

Cadlao Funding Secured, FID Targeted for the Dec Q

Investment Highlights

- RAI fast approaching FID for its Cadlao project.** RAI has made significant progress of late, announcing two separate financing deals that will see it funded through its Cadlao oil field re-development project. With financing in place, the key remaining hurdle is achieving FID which we anticipate by year-end to allow for the commencement of development drilling in March 2012. Cadlao is a fast-track project which is scheduled to achieve 1st oil ~30 days from spud and has a project payback of ~2 months.
- \$30m project debt funding facility secured.** On the 16th of September RAI announced it had agreed to the terms for the provision of a US\$30m debt facility that will see the project financed to 1st oil. The funding has been secured through DG Consulting, a Philippines based group associated with Mr. Michael C. U. de Guzman and will be sourced through Legavi Holdings Inc (Legavi), a Philippines based investment group which is funded out of Europe and Hong Kong. The announcement also detailed that Legavi has expressed an interest in providing an additional \$70m in finance to accelerate portfolio development across the region and is testament to the strong asset base and RAI management/technical credentials. The \$30m has been secured for a 2-year period at a coupon of 15%.
- Reaches \$35m finance and oil marketing agreement with BP.** On the 19th of September RAI announced it reached an agreement with BP for the provision of crude marketing and offtake services and the forward sale of its first cargo to provide a US\$35m working capital facility. The funding will see the project funded through the remaining project works, consisting predominantly of the 2nd and 3rd development wells. The involvement of BP is also a strong endorsement of the project.
- Cadlao field is well understood.** Given the 11 year production history a lot is known about the productivity of the field, with good reservoir characteristics observed and a strong water drive. The up-dip pinnacle structure locations have been mapped on 3D but have not been drilled so the reservoir properties in the new development locations have not been directly tested. However RAI believes that these are expected to be at least inline with those observed in Cadlao-1A.
- Indonesia drilling in late 2011.** RAI is progressing plans to drill the 40mmbbl Amanah prospect (38.25% WI) in early 2012. The prospect is located in North Sumatra, Indonesia along a shallow oil trend which has yielded analogous discoveries.
- NZ drilling in early 2012.** RAI has a 10% interest in the large 378mmbbl Kaupokonuni prospect which will likely be drilled in early 2012 and provides a key catalyst, with unrisksed upside of +\$1/sh.
- We maintain our SPECULATIVE BUY recommendation with an upgraded price target of \$0.28/sh.** Our valuation has been upgraded for increased project POS of 60% (previously 50%) and will look to further de-risk the project to our \$0.23/sh unrisksed valuation as it progresses to 1st oil.

21 September 2011

12mth Rating	SPECULATIVE BUY	
Price	A\$	0.13
Target Price	A\$	0.28
12m Total Return	%	112.7

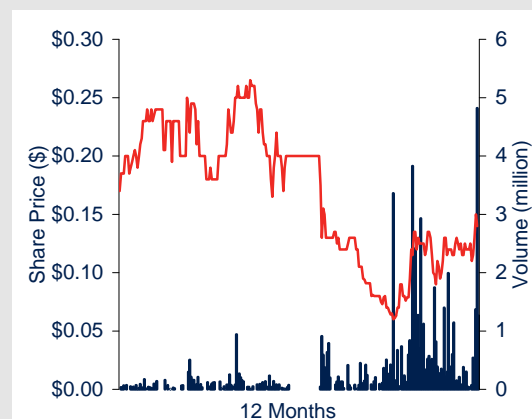
RIC: RAI.AX	BBG: RAI AU	
Shares o/s	m	260.1
Free Float	%	74.0
Market Cap.	A\$m	33.8
Net Debt (Cash)	A\$m	20.1
Net Debt/Equity	%	19.0
3m Av. D. T'over	A\$m	0.06
52wk High/Low	A\$	0.27/0.06
2yr adj. beta		0

Valuation:

Methodology		NPV
Value per share	A\$	0.28

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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	22.4	50.0	-25.0
Rel. S&P/ASX 300	20.5	79.7	-13.5

Secures \$30m Project Debt Facility

RAI recently announced it had agreed to the terms for debt funding of the Cadlao Oil Field Re-development Project, arranged through DG Consulting, a Philippines based group associated with Mr. Michael C. U. de Guzman. DG Consulting and Raisama have agreed to terms for the provision of a US\$30m project debt facility to be sourced through Lagavi Holding Inc., a Philippines based corporate investment organisation which is funded via Hong Kong and European investors. The debt has been financed over a 2 x year term with no penalty for early repayment and a 15% coupon rate. The facility is secured against RAI's assets and is subject to third party approval and formal documentation. Under the agreement RAI will pay a standard arrangement fee for DG consulting and also issue 30m options to Legavi Capital with an exercise price of \$0.20/sh.

