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Chaco Resources plc 10.75p *23.01.2006* Drilling plans firm but a disappointment at Puerto Lopez



Chaco Resources plc is an independent AIM quoted Oil and Gas Company with assets in the well known oil producing areas of Colombia and in virgin territory in Paraguay. There have been a number of announcements recently. Key points are:-

- The Operator of the Primavera Block in the Llanos Basin, Gran Tierra Energy Inc, has advised Chaco that a rig arrived in Colombia and will move to the Primavera Block to commence a two well program towards the end of February.
- Chaco and its partners have halted exploration on the Puerto Lopez Oeste on the back of new seismic data, which has shown the two leads Metica Sur and Santaya Leads are likely to be uncommercial. This decision is disappointing but it does show that management can make the hard choices when necessary. As things stand, a write off of around GBP 900k is to be expected – but a dry well would have cost far more.
- Tantalizingly, Chaco has announced that it is in the final stages of negotiating for a new block – though no details are given with negotiations expected to be finalized in 'a few weeks' time'. We have no further information on this development but it will be encouraging to investors that the company has got a replacement for Puerto Lopez on the cards so quickly.

Share Price: 10.75p

12m High: 18.4p

12m Low: 7.0p

Market Cap: £57.6m

Shares in Issue: 535.4m

Interest Cover: n/a

EPIC Code: CHP

ISIN No: GB0032087826

Market: London AIM

Broker: Daniel Stewart & Co.

PR: Parkgreen Communications Ltd.

Website:

<http://www.chacopl.com>

Previous Research Note:

Chaco Resources: South American Exploration. 12.38p 17/07/2006

Analyst: Mark Parfitt

Drilling to commence at Primavera

Encouragingly and as mooted in our last monthly, the Operator of the Primavera Block in the Llanos Basin, Gran Tierra Energy Inc, has advised Chaco that the rig arrived in Colombia on 15 January 2007 and after drilling a well for another company it will move to the Cachapa well site and is expected to start drilling at the end of February. Following drilling Cachapa 1, the rig will move to the Capibara well site, also in the Primavera Block.

Exploration Halted at Puerto Lopes Oeste

The key piece of news right now is that Chaco and its partners have halted exploration on the Puerto Lopez Oeste on the back of new seismic data, which has shown the two leads Metica Sur and Santaya Leads are likely to be uncommercial. We must say this has come as something of a surprise, as things appeared to be going great guns as late as last month, with plans afoot to locate a drill site for the 2007-2008 exploration programme.

We had hoped for oil in place of up to 30 million barrels and we had estimated a risked

oil in the ground value of GBP7.6million or 1.4pence per share for the Santaya lead. This is now obviously redundant.

At the end of the day this decision is disappointing but it does show that management can make the hard choices when necessary. As things stand a write off of around GBP 900k is to be expected – but a dry well would have cost far more.

A New Block

We have no information on this block at present but will issue an update when further information is forthcoming.

Alea

We retracted our estimates back in November and still cannot look to rework them until there is more certainty on timings at Alea on the Platanillo Block. Progress has been made with Ecopetrol, with approval obtained from the ANH to amalgamate Years 1 & 2 of the Platanillo E&P contract. When we get more information on the revised timetable, we will look to update our forecasts.

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