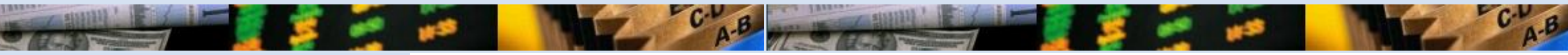
Written under AFSL: 259730

November 4th, 2015
Issue 38 Vol 12

StockAnalysis

By Peter Strachan



Indices and Prices	
All Ordinaries	5,291.2
Energy Index	8,941.2
Brent AU$/bbl	70.06
AUS$/US$	0.7195
As at Close November 3rd, 2015	

IN THIS ISSUE

MARKET MOVES

Remarkably, in a US$48/bbl WTI oil and US$2.26/mmBtu gas price environment, **AWE Ltd** has recorded a big jump in its Sugarloaf 2P Reserves to 47.8 mmBOE while its 2P plus 2C Resources moves to 65 mmBOE. This is remarkable because StockAnalysis finds it difficult to see value in any of the Eagle Ford Shale's light tight oil (LTO) assets at current commodity prices and is surprised that US based valuation consultants can lift Reserves, which are required to be commercially viable at estimated oil and gas prices.

On the ground, operator Marathon Oil (MRO: US) aims to reduce capex per well to US$5 million as it gears up processes and takes advantage of low service costs. At that rate, capex per BOE could come down to around US$6-$10 per BOE from a typical well, so with field costs of say $17/BOE, total costs of less than US$27/BOE are possible. Even at current commodity pricing, a received price of around US$36/BOE would render field operations cash flow positive before corporate overheads and finance costs. However as we have seen, it is almost impossible to self finance this sort of field development from operating cash flow generation. The many years of negative cash flow from LTO operations as debt climbs, weighs heavily on net present value calculations, with a rising commodity price risk as the project matures, likely to cause overall negative real cash flows if oil price slumps in the second half of a project's life.

Taking a longer term view and applying realistic oil and gas prices that can support production and development activity globally, these LTO Reserves are probably worth US$14/BOE while Resources should be valued at about US$7/BOE. On this basis, a patient investor might expect that AWE's Sugarloaf asset has a value of around A$1.13 billion or $2.14 per share for AWE!

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All Ordinaries

S&P ASX 200 Energy Index

Brent Crude Oil $A/barrel

A$/US$

Elsewhere, AWE has upgraded its net, onshore Perth Basin 2P+2C Resources to 67 mmBOE. Even at a value of A$5/BOE, this asset should have a value of $335 million or 64 cps to AWE, which is roughly the company’s current market price!

The company’s net debt position has risen to $156 million after ongoing spending on the Perth Basin programme, failed exploration in China and finalising of its commitment to the BassGas upgrade.

In a move that StockAnalysis finds somewhat annoying but is understandable, AWE has shown an abundance of caution, hedging 537,000 bbls of its LTO production at a WTI price of US$46.65/bbl and its other oil exposure at a Brent price of US$50.85/bbl. The move is annoying because StockAnalysis is firmly of the belief that the price of oil will begin to recover during H1 ’16, but on the other hand it is understandable from the Director’s point of view, because if I am wrong and the oil price falls further, AWE’s sustaining cash flow would be severely constrained and the Directors would be blamed for not protecting the company.

One of the thrill seekers of the mining boom, **Mirabela Nickel** has finally met its maker!

The share price chart shows an exhilarating ride from obscurity to over $7 per share as its low grade, sulphide nickel & copper resource in Brazil expanded, while the nickel price raced to over US$25 per pound.

A falling nickel price and poor metallurgical performance has finally dented the project’s hopes. The project is limping on under administration but could well succumb to current conditions and then lie dormant until the nickel price recovers to over US$10/lb, when a new owner may try its luck on the massive Santa Rita deposit.

Antares Energy (AZZ: ASX) has sorted out its convertible notes, extending the rollover date from 31 October ’15 until 31 March ’16. This move allows the company time to complete the sale of its Permian Basin permits.

The company received notice that holders of 11.89 million notes, representing $23.78 million of face value wished to redeem. Since the company only had $4.4 million of cash at 30 September, redeeming the notes would have involved a potentially messy drawdown of its $200 million debt facility with Macquarie Bank, which StockAnalysis thinks might have been a preferable outcome since the Macquarie facility has an interest charge that is half the cost of its notes!

