Research

ADM Energy Plc

24 February 2020

Oil & Gas

Consolidation play in Nigeria

Front Puffin FPSO OML 113 Nigeria

Key Data

Listing:	AIM
Ticker:	ADME
Shares Outstanding:	61.6m
Share Price:	£0.045
Market Cap:	£2.8m
Estimated Valuation:	US$13.9m
Asset Location:	Nigeria

Reserves (MMBOE) *(100%)*		
1P	2P	3P
9.7	16.6	23.9

Resources (MMBOE) *(100%)*		
1C	2C	3C
0.4	0.9	1.7

Prospective Resources (BCF) *(100%)*		
Low Estimate	Best Estimate	High Estimate
n/a	n/a	n/a

Analyst

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Summary

ADM Energy (“**ADME**”) is an opportunity to invest in the next phases of development of the Aje field in offshore Nigeria, as well as in a broader consolidation play in the Nigeria Oil & Gas Sector.

ADME, a public company listed on AIM, has just agreed the purchase of an additional 4.2% profit interest (from 5% pre-transaction) in the Aje field from EER, increasing its 2P reserves to 16.4 MMboe from 8.9 MMboe previously. This acquisition is hugely value accretive based on our assessment and its US$3.0 million cost.

Although the Aje field has not yet reached its full potential since discovery in 1996, we believe that the various above-ground and below-ground challenges which slowed down the pace of development and performance of the field, can be overcome in the near future. Indeed the new ideas and focus provided by a newly reconfigured and consolidated partnership should improve relations and efficiency above-ground, and also mark a step change in solving some of the technical below-ground challenges.

As demonstrated by this acquisition from EER, ADME’s recently appointed CEO has growth ambitions within the Aje partnership that could be well served by some partners’ new strategic choices. The financial flexibility provided by the recently announced MOU with Trafigura (03/02/20) will also allow ADME to capitalise on other acquisition opportunities in Nigeria and the wider West African region.

We estimate the current share price offers a multiple return upside from the continuing development of Aje alone and totally discounts additional future external growth opportunities.

Disclaimer

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Investment Case

ADM ENERGY IS AN OPPORTUNITY TO INVEST IN THE NEXT PHASES OF DEVELOPMENT OF THE AJE FIELD IN OFFSHORE NIGERIA, AS WELL AS IN A BROADER CONSOLIDATION PLAY. NEW ADDITIONS TO MANAGEMENT AND BOARD TO DRIVE ACCRETIVE GROWTH STRATEGY. POTENTIAL FOR SUCCESS CASE ON AJE ALONE TO DELIVER MULTIPLE RETURN.

- ADM Energy ("**ADME**"), a public company listed on AIM, has just agreed the purchase of an additional interest in the Aje field from EER, such that post-transaction its economic interest in the field has almost doubled:
    - ADME's profit and paying interests are 9.2% and 12.3%, up from pre-transaction levels of 5.0% and 6.7%.
    - ADME's net 2P reserves increase to 16.4 MMboe (2.4 MMbbl of oil and 14.0 MMboe of gas) from previous 8.9 MMboe (1.3 MMbbl of oil and 7.6 MMboe of gas).
    - The consideration for this acquisition is US$3.0 million, with US$1.0 million to be paid in cash and the balance of US$2.0 million consisting of shares of ADME issued at a price of 7p.
    - Completion of the transaction is contingent on approvals by the Nigerian Minister of Petroleum Resources.
    - We calculate an implied unit consideration of US$0.3/ boe, after taking into account the portion of the consideration paid in shares of ADME at a premium to the pre-transaction share price.
    - Hence the unit consideration is at a discount to the equity market value of ADME. It also compares favourably with the recent transaction between PetroNor E&P (https://petronorep.com) and Panoro Energy (https://www.panoroenergy.com) at US$1.6/boe, and with a peer group average of US$1.4/boe from similar publicly listed companies.
    - We estimate that the transaction creates US$6.3-50.2 million of additional value, depending on the development scenario considered, for a cost of US$3.0 million and is therefore hugely value accretive.
    - The recent MOU signed by ADME with Trafigura provides the financial muscle to underpin further consolidation opportunities by ADME within the Aje partnership, as well as domestically in Nigeria or even in the wider region.
- Although the Aje field has not yet reached its full potential since discovery in 1996, we believe that the various above-ground and below-ground challenges which slowed down the pace of development and performance of the field, could be overcome in the near future:
    - We understand that the previous partnership was characterised by misalignments and a lack of necessary agreements between licensees to advance the next development phases.

