

RNS Number : 5450C
Mosman Oil and Gas Limited
18 April 2017

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Mosman Oil and Gas Limited
("Mosman" or the "Company")

Strawn Oil Project Acquisition

Mosman Oil and Gas Limited (AIM:MSMN) the oil exploration and development company, announces it has executed contracts to acquire 50% of the **Strawn Oil Project** (the "Project" or Project") located in Young County, Texas for a consideration of USD\$75,000.

The Project will be operated as a joint venture and Mosman's Strategic Alliance Partner Blackstone Oil & Gas, Inc. ("Blackstone") has acquired the other 50% of the Project. Mosman will act as operator on the Project.

Mosman has examined a number of production projects internationally and in the USA. The acquisition announced today is a small part of a larger overall strategy and other potential acquisitions continue to be examined and evaluated. This process is not limited to the previously announced Strategic Alliance or the Strawn Oil Project.

Details of the Strawn Oil Project Acquisition

The Project is located in Young and Archer Counties, Texas, approximately 200 km west of Dallas. The Project consists of 27 existing wells most of which are not currently in production due to oil prices and historic low levels of maintenance (6 are currently producing). The Project is some 1,300 acres spread over 7 established leases which are documented in accordance with local requirements. The leases do not currently have a resource identified though production on the leases by the vendor has been occurring since 2003.

Mosman plans to immediately commence a detailed programme of maintenance and workovers to order to significantly increase the current rate of oil production (approximately five barrels per day). Local staff and a workover company have been contracted, with work scheduled to start within weeks.

The Project has previously produced at rates of over 600 barrels per day and has production facilities in place. This includes equipment such as pump jacks, small tank farms and other infrastructure which are included in the acquisition price.

The total acquisition price for 100% of the project is USD\$150,000 (which Mosman is sharing with its Strategic Alliance Partner; Blackstone, with each having a 50% joint venture interest. In addition total transaction costs, of which half are net to Mosman, are estimated to be USD\$30,000.

Initial estimates are that approximately USD\$150,000 will be spent in the next six

months on the maintenance and site workover plan (such costs to be split with Blackstone).

In order to assess the resource potential on the leases, Mosman's technical team will examine aspects of the Project by applying a number of modern exploration techniques, which had not previously been exploited.

John W Barr, Chairman, said: "This acquisition is one of a number that Mosman has reviewed and continues to review and negotiate. These additional potential acquisitions are not geographically or scale limited, and have independent sellers although remain subject to ongoing diligence by Mosman, and contract and regulatory approvals, as appropriate. We look forward to providing further information as and when these additional projects are agreed.

Jointly Funded Acquisition and Ongoing Alliance

As noted above, Mosman has agreed with its Strategic Alliance Partner; that Blackstone will jointly acquire 50% of the Project by contributing 50% of acquisition, transition, and ongoing costs with Mosman retaining Operatorship. Mosman will act as operator.

Blackstone's involvement will reduce the cash impost whilst also solidifying the recently announced strategic alliance.

Other general information

1. The selling parties are collectively known as S.B Street Operating, INC. ("SB Street") who in 2016 recorded Oil production exceeding 11,000 Barrels which includes producing assets in addition to those being acquired by Mosman and Blackstone;
2. In 2016 it is estimated that the acquisition made a financial loss of USD\$93,000 assuming a management overhead allocation of USD\$120,000. Without this allocation the operating profit across the leases is estimated to have been USD\$33,000;
3. Importantly, any financial loss or profit will be shared with Blackstone;
4. Planned development to increase production levels through the work over plan should increase revenue and increase profitability;
5. Mosman has incorporated two new Texas registered entities to establish its growing US presence. Mosman Texas LLC and Mosman Operating LLC have both been established to hold Mosman's local assets and the operatorship of the Texas leases respectively.

Agreement of Proposed Acquisition, Completion and Risk

The Acquisition is conditional on standard settlement issues.

Settlement is expected to be completed in May 2017.

Project Life and Abandonment Liabilities

The leases are "held by production". Typically, these projects continue as long as revenue exceeds operating cost, which is mainly a function of oil price. Based on current production, Mosman anticipates the field will produce for the foreseeable future.

The established regulatory system in Texas requires that 10% of inactive wells need to be restored to production, or abandoned. Mosman intends to meet this obligation by restoring wells to production. The hypothetical total (for both joint venturers) cost of an

immediate full abandonment of the Asset is estimate to be USD\$364,000 but as noted above Mosman does not expect this to be applicable to the field in the foreseeable future.

The regulator currently holds a bond for USD\$50,000 on behalf of the Vendor which Mosman Operating LLC will be required to replace. This will also be a joint cost to be shared with Blackstone.

Royalties and Taxes

Royalties vary for each lease and average 20%, which is in the normal range for leases in the area.

A state severance tax of 4.6% applies to the market value of oil produced in Texas. In addition, any profits resulting from oil production will be subject to US income tax.

WELLS, LANDS, LEASES & UNITS

The 27 wells across the seven leases being acquired by Mosman are identified as summarised below:

1. Worth Gragg Lease: Well #1, 3, 4, 8, 9, 12, 13, 14, 16, 22, A-1
RRC Lease ID 20373
2. Farmer Lease: Well #1, 2, 3
RRC Lease ID 28465
3. Lindemann-Lemmonds Lease: Well #1
RRC Lease ID 28430
4. Lemmonds Lease: Well # 1, 2
RRC Lease ID 28441
5. Prideaux-Hawkins-Owen (P-H-O) Lease: Well # 1, 2, 3, 1B
RRC Lease ID 28173; Well # 1B, RRC Lease ID: 28040
The 160 acre tract of land out of the BBB & CRR Co. Survey No. 1, Abstract No. 35 in Young
6. Prideaux-Hawkins-Owen (P-H-O) Lease: Well # 4
RRC Lease ID 28040
7. Stewart Lease: Well # 1, 1A, 2, 3
RRC Lease ID 28304

Competent Person's Statement

The information contained in this announcement has been reviewed and approved by Andy Carroll, Technical Director for Mosman, who has over 35 years of relevant experience in the oil industry. Mr Carroll is a member of the Society of Petroleum Engineers.

Risks

The proposed Acquisition remains subject to completion which is anticipated during May 2017.

Mosman has in the ordinary course of business accepted certain historic information from the vendor as being fact, and has not attempted to independently verify each statement, rather it has focussed on key facts which have been subject to due diligence both internally and using external consultants.

As is usual in the oil industry, the Asset has subsurface, reserve and production risk.

A number of assumptions have been made in determining the operational targets, production rates and expected cost reductions possible that may not be achieved or may be influenced negatively by factors outside Mosman's control.

This RNS contains forward-looking statements which have not been based solely on

historical facts but rather on Mosman's and its technical advisers' current expectations about future events and a number of assumptions which are subject to significant uncertainties and contingencies.

Hydrocarbon prices in the world environment remain volatile.

Exchange rates are volatile.

Market Abuse Regulation (MAR) Disclosure

Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.

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Updates on the Company's activities are regularly posted on its website
www.mosmanoilandgas.com

This information is provided by RNS
The company news service from the London Stock Exchange

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Anonymous (not verified)

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