme in Côte d'Ivoire and Ghana, have you received any potential farm out interest? Is it likely that a farm out partner will be found ahead of the planned Q2 Côte d'Ivoire exploration campaign?

We have most definitely received interest and now the challenge for us is to turn that into a firm deal that is in the best interests of shareholders.

We opened a data room in late November and could not realistically do so much earlier as we had not received the fully processed 3D data set. In addition, there is a great deal of technical data for companies to work through (15 wells and 3 seismic surveys) and this takes time.

The block will not be for everyone, but we remain hopeful that we will be able to complete a transaction prior to commencing the drilling campaign otherwise we will be forced to look to alternative funding options. We remain optimistic that we can execute a deal however, at this stage, it would be impossible to predict the likelihood, timing or possible structure of any potential farmout.

Q9. How do you see the financial demands relating to operating activities being met during 2013?

A value accretive farm out is our preference, and our main challenge is to ensure this is realised, although we clearly cannot guarantee that will be the case. Failing that, we need to consider whether we can raise additional finance from the equity markets, or even whether it is realistic for Rialto to remain in its current form.

Given the recent decline in share price, it does not make it easy for us to contemplate raising funds via the equity market, but in reality, even if we were forced to undertake a discounted fund raise, the upside potential value of the shares following success in any of the prospects that would then be drilled in 2013 is many times the current levels.

Rialto's management is committed to fully evaluating the economics of all available funding options and will ensure that value retention on behalf of our shareholders is a key consideration.

Q10. Why did Rialto decide to become a dual listed stock? And what do you make of the share price performance since the AIM listing?

From most peoples perspective, the UK market is probably the more natural home for West African oil companies, given the presence of the likes of Tullow, Bowleven and Ophir, but I think in reality the Company has not yet capitalised on the UK listing as much as it should have. Given my experience with Dominion Petroleum, I very clearly understand that people do not have to own our shares, and we have to work hard to get people to see why they should! Once funded, I have no doubt that liquidity will grow, the true potential of Rialto's shares will hopefully be realised and Rialto's AIM listing will be deemed a successful move in the long term!

Q11. Do the market makers in Australia and the UK work together to synchronise the SP? RIA similar to many AIM listed stocks does seem to suffer from the lack of liquidity issue.

From what I understand, the market makers don't work together to "synchronise" the share price hence this is why one sees price arbitrage opportunities in us and other dual-listed stocks. There is very little liquidity in the AIM-listing as the company has not completed any financing offerings whilst it has been listed on AIM so therefore the majority of the register is based out of Australia. We do however want to introduce more liquidity to the London-listing and see it as an important market for the company's stock.

Q12. It was noted in the recent Quarterly Report that Rialto is exploring potential new opportunities, can you explain a bit further as to the type of opportunity that fits into the Rialto corporate strategy and whether you have identified any new potential licences?

Rialto is a nimble operator with an entrepreneurial approach, however right now we need to address our existing commitments. Once we have, I am sure there will be many more opportunities for us to pursue, some of which have been identified in Cote D'Ivoire as well as other countries along the West Africa Transform Margin.

Q13. Finally, what feedback have you had from institutional shareholders with regards to the performance of Rialto Energy and what can shareholders look forward to over the next 12 to 18 months?

We have had very constructive feedback from the institutions we have seen in recent weeks, none of course are happy with the share price performance and some have reduced or else exited their positions; either as a result of general retrenchment from small illiquid stocks or some more specifically where they felt the risk profile of Rialto had moved from what was perceived to be a lower risk appraisal / development play to something more akin to an explorer.

It is easy for me to say, as I am looking at Rialto with fresh eyes, but I am genuinely impressed with the Company, its team and its asset base. I do believe Rialto is a great story, and in my humble opinion, if it was an IPO today, it would "fly out of the door."

In reality however, we have challenges to overcome in relation to funding our programme and so will not be for everyone. But, for those who can look through the perceived disappointment of last year and see the significant potential for 2013, there will hopefully be significant reward.

I cannot and will not make any promises, but we have a great team working hard to restore confidence in Rialto and unlock the significant potential we see – there cannot be many companies of our size or even several times larger that will be participating in the drilling of between three and six high impact wells in 2013.

Thanks Rob for taking the time to discuss the various business aspects and for sharing your thoughts.
@EliasJones1

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Please bear in mind that there are no certainties in the oil and gas exploration game and investing in exploration companies can be regarded as high risk investments. The interviewer holds shares in Rialto Energy