MD on GLNG Gas Sales Agreement

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Open Briefing interview with Managing Director Mike Hughes

In this Open Briefing®, Mike Hughes discusses

- Field Development Capex and Opex
- GSA Revenue
- Funding

Record of interview:

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You have released a number of field development assumptions in your presentation on the GLNG GSA. What are the factors underpinning the well productivity assumptions you have released?

MD Mike Hughes
Some months ago the company asked RISC, a well known technical consultancy, to review all the field development assumptions relating to the Meridian field. RISC endorsed the assumptions saying that the project assumptions were reasonable, robust and capable of delivery. Their review provides the basis for the figures we have released. We believe these ranges are conservative as they are based on historic well performance from wells that have not been optimally drilled, and we are confident that the well design in the upcoming drilling programme will deliver better performance. Additionally, a number of our existing producing wells produce at rates significantly in excess of these rates.

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WestSide has estimated that the wells should cost $1 million to $1.5 million each. How do you arrive at this range?

MD Mike Hughes
These costs are based on historic performance and work done by a number of external consultants including RISC to validate our assumptions. The company is currently finalising contracts for the drilling programme about to start this quarter and the rates under negotiation are in line with this range. We believe these costs can then be significantly reduced once we lock into a more substantial, long term programme.

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You have said that Operating Expenditure (Opex) should reduce over time to A$2/GJ. How confident are you about that?

MD Mike Hughes
A large portion of our current operating costs are fixed. We currently maintain 30TJ/d of compression even although we only produce around 12TJ/d. Our detailed modelling work shows that the small incremental costs for additional personnel and other variable costs will see costs reduce to $2/GJ in the next few years.

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You say that pricing under the GSA will be “oil-linked” from 2016. That can provide a range of possible outputs. Are you able to be more specific?

MD Mike Hughes
The terms of the GSA are confidential so I cannot provide the actual contract components. We have said the contract is in line with the market for similar long term contracts and is an attractive price.

There have been questions as to why buyers may be willing to sign contracts at higher prices. A number of credible analysts and consultants from firms such as Credit Suisse, Brattle and ACIL Tasman have estimated LNG netback pricing at Gladstone to be at least A$10/GJ and over A$11/GJ, based on various oil price and Foreign Exchange assumptions. This would suggest therefore that these players would be earning a margin at a price up to this level.

So when we say our contract is “oil-linked” I think that you can be comfortable that what we mean is that it is consistent with other oil-linked contracts in the industry, referenced back to our field injection point.

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You are currently producing ~12TJ/d - could you remain at that level of production under the GSA terms?

MD Mike Hughes
Yes we could simply continue to produce at current rates or at a modest rate of expansion that could be funded out of cashflows. This would not be the most valuable outcome but the field does generate very significant cashflow, even at current production rates with a significant margin from 2016.

Our current Enterprise Value represents a multiple of ~$2/GJ of proved reserves with no credit for any of the remaining 2P or 3P reserves. Continuing at current production rates would generate very significant margins from 2016.

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Can you provide more details on how you are going to fund the GSA expansion?

MD Mike Hughes
We are funded for at least the remainder of 2014 and we are currently investigating how best to fund the optimal expansion program. Importantly, the pace of expansion is controlled by the Meridian joint venturers and not GLNG, so we are not under pressure of deadlines to lock in funding and commit to construction timetables. We are talking to a range of parties regarding debt financing now that we have an attractive long term GSA to underpin such a facility. We are also in discussion with various parties with regard to provision of compression facilities, a number of which include a funding component which would significantly reduce any up front capital requirements.

It should also be noted that we can increase capacity from the current 12TJ/d to about 30 TJ/d with little incremental capex other than for the cost of drilling and completing new wells, because we have spare compression capacity which is currently unutilised.

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Can you provide any update on Landbridge's approach?

MD Mike Hughes
I think we have made our position on their conditional notice of intention to make a conditional offer pretty clear.

The Directors determined that entry into the gas sale agreement with GLNG was a commercial imperative, delivering the central element of the Company's business plan which was well publicised prior to Landbridge's initial approach. Entry into the gas sale agreement provides the certainty that is lacking in Landbridge's Conditional Proposal.

In addition, the Board has considered the price included in Landbridge's Conditional Proposal, and has formed the view that it is manifestly inadequate. So its now really up to Landbridge to decide what it does next, if anything.

For more information about WestSide Corporation, visit www.westsidecorporation.com or call Investor & Community Relations Manager Richard Owen on (+61 7) 3020 0933.

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