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Top unconventional gas plays will lead A&D activity through good times and bad.

OUT OF THE COUNTRY



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A private, Denver-based independent has migrated abroad. From its roots in the Permian Basin, Nebraska and California, Central Resources Inc. has devoted the past decade to foreign opportunities. In the process, it has grown a sturdy portfolio of assets built around a close focus on mature, onshore fields that produce oil and gas from reservoirs at depths less than 10,000 feet.

President and chief executive Paul Zecchi launched the company on its international path in 1997. Central, which was primarily an acquirer of West Texas-style assets, was put off by rising prices for buyers of American properties. "We saw opportunities in foreign markets that we did not see in the U.S. We thought return on investment could be better overseas."

Currently, the company operates in Argentina, Canada and California. Plus, it has pending deals in Hungary and Brazil, and in the past has bid on assets in France, Spain, Tunisia, Uruguay and New Zealand. It prefers to shop for properties in fairly stable countries, because it believes only much larger companies can operate effectively in troubled or high-cost areas.

Central's first foreign stake was taken in Argentina in 1999. It has ridden the wave there, through good and bad times. Currently, it produces 1,800 barrels of oil per day from the Neuquen and San Jorge basins.

Because its Argentine production was under price controls, the effect of the recent, stunning fall in world oil prices has been muted. Now, costs are dropping in the country and Central's properties continue to make money.

More recently, Central made its largest foreign purchase. In the first half of 2008, it bought assets producing some 3,300 barrels of oil equivalent (BOE) per day from Apache Canada Ltd. Central spent \$112 million to acquire the Western Canadian properties, including 350,000 acres and interests in more than 1,200 active wells.

Today, Canada accounts for about 45% of Central's production. Fortuitously, it hedged its Maple Leaf oil at \$100 a barrel at the time of the deal, to deliver the returns it required to pay its debt.

The company's only domestic production is from Coles Levee Field, in Kern County,

California. It acquired the property in 2003; production is currently around 1,500 BOE a day.

But, its focus remains on international ventures. "I've been bitten by the bug for foreign opportunities," says Zecchi. Overseas operations certainly carry political risks, but the U.S. operating environment is rapidly losing its stability as well, he notes.

To other small independents looking to go international, Zecchi says one key is the use of local talent. "We try to find a native of the country who has worked in the U.S. and who knows how U.S. companies operate overseas."

Good resources for companies interested in overseas work include the Department of Commerce and U.S. State Department, and such organizations as the World Trade Organization and Chamber of the Americas. Personal relationships are fundamental, and time must be invested in country in cultivating those relationships.

Central operates all its properties and, once a deal is in hand, it opens an overseas office. "It's very costly for a small company to staff a foreign office before completing an acquisition, so we travel back and forth until we have a firm agreement." It prefers to have a technical asset manager responsible for operations and logistics and a commercial manager responsible for contracts and land. Both positions report to Denver.

Another vital component of a successful overseas strategy is a willingness to spend time on the ground. "Talk to people, understand the politics, do your homework on each country," he says. "And don't always try to impose the U.S. way of doing business. That just doesn't work." Zecchi believes a good mix of U.S. business styles and country-specific customs is essential.

This year, Central will continue to expand its horizons. "Our target is to spend \$150- to \$300 million in acquisitions during the next 12 months," says Zecchi. It has deals in the works in several new countries, as well as projects in its established areas.

"We know how to play the political game, balance off currencies and stay on top of the situations."

For more exploration news from Peggy Williams, see the blog "Discoveries" at OilandGasInvestor.com.