



**Breakaway  
Research**

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### Company Information

ASX Code	ACN
Share Price	A\$0.125
Ord Shares	464.2m
Unlisted options	37.4m
<b>Market Cap</b>	<b>A\$58.0m</b>
Cash (Jun 12)	A\$18.0m
Total Debt	A\$0m
<b>Enterprise Value</b>	<b>A\$40.0m</b>

### Directors

Chairman	Nick Davies
Managing Director	Clint Adams
Non-Executive Director	Adam Johnson
Non-Executive Director	David McEvoy
Non-Executive Director	Shaun Scott

### Substantial Shareholders

Republic Investment	38.2%
Nick Davies	3.0%
Mid Continent	2.0%
Numbla Vale Trust	1.8%
Clint Adams	0.7%

Source: Bloomberg

### Company Details

Address	Level 14, 133 Mary Street Brisbane QLD 4000
Phone	+617 3007 7900
Web	www.acerenergy.com.au

### 1 Year Price Chart



Source: Bloomberg

# Acer Energy (ACN)

*A new strategy to extract value from  
proven oil and gas fields*

**Recommendation: Speculative BUY**

### Key Points

- **Work over program set to augment existing oil production of ~20,000bbls pa**
- **Current P<sub>50</sub> resource estimate of 42mmbbls OOIP and 34Bcf OGIP**
- **3D seismic identifies numerous drill targets for upcoming drill campaign**
- **~A\$ 50m of Acer owned infrastructure**
- **Significant gas resource supports small scale LNG plant**
- **First class management team with proven track record**
- **Strong cash balance of ~A\$ 18m**

*Acer Energy will soon commence a drilling and work over campaign, aimed at augmenting already producing assets within the Cooper Basin. This campaign is also likely to lead to an increase in the company's overall proven oil and gas reserves. In the longer term, Acer envisage construction of a small scale LNG plant as a means of optimising revenue from its co-produced wet gas*

### Company Overview

Acer Energy (ASX: ACN) has a portfolio of producing oil and gas assets and earlier stage opportunities primarily located in the prolific Cooper Basin.

Within the Cooper Basin portfolio, the company has a large acreage position with multiple play types that are rich in hydrocarbons. The most advanced of these opportunities is the GMI Ridge area which hosts the already producing Flax oil/gas field (~20,000bbls p.a.), the Juniper oil/gas discovery, the highly prospective Yarrow discovery and the Tallow and Cypress gas prospects.

Acer is set to undertake an extensive work-over program on producing Flax wells by fracture stimulation of up-hole formations/reservoirs not currently included in the resource estimate. Acer is also set to trial the 'new Schlumberger designed' fracture stimulation methodology as well as an artificial lift program, which may increase production by pumping fluids to the surface rather than relying on the natural pressure of the reservoir.

Following the recent acquisition of 3D and reprocessing of 2D seismic data, numerous appraisal and development well locations have been identified. A 3 to 6 well program will commence in October, which is likely to lead to a material increase in proven oil and gas reserves and an increase in production.

In parallel, management is assessing downstream opportunities for maximising revenue from co-produced wet-gas at its production wells. This forms part of a whole-of-field development strategy for its assets.



## Investment Review

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The most advanced assets in the Acer Energy portfolio centre on the GMI Ridge tenements within the Cooper Basin.

*Significant resources with further potential upside*

The GMI Ridge assets include the highly prospective Flax and Juniper oil and gas fields. Independent technical specialists RISC have estimated the P<sub>50</sub> OOIP (Oil Originally In Place) for Flax is 15mmbbls plus OGIP 34Bcf. A further 27mmbbls has been estimated for Juniper field (totalling 42mmbbls) for both fields. A further possible 130mmbbls of prospective resource has been estimated from appraisal of the Juniper field and surrounding area.

*Already producing assets*

Six production wells already exist in the Flax field and are currently producing a combined 4,500-5,000bbls per quarter (18,000-20,000bbls p.a.) of high quality crude oil. **Acer Energy has now begun a new and revitalised, 'multi prong', approach to increase production from Flax and Juniper oil and gas fields.**

*New strategy to increase production from existing wells*

Commencing September 2012, Acer's **work over program** will include:

- Trial of a new Schlumberger designed fracture stimulation methodology in an existing well
- Test the oil and gas composition of shallower reservoirs (not currently included in the resource estimate) and frac these zones and test flow rates
- Recomplete and frac a new 9m productive interval in the Flax 1 well (which is not included in the current resource estimates)
- Install a pump (artificial lift) in the Flax 5 well to test the improved well production capability

*3 to 6 well drilling program*

Following interpretation of the recently acquired 3D and reprocessed 2D seismic data, Acer Energy has committed to drill 3 (and up to 6) new exploration and appraisal wells.

*Upcoming activity likely to lead to an increase in production and reserves*

Breakaway is encouraged by the level of upcoming activity on the Acer Energy permits as this is likely to lead to a meaningful increase in the company's oil and gas resources and provide a near term opportunity to significantly increase production from currently producing wells.

*Significant gas production could support a small scale LNG plant*

Acer also has a strong project pipeline of earlier stage Cooper Basin projects which have the potential to significantly enhance the company valuation. The +100Bcf Tallow gas prospect is of particular interest. Applying a value of A\$2/mscf for in ground gas and a 60% recovery, Tallow represents a \$120m prospect.

