

Near Term Exploration and 2 Discoveries to Appraise

Investment Highlights

This note provides an explorers overview for ADX which we rate as a **SPECULATIVE BUY**. ADX Energy Ltd (ADX) is an Australian based oil and gas exploration company. It has 4 oil and gas permits across Europe and North Africa (2 offshore and 2 onshore). ADX has 2 gas/condensate discoveries within its portfolio (Lambouka and Dougga) with appraisal drilling of both discoveries expected in Q3 2011. Near term activity will focus on the Sidi Daher prospect which is expected to be spud in January 2011.

- Lambouka confirmed as a discovery (30% ADX).** In September 2010, ADX announced that the Lambouka-1 well (Kerkouane permit, offshore Tunisia) was a discovery. At least two hydrocarbon-bearing zones were present in the Abiod formation (the primary objective for the Lambouka-1 well). The preliminary resource estimate of the Lambouka well is 309bcf (mean recoverable gas). The forward plan for the JV is to re enter and test the Lambouka-1 well in Q3 2011. The gross re-entry and well test cost is estimated to be ~US\$20m.
- Appraisal of Dougga offers substantial upside (60% ADX).** The Dougga gas field (Kerkouane permit, offshore Tunisia) was discovered in 1981 by Shell. Dougga contains liquids rich gas (approximately 70bbbls/mmmscf) but also contains considerable levels of CO₂ (~30%). ADX recently announced an upgrade to the Dougga mean recoverable resources to 50mmbbls condensate and 234bcf gas. The potential commerciality of gas is enhanced due to excellent domestic gas prices in Tunisia. An appraisal well is planned to be drilled in 3Q 2011 with an estimated gross cost of ~US\$45m.
- Potential joint development of Lambouka and Dougga.** Given the close proximity of the Lambouka and Dougga discoveries, a successful appraisal of both could lead to a joint development.
- Drilling of Sidi-Daher prospect in January 2011 (40% ADX).** The Sidi Daher prospect (175bcf gas, 44mmbbls oil) in central Tunisia (Chorbane license) is due to be spud in January 2011. ADX will generate approximately US\$1.35 million of cash from the farm-outs as well as a free carry on this well. Gulfsands Petroleum Plc, Xstate Resources Ltd and Verus Investments Ltd (Verus) have farmed in to earn 40%, 10% and 10% working interest respectively.
- Valuation and Catalysts.** Our price target of \$0.24/sh is a risked valuation of ADX's discoveries (Lambouka and Dougga), an Expected Monetary Value of the Sidi-Daher exploration prospect and ADX's expected equity in Riedal Resources. We have factored in \$20m of equity dilution in our valuation which we estimate will be required to fund the 2011 drilling program. This would be reduced if ADX farms-out part of its interest in Dougga. The key catalysts going forward will be the drilling of Sidi Daher prospect (Q1 2011), a revised independent resource assessment incorporating the recently acquired 3D seismic over Dougga (Q1 2011) and the appraisal drilling of Lambouka and Dougga (Q3 2011). Success at the Sidi Daher prospect could add over \$0.30/sh unrisked with successful appraisal drilling of Lambouka and Dougga offering upside of \$0.12/sh and \$0.18/sh respectively.

7 December 2010

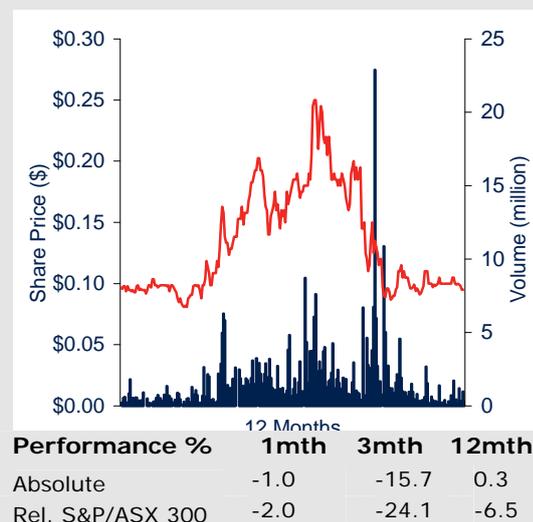
12mth Rating		SPEC BUY
Price	A\$	0.10
Target Price	A\$	0.24
12m Total Return	%	151.7
RIC: ADX.AX		BBG: ADX AU
Shares o/s	m	338.7
Free Float	%	96.4
Market Cap.	A\$m	32.2
Net Debt (Cash)	A\$m	-2.3
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.10
52wk High/Low	A\$	0.25/0.08
2yr adj. beta		1.47