    - This was compounded by the fact that Aje is a technically challenging asset, resulting in a somewhat inefficient technical evaluation process.
    - New entrant PetroNor E&P is strongly incentivized, through a joint SPV with operator YFP, to the success of the future phase of field development.
    - ADME's close relationship with EER puts them in prime position to take advantage of a possible future reduction of interest by EER.
    - Similarly the touted potential exit by NewAge from Africa (Africa Energy Intelligence, 07/01/20) could constitute a future consolidation opportunity for ADME.
    - A newly reconfigured and consolidated partnership will infuse new ideas as well as provide sharper focus and consistency to complete the technical work necessary for successive development phases.
- We estimate a post-transaction risked value of 17.0p for ADME, by applying an EV/2P median multiple from a peer group of publicly listed companies with assets in Nigeria, and then applying a discount of 40% to account for risks and uncertainties remaining in the Aje project. The corresponding pre-transaction value is 9.2p (**Exhibit 1**).
    - We calculate an implied discount of ca. 74% that the equity market applies to ADME versus what it would be valued by applying the median EV/2P multiple derived from a group of publicly listed peers. Even if we were to apply a risk factor of 40% to the EV/2P multiple in order to account for the remaining subsurface and project uncertainties, we would still derive a value of 9.2p.
    - These values compare with a post-transaction NPV12 of 21.4p derived from a DCF valuation based on the AGR TRACS development plan, and a corresponding pre-transaction value of 10.9p.
    - The same DCF valuation based on a revised development plan, in the process of being approved, results in a value of 134.3p and a corresponding pre-transaction value of 72.2p.
- We believe that the remaining subsurface and project uncertainties do warrant a discount, and we believe that a post-transaction risked value of 17.0p adequately reflect these risks and still represent a large upside to the current share price.

EXHIBIT 1: PEER GROUP COMPARISON

Name	Price (local)	FX	EV (US$M)	2P (MMboe)	Production (boe/d)	EV/2P (US$/boe)	EV/Prod. (US$/boe/d)
Africa Oil	1.3	CAD	300.4	80.6	34,000	3.7	8,835
Lekoil	3.3	GBp	23.0	22.7	2,122	1.0	10,847
Oando PLC	3.5	NGN	669.5	479.8	40,000	1.4	16,737
San Leon Energy	25.1	GBp	121.9	124	4,763	1.0	25,604
Seplat	109.8	GBp	1,189.6	481.0	52,000	2.5	22,876
Median						**1.4**	**16,737**
ADM Energy	4.0	GBp	3.2	8.9	145	0.4	22,085
Implied risk factor (%)						74	
Pre-transaction							
ADM Energy	15.4	GBp	12.4	8.9		1.4	
ADM Energy	9.2	GBp	7.4	8.9		0.8	
Applied risk factor (%)						40	
Post-transaction							
ADM Energy	28.3	GBp	22.9	16.4		1.4	
ADM Energy	17.0	GBp	13.7	16.4		0.8	
Applied risk factor (%)						40	
Number of shares (million)						61.6	
GBP / USD rate						1.3	

Source: FDC, Bloomberg

Transaction

ADM Energy announced it has agreed to purchase one quarter of EER's interest (EER25%) in OML 113, representing an economic interest of 4.2188% (2.2500% participating and 5.6250% cost bearing). After the transaction, EER will be left with an economic interest of 12.6563% (6.7500% participating and 16.8750% cost bearing).

The transaction adds 7.5 MMboe to ADME's net 2P reserves, up to 16.4 MMboe from 8.9 MMboe previously (CPR, March 2019), and post-acquisition net daily production will increase to 273 bopd from previous 148 bopd.

The agreed consideration of US$3.0 million is equivalent to a unit acquisition cost of US$0.3/ boe, after taking into account the portion of the consideration paid by the issuance of ADME shares at a premium to the pre-transaction price. This unit cost is at a discount to the current equity market valuation of ADME of US$0.4/ boe and compares very favourably to the recent PetroNor-Panoro transaction in the licence announced in October 2019 (**Exhibit 2**).

EXHIBIT 2: UNIT TRANSACTION COST

	Share price (GBp)	Consideration (US$M)	2P acquired (MMboe)	Unit cost (US$/boe)
Consideration		**3.0**	7.5	0.4
Cash		1.0		
Shares		2.0		
@	7.0			
Cost to ADM		**2.2**	7.5	0.3
Cash		1.0		
Shares		1.2		
@	4.3			

Source: FDC

We estimate that the transaction creates US$6.3-50.2 million of additional value, depending on the development scenario and valuation methodology considered, for a cost of US$3.0 million and is therefore hugely value accretive (**Exhibit 3**).

