

## Sidi Dhaher Prospect Close to Spud

### Investment Highlights

- Sidi Dhaher prospect close to spud.** The Sidi Dhaher prospect (44mmbbls oil, 175bcf gas) is expected to be spud late February. The drilling has been delayed due to the recent tensions in Tunisia. ADX and the Joint Venture are continuing to monitor the situation closely and will only go ahead with the drilling program if the operation is assessed to be safe to operate. ADX has not yet mobilised the rig which we view as the next key event before spud. Based on ADX's 40% interest, a success of the Sidi Dhaher prospect could add ~\$0.30/sh unrisks.
- Resource upside of Sidi Dhaher.** ADX has estimated target volumes of the Sidi-Dhaher prospect to be 175bcf of recoverable gas at the Metlaoui level and 44mmbbls oil in the Abiod formation. However, JV partner Xstate Resources (XST) released an independent expert's report (May 2010 Prospectus) carried out by Isis which estimated the prospective resource potential to be 310mmbbls oil and 42bcf gas highlighting substantial potential upside. Further upside is estimated in the deeper, secondary targets.
- ADX free carried on Sidi Dhaher drilling.** 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 3<sup>rd</sup> of December 2010.
- Active drilling program in 2011.** Assuming tensions in Tunisia subside, ADX has an active drilling program planned in 2011. Following the Sidi Dhaher drilling, appraisal drilling of both the Lambouka (309bcf gas) and Dougga (50mmbbls condensate and 234bcf gas) discoveries is planned in 3Q 2011. ADX hold a 30% interest in Lambouka and 60% interest in Dougga. However, it is likely ADX will farm-down its interest in Dougga to 30%.
- Key risks.** The key risks include 1) Geopolitical risk in Tunisia, 2) Risk to delineate a commercial resource and 3) Funding risk if there are scope/cost increases to the forward drilling program.
- We maintain our "SPECULATIVE BUY" recommendation for ADX and price target of \$0.24/sh.** Near term success at Sidi Dhaher offers attractive upside of ~\$0.30/sh unrisks. However, ADX's drilling program will be driven by the stability in Tunisia which is a key risk. 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-Dhaher exploration prospect and ADX's expected equity stake in Riedel Resources Ltd (expected to be listed on the 31<sup>st</sup> January).

28 January 2011

12mth Rating		SPEC BUY
Price	A\$	0.10
Target Price	A\$	0.24
12m Total Return	%	139.1

RIC: ADX.AX		BBG: ADX AU
Shares o/s	m	338.7
Free Float	%	96.4
Market Cap.	A\$m	33.9
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

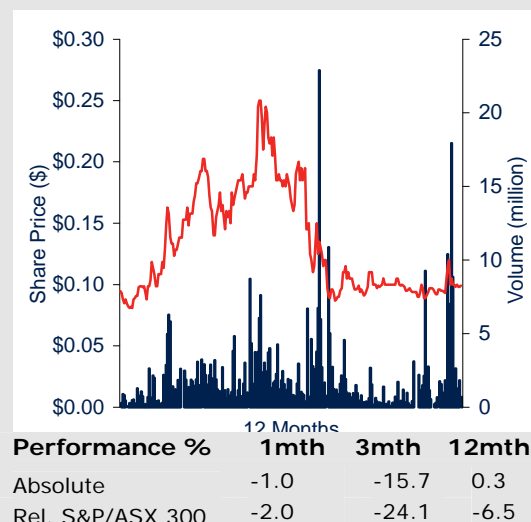
#### Valuation:

Methodology		NPV
Value per share	A\$	0.24

**Analyst:** Edwin Bulseco  
**Phone:** (+61 8) 9263 1660  
**Email:** ebulseco@psl.com.au

**Disclosure:** Patersons Securities was Lead Manager to a \$5m Placement completed in December 2010. It was paid a fee for these services.

