

Petroceltic International PLC

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Petroceltic planning third exploration well in Kurdistan

A portion of the US\$100mln being raised by Petroceltic (LON:PCI) will be earmarked for a third exploration well in Kurdistan, says chief executive Brian O'Cathain.

While planning is still underway, an extra well will probably be drilled on the Dinarta block, O'Cathain told Proactive Investors.

In the meantime, drilling will start for Petroceltic's second exploration well in Kurdistan this month.

The Shireen well will be the first to explore the Dinarta block, and it follows a well on the Shakrok block. Final testing results from the Shakrok well are due in the coming weeks.

Given Petroceltic this morning reported production revenues of around US\$200mln and has debt facilities linked to its operations in Egypt and Bulgaria, some investors may have been surprised by this morning's US\$100mln cash call.

O'Cathain, however, says the equity raise is a prudent move as the company awaits the completion of a farm-out to sell 18.375% of the major Ain Tsila gas development in Algeria to the country's state oil and gas company Sonatrach.

Ain Tsila is scheduled to achieve 'first gas' in 2018, which has slipped from late 2017.

Petroceltic will receive US\$20mln once the transaction receives government clearance. More significantly, however, Petroceltic's share of development costs will be covered to the tune of US\$140mln.

Until then, though, Petroceltic is still responsible for paying for 56% of Ain Tsila's costs, at a time when the development budget is starting to ramp-up.

"In Algeria up until now we had just been running the management team, but now we're starting to award contracts and buy long-lead items," O'Cathain said.

"Because we're exposed to those costs, which are ramping up, and we don't know exactly when the final approval [of the Sonatrach deal] will come through – it is prudent for us to have additional funds. That way, we can make sure the project remains on-track as best as possible."

David Farrell, analyst at natural resources focused City broker Macquarie, said investors have had fears over Petroceltic's financing position and today's funding puts a line in the sand.

Canaccord Genuity, meanwhile, told its clients that the funding will provide 'comfort' in the group's financial position.

"With year-end 2013 cash of US\$54mln we presume the firm has sufficient cash to fund its near-term obligations, but

Share Information

Code: PCI
Listing: AIM
Sector: Energy
Website: www.petroceltic.com

Company Synopsis:

Petroceltic International is a private oil and gas exploration and production company which currently employs 120 full time industry professionals across multiple disciplines and geographies. Petroceltic is an equal opportunities employer. The Company is headquartered in Dublin with offices in Edinburgh, London, Algiers, Varna, Cairo and Rome.

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this raise will provide additional headroom/comfort for the development projects," Canaccord analyst Thomas Martin said in a note.

The subscribers in the share placing are particularly interesting, with one investor investing half of the funds.

The US\$50mln investor, Dovenby Capital, is led by Dato' Ahmad Fuad, former deputy chairman of Bumi Armada Berhad, a Malaysian oil platform services group.

Petroceltic is issuing a total of 37.94mln new shares, each priced at 157p - a slight premium to Thursday's closing price - to raise US\$100mln before commissions and expenses.

The shares will be issued in two tranches, with an initial 8.77mln shares in the first tranche. The placing of the second tranche, of 29.16mln shares, will have to be approved by shareholders at a vote on June 9.

Dovenby, upon completion of the whole placing, will own around 8.88% of Petroceltic's shares.

The strategic investor will be entitled to appoint one representative to the Petroceltic, and that is expected to be Fuad.

"We didn't really have anybody from the services sector on our board, and we didn't have anybody from outside north-west Europe, so it is a good addition to the Petroceltic board for a number of reasons," O'Cathain said.

Petroceltic separately released its full year results, for the twelve months to December 31 2013, which revealed a loss of US\$19mln in 2013 following write-offs of US\$37mln for unsuccessful wells.

Production during the year was 25,200 barrels of oil equivalent per day (boepd), in line with market guidance, with the first quarter of 2014 averaging 26,000 boepd. Revenues were \$197m and stemming from Egypt (US\$115mln) and Bulgaria (US\$82mln).

In Egypt, Petroceltic said it had received regular payments for production, as well as two part cargoes, despite the uncertain political situation with the amount owing reduced by 25% to US\$81mln.

In Kurdistan, the Shireen-1 well will spud in late May with an anticipated drilling duration of approximately 150 days. This will take it beyond the end of the first exploration sub-period of the licence but the operator is taking steps to ensure that the joint venture retains its option, Petroceltic said.

In the coming weeks the test results are expected for final targets in the Shakrok well.

The well's findings have, thus far, disappointed with no hydrocarbons in two of four primary Jurassic-age targets, and secondary targets in the Triassic contain limited amounts of gas condensate.

Petroceltic's upcoming exploration targets in the Dinarta are separate and independent of the prospects within Shakrok, and it is thought that Dinarta is more likely 'oil prone'.

The AIM quoted company has a 16% stake, and a 20% paying interest, in the Shakrok and Dinarta blocks, which are 64% owned and operated by American oil firm Hess.

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