*First class management*

The GMI Ridge acreage already contains significant gas resources which is co-produced (and flared off) with the recovered light oil. A small scale LNG plant, currently in the assessment phase, would seek to monetise this valuable resource. Both the Yarrow discovery and the Tallow and Cypress gas exploration prospects (if deemed economic) would support this endeavour.

**Breakaway places particular emphasis on the calibre of the Acer Energy board and management team** with numerous members coming from companies such as Arrow Energy and Woodside Petroleum. The team has a successful track record of vertically integrating gas resources with the necessary infrastructure to deliver an 'end product' to market. **As such, Breakaway is confident Acer can deliver.**



## Project Review

Acer Energy has a large acreage position (~21,400km<sup>2</sup>) made up of both production and exploration licences. The most advanced of these licences are located in the prolific Cooper Basin where the company is targeting multiple 'play' types.

### Permit Summary

Asset	Basin	Operator	Area (km <sup>2</sup> )	Interest (%)	Description/Asset potential
<b>Retention Licences</b>					
PRL 14	Cooper	Acer	22	100%	<b>Flax Field</b> - Oil Production and Oil/Wet Gas Appraisal
PRL 17	Cooper	Acer	63	100%	<b>Yarrow Wet Gas/Condensate Field</b> - Wet Gas/Condensate Appraisal & <b>Juniper Field</b> - Oil/Wet Gas Appraisal
PRL 18	Cooper	Acer	65	100%	<b>Juniper field</b> - Oil/Wet gas Appraisal
<b>Exploration Licences</b>					
PEL 103	Cooper	Acer	176	100%	Conventional Oil/Wet Gas Exploration
PEL 103A	Cooper	Acer	56	75%	Conventional Oil/Wet Gas Exploration
PEL 101	Cooper	Acer	154	60%	Conventional/Unconventional Wet Gas Appraisal/Exploration
PEL 182	Cooper	Senex	1,750	38%	Conventional/Unconventional Oil/Wet Gas Exploration
PEL 100	Cooper	Senex	297	26%	Conventional/Unconventional Oil/Wet Gas Exploration
PEL 422	Darling	Acer	4,338	100%	Conventional/Unconventional Oil/ Gas Exploration
PEL 424	Darling	Acer	6,019	100%	Conventional/Unconventional Oil/ Gas Exploration
PEL 471	Darling	Acer	8,166	100%	Conventional/Unconventional Gas Exploration
T/18P	Bass	Origin	330	5%	Conventional Oil/Gas Exploration and Gas Appraisal

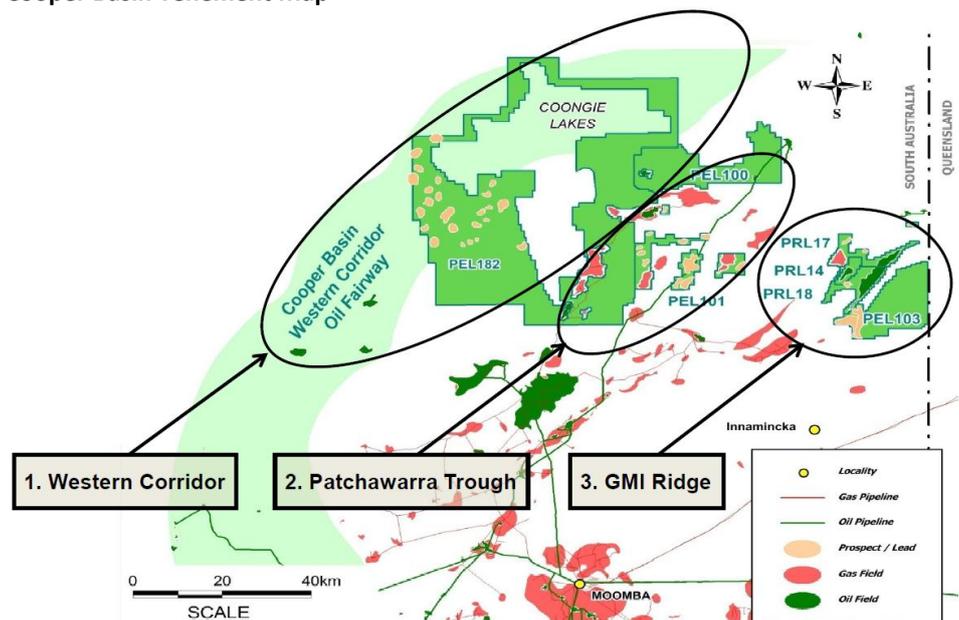
Large acreage position

Source: Acer Energy

Within the Cooper Basin, Acer has eight licences targeting three different areas, namely the 'Western Corridor', the 'Patchawarra Trough' and the 'GMI Ridge'.

### Cooper Basin Tenement Map

3 different 'plays'



Source: Acer Energy



**GMI Ridge:** (PRL-14, 17 & 18, PEL 103 (100%) and PEL 103A (75%): Operator-Acer)

**Oil producing licences with significant exploration potential**

6 wells producing  
~20,000bbls pa of oil

The Flax oil/gas field (PRL-14) was originally discovered in 2004 and has produced ~170,000bbls of high quality (54 API crude) from 6 wells, with the majority (~50%) of production sourced from the 'Flax-1' well. These 6 wells are tied back to production facilities and associated infrastructure (~A\$ 50m spent to date) and currently produce 18,000 – 20,000bbls p.a. Historically, the recovery per well has been disappointing due to the tight/low permeability nature of the reservoir and sub-optimal well completions. The wells are periodically shut-in to allow pressure to re-build around the wellbore before flowing again.