Valuation:

Methodology		NPV
Value per share	A\$	0.24

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12 Month Share Price Performance



Company Overview

ADX Energy Ltd (ADX) is an Australian based oil and gas exploration company. It has 4 oil and gas permits across Europe and North Africa. Formerly AuDAX Resources Ltd, ADX recently diversified from its initial minerals holdings to focus on oil and gas. ADX is headquartered in Perth with a second operating office in Vienna, Austria. ADX has 2 gas/condensate discoveries within its portfolio (Lambouka and Dougga) with appraisal drilling of both discoveries expected in Q3 2011. ADX operates all of its interests attempting to gain leverage through early entry and farm-outs. To date ADX has been able to fund the majority of its drilling expenditures via farm-outs. Near term activity will focus on the Sidi Daher prospect which is expected to be spud in January 2011, an independent resource assessment on Dougga and the preparation for appraisal drilling of its Dougga and Lambouka gas condensate discoveries offshore Tunisia.

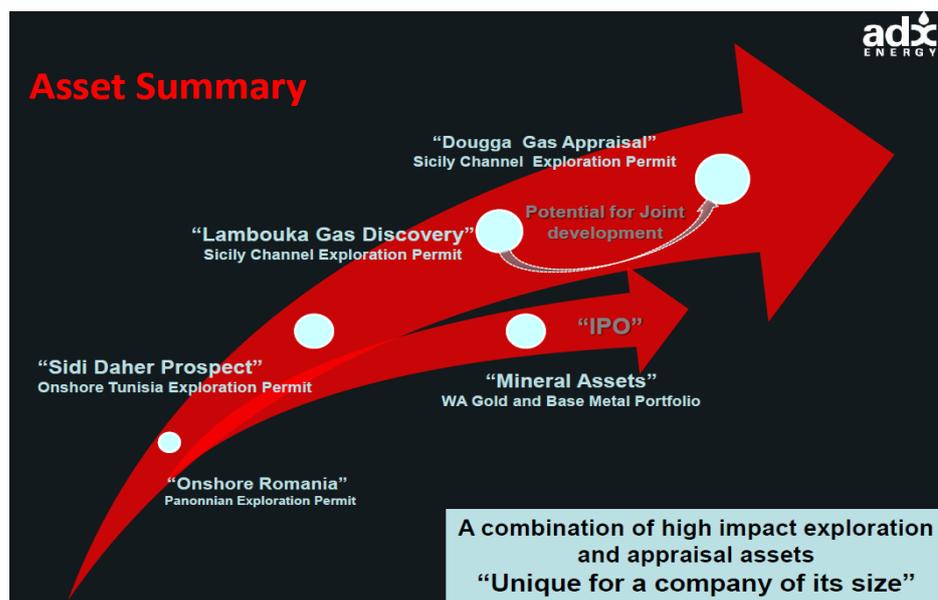
ADX's exploration permits in Tunisia include the Kerkouane (offshore) and Chorbane (mainly onshore) permits. The Kerkouane permit holds the recent Lambouka discovery (309bcf gas) which also straddles the Pantelleria license (offshore Italy). Appraisal drilling of the Lambouka discovery is planned in Q3 2011. The Kerkouane permit also holds the Dougga gas field discovery (234bcf, 50mmbbls condensate) which was discovered in 1981 by Shell at a time of low gas prices and at a water depth that was near the technical limit for oil and gas development. A Dougga appraisal well is planned to be drilled in Q3 2011. Given the close proximity of the Lambouka and Dougga discoveries, a successful appraisal of both could lead to a joint development. The Chorbane permit holds the Sidi Daher prospect (175bcf gas, 44mmbbls oil) which is due to be spud in January 2011. In Romania, ADX holds a 60% interest in the Area of Mutual Interest (AMI) and Parta exploration license which is close to the producing Algyo field located in the Pannonian Basin. Romania offers a large variety of production, rejuvenation, development, near field exploration and frontier exploration opportunities.

