Entek Energy Ltd

(ETE $0.12) Spec. Buy, Initiation of Coverage

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

7 April 2011

Euroz Securities declares that it has acted as Placement Agent to Entek Energy Ltd for the purpose of the announced capital raising. Euroz Securities will receive a fee for these services.

Euroz Securities declares that it has acted/ or intends to act as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Entek Energy Ltd during the last year. Euroz Securities has received a fee for these services.

This analyst also declares that he has a beneficial interest in Entek Energy Ltd.

Investment Highlights

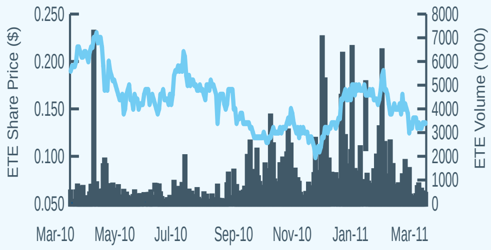
- ETE has a sizeable 30,000 acre position in the emerging Niobrara oil shale in the Green River Basin, US.
- A 7 well program focused on its Niobrara play and the Gulf of Mexico (GOM) is scheduled to kick-off mid-year.
- ETE is the cheapest ASX exposure to a US oil shale play – valued at ~$1,133 acre (v's its peer average of > $15,000 acre) and EV/3P reserve metric of $2/boe.
- "Proof of concept" in ETE's oil shale acreage is underway, the value uplift over the next year could be large as meaningful production and 1P and 2P reserves are established and other operators in the area achieve results.
- Key positives for ETE's Niobrara acreage are shale thickness (>1,000 ft), natural fracturing, attractive lease terms (10 years) and infrastructure in the area – as a result Shell, EOG and Anadarko have all been active on adjacent acreage.
- Niobrara IP's of 200-500 bopd and recoveries of >200 kbbls are achievable based on analogue results – with well costs of US$2.5m (vertical, fully completed and tied-in) economics are robust and quick paybacks should be achieved.
- A poor 2010 operationally has provided an opportunity to invest in ETE at these levels, given the rapid advancement in drilling and completion technologies in the unconventional reservoirs.
- A new management and board with a track record of oil & gas success gives us confidence in a strong turn around.
- ETE has signaled its intention to focus its Gulf of Mexico acreage (currently eleven shallow water blocks) on higher impact opportunities. The VR 341/342 Blocks (ETE 50%) hold material upside with an appraisal/development well to be drilled mid-year.
- The current $25m capital raising will ensure ETE is well capitalized to fund its activity program and realize significant growth from both asset positions in the US.
- Our valuation and price target is $0.27/sh based on a re-rating of its acreage this year as Niobrara drilling and production results emerge. Our upside case is >$0.70/sh.

Market Statistics*

Share Price	**0.12 A$/sh**
Issued Capital	
FP Ord	510.6m
Opts (@ $0.42sh)	12.8m
Total Dil. FPOrd	**523.4m**
Market Capitalisation	$61m
Enterprise Value	$34m
Year Hi-Lo	$0.24 - $0.10
Debt	nil
Cash	$27m
Valuation	$0.27/sh

**Assumes successful raising of $25m via a placement of 120.8m shares @ $0.12/sh and entitlement issue of 102.1m shares @ $0.105/sh.*

Share Price Performance



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United Kingdom	08 000 929 851

Executive Summary

Cheapest proven shale exposure, momentum to build

ETE is the cheapest ASX exposure to a proven oil shale project in the US – Niobrara appraisal is underway in a productive basin. We envisage the share price will reflect the considerable upside as operating results are converted into production, reserves and ultimately cash flows. Upcoming drilling results in the Niobrara (both ETE and other operators) will be significant milestones as the company begins to build momentum.

ETE hold a 55% operating position over its Niobrara acreage in the Green River Basin.

Niobrara oil shale

The Niobrara oil shale reservoir is blanket across ETE's gross ~65,000 acre position. Reservoir depths range from 6 – 8,000 ft with up to 1,000 ft of Niobrara thickness. It is common for 150-300 ft of reservoir to flow naturally.

Upcoming drilling program

The 6 well Niobrara program this year is designed to evaluate and test the Niobrara via optimal vertical and possibly horizontal wells. Vertical well costs are estimated at US$2.5m (completed and fracced) with horizontal wells up US$5.5m. This program has the potential to enhance the value of ETE's acreage significantly, before ETE look to farm down its acreage to a more capable operator prior to implementing a full development program.