EXHIBIT 3: VALUE ACCRETIVE TRANSACTION

	Cost (US$M)	Pre-transaction value (US$M)	Post-transaction value (US$M)	Value added (US$M)	Value added/Cost multiple (x)
NPV12					
AGR TRACS	3.0	8.8	17.3	8.5	2.8
Revised FDP	3.0	58.3	108.5	50.2	16.7
EV/2P PEERS	3.0	7.4	13.7	6.3	2.1

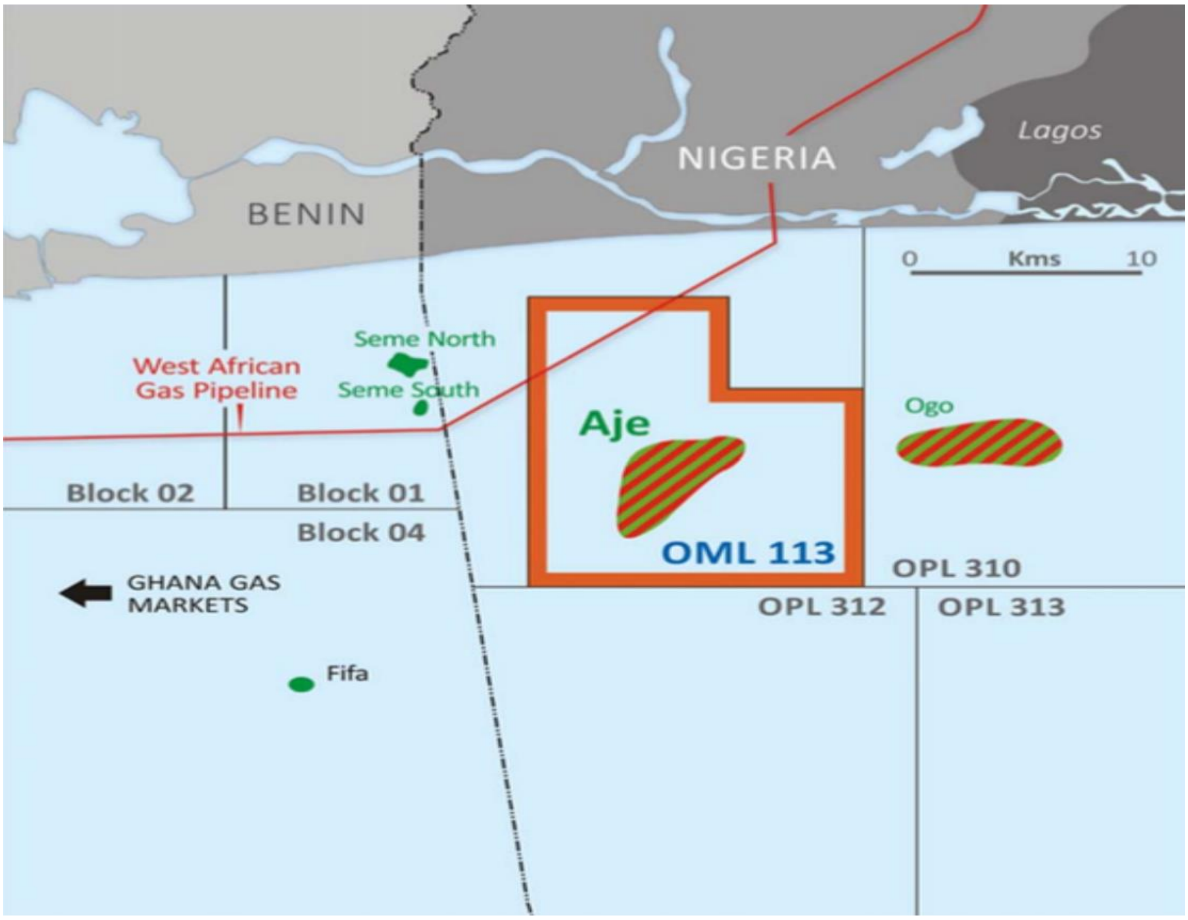
Source: FDC

Completion of the transaction is contingent on approvals by the Nigerian Minister of Petroleum Resources and other partners, as well as ADME having raised no less than US$2.0 million in new loan notes or ordinary shares.