#### 12 Month Share Price Performance



## Background on Sidi Dhafer Prospect

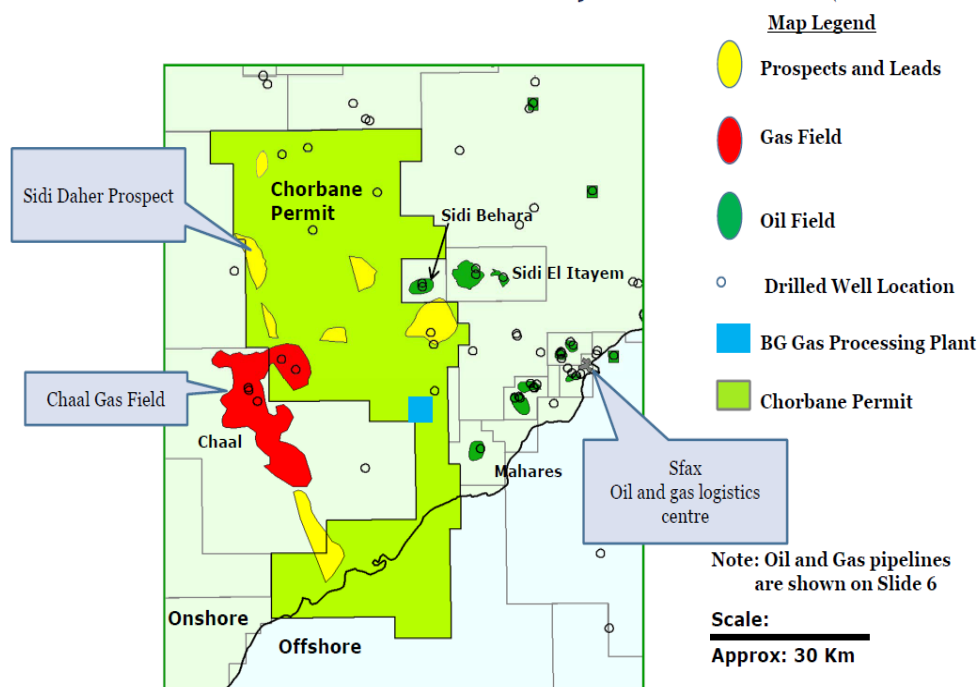
### Central Tunisia: Chorbane License (40% ADX)

ADX is the operator of the 2,438km<sup>2</sup> 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 Dhafer prospect'. Further details of the Sidi Dhafer prospect are below.

#### Sidi Dhafer Prospect Overview

The Sidi Dhafer 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 Metlaoui 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 Dhafer 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 3<sup>rd</sup> of December 2010. The Sidi Dhafer prospect is planned to be drilled in late February 2011 and has an estimated gross cost of ~US\$5.5m.

**Figure 1: Sidi Dhafer Prospect Location**



Source: XST

The expected drill time is estimated to be 35 days and equates to a burn rate of US\$160k/day. ADX is free-carried on the well up to the estimated well cost of ~US\$5.5m, which limits ADX's financial exposure. However, if well costs were to exceed the expected

cost, ADX will need to fund the incremental cost at its equity share of 40%. The target depth of the well is ~2,150m.

### Further Details on Sidi Dhafer Prospect

Data from over 30 wells and 3,500km of 2D seismic cover the Chorbane permit where the Sidi Dhafer prospect is located. A total of 8 wells have been drilled in the block with 2 of the wells recording gas shows. Late Cretaceous Abiod Chalk (developed in the Chaal-1 to the south) and the Eocene Reineche/Metlaoui carbonates are thought to be the main reservoirs of the Sidi Dhafer prospect. The main reservoir risk identified is the quality of the carbonate reservoirs in the Abiod formation (variable reservoir quality).

