

Originally Published  
16 November 2011

**ADX Energy (ADX)**  
ADX is a speculative buy.

*Originally Published Wednesday, 16 November 2011*

## ADX Energy

### MOVES TO TESTING & APPRAISAL/PRODUCTION MODE AT SIDI DHAHER

**Recommendation:** *ADX is a speculative buy ahead of testing at Sidi Dhafer. The company is taking new equity ahead of testing to enable establishment of supporting operating cash flow. ADX has significant exploration appeal for its drilling programme in 2012/13.*

#### Capital Structure

ASX Code	ADX
Shares	411
Share Price	\$0.100
Market Cap	\$ 41 m.
Cash (est)	\$ 1.2

ADX has announced an initial mean estimate of 51 mmbbls and P50 estimate of 37 mmbbls of oil in place at the Upper Cretaceous Bireno Formation at about 1,100 metres in its Sidi Dhafer discovery. Testing is planned for late December and if successful, StockAnalysis estimates that the project might have recoverable reserves of 8 to 15 mmbbls, with ADX entitled to 40% or say ~4 mmbbls to its account. StockAnalysis thinks that if testing in late December can prove commercial flow rates of oil, the discovery would be worth about \$80 million or 19 cps to the company, prior to any dilution from new equity issues.

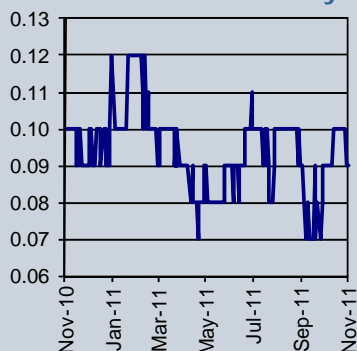
Subject to commercial flow rates being found, further development drilling at Sidi Dhafer would be commissioned, along with setting up of production, storage and load-out facilities. Oil could be trucked to a nearby field where it would enter a transportation pipeline, taking it south to a port for export.

The shallow Bireno reservoir should assist low cost field development at Sidi Dhafer but ADX faces a significant funding challenge with about \$1 million in cash, going into this testing programme. No doubt, a successful flow test would attract new equity, but in the unlikely event of failure of the test programme, ADX would see significant downside, even with its offshore assets in place, since funding would remain the issue.

At least two of the existing prospects identified on the Chorbane lease have been upgraded by the Sidi Dhafer discovery. South and on the coast, the shallow CHS prospect, adjacent to a transport pipeline could be a target for the company's next onshore wildcat, provided that Sidi Dhafer is proven commercial and brought onto production. Further development work depends heavily on results from a planned test of Sidi Dhafer during December. All partners will need to secure funding ahead of a successful test at Sidi Dhafer, the joint venture companies led by ADX will prepare a development budget and raise sufficient new equity to move into production.

*(Continued on page 2)*

ADX Price History

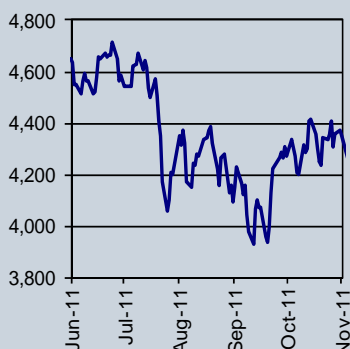


#### Indices & Prices

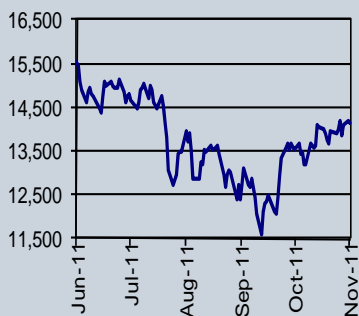
All Ordinaries	4,351.50
Energy Index	14,158.40
Brent AU\$/bbl	110.58
AUS\$/US\$	1.0185