The Dec H'11 program comprises: directional twin tests of Robidoux 13-15 and Battle Mountain 14-15; a sidetrack of Butter Lake 32-10 (all of which underperformed last year due to the poor condition, position or completion of previous well-bores); a new horizontal well may be drilled at Focus Ranch 3-1; and a retest of the most successful well to date Focus Ranch 12-1 which tested 240 bopd and 2.75 mmcf/day.

Production expectations

Our expectations of ETE's Niobrara acreage (vertical wells initially) is for initial flow rates of 200-500 bopd and an Estimated Ultimate Recovery (EUR) per well of >200 kbbls – this is based on other wells nearby and reservoir characteristics known so far from other Niobrara oil wells in the region. The optimum completions via vertical or horizontal wells and the frac designs will take a number of years to be established.

Analogues

Production from the Buck Peak and Sierra Madre fields (Anadarko), which are sizeable Niobrara fields adjacent and on trend to ETE's acreage, has been >400 bopd (IP) from unstimulated vertical wells (the closest analogue is the Seirra Madre 12-20 vertical well which IP'ed at 549 bopd and 135 mcfgpd and has cumulative production of >350 kboe to-date). This gives ETE confidence of successful vertical or horizontal well completions in the upcoming program – localized fracture orientations may dictate the completions and fracturing techniques.

Potential economics

Project economics should be robust with an estimated well payout within 12-24 months and IRR's of >50% depending on a number of factors including oil prices, well costs and flow rates over the first year. This compares favourably with the Bakken and Eagle Ford shales.

CBM

Whilst we are ambivalent on ETE's CBM production (overlying the Niobrara), it does have the potential to improve if gas prices rise sharply and the cheap wells (~US$500k) can be used to hold acreage if necessary.

Reserves and Resources

ETE has net 3P reserves of 16.6 mmboe (@ 55% interest) in the Green River Basin associated with the Niobrara shale. At this stage, modest 1P and 2P reserves exist as they are only attributed to the successful Focus Ranch 12-1 well because the three other productive wells have not been tested for long enough. ETE's net contingent resources of 103 mmbbls and 105 bcf, represent a 4% recovery from the Niobrara on ETE's acreage – an 8% recovery is possible giving a 2x uplift.

We have summarized the ETE's reserves and resource position in the table below:

Net Reserves	Niobrara Oil Shale	Gulf of Mexico
1P Reserves	1 MMBO & 10 BCFG	1.25 MMBO & 15 BCFG
2P Reserves	3 MMBO & 27 BCFG	2.4 MMBO & 27 BCFG
3P Reserves	8 MMBO & 57 BCFG	3.8 MMBO & 46 BCFG
C & P Resource	94 MMBO & 96 BCFG	13 MMBO & 40 BCFG

Source: Entek Energy

Leasing prices increasing

Leasing activity in the area has risen sharply in the last 6-12 months with large companies like Shell and EOG increasing positions and pushing lease prices from ~US$50/acre to >US$300/acre currently. This is usually the first sign of a rapid increase in the value of an unconventional acreage position – the ultimate price will be dependent on the quality/ productivity of the reservoir using specific completion technology.

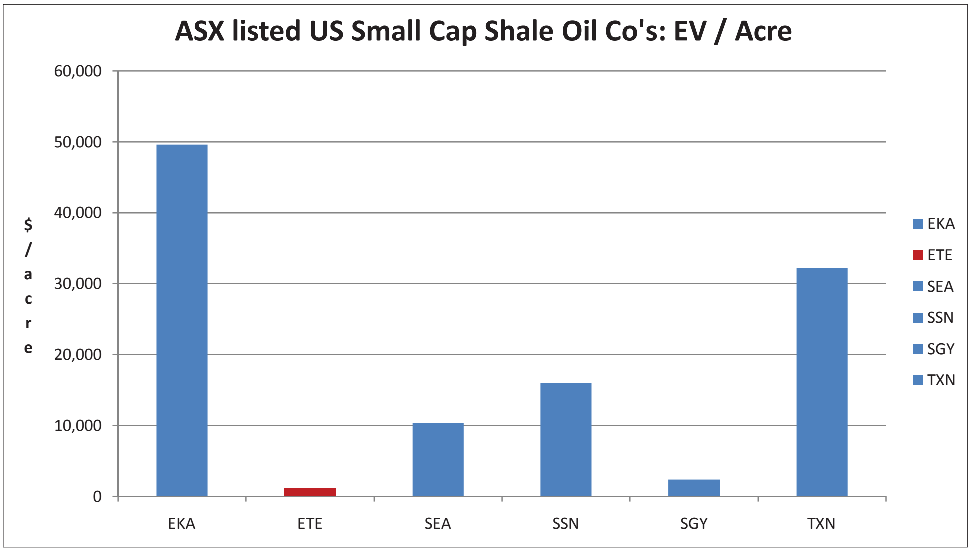
In ETE's core Niobrara asset, Emerald Oil & Gas (EMR.ASX) is in the process of acquiring ~25,000 acres (45%) from JV partner New Frontier Energy for $10m cash and $5m scrip, which equates to $500-750/acre. The price is well above the US$80/acre average price for ETE's lease acquisitions. We understand Shell is currently offering landowners in the area >US$350/acre.