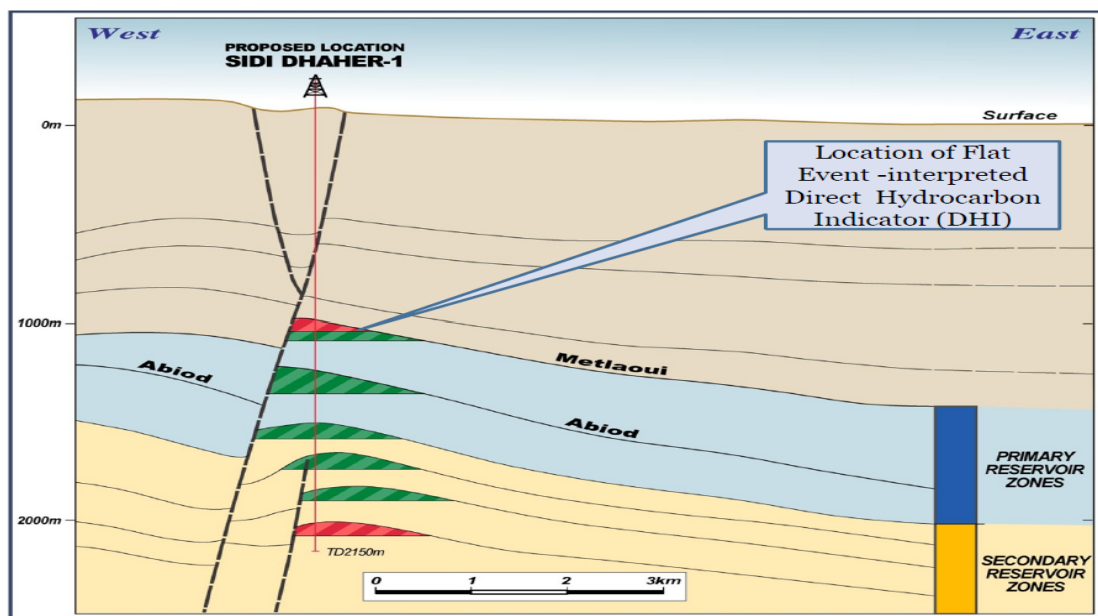
The main source rocks in the Chorbane Permit are shales of the Cretaceous Fahedene formation which are currently in the oil window throughout the eastern part of the block. Jurassic age source rocks of the Staa Formation are in the gas/condensate window west of the block as proven by the Chaal gas field and the ABK wells.

Isis Petroleum Consultants Pty Ltd (Isis) prepared an Independent Expert's report on the XST assets including the Sidi Dhafer prospect. The Isis interpretation and mapping of the Abiod chalk and Eocene Limestone formations shows the Sidi Dhafer prospect is a fault dependent anticline. Cretaceous and Tertiary shales form proven lateral and top seals for the primary reservoir targets. A critical risk of the fault trap is fault reactivation which may cause breaching of the trap after it has been charged with oil and gas.

### Sidi Dhafer Upside Resource Potential

As highlighted above, ADX has estimated target volumes of the Sidi-Dhafer prospect to be 175bcf of recoverable gas at the Metlaoui level and 44mmbbls oil in the Abiod formation. However, JV partner XST released an independent expert's report (May 2010 Prospectus) carried out by Isis which estimated the prospective resource potential to be 310mmbbls oil and 42bcf gas highlighting substantial potential upside in the primary reservoir zones. Further upside is estimated to exist in the deeper secondary reservoir zones.

**Figure 2: Sidi Dhafer Reservoir Zones**



Source: XST

Our understanding is that the key difference in potential resource estimates between ADX and XST is that the XST independent expert's report estimates a larger resource at the

Abiod reservoir and an oil accumulation below the Metlaoui. Our valuation only incorporates the ADX resource estimate of 44mmbbls oil and 175bcf gas.

### Drilling Rig Secured

ADX announced it has signed a Letter of Intent with Challenger Limited to provide drilling rig services for the Sidi Dhafer prospect. Challenger is expecting to use the RIG 37 onshore drilling unit to drill the Sidi Dhafer prospect.