As at Close Nov 15th, 2011

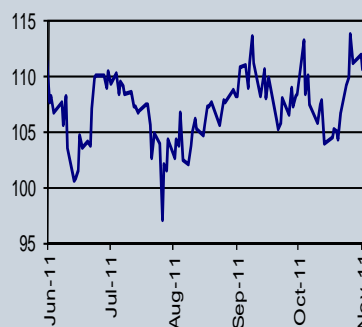
All Ordinaries



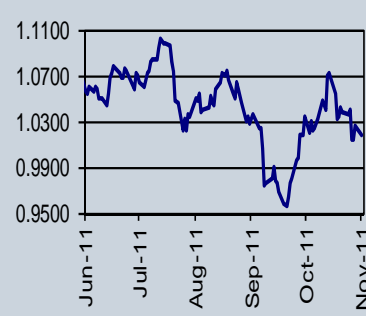
S&P ASX 200 Energy Index



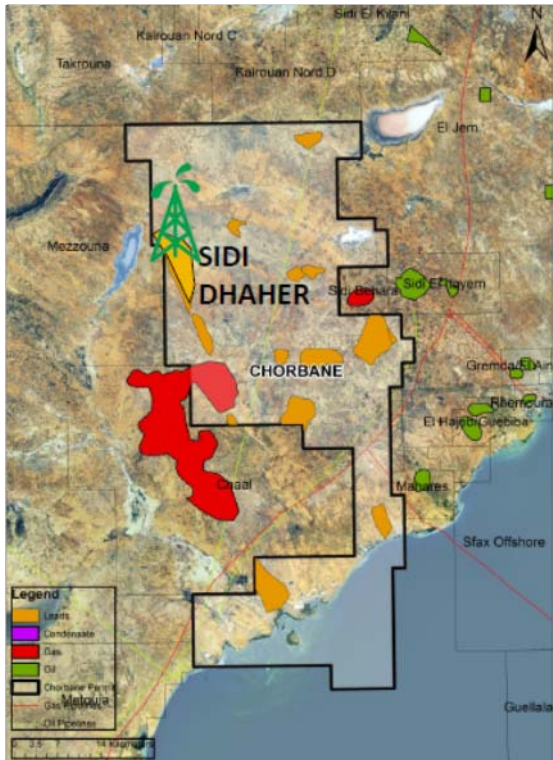
Brent Crude Oil \$A/barrel



A\$/US\$



## Sidi Dhafer Location - Chorbane Lease



Source: ADX Energy

StockAnalysis' initial evaluation of the Sidi Dhafer data leads to an estimate for a recoverable target of 8 mmbbls and ascribes a 70% POS to come up with a 7 cps, risked valuation for ADX, assuming 100 million new shares required for equity funding.

Development of a commercial field at Sidi Dhafer could be carried out with low capital expense, where most of the capital cost would be in drilling additional wells.

Offshore, ADX has regained a 60% interest in the Lambouka gas discovery and retains a 60% interest in two surrounding Sicily Channel permits and 100% interest in a further, contiguous Italian permit.

The Lambouka discovery is estimated to contain 277 Bcf of 2P gas with an unknown volume of condensate, while the nearby Dougga discovery has been estimated by independent reservoir engineers to contain about 230 Bcf of sales gas plus 41 mmbbls of condensate and LPGs. Furthermore, based on new 3D seismic data depth conversion work, the company's in-house estimate has moved towards 340 Bcf of gas plus 58 mmbbls of condensate and LPGs for Dougga.

