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RIDING AUSTRALASIA'S PETROLEUM WAVES

By BRIAN HILL

According to the U.S. Energy Information Administration, the majority of oil production in 2006 came from Saudi Arabia, Russia, and the United States. With the world's gas prices often controlled by an oligopoly of petroleum corporations, some companies are exploring the world for undiscovered petroleum fields in an effort to release this iron grip.

Analysts estimate that there could be as many as 3.6 trillion barrels of oil contained in unconventional resources throughout the world, which is three times as much as the remaining barrels of conventional oil. Australasia—the term used to describe a region that incorporates Australia, New Zealand, Papua New Guinea, and other neighboring islands in the

Pacific—is an especially under-explored region for petroleum and natural gas.

In New Zealand, the first modern wells were drilled in the 1960s, which uncovered a world-class gas field, the 4 TCF Maui gas pool. “It was probably this discovery that kept further interest in natural gas and petroleum to a minimum over the next few decades,” says Drew Cadenhead, chief operating officer for Trans-Orient Petroleum.

The Maui discovery led to an abundance of natural gas in New Zealand, and gas prices fell as a result. Since the low prices decreased profits and natural gas is too expensive to export, many development companies went elsewhere. The area's economy grew to be dependant on natural gas, and other resources—like petroleum—were largely ignored. But decades later, the Maui gas field is depleting

and prices are on the rise, driving many to return in search of gas and other resources.

Trans-Orient Petroleum Ltd. (OTCBB: TOPLF) is a Canadian-based exploration company that explored Australasia from 1996 to 2000 and revived operations in 2006. The company is actively involved in exploring for oil and gas in the region with the goal of creating a producing asset or merging with a producing company in the future. “Our focus is international exploration in under-explored areas,” Cadenhead says, “and our goal is to achieve exploration success while maximizing asset value to provide the best possible returns for our shareholders.”

With the exception of the 4 TCF Maui gas pool, the New Zealand region remains under-explored. It sits at the doorstep of many growing countries in Asia and is geopolitically stable. “Risk in New Zealand and Australia is virtually nonexistent,” Cadenhead says. “These democratic countries offer some of the most attractive fiscal regimes for oil and gas production in the world and are proximal to the growing Asian economies, which are showing an insatiable thirst for oil.” New Zealand



is an established hydrocarbon-producing country, and as such, oil and gas infrastructure are in place. “Existing infrastructure allows us to decrease the time frame of economic return on our project.”

The company controls 100% interest in approximately 2.2 million acres covering a significant portion of the East Coast Basin of New Zealand’s most prospective onshore area. Trans-Orient’s acreage covers a diverse, lightly explored frontier, posing an excellent opportunity to discover unconventional fractured oil and gas shale targets.

The basin is a Cretaceous-Cenozoic fore-arc situated across the Australian Pacific plate margin. Basins of this type can be prolific producers of oil and gas, which has been the case in Indonesia, California, and other active plate margins. While very few wells have been drilled in the East Coast region, a majority of the ones that have been drilled showed significant oil and gas results. Energy Corporation of America, a privately held natural gas exploration company, is appraising two onshore gas discoveries in the area with flow rates up to 12 million cubic feet of gas per day.

In Trans-Orient’s target location, geotechnical work has identified a number of significant, multi-target conventional and unconventional oil and gas prospects at a depth between 1,000 and 2,000 meters (approximately 3,281 and 6,562 feet). Potentially, there are conventional reservoirs in the Miocene-aged turbidite sandstones with porosities of 20% or more, and unconventional prospects exist in the late Cretaceous to Eocene-aged Waipawa and Whangai fractured oil and gas shales.

Like the Bakken and Barnett shales (two large onshore oil and natural gas fields in the U.S.), the Waipawa Whangai formations are mature and have high-quality source rocks that are intensely fractured, exhibiting strong encouragement for successful oil and gas shale production. Additional studies confirm that the source rocks are also rich in total organic carbon. An independent company estimates that the mid-case undiscovered resource potential of the defined conventional prospects alone is more than 1.7 billion barrels of oil. While the potential is there, unconventional oil shale tests were not included in the assessment.

Oil is more than US\$100 per barrel, and exploration and development costs have risen to new heights. Attractive projects in the oil business are becoming harder to identify, and competition is at an all-time high. This has encouraged the development of new technologies, and growing companies have discovered significant unconventional opportunities. “Independents like Trans-Orient have a competitive advantage because they are driven by opportunity and can quickly move to new areas in the pursuit of a big discovery,” Cadenhead says.

While it might be difficult to enter the market as a young company, Trans-Orient has been working in the Australasian region for more than 10 years, and its experience in the region is a distinct advantage. The company also plans to expand exploration beyond the East Coast Basin of New Zealand.

The company’s growth strategy includes continued exploration of its 2.2 million-acreage property in addition to possible merger and acquisition opportunities, including international partnerships. With growing interest in unconventional exploration, a partnership with a senior company could potentially bring capital and technical expertise to its large scale exploration project.

Trans-Orient believes it represents an excellent opportunity for an investor to participate in the early stages of an international gas and oil exploration venture with conventional and unconventional exploration potential.



Management has identified numerous drilling prospects, and while its oil and gas shale project is still in its earliest stage, it has shown the possibility for significant reserves. “We are well-capitalized and have no debt,” Cadenhead says, “and many of our shareholders are prominent international oil and gas investors.”

Currently, the company trades on the OTC Bulletin Board and is in the process of applying for an additional exchange to broaden its exposure to the international financial community. **E**

Risks: Several large and well established companies dominate the oil industry, which had created a barrier to entry for growing companies like Trans-Orient. But as oil resources deplete, companies will be forced to search abroad for the next big discovery. Though Trans-Orient has 2.2 million acres of land to explore, it has no revenue to date and is not a current producer. In addition all resources are inferred.