



ADX Energy

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ADX Energy: Sidi Dhaher well transformational for this emerging oil producer

ADX Energy (ASX: ADX) is poised to prove that it is all about the oil as it takes steps in its expected transition into an oil producer.

Production testing of the Sidi Dhaher-1 in the onshore Chorbane Block, Tunisia, is set to begin soon with the test rig now on site, potentially confirming both flow rates and reserves as well as providing a source of cash flow.

Further activities towards the transition to a producer are drilling an appraisal of the Dougga gas condensate field and testing of the Lambouka well offshore Tunisia.

The Company has also secured a farm in partner which will provide significant funding for the highly prospective onshore Parta Concession in Romania, and is planning to shoot seismic and drill a well there in 2013.

Share Price: A\$0.08
Issued Shares: 438.3 million
Market Cap: A\$35.0 million

ANALYSIS

ADX Energys Sidi Dhaher oil discovery is poised for producing with the rig contract in place, key personnel in place and support camp and drilling rig mobilised.

A successful production test would be transformational and underpin the future of the Company providing near term cash flow potential.

Success at Sidi Dhaher will also serve to de risk several other prospects and leads in the Chorbane permit.

Further valuation upside could come from a successful appraisal of the Dougga gas condensate find and/or testing of the Lambouka discovery, both of which could be undertaken under the same campaign.

The new moderate pro-development government in Tunisia, coupled with a well established oil and gas infrastructure that connects with local and export markets in Europe are likely to result in quick commercialisation with excellent pricing.

ADX also has a track record for securing farm-in partners, which had helped to spread and de-risk its Tunisian exploration programs.

This was proven again when it signed up Austrias Rohoelaufsuchungsgesellschaft as its farm in partner to help defray the costs of exploring the Parta Block in Romania.

The completion of testing at the Sidi Dhaher-1 in the first half of 2012 should be an inflexion point for the Company.

A successful commercial production test at Sidi Dhaher-1 would assist to underwrite the future of the Company. A positive result could take ADX Energy to early cash flows and possibly become an oil producer in a six month time frame.

Price: A\$0.08

Market Cap: A\$32.89M

1 Year Share Price Graph



Share Information

Code: ADX
Listing: ASX
Sector: Utilities
Website: www.adxenergy.com.au

Company Synopsis:

ADX Energy (ASX: ADX) is an oil and gas exploration and appraisal company ADX operates five oil and gas permits in North Africa and Europe ADX also has gold and base metal interests in Australia held via its stake in ASX listed Riedel Resources

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BACKGROUND

ADX Energy is an ASX listed oil and gas explorer with five oil and gas permits in North Africa, the Mediterranean and Central Europe, and retains an interest in gold and base metals through a 31.28% stake in Riedel Resources (ASX: RIE).

ADX Energy acts as operator and has established a \$60M exploration program with \$12M of shareholder funds, and farm-outs to venture partners who pay the balance of exploration and development expenditures.

These farm-outs have been very successful with the first two wells resulting in both an onshore oil discovery, and an offshore gas discovery that should establish the Company as an emerging oil and gas producer.

The Company has also acquired the first Geostreamer 3D seismic survey for offshore Tunisia that resulted in the discovery at Lambouka and a significant resources upgrade and de-risking of the Dougga condensate field. Geostreamer technology eliminates interference that is picked up by conventional hydrophone technology and presents sharper and clearer images of subsurface formations for further evaluation.

A data exchange has also been executed with Shell who completed an offshore 2D seismic survey in the Sicily Channel that abuts and covers part of the Kerkouane Block. This includes a highly prospective Cretaceous Formation that extends out from the historic Kerkouane-1 well within the ADX Energy controlled block, and has potential to contain significant volumes of hydrocarbons.

The political situation appears to have stabilised in Tunisia, where the revolution was followed by democratic elections that elected a moderate Islamist government. Tunisia maintains an open banking and legal system, along with a civil society that is managed by a competent and well educated public service.

ADX Energy is utilising a well developed oil and gas infrastructure that connects with local and export markets into nearby Europe that provides a strong demand for energy products, and excellent pricing for oil and gas.

MANAGEMENT

Wolfgang Zimmer is the Managing Director, and has 32 years experience in the oil and gas industry. He previously worked with Mobil Oil in Europe and the USA in oil & gas exploration and production, and with OMV where he served in a variety of senior management roles that included the establishment of an exploration and energy production business in Australia, New Zealand, and Tunisia. Most recently he was the CEO of Grove Energy of Canada that merged with other interests in 2007.

Ian Tchacos serves as Chairman, and has over 25 years of international experience in corporate development and strategy, mergers and acquisitions, petroleum exploration, development and production operations, commercial negotiation, oil and gas marketing and energy financing. He was previously the Managing Director of Nexus Energy and was responsible for developing the Company from a micro-cap explorer to an ASX top 200 offshore producer of oil and gas.