The early re-payment provision is key given the significant cash-flow from the project is forecast to payback capex within ~2-months. It is also worth noting however 2/3 of interest repayments are deductible from production revenue under the terms of the PSC. Total capital costs to first oil are estimated at US\$27m with sufficient cost over-runs allowed for under the facility and the BP working capital financing facility. Under RAI's farm-in agreement it will finance carry Blades 30% interest through the development. Hence it must finance 80% of development costs but will recover all of its costs prior to sharing profit oil with Blade. Legavi has also expressed an interest in providing a further US\$70m in financing to accelerate development of its portfolio throughout the region. We view the offer for an additional \$70m in finance as testament to the strong asset base and RAI management/technical credentials. It is indicative of confidence in the management to deliver the base project and expand its footprint in the region.

\$35m Working Capital and Marketing Agreement with BP

On the 19th of September RAI announced it had secured an agreement with BP Singapore to provide a working capital facility and exclusive crude marketing and offtake services. Under the agreement, BP will advance sales revenue for the 1st full oil cargo of 350kbbbls which is estimated at US\$35m at prevailing oil prices which will provide the additional capital required to cover the remaining costs of the development, which is largely comprised of the drilling of 2 additional development wells. We view the offtake and working capital agreement with BP as a large endorsement of the project and of RAI's capabilities.

Working towards FID

With the fundamentals of the financing for the project in place, RAI is in a good position to take the project to its Final Investment Decision (FID) by the end of the year. The key hurdle now will be facilitating a JV meeting to achieve FID, however we expect this to be completed in the Dec Q 2011. The company is well progressed through finalising contracts for goods and services for the project and commenced purchase of some long lead items.

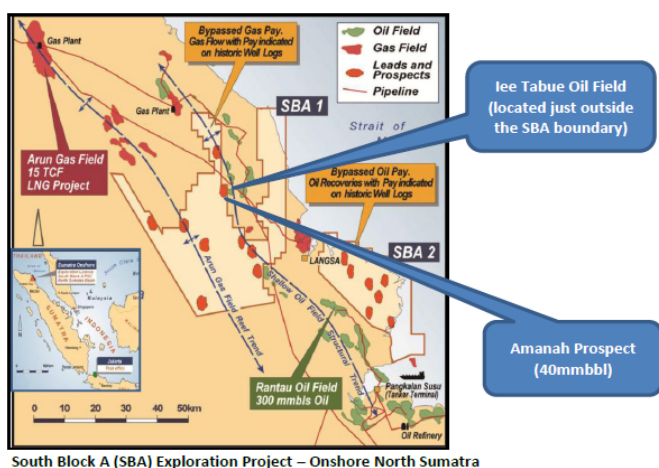
Lower-risk Value Proposition

The Cadlao oil field re-development project presents a lower risk development of some 6mmbbls of attic oil with a very fast payback based on high predicted flow rates and a simple development concept. The development will see a jack-up drill 3 development wells in 20m of water, turning the first well immediately to production and utilising the jack-up as a processing facility before the installation of a small well head platform at later date. The development is low risk given the long production history from the field which produced 11.1mmbbls before being shut-in. The first well is scheduled to be completed in 20 days providing first oil in less than 30 days from spudding. Production is expected to peak at +20kbopd before declining quickly and facilitates payback in ~2-months and a gross cash flow of over \$US300m in the first 12-months. GCA has independently certified 6mmbbls of gross 2P reserves and estimates an NPV(10) of \$79m for RAI's net interest in the project.