Antares is clearly going to miss its initially planned 30 November ‘15 closing date for the US$250 million sale of its Northern Star and Big Star projects, since it needs to allow a four week notice period ahead of holding a General Meeting at which shareholders can approve the sale.

In the meantime, a US$376 million sale has been inked on 25,800 acres of permits held by W&T, adjacent to the west of the Northern Star permits. That price represents a metric of US$14,500 per acre. On a comparable basis, this deal values the Northern Star permits at US$198 million, which compares favourably with the agreed sale price of US$148.8 million. The only difference is that the W&T acreage is 80% held by production and has considerably more production.

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AZZ - Asset	Value Range A$m	$/shr	Comment
Northern & Big Stars	349	1.46	
Cash + inv (est)	14	0.06	Estimate
Convertible note	(47.5)	(0.20)	
Other & Tax	(108)	(0.45)	Corporate & Tax
	208	0.87	
Source: Strachan Corporate			

This sale provides support for the underlying value of Antares' permit interests and even suggests that if the private equity buyer does not complete, then a more favourable sales deal is possible.

Under the current sales deal, StockAnalysis estimates that Antares will have a net asset backing of about A$208 million or 87 cps, post the deal. Antares will then own the most valuable asset possible in the current oil & gas market, being cash! Then, like a kid in a candy shop, the management of Antares will have the ability to pick and choose from a vast array of distressed assets, from which to build a project development portfolio.

If there is a downside, it is that shareholders are unlikely to see any benefit in the form of capital return or dividends and will have to wait on a deal that, like Aurora Oil & Gas before them, sees a buyer take out the whole company.

FAR Ltd commenced drilling on a three well programme, offshore Senegal at the same time as it completed a $40 million new capital issue, only to see its share price go into a funk.

Up until mid December '15, the programme will drill a top-hole section on SNE-3, in the south of the structure and then drill to total depth at SNE-2 in the central part of the SNE field. This well will then be logged, with sidewall cores taken ahead of flow testing. With any luck, a positive result from logging while drilling information in December, followed by testing results in early January, will form a catalyst for share price action.

FAR Valuation

Asset	Value $m	$ per Dil
Cash (est. 6/16)	$ 5	0.001
New Equity (nom)	$ 40	0.009
Fan	$ 328	0.077
SNE - Lupalupa	$ 319	0.075
Unissued equity	$ 10	0.002
Other	-$ 18	(0.004)
Sub-total	$ 683	0.160
Kenyan Kifaru	$ 59	0.014
Other Risked Senegal/Guinea	$ 418	0.098
Total Risk adj Target	$1,161	0.272
Source: Strachan Corporate		

Once testing at the low risk, SNE-2 appraisal well is complete, the rig will then move to complete SNE-3 and undertake the same coring and testing regime on the well, probably in late February or March '16. Finally, the rig will move north to BEL-1, which will be drilled from top to bottom and then tested, most likely in late May '16.

StockAnalysis estimates that a seven month programme, including all testing work, could cost US$250 million, setting FAR back about A$58 million and change. With cash balance now estimated at about A$78 million, FAR has enough freeboard to keep the wheels turning on other projects and after corporate costs, should finish FY '16 with a few dollars in the bank, but needing additional funding support.

The SNE-2 & 3 wells aim to confirm 2C Resources of 330 mmbbls, while BEL-1 will look for 2C of 168 mmbbls at the Bellatrix prospect as well as an additional 200 mmbbls of 2C at the underlying SNE field, taking total 2C oil towards 700 mmbbls or 105 mmbbls to FAR's account.

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At an insitu value of A$14/bbl (US$10/bbl), this success scenario would outline a value of A$1.47 billion or 38 cents per share to FAR's account, before allowing for a further risked value, estimated at 8 cps for the company's FAN discovery.

Risked value estimate by StockAnalysis adds an additional $40 million of new equity and assumes most of the current cash position is depleted by June 2016, to estimate **a risked target value of 16 cps**, based on Senegalese assets and up to 27 cps if Kenyan interests are added, but realistically these assets will have a zero value in the current global market for oil exploration assets.

