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HD **'Party crashers' are now niche leaders**

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Guarantees Putting your money where your absolute faith is.

Less than seven years before collecting a $17.9 **million** windfall from selling his **stake** in Arrow **Energy**, Queensland resources entrepreneur Stephen Bizzell put down a personal guarantee to help prevent the then struggling junior **coal** seam gas explorer stay afloat.

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"We were on our knees," Nick Mather said, who also gave a guarantee for Arrow, without much of a second thought such was his faith the play in the then largely untested CSG industry would succeed.

Their confidence was justified, with **oil** giants Shell and PetroChina stumping up $3.5 **billion** in cash to acquire Arrow in 2010 amid the promise of CSG to fuel a $70 **billion** gas export industry.

With Bizzell's and Mather's current play, shale gas explorer Armour **Energy**, it's a similar story. No such financial guarantees have been needed, but the stock is at less than a fifth of its issue price in its $75 **million** IPO in April 2012. And that is despite Armour's success at its Egilabria 2 well in Queensland's Nicholson basin, which was the first lateral shale well in Australia to flow gas to surface.

It was the same at Arrow, when despite successful drilling, the shares tanked before the market started to understand the industry and the opportunity, Bizzell said.

Mather and Bizzell recall the early days at Arrow, when the doubts around CSG made them feel "like party crashers" when attending the 1999 APPEA annual **oil** industry conference in Perth. "We're probably seeing a little bit of the same here again, in that even if people recognise the potential they are not yet at the point where they are willing to invest in the opportunity," Bizzell said.PPerseverance pay off

Their confidence in the ultimate success of Armour, thought to have a huge 40 trillion cubic feet of gas in its 33 **million** acres in north-west Queensland and the Northern Territory, is undiminished. "I have absolute total faith," Mather said. Armour's chairman admits he initially dismissed the shale idea for the region as "rubbish" back in 2009 when the exploration manager of his DGR Global**company** pointed to a gas flow from a zinc exploration hole in the McArthur Basin.

The market is "worried about the path from concept to project delivery," he said. "But we've done that before and one of the things we're very, very confident of is, it won't happen overnight but it will happen."

Armour, which counts US hedge fund Och-Ziff among its major shareholders since a seed capital raising in 2009, has seen its shares plunge 76 per cent in the past 12 months.

The stock, which closed Friday at 8.9¢, has never traded above its 50¢ issue price.

While acknowledging the work still to be done to "unlock the code" of shale in Armour's permits, Bizzell, a nonexecutive director, said he's got even greater faith than when at Arrow, in their ability to replicate that success at Armour, given the lessons learned on geology, funding and commercialisation. "We're much older and wiser in that respect, and probably recognise the scale of the potential opportunity," he said. "At the beginning of Arrow our ambitions were a lot less lofty than we actually delivered."

What isn't in doubt is that their licence areas are full of gas. Only one of their eight wells has failed to find gas.

But the complex task of finding the right combination of drilling and completion techniques to yield a steady commercial flow is still ongoing. "It's all a matter of identifying the basin sweet spots and cracking the codes as to how we can produce gas at commercial rates," chief executive Robbert de Weijer said, a former senior executive at Arrow and its Dart **Energy**.Failure not an option

Failure isn't an option, said both Bizzell and Mather – shareholder capital is "sacrosanct."

Armour's focus area is sometimes compared unfavourably with the Cooper Basin, with its existing gas infrastructure easing access to market.

But Mather points to relatively close mine **operations**, and access to domestic and LNG customers in Queensland through a potential pipeline to Mount Isa. About 150 kilometres to the north lies the Gulf of Carpentaria, where Armour ultimately envisages a 6 **million** tonnes a year LNG export project.

In the shorter term, **Chinese**-controlled miner MMG has an accord to take gas from Armour in a bid to limit its exposure to surging east coast prices. Supplies could start to MMG's Century site in 2019. Senior eyes junior"We see getting involved with juniors in what could be potentially a big industry could be advantageous to us," MMG's Queensland general manager Mark Adams said.

In the meantime, Armour's quest to find partners with the balance sheet to help reach its shale prize continues.

It has reduced its cash burn to $1.4 **million** a quarter and has about $6.5 **million** in the bank. Financial pressure has risen due to a knockback of an expected circa $10 **million** R&D tax rebate, with an appeal under way.

Bell Potter said sealing a quality farm-out would re-rate the stock, and Armour has had talks but is yet to land on the right deal.

Mather notes the vastness of the resource offers "**company**-changing" potential even for a major, but said the deal has to unlock the potential of the ground.

"The point is these frontier basins and pioneering well, and extraction techniques take a long time to develop, but because the prize is so big at the end it is worthwhile doing," Mather said.

The writer's Brisbane flights were paid by Armour **Energy**.

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