Drilling in Indonesia in Early 2012

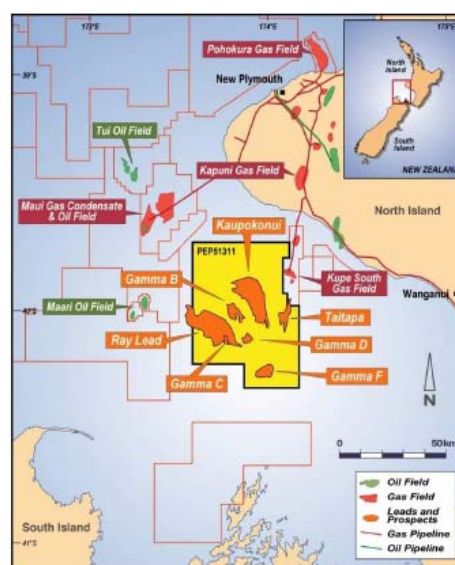
RAI has identified the Amanah Prospect as the first well to be drilled in its South Block A permit in North Sumatra, Indonesia. The well will be drilled along a shallow oil trend which has yielded several oil and gas discoveries to date, including the lee Tabue oil and gas field which was discovered in 1971 and has produced 12mmbbls and 24bcf to date. The well will be drilled to 1,200m to test 6 potential zones, with a most likely prospective resource of 40mmbbls. A number of additional oil and gas prospects have been identified along the shallow oil and deeper gas trends. Additional geological surveying and further seismic acquisition will be completed over the remainder of 2011 to allow for drilling of additional prospects in early 2012.

Figure 1: South Block A in North Sumatra, Indonesia



Source: RAI Announcement – August 2011

Figure 2: PEP 51311 – New Zealand



Source: RAI Investor Presentation – September 2011

RAI holds a 38.25% operated interest in South Block A, located in North Sumatra, Indonesia. It manages its operations in the country via an exclusive arrangement with in-country partner RENCO. Its acreage is adjacent and on trend to the 15tcf Arun Gas field and associated LNG Project and is also on trend to a number of nearby shallow oil discoveries, including the nearby 300mmbbls Rantau oil discovery.

NZ Drilling in early 2012

RAI's upcoming well in New Zealand provides significant exploration leverage via its 10% interest in a +300mmbbl target. RAI has a 10% interest in PEP 51311 in the Taranaki Basin in New Zealand. The permit is highly prospective, with the Taranaki basin yielding a number of significant oil and gas/condensate discoveries and is located in between the Maari Oil field and Kupe South gas field. PEP 51311 is operated by NZO and RAI is earning a 10% interest by paying 20% of costs (without back costs) on the upcoming well, estimated at a gross US\$12-15m. Drilling of the Kaupokonuni oil prospect was planned for the Dec Q 2011 but will now likely be delayed until the March Q 2012.

The Kaupokonuni prospect has been mapped as a series of stacked Miocene aged sandstones which NZO estimates contains mean prospective recoverable oil of 378mmbbls. Hence the prospect provides RAI with some significant exploration leverage in a highly prospective region. The well will provide a major catalyst for RAI and we believe presents risked value in excess of the current market cap of the company and we estimate unrisks upside of more than \$1/sh net to RAI on a success basis.

Valuation

We maintain our SPECULATIVE BUY recommendation with an updated price target of \$0.28/sh (previously \$0.23/sh) based on a risked assessment of its development, appraisal and exploration portfolio.

Figure 3: Base Case Valuation

Valuation	A\$m	A\$/sh
Cadlao Project - GCA 2P	47.4	0.14
Exploration and Appraisal	64.5	0.19
Uranium Assets	5.0	0.01
Cash	3.9	0.01
Unpaid Capital	3.4	0.01
Corporate	(5.0)	(0.01)
Project Debt	(24.0)	(0.07)
Total @ 10% Discount Rate	95.2	0.28
Price Target	95.2	0.28

Source: Patersons Estimates

We have increased the POS on the Cadlao project from 50% to 60% following securing of finance. It is worth noting that this risking has been applied to GCA's assessed project value and we have not performed our own analysis of the project cash flows. However the assumed oil price of US\$87/bbl is conservative in comparison to current Tapis oil prices and we believe that ongoing cost estimates are broadly inline with assumptions. We have allowed for an 80% interest in the project debt facility of US\$30m, however it is worth noting that this includes a 30% finance carry which will be fully recovered prior to sharing profit oil with Blade.