On 14 October 2010, Riedel Resources Ltd (RIE) entered into a Share Sale Agreement with ADX to acquire AuDAX Minerals Pty Ltd (company holding ADX's Australian gold and base metals assets). The consideration upon completion will include RIE allotting and issuing ADX with 25m shares. The divestment of ADX's gold and base metal assets should be finalised once RIE completes its IPO.

A key part of ADX's strategy and major differentiator amongst small caps is operational capability and knowledge of areas in which ADX operate.

Looking forward, ADX has significant drilling activity planned starting with the Sidi Daher prospect drilling in January 2011, followed by critical appraisal drilling of both the Lambouka and Dougga discoveries in Q3 2011.

Figure 1: Asset Summary



Source: ADX

Asset Overview

Tunisia and Italy: Kerkouane and Pantelleria Licenses

Both the Kerkouane (offshore Tunisia) and the Pantelleria (offshore Italy) permits were the focus of ADX's technical and operational efforts during the past financial year which culminated in the drilling of the Lambouka-1 prospect (later confirmed as a discovery) after funding was secured through a number of farm-outs to incoming joint venture partners. The Lambouka discovery straddles both licences while the Dougga discovery is held within the Kerkouane permit. The technical work has focused on the acquisition of a 640km² 3D seismic survey over the Lambouka-Dougga prospect areas. The survey was to provide additional definition of the Dougga field, other Kerkouane and Pantelleria prospects and identify further drilling targets. Further details of the Lambouka and Dougga discoveries are listed below.

Lambouka Discovery (ADX 30%)

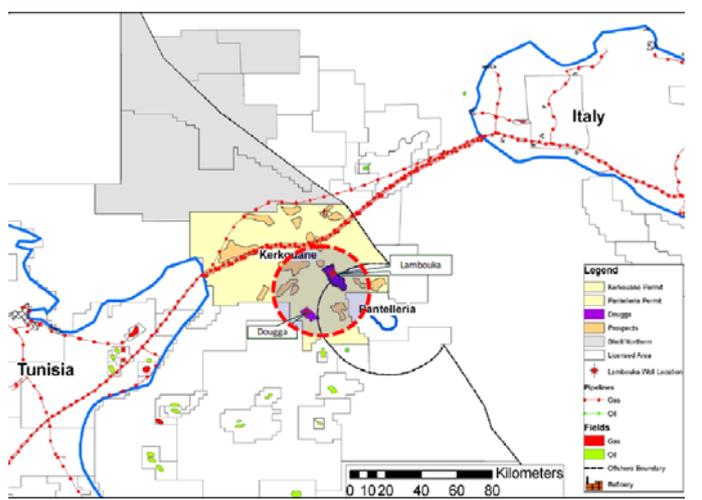
The Lambouka discovery is located in the Kerkouane permit offshore Tunisia. Lambouka straddles two licenses (the Kerkouane permit in Tunisia and the Pantelleria license in Italy) as well as the border between Tunisia and Italy. The Lambouka-1 drilling location is approximately 160kms North East of Tunis (Capital city of Tunisia) in the Sicily Channel. Lambouka is a large 70sq km area tilted horst block which was thought to contain three hydrocarbon bearing zones (Birsia sandstone, Ain Grab formation carbonates and Abiod carbonate) which are proven and producing reservoirs in the Sicily Channel and adjacent Gulf of Hammamet. The nearest offset well is the Dougga-1 gas condensate discovery in the Kerkouane permit located approximately 22kms SSW of Lambouka. The well was spudded on the 11th of July 2010 with a target depth of ~3000m and the pre-drill volume estimate was 270mmboe at a gross well cost of ~US\$22m. Lambouka was the first deepwater well drilled in Tunisia at a water depth of 629 metres.

In September, ADX announced that the Lambouka-1 well encountered hydrocarbon bearing zones based on analysis of wireline logs, hence confirming the Lambouka-1 well as a discovery. At least two hydrocarbon-bearing zones were present in the Abiod formation (the primary objective for the Lambouka-1 well). The Birsia formation sandstones were interpreted to be water bearing while the Ain Grab carbonates had minor gas shows but were interpreted to have low porosity. Due to severe drilling losses and well bore instability

in the Abiod section the JV decided to suspend the well with the ability for future re-entry to obtain additional hydrocarbon and reservoir information in a cost effective manner from a customised drill stem test of the Abiod Formation. The preliminary resource estimate of the Lambouka well is 309bcf (mean recoverable gas). It is believed that condensate rich gas is present at Lambouka and using a similar gas condensate ratio to the nearby Dougga discovery for Lambouka would result in a condensate resource of 24mmbbls based on the mean resource estimate. It is important to note that testing and sampling of reservoir fluids from Lambouka discovery is required to confirm final resource numbers.

