



Resources Stocks Down Under

🗣️ *We all learn by doing, rather than thinking about doing.* 🗣️

- Jennifer Westfeldt (b. 1970), actress



TALON ENERGY

A lucky strike

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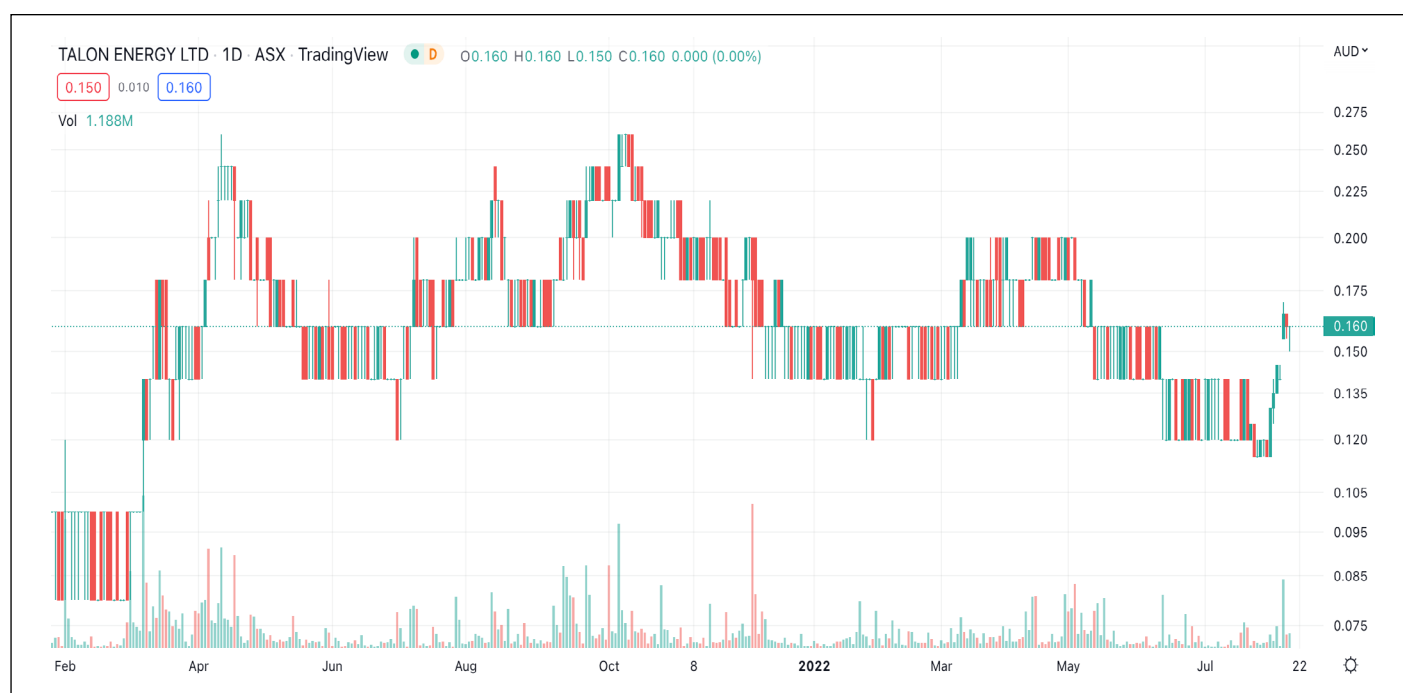
Stocks Down Under rating: ★★★★★

ASX: TPD
Market cap: A\$67.5M

52-week range: A\$0.006 / A\$0.26
Share price: A\$0.155

Talon has already had its first notable win, with the Walyering Gas Field in the onshore Perth Basin of Western Australia now sanctioned for development. The Final Investment Decision was made earlier this very week. However, the really big money for Talon Energy may be in Mongolia, where the company is farming into to a coal seam gas project with a gross prospective resource of 6 TCF of gas.

Share price chart



Source: Tradingview

The Perth Basin Gas Boom

In 2020 Talon Energy pivoted from an exploration focus on UK North Sea gas to a new focus on Western Australia's Perth Basin. That was smart. Say the name 'Perth Basin' these days and hydrocarbon-savvy investors sit up and take notice.