Juniper has significant  
exploration potential

The Juniper oil/gas field (encompassed by PRL-17 & 18) lies adjacent to the Flax field (and may be connected). Two wells have been drilled at Juniper to date; however both wells did not flow oil at commercial rates (unstimulated).

**The potential of these two oil and gas fields is not to be underestimated.**

RISC has estimated the P<sub>50</sub> OOIP for Flax is 15mmbbls BOE and 27mmbbls BOE for the Juniper field. A possible 130mmbbls of prospective resource has been estimated from further appraisal of the Juniper field and surrounding area.

**Flax and Juniper – RISC estimates**

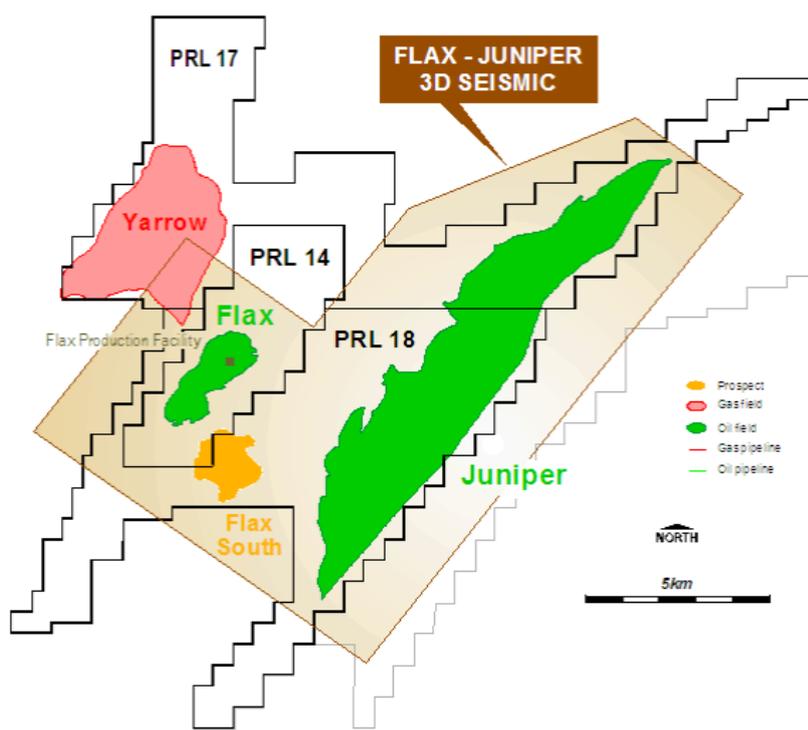
Gross OOIP (mmbbls)	P <sub>90</sub>	P <sub>50</sub>	P <sub>10</sub>
Flax	7	15	25
Juniper	8	27	45
<b>Total</b>	<b>15</b>	<b>42</b>	<b>70</b>

Source: RISC

The Flax field also contains significant amounts of wet gas with RISC estimating the P<sub>50</sub> OGIP to be ~34Bcf across the Tirrwarra and Basal Patchawarra reservoirs.

**Flax and Juniper Oil/Gas Field**

Adjacent oil and gas  
fields



Source: Acer Energy

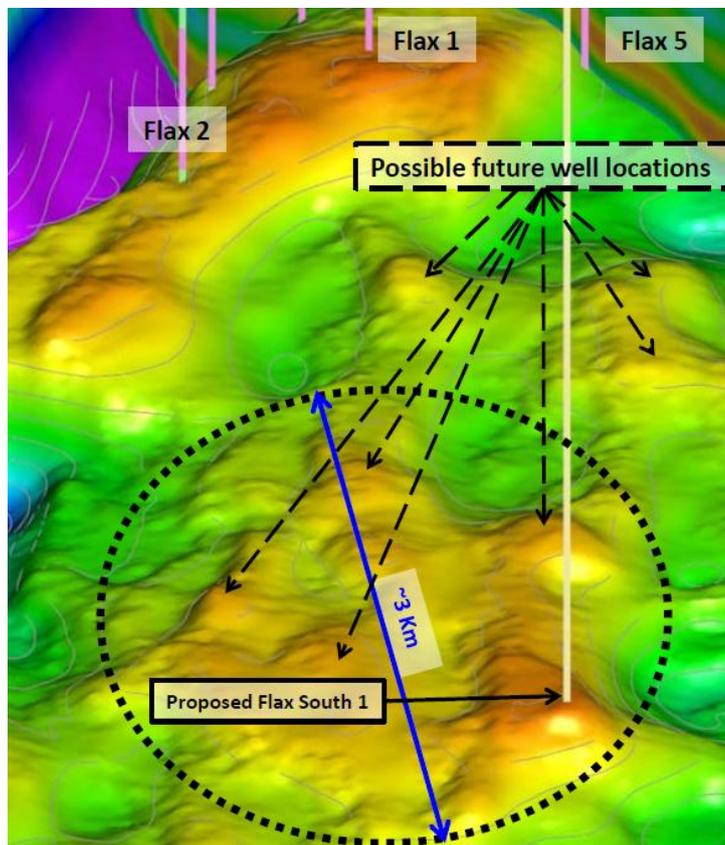


## Flax and Juniper: 3D seismic data supports a greater understanding and new targets

In 2H 2011, Acer Energy completed a 3D seismic program across PRL 14, 17 and 18, for a total of 141km<sup>2</sup>. This was done as part of a revitalised program aimed at achieving greater technical understanding of the field's reservoir characteristics as well as identifying the optimum drilling locations for future wells.