Challenger Limited is a private company, established in 1991 in the Isle of Man. The company is a contract oilfield drilling and work-over services provider. Challenger operates 29 rigs, 25 of which are under long-term contracts in Libya. Challenger employees count for more than 1300 in various specializations, including but not limited to, onshore drilling and work-over techniques, mechanical and electrical engineering, preventative maintenance, QHSE, legal and contracts, financial and banking, human resources and IT.

### Political Stability in Tunisia to Determine Sidi Dhafer Drilling Schedule

The political stability in Tunisia will be a key determinant to the Sidi Dhafer drilling schedule. Political unrest has arisen in Tunisia following President Zine al-Abidine Ben Ali stepping down from power as a result of street protests.

The latest announcement from ADX (28<sup>th</sup> January 2011), reports that the Tunisian security situation has continued to improve. The Sidi Dhafer well site is expected to be completed at the beginning of February with the spud date planned for late February. The spud date is subject to contractor availability, which we believe will be driven by political stability in Tunisia.

Importantly, the rig has not been mobilised which we view as a key event before drilling is set to commence. ADX and the Joint Venture are continuing to monitor the situation closely and will only go ahead with the drilling program if the operation is assessed to be safe to operate.

## 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-Dhafer exploration prospect and ADX's expected equity stake in Riedel Resources Ltd (expected to be listed 31<sup>st</sup> January 2011). We have used a nominal NPV value of \$10/bbl for condensate/oil 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-Dafer 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 3: Valuation Summary**

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

Source: Patersons Estimates

## Key Risks

The key risks to ADX include the following:

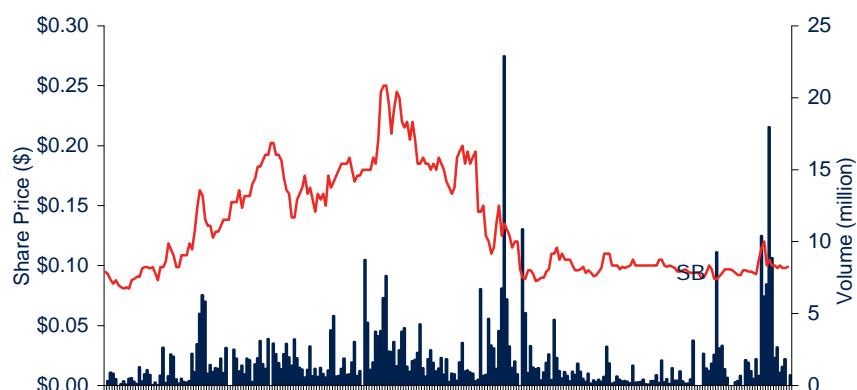
- Continued tensions in Tunisia could have a substantial impact on the forward drilling program to ADX which is fundamental to our investment thesis and valuation.
- The challenge to prove a commercial resource. The Sidi Dhaher prospect is supported by a Direct Hydrocarbon Indicator (DHI) which supports the probability of gas however, only exploration drilling can confirm this. ADX's two existing discoveries (Lambouka and Dougga) require appraisal drilling to confirm if flow-rates are commercial.
- Funding risk. Our valuation includes \$20m of equity dilution to support the 2011 drilling program. However, increased scope/costs estimates to the current drilling program would require further capital leading to further dilution. ADX has demonstrated an ability to fund wells via farmout, hence funding requirements will be reduced if ADX farms out the planned Dougga appraisal well to the assumed residual interest of 30%

## Forward Program

The anticipated forward program for ADX is the following:

- Exploration drilling of Sidi Dhaher (Feb 2011)
- Finalisation of Independent Resource Audit for Dougga Gas Condensate Discovery (1Q 2011)
- Appraisal drilling of Dougga and Lambouka (3Q 2011)
- Dougga and Lambouka feasibility study release (2H 2011)

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
07 Dec 10	Research Note	0.24	0.10	SB	
17 Jan 11	Event Impact Email	0.24	0.10		
	Current Share Price		0.10		