Companies have been finding gas in the neighbourhood of Dongara, the 'rock lobster capital of the world' 350 km north of Perth, on and off since the 1960s. But no-one ever expected monster discoveries until two major ones came within five years of each other – the Waitsia field in 2014 by AWE Ltd, and West Erregulla by Strike Energy (ASX: STX) and Warrego Energy (ASX: WGO) in 2019.

Waitsia Stage 1, commissioned in 2016, turned out to be biggest onshore gas discovery in Australia of the previous 40 years, which is the main reason why Japan's Mitsui bought AWE for \$601m in 2018.

The recent Perth Basin discoveries are desperately needed to help power a rapidly growing West Coast economy while avoiding shortfalls. And, importantly, thanks to Waitsia and West Erregulla, we know so much more about the best places to find the pay zones.

Following in Strike's footsteps

The great thing about the Perth Basin is that it allows small companies to get their start with more experienced operators. In July 2020 Talon farmed into EP447, a permit in the onshore Perth Basin held by Strike, which hosted a prospect called Walyering, near the town of Cataby. This year that farm-in is paying off for Talon in a serious way.

Walyering was a 'wet' gas prospect, potentially good for both gas and condensate. Cataby may be 200 km south of Dongara, but the prospect was crossed by the Parmelia Gas Pipeline, the main route for Perth Basin gas to get to customers further south, so the path to development was swift once the gas was identified. Talon agreed to contribute \$6m towards the \$9m cost of a well to earn 45% and that \$6m also got Talon Energy a right of first refusal over another Strike prospect called Ocean Hill where there's a 2C Contingent Resource of 360 BCF gas and 1.2 million barrels of condensate. At Walyering, the P50 prospective resource in 2020 was 86 BCF of gas and 2.18 million barrels of oil. All that was needed now was a decent outcome with the exploration well, where Talon was now a player.

Walyering Exploration Success

EP447 wasn't wildcat territory in 2020. The original Walyering well had been drilled way back in 1971 and flowed gas at 13.5 mmscfd (million square cubic feet per day), but the next three follow-up wells hadn't worked out. Decades later, when Strike had looked at its 3D seismic, it decided that the original target Cattamarra formation was fine, but that the next well, to be called Walyering-5, needed to target a reservoir where the porosities were higher.

Walyering-5 spudded in November 2021 and the following month Strike and Talon announced that their well had hit four gas-charged reservoirs with 51 metres of net pay and average porosities of 15%. The flow tests since late March have been very positive, both for Walyering-5 and for Walyering-6. Walyering-5's maximum flow rate has been a very gratifying 75 mmscfd and Walyering-6, which spudded in April, logged 35 mmscfd at the maximum rate late last month.

Walyering now has a gross 2P reserve of 54.2 PJ and a Final Investment Decision on the field was taken just last Monday (15 August). That means about \$50-75m in gross cash flows are coming Strike's and Talon's way from early next year.

From Perth to Ulaanbaatar

At the same time as Talon was paying its dues in the Perth Basin it also claimed a piece of the action in the coming coalbed methane boom in Mongolia. In February last year it farmed in to the Gurvantes XXXV project of TMK Energy (ASX: TMK) and is now earning 33%. As with all the coalbed methane properties to be found in Mongolia, the upside is huge. For one thing, Mongolia likes coalbed methane more than many jurisdictions, so the regulatory environment is favourable. For another, there's billions of dollars in gas to find – in this case the best case gross prospective resource is 5.96 TCF, which is 1.97 TCF net to Talon. On top of this, the geography is great because Gurvantes XXXV is right on the border with China, which explains why PetroChina is now involved under an MoU. TMK's currently ongoing programme of core holes at Gurvantes XXXV has been a success, showing the seams to be thick and gas-rich and by late 2022 we'll have a contingent resource estimate from this project.

With macroeconomic factors playing out across markets, Talon stock has been a little depressed since the \$11m raising at 0.8 cents in May. Since then, the stock has gone through a 20:1 consolidation and both the Mongolian and Perth Basin prospects have advanced positively. The fact that Walyering is proceeding, combined with favourable exploration results in Mongolia, suggests further upside from here. Sure, Talon isn't Strike or Warrego yet, but it's on its way in moving from explorer to producer. All things considered, it's four stars from us.

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