ASX Release

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NILDE AREA OIL PROJECT PROGRESS UPDATE

HIGHLIGHTS

Following the announcement of 34 Million Barrels of 2C Contingent Resources independently assessed by Senergy (GB) Limited ("Senergy") on the 17th of February 2016, ADX has progressed project definition work on the (100% owned) potential development of the Nilde and Nilde Bis fields. Key outcomes of the work are summarised as follows:

- Geological model development based on additional well data acquired from ENI (The Italian National Oil Company) supporting the oil in place estimates calculated by Senergy and providing the starting point for future production forecasting and reserves calculation which will be generated via reservoir simulation,
- Indicative cost estimates based on current rates for Floating, Production, Storage and Offloading systems (FPSO) and drilling rigs suitable for the development of Nilde and Nilde Bis which indicate a low capital cost per barrel ≈ US\$ 7 per barrel based on 2C resources case,
- Potential project economics based on costs generated from ongoing discussions with FPSO contractors and drilling contractors which indicate the project is profitable at oil prices down US\$ 20 per barrel for the 1C resources case and US\$ 15 per barrel for the 2C resources case, and
- Mapping of 5 exploration leads defined with existing 2D seismic in the D 363 CR.AX permit with a total best estimate prospective resources of 90 million barrels of oil.

ADX Energy Ltd (**ASX:ADX**) advised at the time of the Independent Resources Assessment on the 17th of February 2016 over Nilde Area (incorporating the previously produced Nilde oil Field, the adjacent Nilde Bis discovery and two other discoveries in the D 363 CR.AX permit) that it intended to concentrate its efforts on defining a potential oil development project incorporating the Nilde and Nilde Bis resources.

This update summarises the recent progress made in defining the project with the stated objective of declaring reserves by the end of 2016 and further confirms the substantial value potential of this project and its potential viability even at low oil prices based on expected costs, proven highly productive reservoirs and attractive fiscal terms.

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Resource Definition Work

ADX has sourced and purchased further well data for Nilde and Nilde Bis fields from ENI and used it to progress geotechnical studies for Nilde oil field subsurface development planning work.

As discussed previously based on geological, engineering studies and observed historical production trends, ADX and the independent geotechnical consultant Senergy, believe the Nilde field was prematurely abandoned in 1989 due to an oil price collapse and an increase in water cut that occurred due to poor reservoir management. The increase in water production could not be handled in the relatively primitive facilities at the time compared to current technologies due to a lack of artificial lift for wells and water separation facilities on the early generation FPSO.

The additional data has been incorporated into the ADX field data base and used to build a detailed 3D geological model which will be used for reservoir simulation work enabling a history match of past production to develop confidence in the interpretation of the reservoirs architecture and flow mechanism. In predictive mode the reservoir simulation model will be used to optimise development wells for maximum oil recoveries.

The geological model developed by ADX supports the estimated volumetric STOIIP (stock tank oil initially in place) independently verified by Senergy and in addition to that has highlighted areas with potential upside in terms of reservoir quality, such as porosity which is directly related to in place reserve. The two figures below are examples of the 3D structural model and a cross section of the porosity model for illustration purposes, respectively. As stated above these models will be the starting point for future reservoir simulation and a range of new oil in place calculations.



3D geological model of the Nilde and Nilde-Bis oil fields, respectively





A Cross section using the 3D Model showing reservoir porosity

Analysis of production and pressure over the field life shows minimal reservoir pressure decline after seven years of production which indicates active pressure support, efficient oil displacement and high oil recovery factors are likely.

Indicative Development Costs

ADX has been working closely with a number of contractors and industry advisors to determine realistic capital cost estimates for the potential development of the Nilde and Nilde Bis fields.

The indicative economics summarised in this report is based on a FPSO development option which may not be the optimal cost outcome but is a solution that is readily available and can easily be bench marked with other comparable projects. Nilde and Nilde Bis benefits from the relative simplicity of the project that lends itself to generic production solutions due to the simple nature of producing low wax high API Oil. Leasing an FPSO facility is common place in the industry and greater number of facilities are now becoming available for reutilisation at potentially very attractive lease rates due to the abandonment of high cost fields.