**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.

## Top Rankings for Patersons Research Analysts at the 2010 Thomson Reuters StarMine Analyst Awards



#1 Stock picker in Real Estate - Jonathan Kriska

#1 Stock picker in the Metals and Mining - Josh Welch

#2 Stock picker in Energy - Andrew Harrington

**1300 582 256**  
**patersons@psl.com.au**  
**www.psl.com.au**

### Research

Alex Passmore – Head of Research	Phone: (+61 8) 9263 1239	Email: <a href="mailto:apassmore@psl.com.au">apassmore@psl.com.au</a>
Andrew Quin – Research Strategy Coordinator	Phone: (+61 8) 9263 1152	Email: <a href="mailto:aquin@psl.com.au">aquin@psl.com.au</a>
Tony Farnham – Economist	Phone: (+61 2) 9258 8973	Email: <a href="mailto:tfarnham@psl.com.au">tfarnham@psl.com.au</a>

### Oil and Gas

Edwin Bulseco – Oil & Gas Analyst	Phone: (+61 8) 9263 1660	Email: <a href="mailto:ebulseco@psl.com.au">ebulseco@psl.com.au</a>
Scott Simpson – Senior Oil & Gas Analyst	Phone: (+61 8) 9263 1679	Email: <a href="mailto:ssimpson@psl.com.au">ssimpson@psl.com.au</a>

### Metals and Mining

Andrew Harrington – Coal Analyst	Phone: (+61 2) 8238 6214	Email: <a href="mailto:aharrington@psl.com.au">aharrington@psl.com.au</a>
Michael Lovesey – Associate Analyst	Phone: (+61 8) 9263 1297	Email: <a href="mailto:mlovesey@psl.com.au">mlovesey@psl.com.au</a>
Alex Passmore – Head of Research	Phone: (+61 8) 9263 1239	Email: <a href="mailto:apassmore@psl.com.au">apassmore@psl.com.au</a>
Simon Tonkin – Senior Resources Analyst	Phone: (+61 8) 9225 2816	Email: <a href="mailto:stonkin@psl.com.au">stonkin@psl.com.au</a>
Gary Watson – Associate Analyst	Phone: (+61 8) 9263 1110	Email: <a href="mailto:gwatson@psl.com.au">gwatson@psl.com.au</a>

### Industrials

Jonathan Kriska – REIT Analyst	Phone: (+61 2) 8238 6245	Email: <a href="mailto:jkriska@psl.com.au">jkriska@psl.com.au</a>
Russell Wright – Retail Analyst	Phone: (+61 2) 8238 6219	Email: <a href="mailto:rwright@psl.com.au">rwright@psl.com.au</a>

### Small Cap Industrials

Graeme Carson – Industrial Analyst	Phone: (+61 3) 9242 4076	Email: <a href="mailto:gcarson@psl.com.au">gcarson@psl.com.au</a>
Allan Franklin – Industrial Analyst	Phone: (+61 3) 9242 4001	Email: <a href="mailto:afranklin@psl.com.au">afranklin@psl.com.au</a>
George Galanopoulos – Industrial Analyst	Phone: (+61 3) 9242 4172	Email: <a href="mailto:ggalanopoulos@psl.com.au">ggalanopoulos@psl.com.au</a>
David Gibson – Industrial Analyst	Phone: (+61 8) 9263 1664	Email: <a href="mailto:dgibson@psl.com.au">dgibson@psl.com.au</a>
Ben Kakoschke – Industrial Analyst	Phone: (+61 3) 9242 4181	Email: <a href="mailto:bkakoschke@psl.com.au">bkakoschke@psl.com.au</a>

### Quantitative

Mark Barsdell – Quantitative Analyst	Phone: (+61 3) 9242 4187	Email: <a href="mailto:mbarsdell@psl.com.au">mbarsdell@psl.com.au</a>
Kien Trinh – Quantitative Analyst	Phone: (+61 3) 9242 4027	Email: <a href="mailto:ktrinh@psl.com.au">ktrinh@psl.com.au</a>