Aje Field description

OML 113 covers an area of 858km² in the western Nigeria offshore Dahomey basin, some 24km south of the coast and 64km from Lagos, in water depths ranging from 100 to 1,000 meters. The West African Gas Pipeline (WAGP) intersects the northwest part of the licence (**Exhibit 4**).

EXHIBIT 4: LOCATION MAP



Source: ADM Energy

There are currently five partners in the licence YFP, NewAge, Panoro (until the sale to PetroNor is approved), EER and ADM Energy which acquired its 5% profit interest from Jacka Resources, an ASX listed oil and gas exploration and company with interests in Australia and Somaliland, in August 2016. On 22 October 2019 Panoro announced the sale of its entire interest to PetroNor and this transaction is still waiting to receive Ministerial consent in Nigeria (**Exhibit 5**).

EXHIBIT 5: PARTNERS INTERESTS

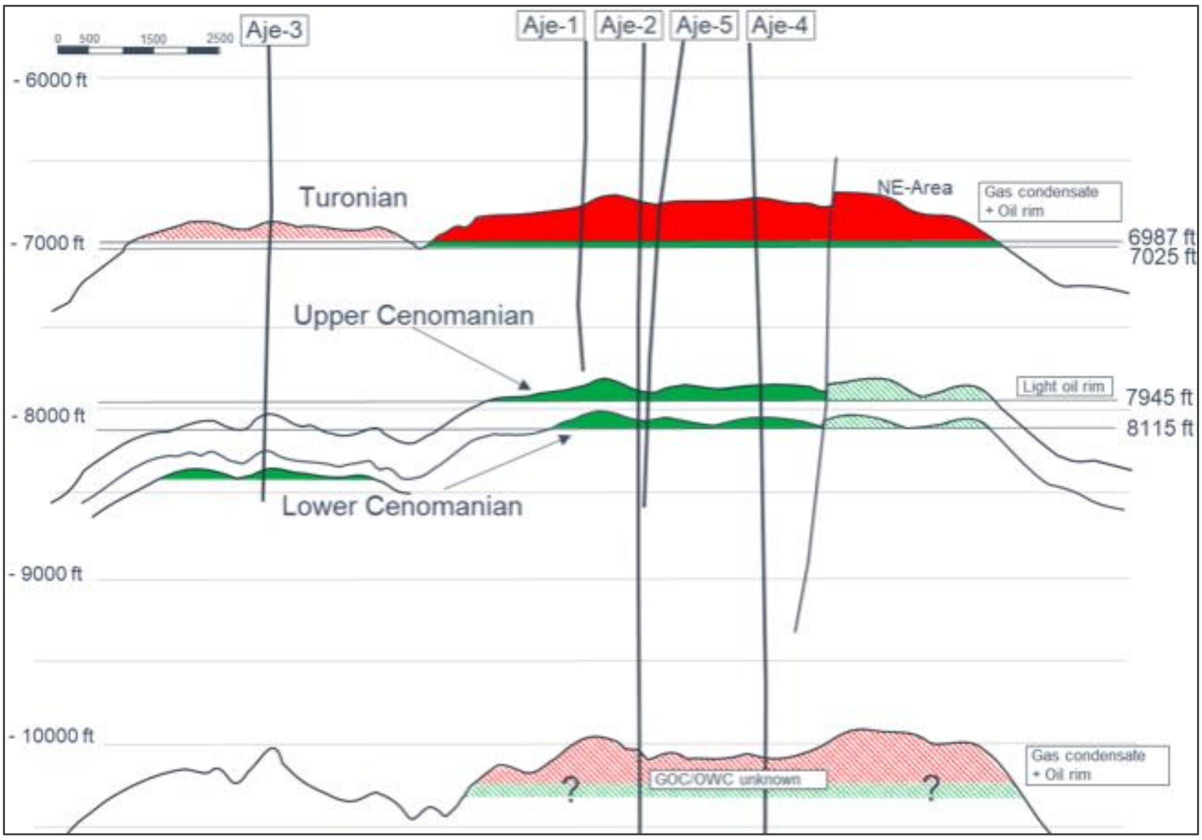
OML 113	Costs for YFP payout (as of 1.1.2018)	Nominal Interest	Pre-YFP Payout	Post-YFP Payout & Pre-Project Payout#	Post-Project Payout	Throughout
	Net US$mln		Cost Rec & Profit Share	Cost Rec & Profit Share	Opex & Profit Share	Capex share and Opex prior to Proj. Payout
YFP*	18.5	60.0000%	25.0000%	0.0000%	25.0000%	0.0000%
EER		9.0000%	16.8750%	22.5000%	16.8750%	22.5000%
YFP-DW**		9.0000%	16.8750%	22.5000%	16.8750%	22.5000%
New Age		12.8310%	24.0581%	32.0780%	24.0581%	32.0780%
ADME		2.6670%	5.0006%	6.6750%	5.0006%	6.6750%
Panoro		6.5020%	12.1913%	16.2550%	12.1913%	16.2550%
Farminees		40.0000%	75.0000%	100.0000%	75.0000%	100.0000%
TOTAL		**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**