Recent Niobrara transactions

Other recent Niobrara transactions include: CNOOC's acquisition of Chesapeake interest for US$4,800/acre cash and carry; SEA farm out to Halliburton for US$2,500/acre; SSN farm out to Halliburton for US$3,275/acre. Based on these transactions, we see a target acreage value for ETE's operated interest of ~US$3,000 / acre as achievable as production increases in and around ETE's acreage – this would underwrite a >$0.20/sh valuation.

Cheap v's peers

ETE is very cheap v's its small cap peers (<$1bn) based on the EV/acre chart below. Also, on an EV/3P and EV/resource metric of $2.0 and $0.3 / boe respectively, it is cheap v's all comers.



Source: Euroz

Increase reserves = increase value?

Based on the table below, it is clear that in the proven, productive oil shale projects, high EV/acre metrics apply to companies that have meaningful 1P and 2P reserves (ie. EKA, SEA and TXN). Even SSN, which is predominantly a Niobrara play, which has 1P and 2P reserves of 2.2 and 2.4 mmboe respectively is valued at >$15,000/acre. As ETE moves its 3P (18 mmboe) and resources (119 mmboe) through to 1P and 2P over the next 12-18 months large value upside exists to its modest $1,133/acre.

ASX Listed US Shale Oil Peer Comparison Table

Company	Eureka Energy	Entek Energy	Sundance Energy	Samson Oil & Gas	Solimar Energy	Texon Oil & Gas
ASX Code	EKA	ETE	SEA	SSN	SGY	TXN
Share Price (A$/sh)	0.39	0.12	0.94	0.18	0.09	0.90
Mk't Cap ($m)	80	61	260	302	31	157
EV ($m)	73	34	228	244	28	143
Location	Texas	Green R Basin	Williston/ DJ Basins	Williston/ DJ Basins	San Joaquin	Texas
Shale	Eagle Ford	Niobrara	Bakken/ Niobrara	Bakken/ Niobrara	Kreyenhagen	Eagle Ford
Net Acres	1,469	30,000	9,000 / 13,000	1,200 / 14,000	16,000	4,500
Shale Production	yes	yes	yes	yes	no	yes
Oil Prone	yes	yes	yes	yes	yes	yes
Gas Prone	yes	no	no	no	no	no
No. of Shale Projects	1	1	3	2	1	1
1P Reserve (mmboe)	2.2	2.5	6.8	2.2	na	1.7
2P Reserve (mmboe)	4.8	7.1	16.6	2.4	na	3.9
3P Reserve (mmboe)	9.6	16.6	na	na	na	6.7
Resource	na	108.5	na	na	na	na
EV/acre ($/acre)	49,604	1,133	10,360	16,032	1,754	31,822
EV / 1P reserve ($/boe)	33.1	13.6	33.5	110.8	na	84.2
EV / 2P reserve ($/boe)	15.2	4.8	13.7	101.5	na	36.7
EV / 3P reserve ($/boe)	7.6	2.0	na	na	na	21.4
EV / resource ($/boe)	na	0.3	na	na	na	na

Nb: Reserve/resource relate only to the companies equity component of the shale project

Source: Euroz

GOM: VR - 342 well is high impact

Drilling is scheduled to commence on the VR-342 Block (ETE 50%) in the GOM by mid-year. The well is an appraisal test (three wells previously drilled) confirming gross 3P volumes of 7.5 mmbbls oil and 9.5 bcf - flow rates of 500-1,000 bopd are achievable. On success, VR-342 has the potential to be worth >$0.10/sh – exceeding our current $29m or $0.06/sh nominal valuation for its entire GOM portfolio.