It is important to highlight that our current project valuation is risked and that on an unrisked basis our valuation for the Cadlao project is \$0.23/sh. Further, with a 2-month payback, the company should be moving into a net cash position after 2-months (eliminating -\$0.07/sh in debt) at which point our valuation would still include a net project NPV of \$0.27/sh. Success in exploration in Indonesia or New Zealand would also deliver material upside. Our risked valuation is better illustrated below:

Figure 4: Risked Project and Exploration Portfolio Valuation

Country	Prospect	Interest %	Gross Unrisked Resource			POS %	Value		Risked Value		Unrisked Upside	
			Oil (mmbbl)	Gas (bcf)	Equiv (mmboe)		(US\$/bbl)	(US\$/mcf)	(A\$m)	(\$ ps)	(A\$m)	(\$ ps)
Producing Assets												
Philippines	Cadlao - 2P	50.0%	6.0		6.0	60.0%	NA		47.4	0.14	79	0.23
Philippines	Cadlao East	32.2%	4.0		4.0	10.0%	NA		4.0	0.01	40	0.12
Exploration and Appraisal												
Philippines	Bonita	32.2%	3.0	0.0	3.0	25.0%	10.00		2.4	0.01	10	0.03
Indonesia, Sumatra	South Block A - Amanah	38.3%	40.0	0.0	40.0	10.0%	7.00		10.7	0.03	107	0.31
Indonesia, Sumatra	South Block A - Gas Prospect	38.3%	0.0	1,000.0	166.7	5.0%		0.50	9.6	0.03	191	0.56
New Zealand	Kaupokonui	10.0%	378.0	0.0	378.0	10.0%	10.00		37.8	0.11	378	1.10
Sub total									111.9	0.33	805.0	2.34

Source: Patersons Estimates

Our valuation is on a fully diluted basis, allowing for unlisted shares, options in the money and has also allowed for the issue of an additional 50m shares at \$0.10/sh to fund ~\$5m in commitments in Indonesia and New Zealand through 2011 and early 2012.

Cadlao Oil Field

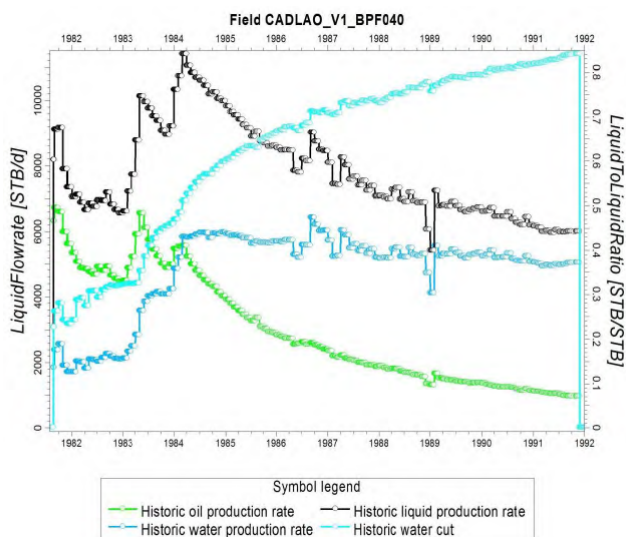
Asset Background

History

The Cadlao Oil field is located in ~90m of water in the Palawan Basin offshore the Philippines, approximately 45km west of Palawan Island. The field was discovered in 1977 by AMOCO with the drilling of Cadlao-1, which was drilled to 3,292m and intersected oil at 1,743m in the Miocene carbonates and produced 3,630bopd under test. Cadlao-2 was then drilled to depth of 1,989m intersecting the corresponding reservoir section but was found to be water wet. The final appraisal well Cadlao-3 was drilled to 1,951m, intersecting oil in the target reservoir and producing 6,050bopd under test. In 1979 Amoco reached FID on the field and subsequently drilled the Cadlao-1A development well.