In this analysis we have assumed the conversion of an existing tanker to an FPSO based on known costs that can be reliably bench marked rather than a leased solution which may provide a cost windfall in the current environment. The economics assumes a build own operate scenario rather than optimised lease.

The current status of the oil and gas industry should provide ADX with further cost benefits given the trends in drilling costs, construction costs and FPSO utilisation rates.

The subsurface development plan assumes the acquisition of 3D seismic and an appraisal well (in 2017) which is test but not utilised as a development well. The appraisal well is drilled ahead of the two subsea development wells (2018).



The indicative economics scenarios assume first production in 2019 which is conservative for this project and is really a function of funding constraints while ADX develops confidence in the project rather than physical schedule limitations.

A breakdown of estimated appraisal, development drilling and production facilities costs is shown below is US\$.



Notes on appraisal and development costs

- 1) Seismic and studies in 2017 includes US\$ 2 million for 3D seismic
- 2) One tested appraisal well and 2 development wells are assumed. Assumes the appraisal well is not utilised as development well.
- 3) Development wells include subsea completions.
- 4) Appraisal drilling is assumed to be a separate operation prior to development drilling
- 5) Drilling costs are based on an all in rig and services day rate of US\$ 400,000 per day and drilling performance achieved by ENI wells in the 1980"s
- 6) Facilities Costs includes 20% contingency

Funding alternatives for a company with a relatively small capitalisation such as ADX will be critical as the company progresses through the development cycle.

The potential funding alternatives for the Nilde project are as follows:

- 1. *Initial geological studies and reservoir simulation >>* equity funding
- 2. Seismic and appraisal drilling >> equity funding OR industry farm out OR contractor drilling for equity
- 3. *Development drilling* >> debt and equity funding OR industry farm out OR contractor drill for equity OR production sharing loan with oil trader
- 4. Production Facilities FPSO >> FPSO contractor lease



As a result of the favourable sea conditions in the Mediterranean Sea, shallow drill depths, moderate to shallow water depths and highly productive reservoirs yielding high recoveries per well the expected capital costs per barrel for the project are very attractive for an offshore development. This is expected to lead to a project that is economic at low oil prices and very attractive at oil prices exceeding US\$ 40 per barrel.





Production Assumptions (Nilde and Nilde Bis Only):

The production assumptions used in economic scenarios included in this update are based on the Senergy Independent Resources Assessment tabulated below:

Gross Contingent ¹ Resources Volumes (MMstb)					
	1C ²	2C ²	3C ² Estimate		
	Estimate	Estimate			
Nilde Field	8.7	13.1	17.8		
Nilde- Bis Discovery	9.3	15.3	21.0		
Norma Discovery	1.2	3.9	12.9		
Naila Discovery	1.0	1.7	2.7		
Total ³	20.2	34.0	54.4		

The ASX Reporting Date for the resources announced above is 17th February 2016

Notes:

- 1. Contingent Resources: those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but, for which the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.
- 2. 1C, 2C, 3C Estimates: in a probabilistic resource size distribution these are the P₉₀ (90% probability), P₅₀, and P₁₀, respectively, for individual opportunities.
- 3. Totals are by arithmetic summation as recommended under PRMS guidelines. This results in a conservative low case total and optimistic high case total.

A summary of production scenarios based the Senergy Resources are summarised below for each production case considered:

1C Production Case - Senergy ultimate recovery 18 mmbbl (Nilde and Nilde Bis only)
 Initial rate of 6,000 bbl/d/well, decline 7.5% p.a.and massive water ingress in 5th year
2C Production Case - Senergy ultimate recovery 28.4 mmbbl (Nilde and Nilde Bis only)
 Initial rate of 10,000 bbl/d/well, decline 5% p.a.and massive water ingress in 5th year
3C Production Case - Senergy ultimate recovery 38.8 mmbbl (Nilde and Nilde Bis only)
 Initial rate of 14,000 bbl/d/well, decline 2.5% p.a.and massive water ingress in 5th year

Note: The Nilde 2 development well produced at an average rate of 10,000 barrels per day for over 5 years without decline.