New board

A new board and management has been implemented to move ETE forward into a new stage of growth. Graham Riley (NE Chairman) and Alex Forcke (NED) have a proven track record with successful companies in ARC Energy and Eagle Ford producer Adelphi Energy (both acquired by AWE). Trent Spry (MD & CEO) is a geologist with experience at Woodside and BHP Petroleum.

Capital raising

The current $25m capital raising ensures ETE will be funded through its planned Niobrara appraisal program and has drilling funds to appraise its 7.5 mmbl VR-342 oil project. We anticipate Niobrara well results will provide a cash flow base and valuation uplift providing beneficial farm out terms over the next 12-18 months.

Corporate appeal

ETE is not without corporate appeal – if it can show the significant value of its Niobrara acreage over the next 12 months its 55% operated interest will be very attractive to a larger company wanting a meaningful position in the emerging oil play, particularly given recent deal flow and consolidation in the US shale oil/gas industry.

Key Risks

The key risks we see in ETE are:

- **Operating:** This is the primary risk we see in the evolution and growing value of ETE's Niobrara acreage. We are cognizant that ETE has limited skills needed to carry out a cost effective and technically competent program that will help accelerate the value of the acreage – we have seen this with other successful ASX shale companies (ie SEA and AUT) which both had difficult periods of evaluation before capable operators took the projects forward. Ultimately, the value of the acreage should increase materially but difficult periods may arise in the next 12-18 months.

  ETE has an operating team (3 and growing) in the US, led by 30 year Rockies Oil & Gas veteran Tim Hopkins. Working with service providers like Halliburton will be very important for ETE, as they hold the key to the current best drilling and completion techniques in the shales.

- **Oil prices:** Shale oil projects (Bakken / liquids rich Eagle Ford) in the US are typically economic at US$40-50/bbl – the Niobrara shale is likely to be no exception. We hold a positive view on oil prices with US$100/bbl flat our current WTI assumption from FY'12.

- Worth noting is the lower completed well costs ETE are exposed to in the Niobrara (US$2-5m) v's other shales (ie Eagle ford and Bakken >US$6m). This limits the downside on well failure (unlikely) and/or lower oil prices.

Valuation

Our valuation is $0.27/sh.

The valuation for ETE's Niobrara acreage is a 12 month target (US$3,000/acre based on net 30,000 acres) of what we see as fair value based upon peer comparison, sector analysis and relevant Niobrara shale transactions.

Our valuation includes a nominal $29m for ETE's GOM assets – this was calculated using a US$5/bbl in-ground value for ETE's 3P reserves at VR-342 (3.75 mbbls net) and $10m exploration value for the ten other blocks.

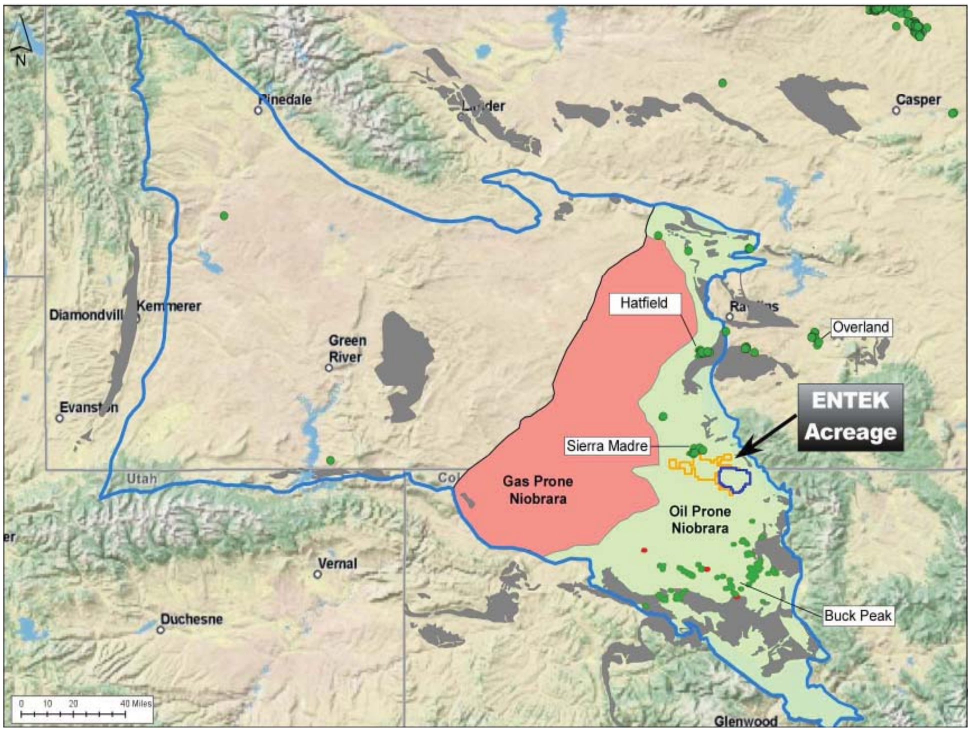
We have attributed no value for ETE's modest Cooper Basin position or other exploration at this stage.