Paul Fink serves as Technical Director, and has 18 years experience in diversified oil and gas exploration and production in both technical and managerial positions. He also worked for OMV in exploration and production assignments on a global basis, headed his own petroleum consulting business, and operated a highly successful exploration campaign for Focus Energy.

Andrew Childs serves as Non Executive Director and is also a Non Executive Director of Riedel Resources Limited, Managing Director of Petroleum Ventures Pty Ltd, Chairman of Australian Oil Company Ltd and Non Executive Director of Timor Oil Ltd, Orion Energy Pty Ltd and Bombora Energy Pty Ltd. Andrew is also Principal of Resource Recruitment and Managing Director of International Recruitment Services Pty Ltd.

FUNDING AND SHAREHOLDERS

J.P. Morgan Nominees hold 105.48 million shares, with the top 20 shareholders controlling 398.95 million shares prior to the recent placement and issue.



ADX held A\$1.03 million in cash at the end of March 2012 and also owns 25 million shares, or 31.28%, of Riedel Resources (ASX: RIE), worth a current A\$2.62 million. Additional funding of A\$4.2 million for the farm out of the Romanian Part permit to RAG will also be received shortly.

The Company has issued 28.8 million unlisted options exercisable between 31 December 2012 and 28 February 2014 at various prices from \$0.25 - \$0.45, that are currently out of the money.

CHORBANE BLOCK, ONSHORE TUNISIA

The Chorbane Block covers 2,428 square kilometres in central Tunisia, near the port city of Sfax, and has all the hallmarks of a highly prospective oil and gas asset.

It contains large undrilled structures high quality seismic available over prospects and leads, and is surrounded by several producing oil fields that contain extensive oil and gas infrastructure for collection and distribution of hydrocarbons.

Sidi Dhafer-1 was discovered in October 2011 after the ADX led joint venture intersected a 30 metre column of live crude oil with minor amounts of water and a good seal in the Cretaceous Bireno formation.

The Bireno hosts a number of producing fields in the area and the structure intersected here has been estimated to hold mean in-place oil of 51 million barrels. The confirmation of recoverable volumes and resulting potential reserves are contingent upon a successful well test with the objective of proving commercial flow rates and likely recovery factors.

High quality seismic was also obtained over additional prospects and leads within the block and has defined a number of new drilling opportunities within the block.

Following the discovery of a 30m oil column at Sidi Dhafer-1, ADX secured a contract with Dietswell SA for the provision of the Sedlar 160 drilling rig to flow test the Sidi Dhafer-1 oil discovery.

Key personnel required for the program were recruited and mobilised during the quarter. The rig and auxiliary equipment are currently on site with flow testing expected to start soon.

ADX also continued to engage with the local population preparing and negotiating environmental compensation agreements and work contracts.

Approval of the testing programme was granted by Enterprise Tunisienne d'Activités Pétrolières (ETAP) and the operational work program agreed and finalised by the joint venture.

The results of the Sidi Dhafer-1 well test will be a major factor in ADX's plans for the medium term. A success could inspire the Company to carry out further studies to better understand the structure and drilling to boost production.

ADX has a 40% interest in Chorbane while other partners include Gulfsands Petroleum Plc 40%, XState Resources Ltd 10% (ASX: XST), and Verus Investments Limited 10% (ASX: VIL).

SICILY CHANNEL BLOCKS, OFFSHORE TUNISIA AND ITALY

The Sicily Channel Blocks consist of three existing gas and condensate discoveries which are 60% owned, and include the Dougga gas condensate field that was independently assessed by Tracs AGR at 239 billion cubic feet (Bcf) of gas and 41 million barrels (MMbbl) of liquids, along with the 60% owned Lambouka and Kerkouane that have been estimated by ADX Energy at about 254 million barrels of oil equivalent (MMboe).

Additional prospective exploration prospects defined on 3D seismic total 410MMboe, and on 2D seismic total a prospective resource of 570MMboe.

A new 100% owned Italian licence has been added that is contiguous with the Kerkouane discovery, and on a combined basis forms a contingent and prospective resource of 1.5 billion barrels of oil equivalents for the entire project



area.

ADX believes that resources at Dougga may be higher as recent 3D seismic depth work has confirmed that the Dougga structure has a much lower/ deeper gas water contact than the one utilised for the Tracs estimate.

The Company has a mean in house estimate of 110MMboe for Dougga.

The seismic has also allowed ADX to identify a 30.6 square kilometres satellite structural closure of Dougga. Dougga West has estimated mean recoverable resources of 226MMboe.

Lambouka was discovered by the Lambouka-1 well was drilled in mid 2010 in around 625m of water to a total measured depth of 2,786m, before being suspended for future re-entry.

Located just 12 kilometres from Dougga, it hosts contingent mean recoverable gas resources of 309Bbf of gas, and has both an appraisal opportunity and potential upside from a deeper reservoir formation that has not been drilled.

The close proximity of Lambouka, Dougga, Dougga West and other leads offers ADX the opportunity to develop them together as a single project.