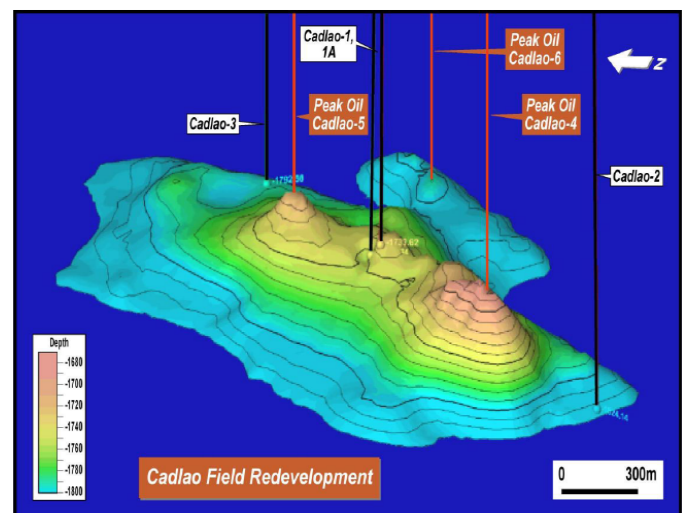
The field achieved first oil in 1981 with production from the Cadlao-1A and Cadlao-3 produced via an FPSO. Over the next 11-years the field produced 11.1mmbbls before being shut-in in 1991. The majority of production was from Cadlao-1A which produced 10.4mmbbls. At the time of shut in, the field was still producing ~1,000bopd but at the US\$14/bbl oil price at the time was marginal. The fields' production history is provided below.

Figure 5: Cadlao Field Production History



Source: Independent Experts Report – April 2011

Figure 6: Modelled Cadlao Structure



Source: RAI Investor Presentation – June 2011

A 3D seismic survey was completed over the field in 1996 which produced a different structural field interpretation and identified the potential for attic oil in untapped up-dip locations. In October 2010 GCA completed an Independent Expert Report for the field which included the certification of remaining reserves and an economic assessment for a redevelopment project.

Regional Exploration

Cadlao is nearby a number of successful fields including the Matinloc and Nido fields, which have produced 12.7mmbbls and 18mmbbls to date, respectively. Exploration commenced in the basin in 1960's with 2D seismic acquisition and a busy period of exploration in the 1970's. This resulted in several discoveries, including Nido in 1976, followed by Cadlao in 1977, Matinloc in 1979 and West Linapacan in 1990. A total of 6 fields have been developed to date from some 21 discoveries, with the vast majority from Miocene carbonate reservoirs.

Geological Setting / Reservoir Properties

The Cadlao field is an early stage Miocene reef structure overlying an extensive Cretaceous to Oligocene carbonate platform. Data from previous wells, in particular Cadlao-1A delineates zones of high porosity in the upper reef zones from 14.5% to 17.1% with individual measurements as high as 31%. Logs from Cadlao-1 also identify vuggy porosity with individual vugs up to 30mm. Data from Cadlao-3 suggests that fractures are present throughout the field, in particularly at the Cadlao-3 location which is further down towards the carbonate platform. Hence reservoir properties were significantly better up on the reef structure and on this basis we would anticipate similar or better properties at the planned up-dip development well locations. However specific properties at these locations are unproven and hence there is still uncertainty on the reservoir at the proposed locations.

The reservoir contains a light (45° API), high mobility (0.29cp) oil with a very low solution GOR and a strong water drive.

Permit Licence / Ownership

In 2007 Blade Petroleum acquired a 44.9437% interest in SC6 from local Philippines company, Phoenix Energy Corporation and in 2008 acquired 55.0563% from Oriental Petroleum. In 2008 Blade farmed down 20% of the permit to VenturOil and in addition negotiated the extension of the SC6 Cadlao permit licence to the 28th of February 2024. In 2010 Peak entered into an agreement to farm-in to the permit, acquiring 50% interest and operatorship from Blade in exchange for financing Blade's remaining 30% share through development. It is worth noting that RAI will finance Blade's 30% share but it will recover these expenses before Blade receives its net 30% profit share.

Reserves Certification

In 2008 Blade commissioned an independent reserves report for the Cadlao field, which was completed by RISC. The assessment certified 6.32mmbbls of 2P and 7.8mmbbls of 3P reserves.

As part of RAI's acquisition of Peak Oil & Gas Ltd, RAI engaged KPMG to prepare an independent experts report, which subsequently commissioned an independent specialist assessment. The report was completed by Gaffney Cline and Associates (GCA) and included both reserves certification and an economic assessment of the proposed development concept – which is available for public view. A summary of the reserves assessment is provided below:

Figure 7: Reserves as at 30th November 2010

	Proved (MMBb)			Proved plus Probable (MMBb)		
	Gross Field	NWI	Net Entitlement	Gross Field	NWI	Net Entitlement
Cadlao	4.11	50.0%	1.52	6.05	50.0%	2.13

Notes:

1. Reserves have been assigned to SC6 on the basis that the Philippines government will approve the proposed Field Development Plan.
2. Reserves have been assigned to Peak on the assumption that the farm-in agreement will be successfully concluded according to the terms disclosed to GCA.
3. Net Entitlement Reserves are the sum of Peak's share of cost recovery oil plus its share of the Contractor's profit oil

Source: Independent Experts Report – April 2011

As per the table above, the net entitlement reserves are net of the government's effective share of reserves from the estimated recoverable volumes. RAI's share of 1P and 2P reserves on a working interest basis are 2.0mmbbls and 3.0mmbbls, respectively.