We are assuming ETE successfully completes the current equity raising (223m shares raising $25m) spending $10m on Niobrara evaluation – leaving $17m cash.

Assets

Green River Basin, USA

ETE hold a 55% interest in ~65,000 acres prospective for emerging Niobrara oil shale straddling the boundary between Colorado and Wyoming.



Source: Entek Energy Ltd

The Niobrara Shale is analogous to the Bakken Shale in Montana/North Dakota and the liquids rich portion of the Eagle Ford Shale in Texas.

Thicknesses of Niobrara Shale underlying ETE's acreage are up to 1,000 ft – some of the thickest (most productive) sections in the region.

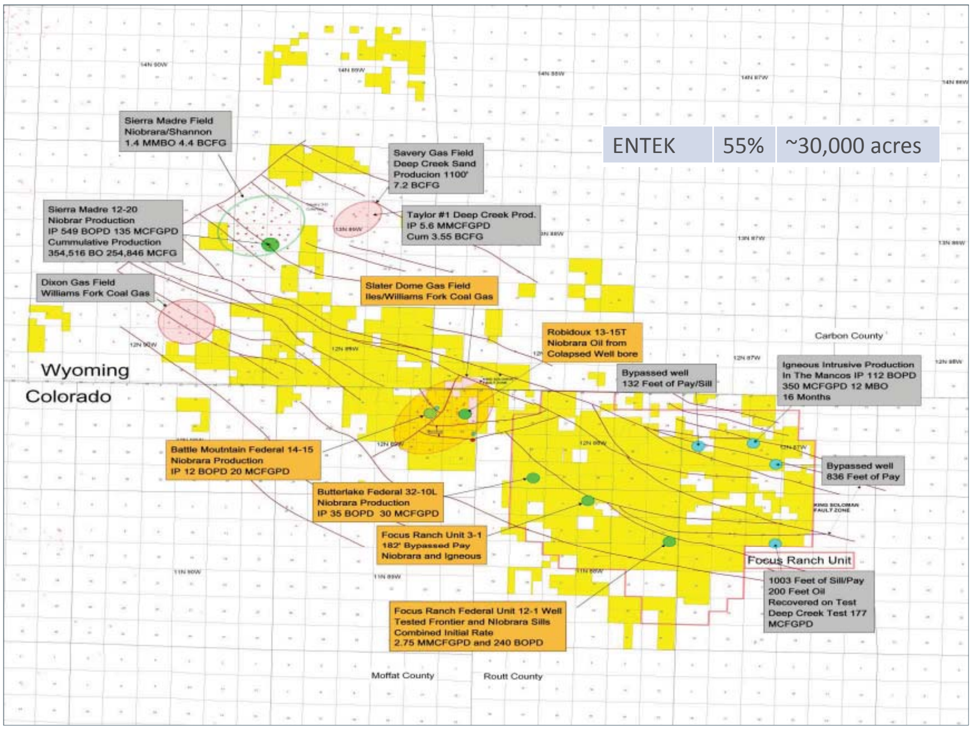
US independents Anadarko, Gulfport Energy, QEP Resources and EOG and major Shell are all active on acreage immediately surrounding ETE's.

Numerous conventional oil & gas reservoirs are also targeted (in the same wells) on structural highs defined by 2D seismic. These formations are higher on the stratigraphic profile than the Niobrara Shale at ~6,000ft (~2,000m).