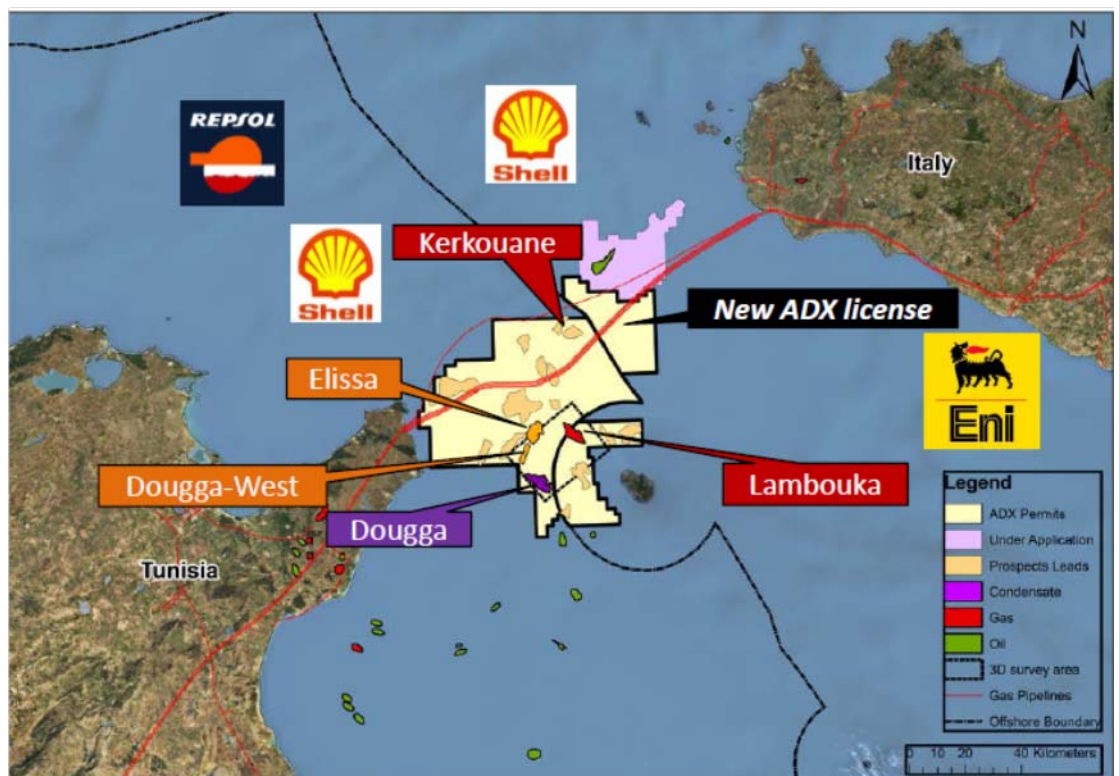
A prospective 226 mmmboe prospect has been identified on 3D data at Dougga West, where drilling will be prioritised as funds are secured. The company has 3D seismic data over prospects with estimated prospective reserves totalling 409 mmmboe and 2D data over a further 750 mmmboe of prospects within its offshore licenses.

ADX's offshore priority is to drill a well up-dip at Dougga and also to drill a deeper well on Lambouka. Other projects which will most likely have to wait until 2013 and beyond, include testing deeper units at the Kerkouane discovery and wildcat wells on several prospects, including Dougga West and Elissa.

The ADX permits are surrounded by areas controlled by the likes of Shell, Repsol and ENI, so ADX will be actively seeking partners to fund exploration when the timing is right.

ADX holds an oily block in Romania where there is plenty of infrastructure for both oil and gas sales and where the price of gas renders this product as profitable as oil.

## ADX Offshore Interests



Source: ADX Energy

(Continued on page 3)

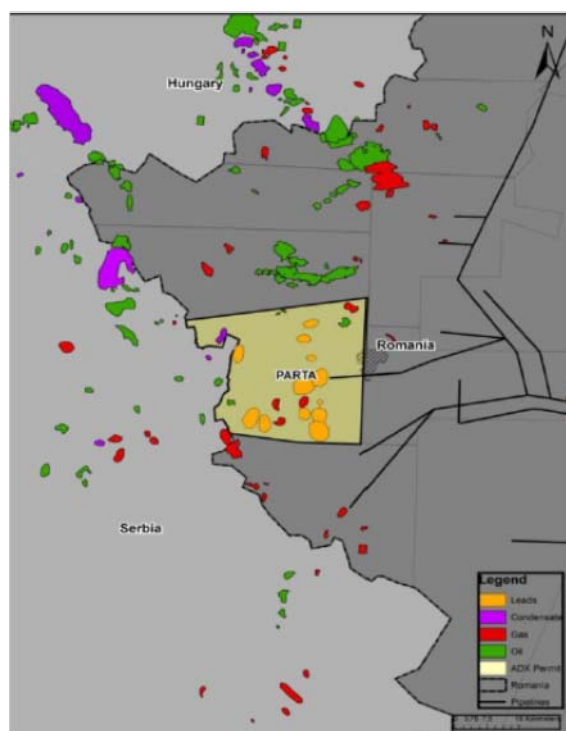
The company plans to acquire additional seismic data over its permits in Romania with the idea of drilling in 2012. ADX and its consultants have identified 100 leads and prospects over its permit areas.