### 3D Seismic – Flax and Flax South

*Multiple new drill locations identified with 3D seismic*



Source: Acer Energy

### Upcoming Drill Campaign

Having acquired the seismic data and undertaken an interpretation, multiple 'top of well' structures have been identified as possible drill targets. Acer Energy is planning a 3 to 6 well drilling campaign (3 wells confirmed, 3 wells contingent) **set to commence in October 2012**. The company is currently finalising selection of the initial wells to be drilled.

*3 to 6 wells to be drilled*

### Opportunity to access additional reservoirs through existing wells

Acer Energy (in conjunction with tight reservoir specialists – Schlumberger) recently undertook a review of the existing well data within the Flax field. Evaluation of this data **identified multiple additional target zones** within the Patchawarra formation, which lies above the current producing reservoirs, which would be likely to benefit from modern stimulation technology.

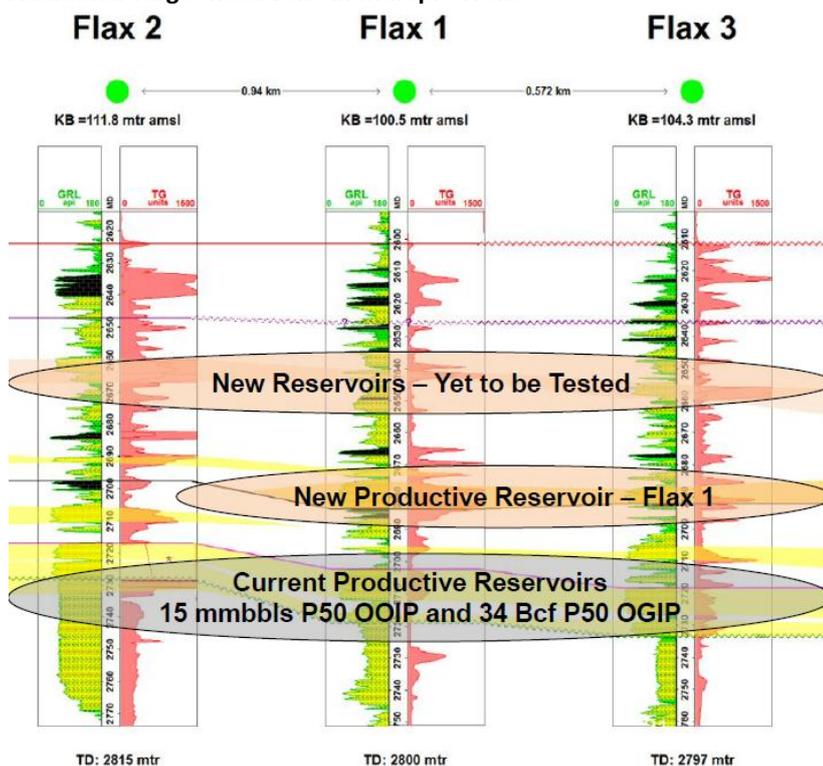
*Multiple up-hole target zones*



*Initial tests confirm the quality of additional pay zones*

In order to assess these potential pay zones a 9m mid-Patchawarra pay interval was identified and the Flax-1 well was re-entered to test the oil and gas composition and productivity of these zones. The lower 4.5m interval (of 9m) was perforated and the well was returned back to production. Initial results have confirmed a sustained contribution (un-stimulated) from this additional reservoir with the oil and gas composition largely unchanged. **This result is significant in that it represents a new productive reservoir that is not currently included in the resource estimate** (currently P<sub>50</sub> 15mmbbls OOIP and 34Bcf OGIP).

### Additional Target Reservoirs in Multiple Wells



*'New' untested reservoirs not included in current resource estimate*

*Following success at Flax 1, additional Flax wells to be tested*

*Low risk, low cost production increase*

Source: Acer Energy

'Flax-1' was the first well to be tested for additional reservoirs; however similar reservoirs also appear in other wells. If these new reservoirs are confirmed, it could materially increase the size of the Flax field.

**Breakaway is highly encouraged by the results from the Flax-1 well**, as the additional pay zones identified form part of an existing producing oil field. This allows the zones to be tested and put into production without the need for drilling of new wells and, as such, represents a low cost, low risk and high margin opportunity for the company.

### Artificial lift may increase flow rates

*Increase in production with 'artificial lift'*

The Flax oil field is currently producing ~20,000bbls pa, however production stands to be-boosted as 'artificial lift' is introduced. A trial is set to commence on Flax-5 which will essentially see down hole pumping equipment installed to provide the 'artificial lift', rather than relying on the natural reservoir pressure. If successful, several existing wells may also benefit from the technology.



## Assessing the LNG opportunity

### Capturing the gas production

Gas co-product may feed proposed LNG plant

An opportunity exists to harness gas from the numerous gas rich assets in within the Acer portfolio such as Flax, Juniper, Yarrow, Tallow, Cyprus, Crocus and Ginko. Acer is currently reviewing gas off-take options, as well as assessing the potential for a small scale LNG hub within the permit area.