### Institutional Dealing

Phil Schofield	Phone: (+61 2) 8238 6223	Email: <a href="mailto:pschofield@psl.com.au">pschofield@psl.com.au</a>
Michael Brindal	Phone: (+61 2) 8238 6274	Email: <a href="mailto:mbrindal@psl.com.au">mbrindal@psl.com.au</a>
Gordon Anderson	Phone: (+61 2) 8238 6276	Email: <a href="mailto:ganderson@psl.com.au">ganderson@psl.com.au</a>
Dan Bahen	Phone: (+61 8) 9263 1274	Email: <a href="mailto:dbahen@psl.com.au">dbahen@psl.com.au</a>
Artie Damaa	Phone: (+61 2) 8238 6215	Email: <a href="mailto:adamaa@psl.com.au">adamaa@psl.com.au</a>
Paul Doherty	Phone: (+61 3) 8803 0108	Email: <a href="mailto:pdoherty@psl.com.au">pdoherty@psl.com.au</a>
Trent Foxe	Phone: (+61 2) 8238 6265	Email: <a href="mailto:tfoxe@psl.com.au">tfoxe@psl.com.au</a>
Peter Graham	Phone: (+61 3) 9242 4129	Email: <a href="mailto:pgraham@psl.com.au">pgraham@psl.com.au</a>
Chris Kelly	Phone: (+61 3) 9242 4078	Email: <a href="mailto:ckelly@psl.com.au">ckelly@psl.com.au</a>
Ben McIlvrde	Phone: (+61 2) 8238 6253	Email: <a href="mailto:bmclvrde@psl.com.au">bmclvrde@psl.com.au</a>
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: <a href="mailto:jnugara@psl.com.au">jnugara@psl.com.au</a>
Trevor Pike	Phone: (+61 3) 8803 0110	Email: <a href="mailto:tpike@psl.com.au">tpike@psl.com.au</a>
Joe Wang	Phone: (+61 8) 9263 1125	Email: <a href="mailto:jwang@psl.com.au">jwang@psl.com.au</a>
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: <a href="mailto:swylie@psl.com.au">swylie@psl.com.au</a>

**Important Notice:** Copyright 2010. The contents contained in this report are owned by Patersons Securities Limited ('Patersons') and are protected by the Copyright Act 1968 and the copyright laws of other countries. The material contained in this report may not be copied, reproduced, republished, posted, transmitted or distributed in any way without prior written permission from Patersons. Modification of the materials or use of the materials for any other purpose is a violation of the copyrights and other proprietary rights of Patersons.

**Disclaimer:** Patersons believes that the information or advice (including any financial product advice) contained in this report has been obtained from sources that are accurate at the time of issue, but it has not independently checked or verified that information and as such does not warrant its accuracy or reliability. Except to the extent that liability cannot be excluded, Patersons accepts no liability or responsibility for any direct or indirect loss or damage caused by any error in or omission from this report. You should make and rely on your own independent inquiries. If not specifically disclosed otherwise, investors should assume that Patersons is seeking or will seek corporate finance business from the companies disclosed in this report.

**Warning:** This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual financial circumstances and investment objectives.

**Disclosure:** Patersons, its director and/or employees may earn brokerage, fees, commissions and other benefits as a result of a transaction arising from any advice mentioned in this report. Patersons as principal, its directors and/or employees and their associates may hold securities in the companies the subject of this report, as at the date of publication. These interests did not influence Patersons in giving the advice contained in this report. Details of any interests may be obtained from your adviser. Patersons as principal, its directors and/or employees and their associates may trade in these securities in a manner which may be contrary to recommendations given by an authorised representative of Patersons to clients. They may sell shares the subject of a general 'Buy' recommendation, or buy shares the subject of a general 'Sell' recommendation.

**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.