



3D Oil

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3D Oil fast tracks development of West Seahorse oil field

3D Oil (ASX:TDO) is on the path towards production and cash flow with the progress it is making together with Malaysian partner Hibiscus Petroleum Berhad on fast tracking development of the 9.2 million barrel West Seahorse oil field in VIC/P57, offshore Gippsland Basin.

With Hibiscus contributing a total of A\$27 million towards development of the field, which involves the drilling of up to two appraisal wells, 3D Oil is now forecasting a Final Investment Decision by the third quarter of 2013 and first oil production potentially by late next year.

The joint venture (3D Oil 49.9%) will also target the drilling of an exploration well in the Sea Lion prospect that has prospective resources of 11 million barrels of oil in the same reservoir units as at West Seahorse. A discovery in the adjacent Sea Lion, a low risk look-a-like, has the potential to at least double the project value.

With the path towards cash flow now in place, 3D Oil is planning to re-focus its exploration effort as well as assess new opportunities for growth.

Share price: \$0.095
Issued shares: 206.56 million
Market Capitalisation: \$19.62 million
Net Debt: \$3.9 million (as of 20 November 2012)
Cash: \$ 2.85million (as of 31 December 2012)
EV: \$20.67 million

Analysis

With a proven oil field containing best estimate Contingent Resource (2C) of 9.2 million barrels of recoverable oil and a highly experienced joint venture operator taking the lead role in developing the field, 3D Oil is now on a clear path commercialising its assets and realising cash flow.

The A\$29 million farm-in and share subscription is also a strong outcome in light of current market conditions, highlighting the value that Hibiscus places on West Seahorse and other exploration targets in VIC/P57.

Even with significant discounting to account for development costs and risks, 3D Oil's 49.9% stake in West Seahorse could be worth at least A\$51.63 million to the company.

This works out to at least A\$0.25 per share, significantly higher than the company's share price of A\$0.095.

The disconnect clearly highlights how undervalued 3D Oil's shares currently are and provides savvy investors who understand that investment in oil and gas exploration companies is potentially high risk with equally high rewards, a compelling reason to buy into the company before the appraisal wells are drilled and development begins.

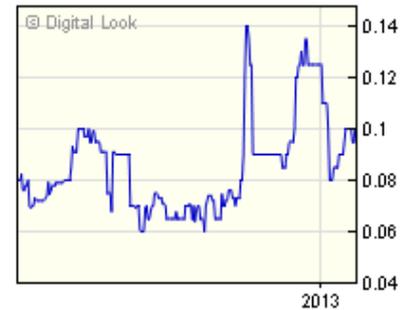
Further upside could come from other exploration prospects in the permit, which if successful, could provide a source of ongoing production and cashflow for 3D Oil.

Background

Price: A\$0.1

Market Cap: A\$23.75M

1 Year Share Price Graph



Share Information

Code: TDO

Listing: ASX

Sector: Oil and Gas Exploration and Production

Website: www.3doil.com.au

Company Synopsis:

3D Oil (ASX: TDO) is an oil and gas explorer and developer focused on SE Australia. It currently has a contingent resource (2C) of 9.2 MMbbl in the prolific offshore Gippsland Basin together with a number of neighbouring low risk prospects.

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The offshore Gippsland Basin is one of the most prolific petroleum provinces in Australia with some 4 billion barrels of oil and 12 trillion cubic feet of gas discovered.

Most of these were discovered during the 1960s and 1970s by then Esso and BHP Billiton (ASX: BHP), who held exploration rights over much of the Basin.

While other explorers have made discoveries in the 1980s in areas relinquished by the two giants, none made large oil discoveries that would have been commercial, leading to a decline in drilling and the corresponding drop in new discoveries.

In recent years though, high oil prices thanks to rising global demand, lack of spare capacity and supply worries along with the prospect of higher gas prices in Eastern Australia have all served to make smaller oil and gas finds in the Gippsland commercially viable.

Hibiscus farm-in

Under the farm-in agreement, Hibiscus will acquire a 50.1% interest in petroleum exploration permit VIC/P57 through an investment of up to A\$27 million in tranches to fund joint operations on the permit.

The Malaysian company has also subscribed for 30.96 million 3D Oil shares for A\$2 million, giving it a 13% interest in 3D Oil.

Upon production, Hibiscus Petroleum will preferentially receive 74.9% of Petroleum produced from the permit until the sale revenue equals the amount funded by Hibiscus Petroleum. Thereafter, each party will receive cash flows equivalent to their participating interest in the producing asset.

The new joint venture will also consider the drilling of the Sea Lion prospect, which with a prospective resource of 11 million barrels of oil, could significantly increase the prospectivity of VIC/P57.

Hibiscus itself was listed on the Kuala Lumpur stock exchange as a Special Purpose Acquisition Company in July 2011 before conversion into a normal operating company on 18 April this year.

