

Eco Atlantic Oil & Gas Ltd

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Eco Atlantic's offshore Guyana acreage has 5bn barrels gross

?????What it does

Eco Atlantic Oil & Gas Ltd (LON:ECO) owns a 15% stake of the Orinduik licence offshore Guyana in the Atlantic Ocean, developed with French giant Total and Irish explorer Tullow Oil.

A farm-out with Total saw its stake reduced from 40% in return for a cash payment of US\$12.5m.

Away from Guyana, Eco owns four licences off the coast of Namibia including 57.5% of the Cooper Block where Tullow was the operator but decided instead to focus on Guyana.

Eco's exploration licence at Cooper runs for another three years with a drill-ready target (The Osprey Prospect) and it is looking for another partner to help fund the programme.

The company continues to eye plans for new wells in 2021. In July's results statement the company told investors that it was keen to resume drilling activity on the Orinduik licence as soon as is practically possible.

How is it doing?

Eco made two discoveries in the Guyana licence: the Jethro-1 well encountered 55 metres of net high-quality oil pay, while the Joe-1 well encountered 16 metres of continuous thick sandstone.

Further analysis revealed the reservoir to have a heavier grade than expected, with high levels of sulphur, making it more expensive to be flown on surface and to be treated by refiners.

The company said it will need a higher capital expenditure, but there are chances to tap into the market gap left by Venezuela, where production has tanked leaving many refineries on the US Gulf Coast thirsty for its heavy oil.

The AIM-listed oiler is planning the next steps with joint venture partners to potentially test additional targets, as the block is estimated to hold 20 prospects.

In an update in April, Eco told investors that it had a strong balance sheet and remains funded for its anticipated share of appraisal and exploration drilling at Orinduik.

It had US\$18.8m (C\$26.5m) of cash and equivalents at the end of the March.

CPR

In February 2020, a competent person's report upped the amount of oil at Orinduik by 29% to 5.14bn barrels (p50) or a net 771m barrels to Eco for its stake.

Price: 26.625
Market Cap: £49.18 m

Share Information

Code: ECO
Listing: AIM
52 week **High** **Low**
 48.95 13

Sector: Oil & Gas
Website: www.ecoilandgas.com

Company Synopsis:

Eco Atlantic is an oil and gas exploration company focused on the acquisition and development of unique upstream petroleum opportunities around the world. The Company's objective is to identify technically merited prospective new and developing projects in frontier areas requiring low cost entry.

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The competent persons report (CPR) identified 22 prospects of which 11 are in the upper cretaceous horizon, where oil is expected to be lighter and more commercial than recent heavy oil discoveries in the tertiary layer.

Leads in the tertiary horizon are estimated to contain 1.2bn barrels while the cretaceous section contains an estimated 3.94bn barrels with two targets in this section (Amaila/Kumaka and latuk-D) each containing 725mln barrels.

Over half of the 22 prospects have a 30% chance of success or greater, said the CPR.

Colin Kinley, Eco's chief operating officer commented: "The understanding of our resources has gained strength and momentum with the discoveries we made in the Tertiary last summer and the recent discovery of light oil in Carapa-1, made on the Kanuku block to the south of us.

"Our choice was to first test the Tertiary section and to take the risk of opening a new play and a new opportunity for Guyana."

He added: "As previously announced, this younger section delivered a significant resource of heavy oil pay.

"The Cretaceous pathway of lighter weight oils from the source kitchen to the north, through the Liza sands and through the recent discovery of light oil in Carapa-1 to the south confirms our theory and interpretation of transmission of high-quality oil across the Cretaceous sand channels and traps within the Orinduik Block.

Kinley concluded: "We have seen a growth of the overall oil numbers with the thickness of section and a greater understanding of the areal extent and thicknesses of our sands. Our confidence in the play continues and was greatly enhanced with the now proven light oil in the Cretaceous section immediately to the south."

What the boss says, chief executive Gil Holzman

"The issue is the relative challenge of surfacing the oil. In our case we see many supporting ingredients that suggest the oil is commercial and producible."

"With the shutdown of the Venezuela heavy crude industry, basically, many US Gulf Coast refineries are actually very thirsty for this kind of crude, some have sent idle and some have paid premium to Brent price in order to get this heavy oil... There is very big demand."

Video

What brokers say

Stockbroker Peel Hunt sees the offshore explorer as a 'buy', in September, pointing to substantial upside to the current price. Analyst Matt Cooper initiated Peel Hunt's coverage of Eco with a 100p price target, compared to a prevailing market price of 22.7p per share.

Cooper, in a note, described the company's upcoming exploration campaign as "one of the most exciting" slated for 2021.

In November, a note from Align Research described the prevailing share price as a good buying opportunity whilst setting a 123.54p price target, compared to a market price of 24.35p.

Previously SP Angel highlighted that Eco's success as a frontier explorer has not been reflected in its share price at all. The junior's two large discoveries at Orinduik will be followed by two further wells planned for next year while drilling offshore Namibia is also due to accelerate this year.

SP Angel says the discoveries have been misunderstood by the market.

"Whilst analysis confirmed the Tertiary formation at Orinduik contains heavy, sour crude; the reservoir is high-quality, over-pressured and at a high wellhead temperature, all of which will help with the mobility of the oil."

Eco has since highlighted that the crude tested to date appears not dissimilar to the commercial heavy crudes currently in production in the North Sea, Gulf of Mexico, the Campos Basin in Brazil, Venezuela and Angola, added SP Angel. This is supported by the commentary from Hess on its Tertiary Hammerhead discovery, which is heavier than the Cretaceous discoveries on the Stabroek block, offshore Guyana, added the broker.

SP Angel also highlights the potential value in the Cretaceous formation which has yielded multi-billion-barrel light sweet crude in adjacent fields and will be targeted at Orinduik next year.

Inflexion points

- **Additional exploration wells in Guyana**
- **Further tests on recovered from first two wells**
- **Eco says it is funded for another 3/4wells**
- **New partner for Namibian assets**

Blue Sky

Estimates now are for Tertiary Sandstone to contain 1.2bn barrels of oil

The Cretaceous layer contains an estimated 3.9bn barrels, making 5.1bn in total

Namibia assets prove commercial and add to the pipeline.

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