CONTINGENT RESOURCES & DEFINITIONS Refer to ASX announcement by ADX dated 17/2/2016. ADX confirms that it is not aware of any new information or data that affects the information included in that market announcement and that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. All resource figures quoted in this presentation are third party verified. Contingent Resources: those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but, for which the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.



Fiscal Assumptions and Economic Assumptions

The following fiscal terms apply to production in Italian waters.

- Royalty holiday: 20,000 bbls per yr.
- Royalty rate 4%
- Corporate Income tax rate 31% (Country and Provincial)

An inflation rate of 1.5% has been assumed in the following economics estimates for all scenarios.

Indicative Economics Summary

The following economics summary is based on the above mentioned capital costs, production and fiscal assumptions as well as the following development assumptions:

- Development of Nilde and Nilde Bis only
- 2 slanted production wells centrally located plus one appraisal well tested but not completed as a production well
- FPSO development permanently moored build own operate with no salvage value assumed
- Water depth approximately 100 m
- Appraisal well drilled to vertical depth of 1700 m and 2 slanted development wells drilled to a measured depth of 3000m
- US\$ 12 million per annum fixed operating costs plus a variable component
- CO2 emmission certificate cost assumed at 0.15USD/bbl oil produced
- Oil export via shuttle tanker(s) to local refinery

The plot of Post Tax Net Present Value for a discount factor of 10% indicates a potential Nilde and Nilde Bis only development is robust for both the 1C and 2C resources cases at low oil prices and the project is potentially very valuable in the context of ADX market capitalisation at oil prices above US\$ 40 per barrel.





The profit investment ratio PIR (NPV/CAPEX) which is a measure of investment efficiency is 0.8 and 1.7 respectively for the 1C and 2C resource cases at an oil price of US\$ 40 per barrel. The PIR for the project would increase substantially for a leased FPSO option which is likely for this type of development.

A summary of key points regarding project resources, production, cost and economic attributes are as follows:

- > Proven reservoir and excellent productivity of 10,000 bopd/well
- Shallow reservoir (1500 m TVDSS) and water depth (90 meters)
- Substantial resource of 28 mmbo 2C resources and 18 mmbo 1C resources from two proven accumulations at Nilde and Nilde Bis
- > High value high quality light crude (39 API gravity) proximal to refineries
- Excellent reservoir productivity enabling development with only two wells
- > Low expected capital costs per barrel and excellent fiscal terms
- Indicative economics for the project demonstrate high profitability at oil prices above US\$ 40 per barrel and commercial viability below US\$ 30 per barrel for both 1C and 2C resource cases.
- Economic value and profitability can be further enhanced with an FPSO lease option



Exploration Potential of the Nilde Area

While ADX intends to concentrate its efforts on the commercialisation of the Nilde and Nilde Bis fields in the short term the availability of near field exploration potential significantly enhances the opportunity for investors or potential farm in partners.

ENI made the Norma and Naila oil discoveries subsequent to the Nilde-1 Bis (1973) and Nilde-2 (1976) discoveries. These discoveries were tested but never developed. They do however demonstrate oil charge and the presence of productive reservoirs across the permit. With the oil price collapse and the shut in of Nilde in 1989 all drilling activity ceased. ENI however continued to acquire high quality 2D seismic until 1991 which has enabled ADX to assess the potential of a number of well defined, undrilled, anticlinal structures analogous to Nilde.

In addition to the Nilde and Nilde Bis oil field work outlined above ADX has undertaken an evaluation of the near field exploration potential. The location of the currently highest ranked leads and their resource potential are shown below in Figure 1 and 2 respectively.



Figure 1: Location map of oil discoveries (green) and the five highest ranked leads (yellow)



D 363 CR.AX Permit Prosp	Prospective Resources MMb (Recoverable)		
Location	Low	Best	High
Lead 1 "Lippone Due"	8	13	20
Lead 2 "Nunzia Updip"	6	12	21
Lead 3	5	14	30
Lead 4	9	20	49
Lead 5	12	31	81
Total Permit	40	90	201

Figure 2: Prospective oil resources (recoverable) for leading exploration leads

In addition to the oil potential of the proven Nilde carbonate reservoirs, some leads also have a secondary gas upside potential just above the oil reservoir. An example is shown in Figure 3, where the bright events just above the potential oil reservoirs could be gas filled clastic reservoirs of Miocene age. A specific example shown is Lead 1, and is also called "Lippone Due" due to the potential analogy with the onshore Sicily Lippone gas field with producing gas reservoirs of the same stratigraphic section.



