Entek Energy Ltd
(ETE $0.16) Speculative Buy

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

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- **Price Target:** $0.30/sh
- **Reason For Update:** Oil discovery confirmed with VR342 well in GoM
- **What we know:**

ETE has intersected > 40ft of net oil pay in its VR 342 well (ETE 50%) in the shallow water GoM, USA.

The result is larger than expected and provides confidence in gross field recoverable reserves of >5 mmbls.

No production testing is required given well density and reservoir understanding in the area - analogue wells produce 500 – 1,000 bopd with minimal decline over the first 3-4 years.

The well will be deepened to evaluate secondary targets before it is cased and suspended as a future oil producer.

Development (platform plus two more production wells) should commence late CY'11, early CY'12 at this stage.

Our valuation has increased by $0.04/sh based on this result.

- **What we think:**

The VR 342 field has previously been drilled - this result confirms the base case reserves at least and development planning can begin. Based on the larger than expected net oil column intersection, reserves upside is possible.

Our view of a development concept for this project is two further wells tied into a fixed platform (gross US$40-50m total capex; comprising US$20m for platform and US$7.5m per well) draining >5 mmbbls – this could provide cash flows of $10-15m pa for first 3-4 years of a >5 year project life. Pipeline infrastructure is abundant around ETE's block providing easy access to market.

We expect ETE's share of development capex will be funded by cash (~$20m post entitlement issue), potential GoM gas asset sales and new debt or equity if appropriate.

We had already attributed $0.03/sh in our valuation for ETE's GoM blocks – we have upgraded this to $0.07/sh based on the increased certainty of a CY'12 VR 342 development and project cash flows. This $38m or $0.07/sh valuation is risked at this stage (until a firm development concept and costs come to hand), but the potential NPV of this asset is >$100m (or >$0.20/sh) net to ETE if the stars align (ie. 7.5 mmbbls, >US100/bbl oil price and 1,000 bopd flow rates).

ETE's Niobrara drilling in the Green River Basin (ETE 55% and operator) is set to commence late June/early July at this stage – huge value upside exists if ETE can unlock the production potential of its 30,000 net acre position. The program is likely to comprise three new vertical wells and two re-completions for a net cost of US$6-8m.

For more information on ETE's Niobrara assets, we published a summary of our views following a recent site visit on 27/5/11.

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- **Investment Case:**

  ETE is the cheapest ASX exposure to a proven oil shale project in the US (>$1,500/acre v's its peer average of > $15,000/acre) – Niobrara appraisal/development is less than a month away 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.

  Our valuation and price target is $0.30/sh based on a re-rating of its Niobrara acreage this year (to say US$3,000/acre) as Niobrara drilling and production results emerge. Our upside case is >$0.70/sh.

  ETE's oil focused GoM assets will provide base cash flow from next year and look to be a good complement to the Niobrara assets which will be active 6-9 months a year dependent on weather.

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