

Dart eyes cheaper coal seam deposits

Dart Energy has scored some commercial success and hopes to soon be cash-flow positive, writes

Angela Macdonald-Smith.

Despite the growing excitement about the potential of shale gas, Dart Energy chief executive Simon Potter remains convinced coal seam gas will provide a much quicker route to profitability.

Dart, spun off from Arrow Energy over a year ago, has shale gas acreage in the hot-spot of Poland and in Scotland.

But although the company planned to be "opportunistic" in exploiting that resource, it would maintain its focus on coal seam gas, where the cost of wells was "an order of magnitude" lower, Mr Potter said.

Shale gas "is something we can do — it is something we can understand," he said in an interview with *The Australian Financial Review*.

"But we are really focused on getting that shallow, cheaper gas into the market and making very profitable molecules head straight towards the bottom line in cash

generation." Dart last month scored an early commercial success in the UK, signing a five-year gas sales contract with major utility Scottish and Southern Energy at prices much higher than in Australia.

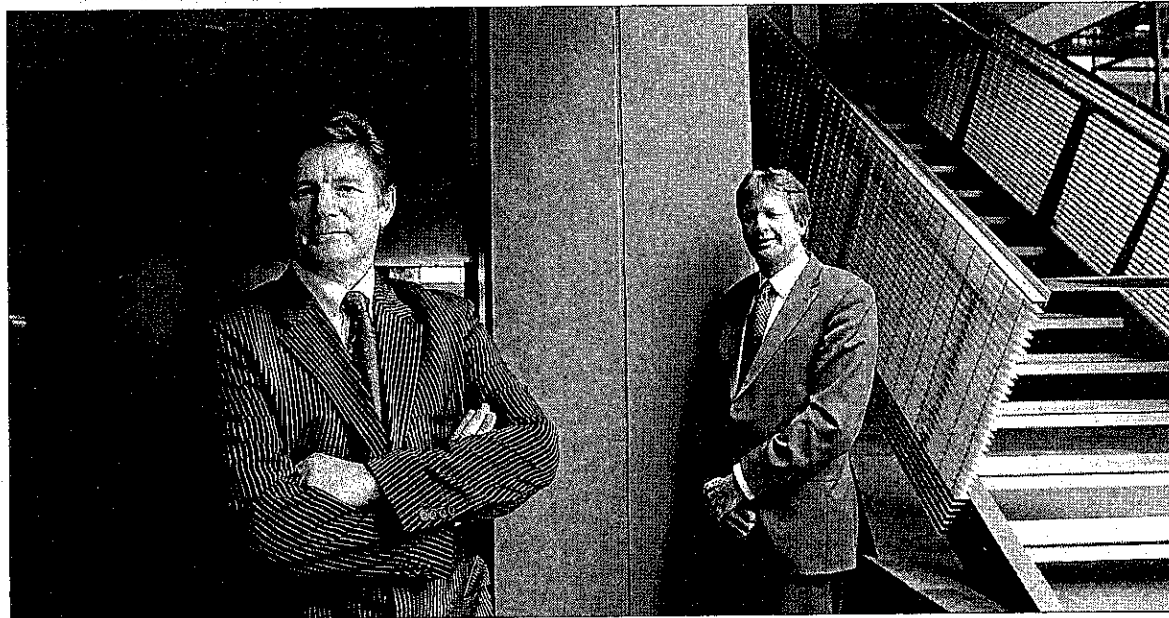
The UK gas price of about \$11 per thousand cubic feet means the net margin on sales will be three or four times higher than on sales in Australia, Mr Potter said.

"So whilst the molecules in terms of the reserve volume that we certify is quite small, the individual profitability of those molecules is significantly higher."

The Scottish contract, under which gas deliveries will start in 2013, will stand as a model for similar deals Dart wants to sign up for its other operations, all located close to favourably priced energy markets.

It already has one other sales contract, for its Liulin project in China, where production is due to start in July 2012, providing Dart's first sales revenues. The contracts show "that the route to market can be quite swift in the areas in which we operate", Mr Potter said.

Deutsche Bank reaffirmed its buy rating on Dart on news of the UK sales contract, describing it as a "significant positive for the



Simon Potter, left, and Robbert de Weijer . . . 'The route to market can be quite swift.'

Photo: ROB HOMER

monetisation prospects of gas" in Dart's portfolio. It has a \$1.20 target price on the stock, which closed on Friday at 57.5¢.

Dart, whose biggest shareholder is New Hope, raised \$100 million in equity earlier this year to fund a 109-well drilling campaign over the next 12 to 18 months and tide it over until its projects can support debt or project financing.

Mr Potter, a former managing director of African-focused oil explorer Hardman Resources, said that the company was aiming to be cash flow positive by 2014 or early 2015.

Dart is still considering an

overseas listing of its international assets in a bid to get the value of the global portfolio reflected in the market.

That listing could be in Hong Kong, Singapore or London.

Dart's operations in southern Sydney have attracted a storm of protest.

In Australia, Dart was planning pilot production in its coal seam gas acreage near Newcastle next year with the aim of commercial sales in 2013, said Robbert de Weijer, chief

executive of the company's Australian business.

No drilling is planned in the St Peters area in southern Sydney, where Dart's operations have attracted a storm of protest from local communities, probably until after 2013.

Mr de Weijer said that despite the vocal opposition to coal seam gas in NSW portrayed in the media, he was aware of substantial support for the industry as well among local councils and the state government, as well as landholders.

For a TV interview with Mr Potter and Mr de Weijer, go to afr.com. ■