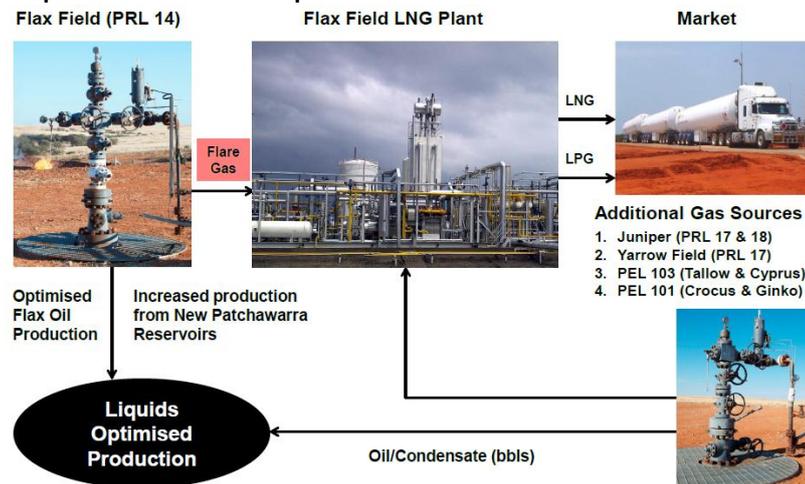
High quality gas

Gas from the Flax and Juniper fields is of an exceptional quality. The low percentage of CO<sub>2</sub> and a high percentage of Natural Gas Liquids (NGL) provide the opportunity for higher revenues from a proposed small scale processing facility.

Reduced capex requirements for small scale plant

The opportunity for Acer to even consider their own LNG facility has been brought about by the advancements made in small scale LNG technology as well as the reduction in overall capex requirements brought about by modular design (amongst other things). The Flax field already has significant infrastructure in place (~A\$ 50m worth) allowing for a valuable 'head start' on any proposed operation. Breakaway also note Acer Energy's management team has a strong track record in vertically integrating upstream gas resources with downstream infrastructure (Arrow Energy).

### Proposed small scale LNG plant

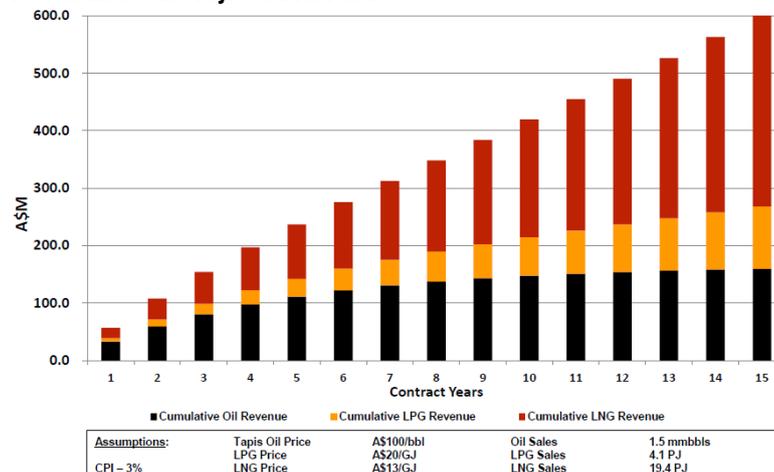


Source: Acer Energy

Acer Energy's assessment of the potential projected revenue (which includes a LNG facility) is significant, as highlighted by the chart below.

LNG revenue may outstrip oil and LPG revenue combined

### Potential Total Projected Revenue



Source: Acer Energy



## The Yarrow and Tallow Gas Fields

### Significant gas and condensate potential close to infrastructure

Significant gas potential

The Yarrow gas field (PRL-17, 100% interest) was discovered in 2003 when drilling intersected 46m of Permian gas saturated sediments. Initial flow testing (Yarrow-1) recovered condensate at a rate of ~15 bbls per million scf (and produced ~4 mmscf/d of gas). A secondary well (Yarrow-2) was also drilled to appraise the eastern side of the Yarrow gas field, however this well did not flow gas at commercial rates.