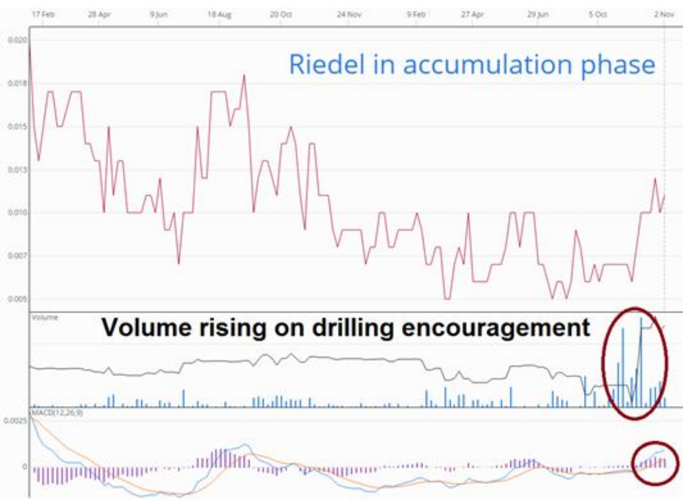
Capital Structure	
ASX Code	**ADX**
Shares	657 m.
Unlisted Options	20.5 m. '@ 4 cts
Share Price	$ 0.007
Market Cap	$ 4.6 m.
Cash (est Sep '15)	$ 1.0

Oil & gas exploration company **ADX Energy** (ADX: ASX) has made a tentative recovery, breaking a 30 month downtrend and doubling its market capitalisation to $4.6 million on the back of new focus on its Nilde oilfield in Italian waters, a lowering of operating costs as well as some early encouragement by 11.45% owned **Riedel Resources** (RIE: ASX).

After picking up the Nilde interest for a song, ADX management spent some time looking over historical exploration and production records and has now committed a small sum to buy seismic data for further study.

It turns out that Nilde produced light oil from a reservoir at about 1,800 metres below the sea floor in a water depth that is shallow enough to be accessible by jack-up rigs. The field produced at rates of between 8,000 and 12,000 BOPD from 2 wells between 1980 and 1988 and was only shut in because of low oil prices. ADX is studying an opportunity of outlining up to 15 mmbbls of oil at Nilde and surrounding fields that might be produced cheaply in a very favourable fiscal environment under Italian tax rules.

ADX has exceptional leverage at Nilde. The company has a market capitalisation of just $4.6 million and owns 100% of the Nilde permits over which it has potential to end up with a free carry over 3-4 mmbbls of oil to its account. If successful, the Nilde permit could be worth $30 million to ADX.



Nilde was originally picked up as it sits on-trend with the company's 100% held Dougga West prospect, which has Prospective Resources for 157 mmBOE, offshore Tunisia.

ADX is also fielding offers to farm-in on its onshore Romanian gas projects, where a change of operator is likely to hasten progress.

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ADX owns 26.7 m shares in Riedel, currently worth about $290,000. Riedel is in a JV with Australian Mines (AUZ: ASX), who is earning an 80% interest on permits located to the SE of the Marymia gold province in WA. Recent drilling at the Dixon Prospect returned an intersection of **5 metres grading 11.07 g/t Au** and assay results are still awaited from deeper sections of the hole.

Metgasco (MEL: ASX) has recorded a huge win in NSW, taking a $25 million settlement from the NSW taxpayer to build a cash asset backing of around 7.2 cps, based on its 444 million shares.

StockAnalysis rated the company's tight gas exploration aspirations in northern NSW as technically very high risk. While discovery of 40 Bcf of gas at its conventional Rosella prospect might have been worth $25 million to a patient investor, the chance of that sort of discovery in a reservoir that would render it commercial, was always a long shot.

So the outcome after all the dust has settled is wholly favourable to Metgasco and its shareholders. For Metgasco, holding about $32 million of cash at this time in the commodity price cycle, when exploration and development assets are priced at cyclical lows, could not have happened at a better moment. Metgasco will be able to look for opportunities in more friendly jurisdictions at a time when entry price is at rock bottom.

Meanwhile, the outlook for gas supplies in NSW beyond 2019 remains opaque at best and dark at worst.

At a current share price of 5.1 cps, Metgasco trades at a 29% discount to its expected cash asset backing, post settlement by the NSW government. The company is an attractive speculative buy, relying on the skill of its management to source value creating opportunities for its shareholders.

Recommendation: ***Backing Metgasco's management as a speculative buy at ~5.1 cents.***

Buru - Capital Structure		
Shares	340.0	m.
Options	10.6	m.
	350.6	m.
Price	$0.295	
Market cap	$ 100	m.
Net cash	$ 35	m.
EV	$ 65	m.

Active explorer **Buru Energy** (BRU: ASX) is struggling to achieve desired exploration outcomes. The company's Praslin exploration well, only 6 km from the Ungani oilfield hit excellent looking and highly permeable dolomite with traces of oil and gas measured, only to show no moveable hydrocarbons. StockAnalysis wonders if having retrieved 500 bbls of lost drilling fluid, more swabbing time should have been allowed to achieve an oil flow.