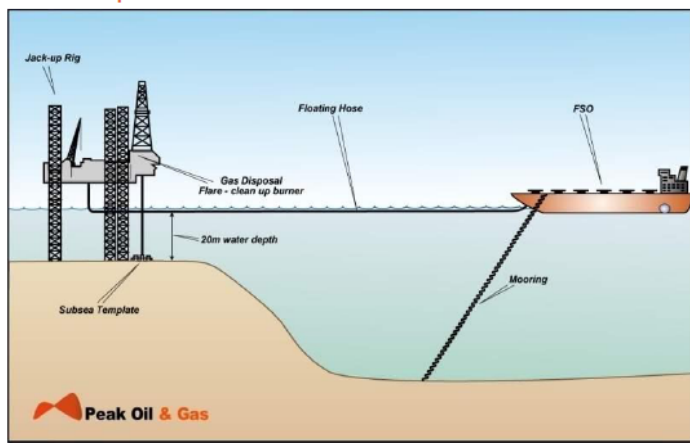
Redevelopment Project

Development Concept

RAI are in the mature stages of planning for redevelopment of the Cadlao oil field. The project will target the production of some ~6mmbbls of attic oil in the 3 up-dip locations via the drilling of 3 development wells. The positioning of the 3 development wells will utilise the 3D seismic and detailed mapping to target the attic oil in pinnacle structures. The wells will include horizontal deviated sections, designed to pass through structural culminations and intersect optimal reservoir section.

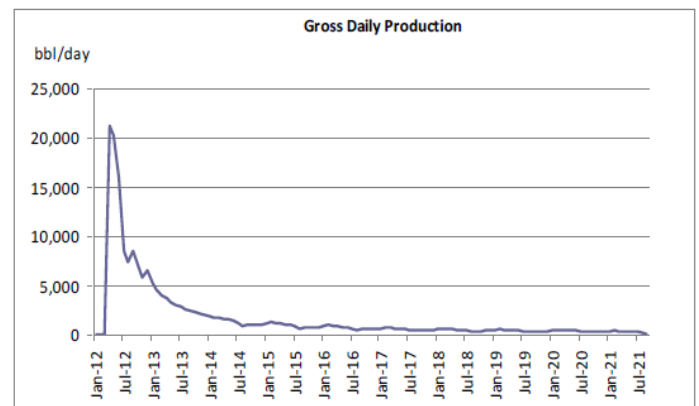
The field will be developed from a shallow shelf location in 20m of water, utilising a Jack-up to drill and complete the wells. The development will be phased with the first well brought online to accelerate cash flow and fund the drilling of the remaining 2 x production wells. The Jack-up will remain onsite as a production system until a small wellhead platform is installed to replace the Jack-up. Production will be processed on the Jack-up / platform and transferred to a moored/DP FSO, where it will be periodically offloaded to shuttle tankers.

Figure 8: Development Concept



Source: RAI Investor Presentation – June 2011

Figure 9: Forecast Production Rate – 2P Case



Source: RAI Investor Presentation – June 2011

Project Economics

The planned project has a very quick payback period of around 2-months given the simple, fast and low cost development concept, supportive fiscal regime and high initial flow rates. The long field production history enables for a history match and a good degree of certainty in modelling the forecast production. The curve above provides the average field production for the full development, reaching a peak of ~20,000bopd in the first few months of production. The first development well, Cadlao-4 will be brought immediately online to accelerate cash flow and followed by Caldau-5 and Cadlao-6. The production flow rate illustrated above is achieved via production from all 3 wells.

The following extract from RAI's presentation provides a summary of the economic assessment performed by GCA and highlights a net NPV(10) to RAI of US\$79m. The analysis utilises an average oil price of US\$87/bbl, a conservative assumption when compared to the benchmark Tapis price which is currently trading at US\$120/bbl. The premium 45° API oil is expected to be sold at par or a slight premium to Tapis, although assays are yet to be performed. RAI suggests that every US\$1 above the assumed average \$87/bbl oil price adds ~ US\$1m in NPV net to RAI.