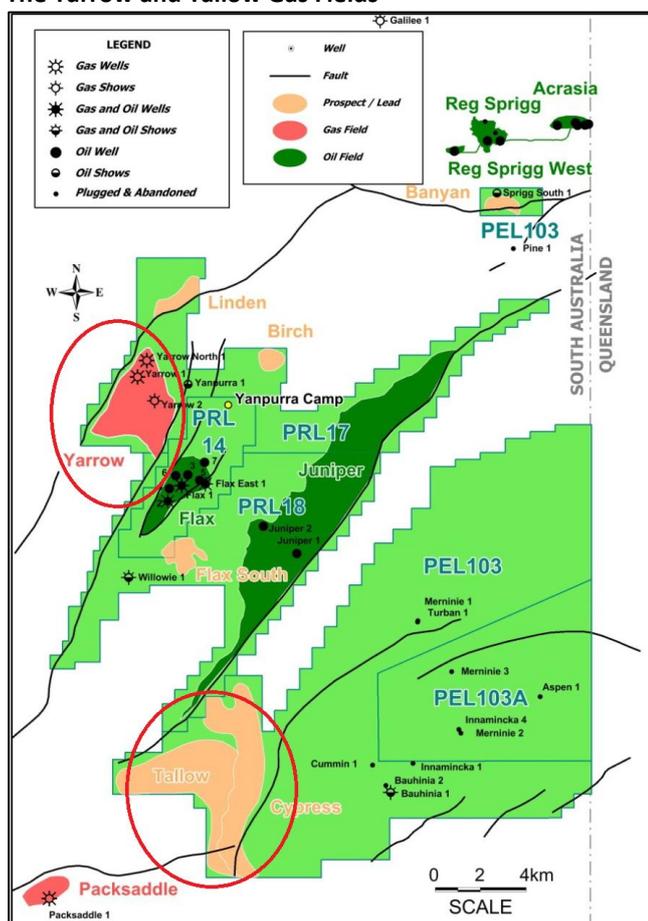
Close to existing infrastructure

Yarrow's condensate resource is yet to be quantified, however RISC estimates the  $P_{50}$  OGIP for the total Yarrow gas field is 26.6 Bcf. Encouragingly, Yarrow is in close proximity to the Flax field development (~4.5km) and can be tied back to the existing Flax field infrastructure.

Acer Energy have indicated the Yarrow Field as a possible major source of gas should a decision be made to advance the small scale LNG facility currently in the early stages of assessment.

### The Yarrow and Tallow Gas Fields

Identified gas resources may feed small scale LNG plant



Source: Acer Energy

The Tallow gas prospect (PEL- 103, 100% interest) has not yet been drill tested, however it represents a significant exploration opportunity for the company. Interpretation of 2D seismic data indicates the upper sandstone correlates to the gas bearing sand in the Packsaddle 1 discovery, south west of the Tallow prospect.

Tallow is a +100Bcf gas prospect

Acer Energy has estimated Tallow may host as much as 100Bcf OGIP with potential upside in stratigraphically trapped Patchawarra fluvial sand bodies.



### Patchawarra Trough (PEL-101 – 60%, PEL-182 – 37.6% & PEL-100 – 25.83%)

#### Conventional and unconventional gas – basin centred gas opportunity

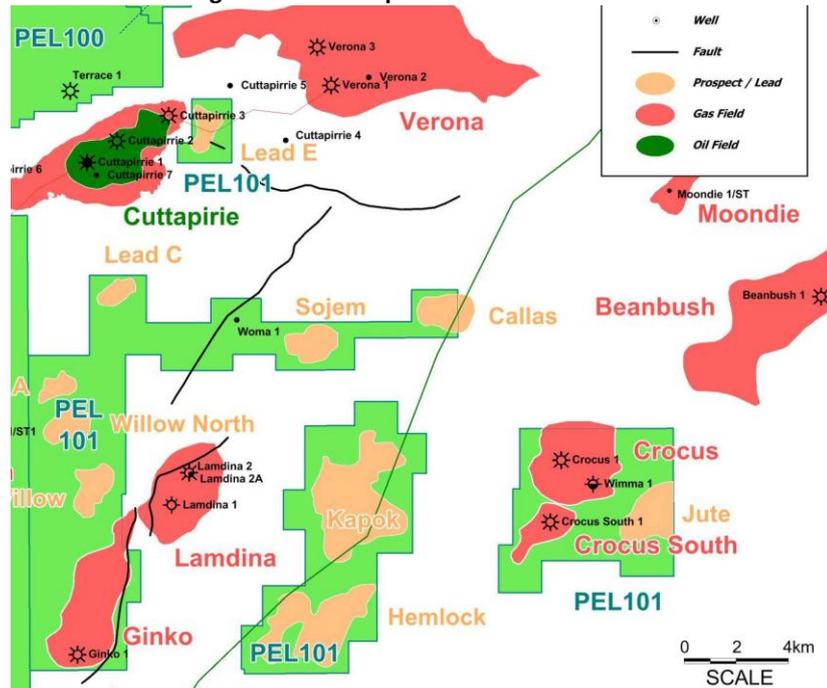
The Patchawarra Trough is highly prospective for both conventional and unconventional gas accumulations. PEL-101 already hosts the Ginko and Crocus conventional gas discoveries which have a combined estimate of 81 BCF OGIP.

*'Basin centred gas' opportunity*

The widespread distribution of gas fields throughout the region supports the view that Permian reservoirs will most likely be gas charged in valid traps and possibly beyond as 'basin centred gas'. It is the reservoir quality of the Permian sandstones that will largely determine the commerciality of any existing or future conventional gas discovery.

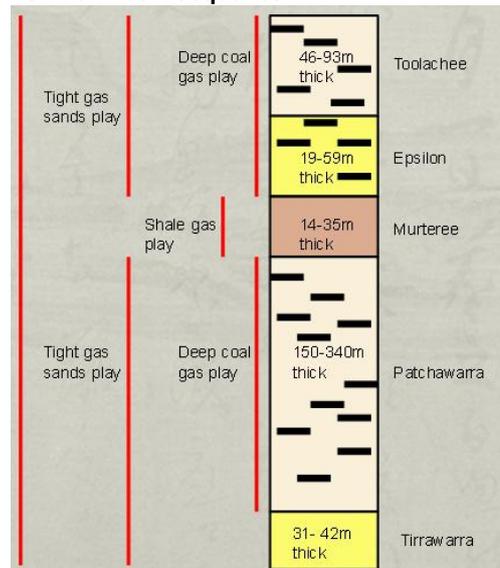
*Numerous oil and gas fields in the area*

#### Patchawarra Trough – Licence map leads and discoveries



Source: Acer Energy

#### Permian Basin Sequence



Source: Acer Energy

*Prospective for unconventional sources of gas*

There is significant unconventional potential in the region as demonstrated by recent industry activity exploring the tight gas sands, deep coal seam gas and shale gas. Drill holes already completed in PEL 101 encountered thick sections of these formations with high gas readings recorded.