The company's most advanced 12 leads and prospects carry an upside value of over \$4 per share for ADX and an estimated risked value of 73 cents per share.

The company's cash and investments are worth about 0.5 cps, while Sidi Dhafer could be worth 20 cps to ADX if it proves to hold 15 mmbbls of recoverable oil.

All up, the company's exploration holds a risked value of over 80 cps, including discoveries at Sidi Dhafer, Lambouka and Dougga or 53 cps excluding those advanced projects. StockAnalysis risks a value of 29 cps for net cash plus investment in retained interests at Sidi Dhafer, Lambouka and Dougga, with total risked target valuation of 82 cps, after adding \$12 million of new equity.

PARTA Block Location



Source: ADX Energy

Risked Valuation	\$m	\$/shr
Cash (est)	1	\$ 0.00
New Equity (est)	12	\$ 0.02
Mining assets	2	\$ 0.00
Sidi Dhafer	40	\$ 0.07
Lambouka	41	\$ 0.08
Dougga	69	\$ 0.13
Corporate	-10	-\$ 0.02
Sub-total	155	0.29

#### Risked Petroleum Exploration Assets

Mediterranean Sea	288	\$ 0.53
Romania	2.6	\$ 0.00
	<u>\$ 445</u>	<u>\$ 0.82</u>

Initial Target Price \$ 0.20

Source: Strachan Corporate Pty Ltd

The market appears to be accurately valuing the company for its holding in Sidi Dhafer, with no value for further exploration upside. Once funding visibility is secured, through either a farm-down of interests for drilling and/or additional equity raising, further stock price appreciation is likely. **Allowing for normal market dynamics, a price target of 20 cps or 70% of the risked appraisal asset value appears achievable**, however un-risked success value for the prospects listed amounts to over \$4 per share.

Successful testing of Sidi Dhafer is likely to be a catalyst for adding more equity and moving towards establishing a supporting cash flow from operations onshore Tunisia.

Prospect	Equity %		Target				Value \$m	Success Value \$/shr	POS %	Cost \$m	Risked Value \$/shr
	Now	Held	Gas	Oil	NPV						
		*	Bcf	mmbbl	Gas	Oil					
Lambouka	60%	24%	277	20	0.70	16	\$ 514	0.23	50%	20	0.08
Lambouka Deep	60%	24%	320	50	0.70	16	\$ 1,024	0.45	25%	20	0.08
Dougga	60%	24%	239	41	0.70	16	\$ 823	0.36	45%	20	0.13
Kerkouane	60%	24%	220	47	0.70	16	\$ 906	0.40	30%	20	0.08
Dougga West	60%	18%	220	180	0.70	16	\$ 3,034	1.01	25%	15	0.22
Elissa	60%	18%	150	30	0.70	16	\$ 585	0.19	17%	3	0.03
Tazerka Nth	60%	18%	0	24	0.70	16	\$ 384	0.13	7%	3	0.00
Galliano	60%	18%	257	79	0.70	16	\$ 1,444	0.48	8%	3	0.03
Cap Bon Mare	60%	18%	200	30	0.70	16	\$ 620	0.21	8%	3	0.01
Carthage	60%	18%	220	32	0.70	16	\$ 666	0.22	8%	3	0.01
East Galliano	60%	18%	0	146	0.70	16	\$ 2,336	0.78	8%	3	0.06
North Zibbibo	60%	18%	0	20	0.70	16	\$ 320	0.11	8%	3	0.00
Sidi Dhafer	40%	40%	0	8	0.80	18	\$ 144	0.11	70%	1	0.07
CHS	40%	32%	0	4	0.80	18	\$ 72	0.04	22%	3	0.00
PARTA	60%	60%		1.5	2.00	22	\$ 33	0.04	25%	2	0.00



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