Next on the list was the large Victory target where drilling through the target zones was seen to be so porous and permeable that no return drilling fluids could be achieved as the drilling mud all disappeared down the hole and into the surrounding formation. We don't know what is or was in these formations but the only thing that was seen is fresh formation water, indicating that Victory may be a defeat, full of water! The well is being cased as best it can, ahead of further testing.

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Next we have the shallow Senagi prospect where again a porous dolomite was found, not unlike that found at the Ungani oilfield, but so far, no hydrocarbons have been found. The well has now been cored to 1,050 metres and logging will paint a further picture of potential.

All of this is a huge mystery. The Canning Basin is obviously full of hydrocarbons as can be seen from legacy oil discoveries and more recent, basin-centred gas and condensate discoveries.

Testing of the Valhalla and earlier at Yulleroo gas discoveries has shown moveable hydrocarbons with obvious strong flow rate potential from a stimulated zone. Further testing results are imminent, with positive result likely to convert Prospective Resources to a higher and more valuable Contingent category.

DRILL HOLE OF THE DAY

ROX RESOURCES

Not exactly this week, but recently **Rox Resources** (RXL: ASX) reported a high grade zone of massive zinc-lead sulphide mineralisation intersected at its Teena prospect in the Northern Territory where Teck Australia has earned a 51% interest. Results included:

38.8m @ 16.9% Zn+Pb from 1068.9 metres down hole, which has an insitu value of ~A$400 per tonne or a value metric of $15,520 metres per tonne.

Even though this intercept is not true width and it is about 1 kilometre deep, it may prove to be commercial as the mineralisation starts closer to surface and the tonnage potential should ultimately support a project at Teena.

Rox has bitten the bullet and is raising $2 million at 1.5 cents per share ahead of seeking offers for the sale of its 49% interest in the Reward project, which it carries at a book value of $14.25 million.

With 1,178.87 million shares post new issues and a market capitalisation of $21.2 million at a share price of 1.8 cps, Rox could be left with cash almost equal to its current market capitalisation and will then be well placed to progress work on its 100% held Mt Fisher gold-nickel project and the Bonya copper project, where it is earning up to 70%.

SOAPBOX!

In the light of the media hoo-ha about China dropping its one child policy, it is worth revisiting the country's fertility rate record.

By the time China's one-child policy was introduced, China's fertility rate had already fallen from 6.2 to 2.7 over the previous 15 years.

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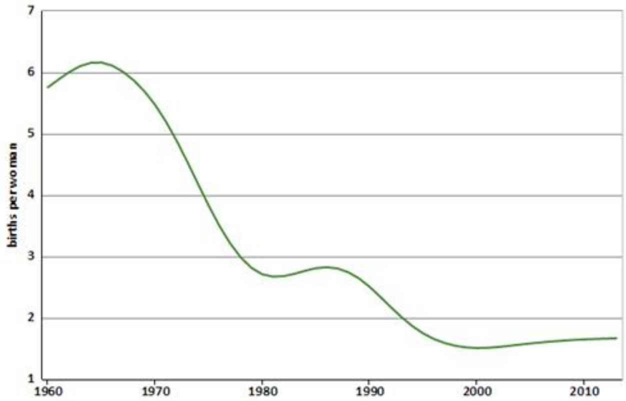
China - Total fertility rate

1.7
(births per woman)
in 2013

Total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

Compare | Export | Explore data | Embed | View Ranking | View Map



Date	Value	Change, %
2013	1.7	0.30 %
2012	1.7	0.36 %
2011	1.7	0.42 %
2010	1.7	0.49 %
2009	1.6	0.74 %
2008	1.6	0.80 %
2007	1.6	0.94 %
2006	1.6	1.07 %
2005	1.6	1.21 %
2004	1.6	1.29 %
2003	1.5	1.24 %
2002	1.5	

Source: World Development Indicators (WDI), October 2015

http://knoema.com/atlas/China/Fertility-rate

It is arguable that introduction of this policy slowed the decline in fertility rate, which then steadied at around 2.8 before falling to 1.5 and recovering to 1.7, which is just below Australia's 1.88 children per woman.

Improved reproductive health for women in the 1960's and widespread introduction of the contraceptive pill in the 1970's had as much if not more influence on fertility rates than any proscriptive policy.

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