Acer Energy and the JV partners are currently undertaking technical studies to fully assess the prospectivity and parameters of these reservoirs.



## Western Corridor (PEL-182, 37.6% & PEL-100, 26%: Operator-Senex)

### Conventional oil and gas exploration

*Prospective for conventional oil and gas*

PEL 182 is located on the prospective and productive western margin of the Cooper Basin, approximately 80km north of the Moomba facilities. PEL-100 lies adjacent to PEL 182 and straddles the Western Corridor and Patchawarra Trough 'plays'. PEL-100 encompasses the Cleansweep and Tarragon discoveries and lies directly west of the Telopea and Keleary oil fields which have produced in excess of 2 million barrels of oil.

PEL-182 hosts an exploration portfolio of 26 prospects already identified. In 2011, RISC estimated total recoverable volumes from these 26 prospects at 24.7mmbbls. Based on seal and reservoir risks RISC has also applied a 30% Probability of Success (P.O.S) which is in line with recent success rates along the western fairway. This gives rise to a 'risked recoverable volume' of 6.2mmbbls on a 100% basis.

### PEL-182: Total Risked Recoverable Volume

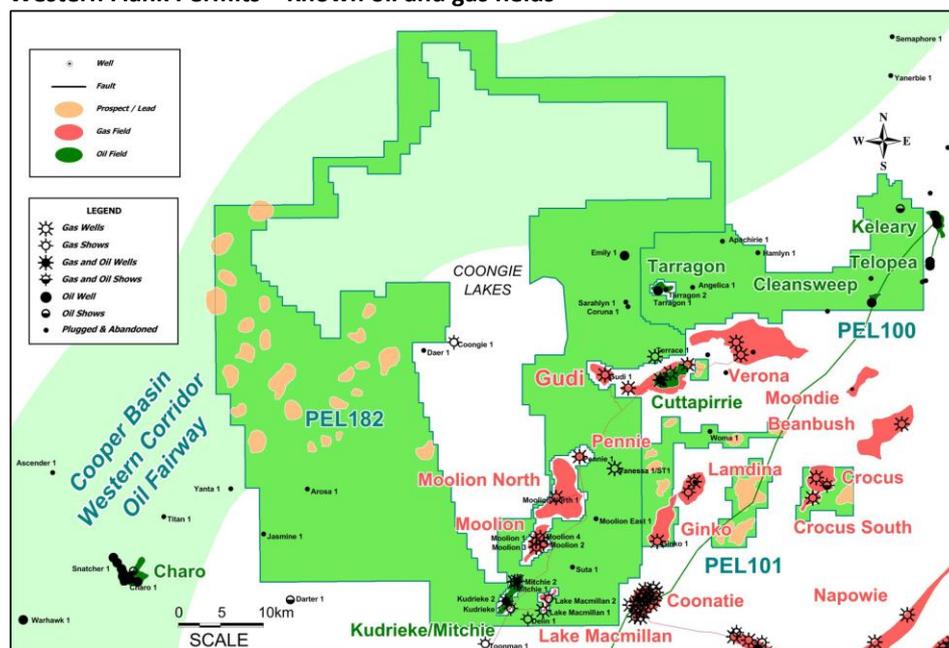
*Total risked recoverable volume = 2.3mmbbls*

	Recoverable Volume mmbbls	P.O.S %	Risked Recoverable Volume mmbbls	Acer's equity interest in PEL-182 (37.6%) mmbbls
26 Leads	24.7	30	6.2	2.3

Source: RISC (2011) and Breakaway

### Western Flank Permits – Known oil and gas fields

*Numerous oil and gas leads identified*



Source: Acer Energy

### Upcoming exploration

*Upcoming 3D seismic will better define targets*

Significant exploration opportunity exists within both PEL-182 and PEL-100 as both licences already host proven oil and gas fields with no 3D seismic previously acquired. In PEL-100, the joint venture partners have recently approved a 250km<sup>2</sup> 3D seismic program, **due to commence in September 2012**, which will better define prospects ahead of a possible drilling campaign. A 3D seismic program is also planned for PEL-182 as the original program was recently deferred due to wet weather. A new time table has not yet been announced, however Breakaway expects this would be completed within CY2013.