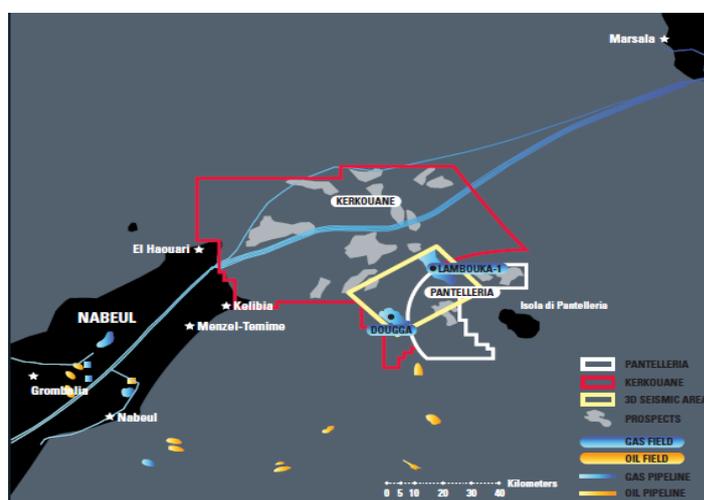
The forward plan for the JV is to re-enter the Lambouka-1 well in 3Q 2011 then side track the bottom hole section of the well into virgin undamaged reservoir and test the well. The gross re entry, side track and testing cost is estimated to be ~US\$20m. It is intended that the re-entry and testing program will be conducted in conjunction with the Dougga appraisal program.

Figure 2: Lambouka Discovery



Source: ADX

Figure 3: ADX Sicily Channel Fields (Including Dougga)



Source: ADX

Dougga Gas Condensate Discovery (ADX 60%)

The Dougga gas field was discovered in 1981 by Shell at a time of low gas prices and at a water depth that was near the technical limit for oil and gas development. The discovery well intersected and tested gas in the late Cretaceous Abiod and Allam formations. Dougga contains liquids rich gas (approximately 70bbls/mmscf) but also contains considerable levels of CO₂ (~30%). Dougga is located in 328m of water approximately 45kms East of Cap Bon in the Sicily channel. The discovery is positioned close to domestic and export infrastructure. In late 2009, ADX commissioned TRACS International Consultancy Ltd (TRACS) to undertake an independent resource evaluation of the Dougga gas discovery and its potential for commercial development. The study indicated Dougga is potentially a significant resource with a recoverable mean of approximately 42mmbbls of condensate and 196bcf gas. More recently, ADX announced an upgrade to the Dougga mean recoverable resources based on the remapping of 3D seismic data to 50mmbbls condensate and 234bcf gas. A Dougga appraisal well is planned to be drilled in 3Q 2011 with an estimated gross cost of ~\$US45m. It is anticipated that ADX may farm down to 30% pre-drill to mitigate the financing risk. It is intended that the Dougga appraisal program will be conducted in conjunction with Lambouka re-entry and testing.

Note that we expect to obtain a revised independent resource and economic assessment from Tracs during January 2011 that will reaffirm the potential commerciality of Dougga.

Joint Development Potential of Lambouka and Dougga

Given the close proximity of the Lambouka and Dougga discoveries, a successful appraisal of both could lead to a joint development. The likely development concept would include a phased development with phase 1 incorporating Dougga given the shallower water (~350m) and closer proximity to shore (~40kms) relative to Lambouka. The Dougga discovery would need 4 wells producing at a rate of 25mmscf/day+ gas each to make the development economic. The development would require a Floating Storage Offtake (FSO), pipelines, CO2 removal and reinjection facilities onshore and subsea equipment. Current capex estimates to develop Dougga are US\$1.2bn or between ~\$US13 to \$US14/boe. Following the first phase Dougga development, Lambouka would then be tied back to Dougga. It is worth noting that the gas price in Tunisia is linked to the oil price and at US\$ 80 per barrel the gas price is approximately US\$ 8 per mcf. Tunisia is a net importer of gas but there is also access to European markets via the Trans Med pipelines which extends from Tunisia into Italy.