Figure 3: 2D two way time seismic dip section through Lead 1 ("Lippone Due"). Note bright seismic events above main Nilde oil reservoir target. These could be indicative of clastic gas filled reservoirs. Target depth is around 2,000 meters (water depth approx. 70 meters).

PROSPECTIVE RESOURCES & DEFINITIONS The estimates have been prepared by ADX in accordance with the definitions and guidelines set forth in the Petroleum Resources Management System, 2011 approved by the Society of Petroleum Engineers. Prospective Resource estimates are for recoverable volumes and unless otherwise stated this report quotes Best Estimates. The estimates relate to quantities of petroleum that may be recovered by the application of a futures development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and development. Further exploration is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.



Nilde Area Background

The Nilde oil field was discovered by ENI in shallow water offshore Sicily and came on stream with one vertical well (Nilde-2) in 1980 when the oil price was US\$37 per barrel. High productivity of light oil (API 39) was achieved (around 10,000 bopd from Nilde-2) in shallow reservoirs at a depth of approximately 1500 meters. The Nilde 2 well produced at high rates for over 7 years. A horizontal production well was drilled very close by (less than 1km) in 1986 to increase production to 12,000 bopd when oil prices started to decrease significantly. Both wells had subsea wellhead completions that were tied in to an FPSO (Figure 2 below) which essentially was a converted tanker tied to a so called SALS (single anchor leg storage system) system. The FPSO was subsequently upgraded and used for the ENI operated Aquila oil field.



Figure 4: "Firenze" FPSO, as it looks today. Source: SAIPEM

Late life well performance was affected by an interpreted strong water aquifer which resulted in an increase in water cut which could not be remedied due to the lack of provision of production facilities capable of artificially lifting the wells. The decision was made prematurely to abandon production instead of drilling additional development/appraisal wells within potentially undrained areas in the field in 1988. The decision to abandon is reported to have been triggered by a collapse in oil price to US\$14 per barrel.

In addition to developing the Nilde field, ENI also made several oil discoveries in the area, notably nearby Nilde-Bis wells, Norma-1 and Naila-1 which were all successfully tested and



proved the presence of both light oil and the excellent Miocene age Nilde carbonate reservoir. To date these discoveries remain undeveloped.

ADX initially applied for the d363 CR AX license unaware of the remaining resource potential of Nilde and the nearby discoveries. The focus at the time was to explore the 3D seismic covered foothill anticline structural play of its neighbouring Tunisian Kerkouane license. 3D seismic acquired by ADX in Tunisia had led to the discovery of large anticlinal prospects in the foothill area and it was hoped that the same could be achieved on the Italian side of the Sicily Channel area, albeit in a fiscally far more attractive regime. The initial review of ENI vintage seismic has led to the identification of several good sized exploration prospects, some of which are less than 10 kilometres from the Nilde oil field area.

ADX intends to acquire 3D seismic over both the Nilde oil field area to optimally locate future production wells and also cover nearby satellite exploration prospects.

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PERSON COMPILING INFORMATION ABOUT HYDROCARBONS Pursuant to the requirements of the ASX Listing Rules 5.41 and 5.42, the technical and resource information contained in this presentation has been reviewed by Paul Fink, Technical Director of ADX Energy Ltd. Mr. Fink is a qualified geophysicist with 23 years of technical, commercial and management experience in exploration for, appraisal and development of oil and gas resources. Mr. Fink has reviewed the results, procedures and data contained in this presentation and considers the resource estimates to be fairly represented. Mr. Fink has consented to the inclusion of this information in the form and context in which it appears. Mr. Fink is a member of the EAGE (European Association of Geoscientists & Engineers) and FIDIC (Federation of Consulting Engineers)

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