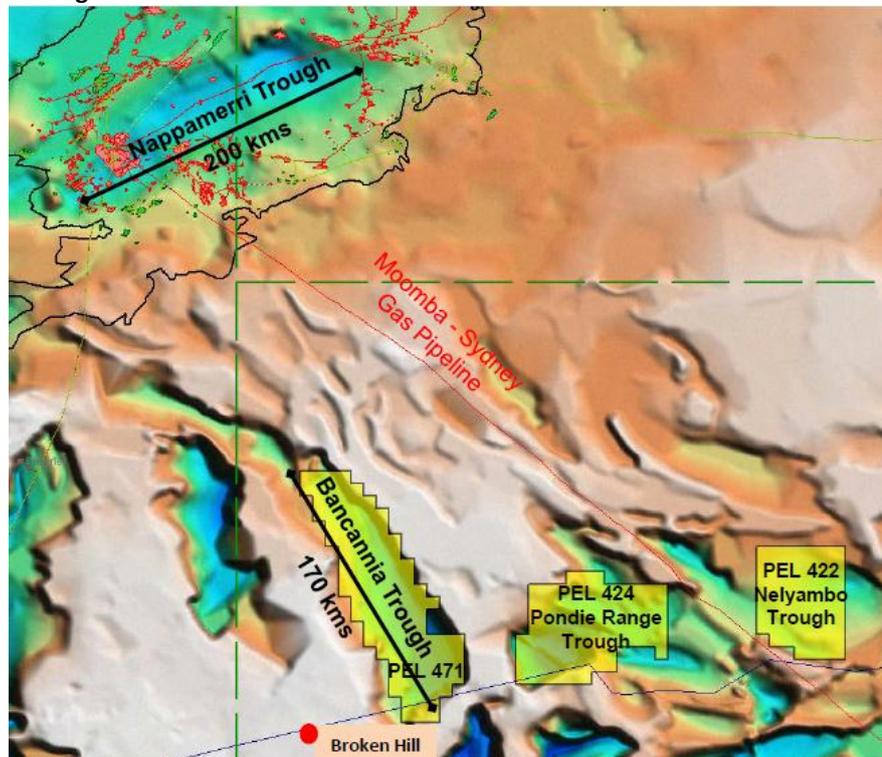
## Darling Basin (PEL 422, 424 471, 100% interest)

### Grassroots oil and gas exploration with the right 'ingredients' for hydrocarbons

*Darling basin provides grass roots exploration pipeline*

In June 2012, Acer Energy acquired a 100% interest in three Darling Basin Permits for total consideration of A\$ 300,000. The permits cover a total area of ~18,500km<sup>2</sup> and are considered prospective for conventional and unconventional oil and gas.

#### Darling Basin Permits



Source: Acer Energy

*Darling basin has been lightly explored*

The Darling Basin has been lightly explored in comparison to the Cooper Basin (outlined in 'black' in the above image) with very sparse seismic and only 12 deep exploration wells completed (Cooper Basin ~1,190 wells).

*Darling basin has 'all the ingredients' to be prospective for oil and gas*

The three permits offer a ground floor opportunity for Acer Energy to explore for hydrocarbons in a region which, in the view of Acer Energy, has all the ingredients to be prospective for oil and gas with reasonable infrastructure support.

Acer Energy's initial priority will be to integrate the historical geological data to create a holistic model of the region. Once the most prospective locations are identified, a drill campaign can then test the hydrocarbon potential.



## Directors & Management

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**Non - Executive  
Chairman  
Nick Davies**

**Nick Davies** has over 32 years' experience in the Oil and Gas business. He was formally CEO and MD of Arrow Energy Limited from 2004 to 2010 and led the company from early stages until agreement to sell the company was reached in early 2010 for approximately \$3.5 billion. Prior to Arrow, Mr Davies was President of BP's Asia Gas and Power business based in Tokyo. Currently, Mr Davies is also Chairman of Dart Energy Limited.

**Managing Director  
Clint Adams**

**Clint Adams** was formerly Chief Commercial Officer of Arrow Energy. He played a pivotal role in all of the major transactions undertaken by Arrow between 2006 and 2010. Prior to that, Clint worked as an independent energy advisor following an earlier role as Director, Business Development at NRG. He is a chartered accountant with more than 10 years prior E&P experience and more than 20 years' experience in the energy and resources sectors.

**Non - Executive  
Director  
David McEvoy**

**David McEvoy** has over 35 years' experience in the oil and gas industry since joining Esso Australia Limited in 1969. Key positions held within Exxon affiliates included Esso Australia Limited's Exploration General Manager, Exploration and Development Vice President for Esso Resources Canada and Regional Vice President of Exxon Exploration Company responsible for Exxon's exploration activities in the Far East, USA, Canada and South America. He was recently the Business Development Vice President and member of the Management Committee of Exxon (subsequently ExxonMobil) Exploration Company, responsible for new exploration and development opportunities worldwide. He is currently a non-executive director of Woodside Petroleum Limited and AWE Limited.

**Non - Executive  
Director  
Adam Johnson**

**Adam Johnson** is the the former Chairman and founding director of Acer Energy. In 1980 he established his own legal practice. He is a past member of the Council of the Environment and Planning Law Association (NSW) Inc and is a former President of the Society of the Art Gallery of NSW.

**Non - Executive  
Director  
Shaun Scott**

**Shaun Scott** was previously Chief Executive Officer of Arrow Energy Limited and previously served as both Chief Financial Officer and Chief Commercial Officer of Arrow. He is a Chartered Accountant and has held senior financial and commercial positions with Energy Developments Ltd, NRG Asia Pacific, Ltd and Atlantic Richfield Company. He is currently also a director of Dart Energy.

*\*Director CV's taken from company website*



### **Analyst Verification**

We, Grant Craighhead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

### **Disclosure**

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Acer Energy and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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