It holds a 35% stake in Lime Petroleum, which holds four concessions in the Middle East, as well as agreements with North Energy to participate in 4 concessions located at the Norwegian Continental Shelf.

The company has a strong management team with managing director Kenneth Pereira having 22 years of experience in the oil and gas industry with stints as the managing director of Mumbai listed Interlink Petroleum and chief operating officer of SapuraCrest Petroleum Berhad.

Pereira will also become a director of 3D Oil.

West Seahorse

First discovered in 1981 with the discovery well flowing 1,800 barrels of light 48 degrees API oil per day, West Seahorse has since been proved up by two appraisal wells with the West Seahorse-2 providing controls on the extent of the reservoir while 3D Oil's West Seahorse-3 intersected an 8 metre oil column with excellent porosity.

Further improving confidence is West Seahorse's close proximity to producing oil and gas fields in one of Australia's most prolific petroleum basins, that still produces about 50,000 barrels of oil per day.

These fields include ExxonMobil's A\$4.4 billion Kipper-Tuna-Turrum project where first oil is expected this year and gas production targeted for 2016.

Indeed, a report in March 2011 from Intersuisse concluded that even the conservative 1C contingent resource estimate of 4.2 million barrels of oil at West Seahorse could be recovered economically.



3D Oil currently estimates that West Seahorse holds 2C Contingent Resources of 9.2 million barrels of oil and is also investigating the resource potential of the Gurnard Formation that lies directly above the main reservoir.

Although mineralogically complex this interval consistently contains hydrocarbon shows in the West Seahorse area, and is a proven reservoir elsewhere in the Gippsland Basin.

The company's interest in the formation was sparked by the nearby Wardie-1 well that flowed oil from this interval and believes that it could host 12.2 million barrels of oil.

West Seahorse is also located just 14 kilometres from the Victorian coast in water depths of about 35 metres.

The development concept that is currently being progressed by the joint venture calls for the West Seahorse field to be produced from up to two wells via a Mobile Offshore Production Unit (MOPU).

This will process the crude oil, which will be transported to shore via a pipeline to an onshore storage and road tanker terminal. The oil will then be transported to a Victorian refinery. An option to tie-in to an existing third party pipeline which runs to both Victorian refineries is also being considered.

A project team has been established in Melbourne with Hibiscus, 3D Oil, engineering firm WorleyParsons (ASX: WOR) and other specialists to carry out concept and Front-End Engineering and Design (FEED) studies.

These studies are required for all government approvals and bank finance to allow a Production Licence application to be submitted early next year and for production to start within two years.

3D Oil has already received the regulatory "declaration of location" from the National Offshore Petroleum Titles Administrator over West Seahorse.

This declaration starts the regulatory approval process to convert the area with a proven hydrocarbon accumulation governed by the terms of an exploration license into an area covered and governed by the terms of an oil and/or gas production license.

In addition, Hibiscus' farm-in to VIC/P57 has also been approved by the Foreign Investment Review Board.

Development of West Seahorse will be initiated by the drilling of two appraisal wells.

Sea Lion

VIC/P57 also contains a number of other leads and prospects identified by 3D seismic that has recently undergone state-of-the-art reprocessing.

Of these, the Sea Lion prospect on the southern edge of the Rosedale Fault System is considered to be the prime candidate for further exploration.

The prospect is on trend with the West Seahorse, Seahorse, Wirrah, West Moonfish and Moonfish oil discoveries.

It targets the Upper Latrobe group reservoirs, similar to the West Seahorse field, and with best estimate prospective resources of 11 million barrels of oil, provides significant upside potential, which may materially increase the economic value of the development.

Sea Lion also contains a deep gas prospect that with the permit's close proximity to shore and existing infrastructure, could be easily developed.

Commercial discoveries will find a ready market in Eastern Australia, where gas prices could increase from the current A\$3 and A\$4 a gigajoule to A\$9 a gigajoule as the gas becomes increasingly linked to oil prices due to the impact of the



export liquefied natural gas projects that are under development.

Felix

Also located on oily' southern edge of the Fault is the Felix prospect that 3D Oil describes as the 'best oil address in Australia'.

Felix is a large inversion feature along the Rosedale Fault System with multiple targets and increasing closure with depth.

It is flanked by two oil fields, Wirrah and Moonfish, and appears larger at the sub-volcanic level which contains oil in both fields.

3D Oil had previously estimated that Felix had the potential to host over 100 million barrels of oil and like Sea Lion, contains a deep gas prospect.

A further pipeline of exploration targets can be found on the northern edge of the Rosedale Fault System where nine prospects and leads have been identified.

Catalysts - 12 months

- Success of first appraisal well
- Success of second appraisal well
- Grant of production licence
- Final investment decision on West Seahorse
- Securing project financing

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