Infrastructure is abundant in the area facilitating cheap and speedy tie-ins (<3 months from spud to oil sales).

Gross well costs are ~US$2.5 and US$5.5m (vertical and horizontal respectively) to complete in the Niobrara Shale – the expected flow rate from each well is 100-1,000 bopd initially, followed by an estimated long term decline of 10% pa. Recovery per well is expected to be >200 kbbls.

Niobrara Acreage Map



Source: Entek Energy Ltd

ETE lease terms and commitments are undemanding and flexible at 10 years (5 +5 option) and the Focus Ranch unit is held by production. There are limited drilling commitments to hold ETE's acreage making it even more attractive if there is a need to slow drilling expenditure down. The option of drilling CBM wells at ~US$500k is also available.

Natural fracturing is prevalent throughout ETE's acreage particularly around the regional faults which run NW/SE. Fracturing is particularly important as the Niobrara is underpressured throughout ETE's acreage. Understanding the optimal way to develop/ complete wells in this part of the Niobrara will be a key to ETE's ultimate success - our view is that 3D seismic will probably need to be acquired to better understand the sub-surface before full development is carried out.

Niobrara oil quality is 34-44° API and receives ~US$5/bbl discount to WTI – we expect this differential may diminish as Niobrara production increases in the region, as we have seen in the Williston Basin (Bakken Shale).

ETE plan to drill/re-test up to 6 appraisal/development wells in FY'12, followed by a larger development program from CY'12, potentially driven by an incoming operator.

The aim of the work program this year is to maximize the value of the acreage by establishing 1P and 2P reserves via optimal drilling, completions and production.

The planned work program at this stage for the Dec H'11 is:

- Directional twin of Battle Mountain 14-15 well
- Directional twin of Robidoux 13-15 well
- Sidetrack of the Butter Lake 33-10 well
- Re-entry and testing of the Focus Ranch 3-1 well
- Re-entry and testing of the Focus Ranch 12-1 well

The cost of this program net to ETE is expected to be $5-10m.

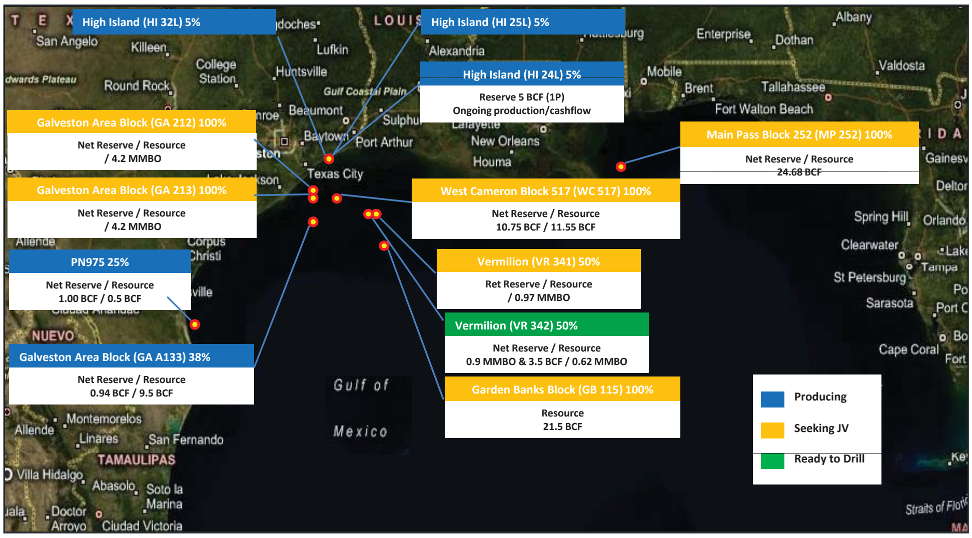
Gulf of Mexico, USA

ETE has a number of shallow water blocks in the Gulf of Mexico (GOM) ranging from low risk/low reward gas projects to high risk/high reward oil projects.

The GOM remains one of the most prolific areas in the US for conventional oil & gas. Following the Macondo oil disaster last year, tighter regulations (creating a longer process) for deep water drilling practices in-particular have been put in place. Shallow water acreage has largely remained unaffected.

Benefits of holding acreage in the GOM are: high success rates (>70%); high deal flow; large coverage of 3D seismic; and infrastructure rich.

GoM Portfolio



Source: Entek Energy Ltd

ETE has flagged it may divest some blocks in its GOM portfolio this year as it attempts to focus on higher reward oil prospects and its core Niobrara acreage.