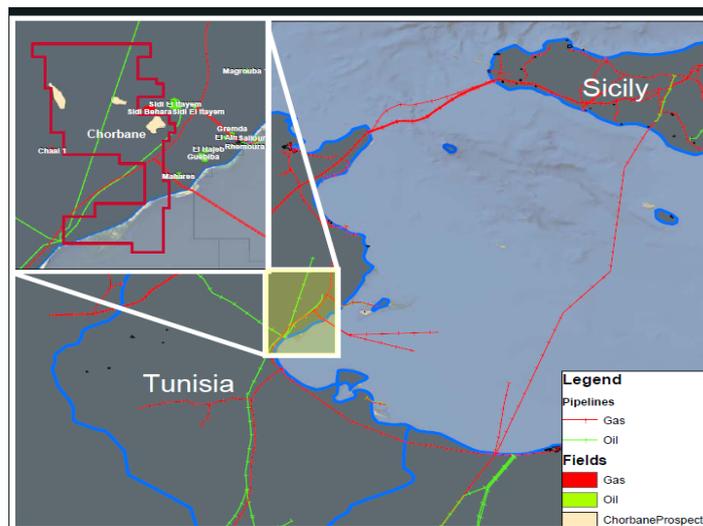
Central Tunisia: Chorbane License

ADX is the operator of the 2,438km² Chorbane permit which is located in central Tunisia. The permit is mainly onshore, is relatively underexplored and contains prospects and leads with multiple objectives with both oil and gas potential. The area has excellent infrastructure that may allow any discovery to be tied into existing facilities with minimal effort, time and expense. The first well is planned to be drilled on a large tilted horst block, the 'Sidi Daher prospect'. Further details of the Sidi Daher prospect are below.

Sidi Daher Prospect (ADX 40%)

The Sidi Daher prospect is located in central Tunisia near the port city of Sfax. It is surrounded by several producing oil fields and extensive oil and gas infrastructure. The prospect is supported by a Direct Hydrocarbon Indicator which upgraded the prospect to drill-ready status. The multi-target prospect has estimated prospective resources of 175bcf of recoverable gas at the Metaoui level and 44mmbbls oil in the Abiod formation. A large closure (+25 sq km) at the Abiod level is analogous to the Sidi-El Kilana field which to date has produced approximately 50mmbbls of oil from the same horizon and is on the same structural trend approximately 30 kilometres north of the Sidi Daher prospect. ADX has secured industry funding and mitigated its financial exposure while retaining a material 40% interest in the permit by securing three farm-outs on a promoted basis. Gulfsands Petroleum Plc, Xstate Resources Ltd and Verus Investments Ltd (Verus) have farmed in to earn 40%, 10% and 10% working interest, respectively. The recent farm-out to Verus includes ADX receiving US\$0.25m for back costs following the execution of the agreement and a further US\$1.1m by the 3rd of December 2010. The Sidi Daher prospect is planned to be drilled in January 2011 and has an estimated gross cost of ~US\$5.5m.

Figure 4: Chorbane Permit



Source: ADX

Romania: Area of Mutual Interest and Parta Permit

In Romania, ADX holds a 60% interest in the Area of Mutual Interest (AMI) and Parta exploration license which is close to the producing Algyo field located in the Pannonian Basin. Its partners are Caspian Oil & Gas and Sibinga Petroleum Ltd (each company holds a 20% stake under an AMI agreement). Romania offers a large variety of production, rejuvenation, development, near field exploration and frontier exploration opportunities.

The Pannonian basin has both oil and gas production from relatively shallow tertiary sandstones and is in large parts underexplored. ADX directors have successfully explored this basin in other European countries and are attracted to Romania by the combination of relatively low cost exploration, a proven hydrocarbon system and unexplored areas with good upside resource potential. The PARTA block has an area of 1,221 square kms and is located in south west Romania near the town of Timisoara. The prospective block contains 7 producing oil and gas fields and is close to the largest oil and gas field in the Pannonian basin, the Algyo field in Hungary (2.5tcf gas, 220mmbbls oil produced).