This proposed Dougga Hub is close to the Tunisian shore, existing infrastructure and high price markets both locally and in Europe.

The Kerkouane Block contains the historic Kerkouane-1 discovery that was drilled at a shallow water depth of 108 metres by Shell in 1981, and produced massive gas kicks and solvent shows from the Ain Grab, and Nilde Limestones, that were intersected above 1,352 metres. A nearby oil field in Italian waters, the Nilde field, has produced around 30 mmbbls of oil from this reservoir.

However, Kerkouane-1 failed to reach the primary target Abiod Limestone and was never tested. The deeper Cretaceous Abiod reservoir may carry significant volumes of hydrocarbons.

ADX is currently conducting a data exchange agreement with Shell who operate adjoining permits for 104 kilometres of 2D seismic, which is aimed at defining significant targets around Kerkouane.

ROMANIAN PARTA BLOCK

While Tunisia is the focus of ADX's attention, the Company has also recently reached a farm-in agreement with Rohoelaufsuchungsgesellschaft, who will take a 50% stake in the Parta Block, which is located in a proven and producing hydrocarbon province in Romania.

The Austrian company will make an upfront payment to ADX and will earn the stake by paying past costs and a promoted share of future costs prior to the start of the seismic program.

The 1,221 square kilometre area contains 40 identified oil and gas leads that can be evaluated with low cost seismic and drilling programs.

While several oil and gas fields with total discovered proved and probable reserves of 12MMbbl of oil and 50Bcf of gas have been made in the block since the late 1960s, it is still considered to be underexplored and lacks modern 2D and 3D seismic data.

ADX plans to remedy this in part through its committed work program.

This consists of the reprocessing of 300 kilometres of seismic, acquiring 100 square kilometres of new 3D seismic and 100 kilometres of new 2D seismic as well as drilling 2 wells.

It has already completed geotechnical studies that have identified two independent fairways within the migration pathway of the MAKO source kitchen.



The MAKO trough contains the Algyo Field in Hungary which has historical production of 2.6 trillion cubic feet of gas and 225MMbbl of oil.

Romania has a favourable tax and royalty regime and has easy access to local infrastructure and European markets.

Riedel Resources MINERAL INTERESTS

Besides its oil and gas assets, ADX also holds 31.28% of Riedel Resources (ASX: RIE), which it spun-off in 2010.

Riedel holds the Mt. Webb, Marymia, Millrose and Cheritons gold and base metal projects in Western Australia.

These have existing inferred gold resources with potential for expansion, along with mature drill ready targets for gold, copper and nickel, and nickel.

Riedel has also acquired gold tenements in Burkina Faso where early stage surface sampling and auger drilling are underway.

CATALYSTS WITHIN A YEAR

Testing at Sidi Dhaher-1 to confirm commercial flow rates and reservoir size.

Completion of 2D and 3D seismic at Parta opens up potential.

Farmout of Sicily Channel acreage.

Drilling and testing of a successful Dougga appraisal well may increase resource size and confirm commercial flow rates.

Testing of Lambouka-1 to confirm resource estimates and another addition to Dougga-Hub.

Exploratory well adds speculative interest and potential materiality.

ANALYSIS

Sidi Dhaher-1 is surrounded by several producing oil fields and extensive oil and gas infrastructure which are significant in terms of attractiveness to investors for funding any future development. Oil could be trucked to a nearby field where it would enter a transportation pipeline, taking it south to a port for export.

The completion of testing at the Sidi Dhaher-1 in the first half of 2012 should be an inflexion point for the Company. Success at Sidi Dhaher will also serve to de-risk several other prospects and leads in the Chorbane permit.

The offshore program in the Sicily Channel should attract attention with the appraisal drilling of the Dougga gas field, and back to back testing of Lambouka-1. The drilling of an exploratory well on a prospect defined by 3D seismic and proximal to Dougga within the Sicily Channel also has potential to provide very significant upside to the current market capitalisation of the Company. This is expected to be de risked by securing a farm-in partner, a process that is expected to gain from ADXs successful track record in doing so.

A successful commercial production test at Sidi Dhaher-1 would assist to underwrite the future of the Company. A positive result could take ADX Energy to early cash flows and becoming an oil producer in a three to six month time frame.

The confirmation of recoverable volumes and resulting potential reserves are contingent upon a successful well test with the objective of proving commercial flow rates and likely recovery factors.

Actual flow rates and recovery will only be known once testing begins but assuming industry standard oil recovery of 35% and a US\$100 (A\$97.4) price per barrel of oil, Sidi Dhaher could be worth US\$714 million over its life to ADX.

Taken further, Sidi Dhaher could have recoverable reserves of (conservatively) 10 to 17 mmbbls which would provide ADX Energy with an entitlement of 4 to 6.8 mmbbls, or a gross worth of around \$90 million or \$0.20 per share. This is against a current share price of \$0.08 indicating significant upside potential for investors.



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