Production currently comes from the High Island HI-24L (ETE 5%) which has been producing from two wells since 2007 and PN-975 (ETE 25%). The modest production from these assets nets ETE ~US$200k / month cash flow.

Going forward, ETE will focus on the prospective Vermilion Blocks VR-341 and 342 and Galveston Blocks 212 and 213 with experienced operators like Peregrine Oil & Gas.

VR-342 (50% ETE 50%, Peregrine O&G – operator): Prior drilling (3 wells) has discovered 7.5 mmbls and 9.5 bcf gross as verified by Netherland Sewell & associates. These volumes are undeveloped and will be appraised an upcoming well.

VR-341 (same interests as above): At this stage this block has not been drilled but based on 3D seismic, the main structure from the adjacent VR-342 stretches into the block.

Galveston Area Blocks: ETE will likely focus on GA-212 and 213 (ETE 100%) due to the prospectivity for oil. Seismic needs to be purchased (<US$0.5m) and interpreted before a decision to proceed or farm out.

GA-A133 (ETE 38%) is a single well development which was suspended in Jan'11. Other targets exist on the block that could be drilled in a higher gas price environment. Gas production could start in August based on the current development schedule.

Gross drilling costs for ETE's shallow water GOM blocks are estimated at US$5.5 – 7.5m per well.

At this stage we have attributed a nominal $29m for ETE's GOM acreage based on reserves and exploration – this could prove ultimately to be conservative.

Use of Funds

Evaluation/development of the Niobrara oil shale project	~$11 Million
Pursue additional acreage opportunities within Niobrara formation	~$5 Million
Gulf of Mexico apprasial/development work program	~$6 Million
Fund working capital and transaction cost	~$3 Million
	~$25 Million

Issued Capital

Fully paid ordinary shares	**287.7m**
Options (var ex @ $0.42 ave)	12.8m
Total Fully Diluted Capital (pre-raising)	**300.5m**
Equity Issue	
Placement (@ $0.12/sh)	120.8m
Entitlement Issue (1:4 @ $0.105/sh)	102.1m
Total Fully Diluted Capital (post-raising)	**523.4m**

Directors & Shareholdings

Director	Role	Fully Paid Ord	Options
Graham Riley	Non-Executive Chairman	2,000,000	nil
Trent Spry	Managing Director / CEO	475,000	1,000,000 (25c, ex 31/10/13) 1,000,000 (35c, ex 31/10/13) 2,000,000 (50c, ex 31/10/13)
Craig McGown	Non-Executive Director	550,000	625,000 (25c, ex 29/6/11) 625,000 (35c, ex 30/6/11)
Alex Forcke	Non-Executive Director	nil	nil
Andrew Padman	Non-Executive Director	800,000	500,000 (25c, ex 29/6/11) 500,000 (35c, ex 30/6/11)

Top 20 Shareholders

Entek Energy Ltd — **as at 23 March 2011**

No.	Shareholder	Shares (m)	(%)
1	Topspeed Pty Ltd	17.30	6.01
2	National Nominees Ltd	13.67	4.75
3	Mrs Janice Ivy Skinner	5.30	1.84
4	Pouvoir Pty Ltd	5.28	1.84
5	Ian Sandover & Associates Pty Ltd	5.10	1.77
6	Marilsand Pty Ltd	4.90	1.70
7	Mr Robert Francis Davies	4.32	1.50
8	Mr Kenneth John Bull	4.00	1.39
9	Mr Saro Vinzi Carbone	3.84	1.34
10	Australian Mineral Investors Pty Ltd	3.50	1.22
11	Zero Nominees Pty Ltd	3.47	1.21
12	Miss Caroline Rita Marianne Creyf	3.44	1.20
13	Mr James Colby + Mrs Paula Charmaine Colby	3.00	1.04
14	Jemaya Pty Ltd	3.00	1.04
15	Nockolds Superannuation Pty Ltd	2.55	0.89
16	Lonart Pty Ltd	2.54	0.88
17	HSBC Custody Nominees Ltd	2.50	0.87
18	Czislowski Holdings Pty Ltd	2.50	0.87
19	Mr Kimley Wayne Watters	2.50	0.87
20	Westcrest Enterprises Pty Ltd	2.46	0.86
	TOTAL	**95.18**	**33.09**

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