

Rialto Energy Set To Debut On AIM As Key Appraisal Wells Drill In Cote D'Ivoire

These may be challenging times but with oil holding firm over US\$100 a barrel, there remains a market appetite for oil and gas companies with a compelling story. The early months of 2012 have seen M&A activity heat up (witness the bidding war for AIM-quoted [Cove Energy](#)), AIM explorers successfully raise funding for their plans (note Providence's recent placing to raise US\$100 million), and new companies come to market, among them ASX-quoted [Rialto Energy](#), which plans to list on AIM on April 12.

This isn't a fundraising exercise – at least not yet – as Rialto successfully raised A\$83 million in early 2012 through an A\$20 million investment from the IFC and a two tranche A\$60 million equity placing. Analysts at Perth-based stockbrokers DJ Carmichael believe the AIM listing could be a “key catalyst” for the stock given the strong appetite for quality oil and gas companies on the AIM market.

Rialto's flagship project lies in the Cote d'Ivoire, where it has an 85 per cent interest in Block 202. This acreage has been worked up over recent decades (the last well on the block was drilled in 2000), with Rialto able to draw on a database of 13 wells, two 3D seismic surveys and over 20 production tests which have produced gas up to 37 million cubic feet per day and over 2,200 barrels per day of oil. This work has yielded four undeveloped oil and gas fields discovered in 1970s, 80s and 90s (the Gazelle, Hippo-1, Bubale and Addax discoveries).

The existing discoveries lie in shallow waters, less than 100 metres deep, and offer a low risk and relatively low cost route to first production. What's more, the numbers involved are material: a CPR of September 2011 suggests the block carries mean contingent resources of 50 million barrels and 396 BCF of gas, with mean prospective resources of 511 million barrels and 1.8 TCF of gas. The block is part of the West African transform margin, the exciting new play opened up by Kosmos Energy and [Tullow Oil](#); indeed it lies just 80 km west of Tullow's breakthrough Jubilee oilfield in deepwater Ghana.

Gazelle is the first discovery off the blocks. A two-well appraisal programme is now underway at Gazelle to convert 2C resources of 14 million barrels and 266 BCF of gas into reserves to help confirm a commercially viable reserve base and to target the deeper Condor gas exploration prospect. The information from these wells will feed into a final investment decision in the second half of this year. If the results greenlight the development, then Rialto hopes to bring the field into production in Q4 2013 with initial production of 8,000 bpd and 10 million cf/d, with capacity to ramp up to 40,000 bpd and 230 million cf/d. Successful exploration could lift production to 70,000 boepd by 2017.

Phase 1 of the development is expected to come in at around A\$350 million, which does leave something of a funding gap going forward. With a hefty 85 per cent equity position, however, Rialto does have some financial flexibility to bring in industry partners to help shoulder the development burden. The secondary listing on AIM could also prove useful given London's appetite for African resource plays.

Oil is obviously the big prize but the gas is also in demand, with a current in-country gas deficit of 50-60 million cf/d and growing. In December 2011 Rialto signed a gas sales MOU for the supply of up to 100 million cf/d for seven years, establishing commercial gas off-take rates and underpinning the Gazelle development.

The two Gazelle appraisal wells will be followed by a high impact exploration well on the Chouette prospect, targeting 84 million barrels of oil and 42 BCF of gas. If successful, this offers the opportunity for near field upside and, importantly, would derisk the Hippo and Bubale discoveries, which are analogues of Chouette. This raises the possibility of a cluster development via the Gazelle hub.

This is ambitious stuff. Although the company has minority interests in projects in Ghana and Australia, it is very exposed to the success, or otherwise, of its Block 202 venture. It helps that Rialto has a highly capable management team, well versed in operating West Africa. A number of the team come from Addax Petroleum, which grew into an African E&P powerhouse and was acquired by China's Sinopec in 2009 for C\$8.3 billion. Rialto's managing director Jeff Schrull was head of exploration at Addax between 2006 and 2010, having previously spent 18 years at Chevron while non-exec Vance Querio, another Chevron alumni, was chairman and MD of Addax in Nigeria during the years it was pumping over 110,000 bpd and had a budget of over US\$1 billion a year. Other names will also be familiar to City regulars: non-executive chairman Bruce Burrows, for example, was the former FD of JKK Oil & Gas.

Analysts at Macquarie Research in Australia reckon Rialto itself could be a target of takeover activity in the region further down the line. "Growing industry interest in the West African Transform Margin has to date been focused on the deep water Late Cretaceous fan plays made famous by the Jubilee discovery in 2008," the analysts noted last month, initiating coverage of the stock with an Outperform rating. "In light of a backdrop of a stabilising political landscape in Cote d'Ivoire and given its operating interest in CI-202, RIA appears well placed to benefit from this increasing M&A activity."

Given the industry's apparently insatiable appetite for African oil and gas stories, this could be one to watch going forward...