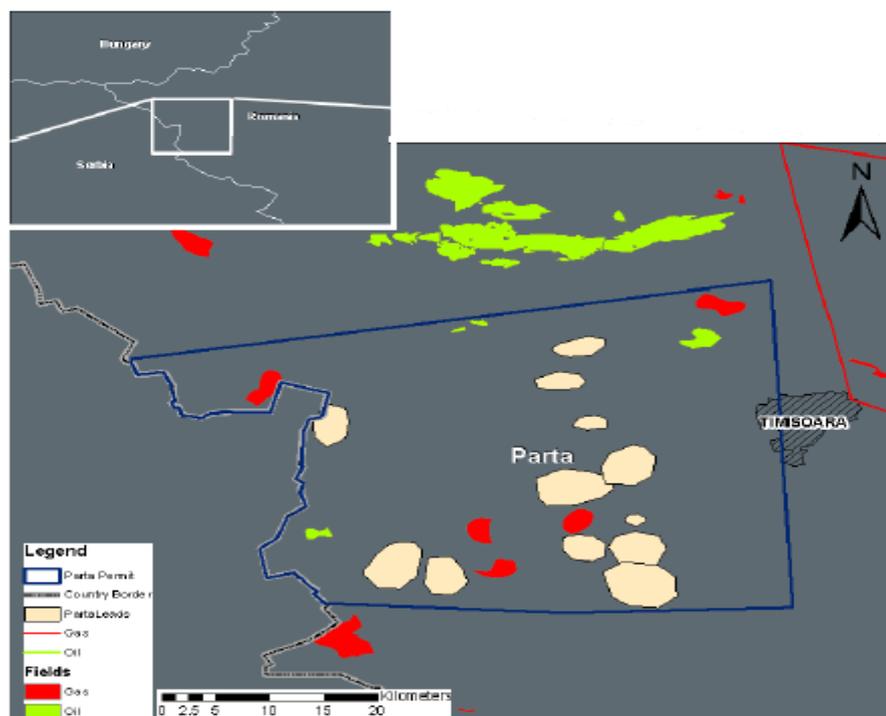
Figure 5: Parta Concession

Figure 4 Parta concession with oil & gas fields (green & red colors, respectively) and leads & prospects in beige colors.

Source: ADX

Valuation

Our price target of \$0.24/sh is a risked valuation of ADX's discoveries (Lambouka and Dougga), an Expected Monetary Value of the Sidi-Daher exploration prospect and ADX's expected equity stake in Riedal Resources Ltd. We have used a nominal NPV value of \$10/bbl for condensate and \$0.50/mscf for gas in our valuation. We have used a 40% risking for Lambouka and Dougga to account for the appraisal risk and applied a risking of 10% to the Sidi-Daher prospect.

We have estimated the 2011 drilling program will cost ~\$18m (Dougga and Lambouka) net to ADX and have therefore factored in \$20m of equity dilution in our valuation. The funding requirement may be reduced if ADX opts to farm-out some of its 60% interest in Dougga. We have assumed ADX farms down to 30% on the Dougga prospect in our valuation.

Figure 6: Valuation Summary

Lambouka	47	0.08
Dougga	74	0.13
Sidi-Daher Prospect	21	0.04
Riedal Resources	5	0.01
Corporate	(9)	(0.02)
Cash	2	0.00
Debt	0	0.00
Total @ 10% Discount Rate	141	0.24
Price Target		0.24

Source: Patersons Estimates

Key Risks

The key risk to ADX is the challenge to prove a commercial resource. The Sidi Daher prospect is supported by a Direct Hydrocarbon Indicator (DHI) which supports the probability of gas however, only exploration drilling can confirm the volume of gas. ADX's two existing discoveries (Lambouka and Dougga) require appraisal drilling to confirm if flow-rates are commercial.

Investment Summary

We believe ADX is an attractive "SPECULATIVE BUY" highlighted by 2 existing discoveries which present only appraisal risk and the Sidi Daher prospect which offers high impact near term exploration exposure with ADX being free-carried on the well. We believe attractive project economics has the potential to be delivered if ADX can prove commercial reserves mainly due to:

- ADX's assets being close to the vibrant European gas market with domestic gas prices relatively high.
- The gas content of ADX's existing discoveries assessed to be liquids rich.

A success at the Sidi Daher prospect could add over \$0.30/sh unrisks with successful appraisal drilling of Lambouka and Dougga offering upside of \$0.12/sh and \$0.18/sh respectively.

Looking Ahead

The key catalysts going forward are the following:

- Exploration drilling of Sidi Daher prospect – Q1 2011
- Revised independent resource assessment on Dougga – Q1 2011
- Appraisal drilling of Dougga – Q3 2011
- Appraisal drilling of Lambouka – Q3 2011

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