Capital expenditure to first oil is estimated at a low US\$27m which includes all costs associated with mobilisation of the rig and production equipment and drilling of the first well. Subsequent expenditure of US\$25m - US\$30m is estimated for the remaining works which includes the drilling of the additional 2 x development wells. The specification/configuration for the production system is still being finalised however overall operating costs should be less than \$180k/day once in production. While costs will shift relative to those assumed in the GCA assessment it is believed that estimates are still in line with these assumptions.

Figure 10: GCA Project Economic Analysis Summary

Project Economics			Economic Assumptions	
Base case	Project US\$m	Peak US\$m	Base case assumptions	
NPV ₁₀	136	79	2P reserves	6.0 mmbbl
Free cash flow	140	92	Net 2P reserves	3.0 mmbbl
Payback months	2 months	2 months	Oil price (GCA price forecast)	US\$87/bbl
			Capex (to 1 st Oil)	US\$5/bbl
			Opex (average)	US\$22/bbl
			Discount rate	10%

* Financial and reserves estimates are by Gaffney Cline & Associates

Source: RAI Investor Presentation – June 2011

RAI is targeting 1st oil for the project in March 2012, following FID in the Dec Q 2011.

Fiscal Terms

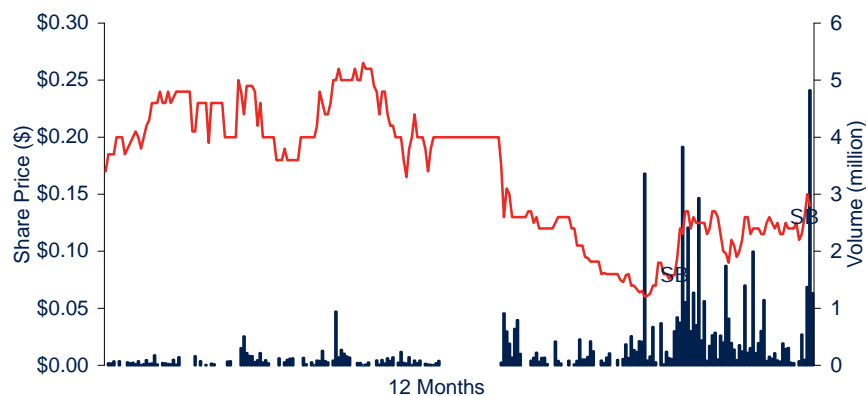
PSC terms in the Philippines are one of the most beneficial in South-East Asia. In addition the JV has negotiated an extended well test for production of 10% of the 2P reserves or for 60-days at full cost recovery. Hence RAI should recover a vast majority of its costs before cost recovery is reduced to a healthy 70% per annum. Profit oil is then split 60/40 in favour of the government whose share is inclusive of all tax obligations. RAI will receive an 80% share of JV revenues until it recovers all costs, including its 30% carry of Blades capital costs. There are some other royalties payable which we have not detailed above, however the full PSC terms are available in the Independent Experts Report.

Project Expansion

Over the life of the project, the field it is expected to deliver net free cash flows of \$92m, based on GCA's analysis, using an average oil price of US\$87/bbl. By 2016 RAI estimates the field will still be producing at a rate of ~500bopd. However once established, the platform will provide a production hub for the tie-in of nearby discoveries and potential for tie-in of additional prospects. Following the drilling of Cadlao-5 and Cadlao-6, the JV intends to drill the Cadlao East prospect as a directionally drilled well from the platform. The Cadlao East prospect look similar to Cadlao on seismic and straddles the Cadlao/ Bonita block boundary. RAI holds a 32.2% WI in the Bonita Block. The prospect is estimated to contain 4mmbbls of recoverable oil, which RAI suggests if successfully drilled would add incremental NPV of US\$40m, net to RAI.

The permit also contains the Bonita discovery which is located some 15km from Cadlao and estimated to contain 2-3mmbbls of recoverable oil. This has also been suggested as a possible tie-back, however the technical and commercial feasibility of the tie-back are currently being assessed by RAI.

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
12 Jul 11	Research Note	0.23	0.08	SB	
16 Sep 11	Event Impact Email	0.23	0.12	SB	50.0%
	Current Share Price		0.14		16.7%

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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