Source: AGR TRACS

In July 2018, the Aje partnership paid a US$9.8 million licence renewal fee to secure a 20-year extension of the OML 113 licence until June 2038. As part of this renewal the royalty has been revised down to 8% from previous 10% of gross crude oil sales proceeds.

Aje is primarily a gas-condensate discovery (1997), but also contains a thin oil leg below the main Turonian gas reservoirs, an oil leg in the deeper Cenomanian reservoir, and a gas condensate interval in the Albian. Four exploration/appraisal wells (Aje 1-4) and one development well (Aje-5) have been drilled to date with DST's at Turonian and Cenomanian level (**Exhibit 6**).

EXHIBIT 6: AJE FIELD CROSS-SECTION



Source: ADM Energy

Production started in May 2016 at a combined rate of 10,000 bopd through Aje-4 and Aje-5 from Cenomanian sandstones. Production from Aje-5ST2 completed in the Turonian came on stream in May 2017. In April 2019, gross production was 3,100 bopd (145 bopd net to ADM Energy), at a water cut of 42%, and cumulative oil production from inception to August 2019 was ca. 1.9 MMbbl.

The wells are tied-back to the Front Puffin FPSO, leased on a bareboat charter by Century Energy Services Limited, a Nigerian oil and gas O&M service company. The FPSO has a production capacity of 40,000 bbl/d and 12 MMscf/d, and storage capacity of 750,000 bbl.

An extensive review of the development options for the field by AGR TRACS (May 2019) and RPS (August 2019), focused on the Turonian and Cenomanian, support the drilling of two wells in the Turonian in 2020-2021 and fast track gas development targeting 20,000 boepd including liquid production of 5,000-7,000 bopd.

Appraisal and development of dry gas, condensate and LPG from the Albian reservoir that was discovered (drilled and sampled) in Aje 4 well by Chevron in 2008.

The reserves and resources assessment carried out by AGR TRACS and published in March 2019, assigned 8.9 MMboe of net 2P reserves and 0.45 MMboe net contingent 2C resources to the participating interest currently held by ADME. The Albian reservoir is estimated by the partners to contain 185 BCF of gas and 12 MMbbl condensate (40 MMboe) although this was not fully certified in the CPR (**Exhibit 7**).

EXHIBIT 7: AJE FIELD AND ADM ENERGY 2P RESERVES

	Gross MMbbl	Gross BCF	Gross MMboe	Net MMboe
2P reserves				
Cenomanian Oil 2020-2021	0.89		0.89	0.04
Turonian Oil 2020-2021	1.36		1.36	0.07
Cenomanian Oil 2022+	0.69		0.69	0.04
Turonian Oil 2022+	1.79		1.79	0.12
Condensates (Turonian)	17.41		17.41	1.12
LPG (Turonian)	33.86		33.86	2.20
Liquids	56.00		56.00	3.59
Gas		492.90	82.15	5.35
Total - 2P reserves	**56.00**	**492.90**	**138.15**	**8.94**
2C resources				
Turonian Oil	6.00	-	6.00	0.30
Cenomanian Oil	3.00	-	3.00	0.15
Total - 2C resources	**9.00**	**-**	**9.00**	**0.45**

Source: AGR TRACS (CPR, March 2019)

Development options

We understand that the previous partnership had misalignments and a lack of necessary agreements between licensees to advance the next development phases, an issue compounded by the fact that Aje is a technically challenging asset, resulting in a slower pace of progress in solving these challenges and developing the field.

The rapidly dropping water depth and existence of submarine canyons over the field location, combined with the relatively flat structure as well as the limited thickness of the reservoir sections and oil rim, make the interpretation and depth mapping of the seismic data particularly challenging. This is reflected in the quality of the calibration between the maps and wells which remains poor in places and introduces risks and uncertainties in reserves estimates. It also impacts on the choice and feasibility of development options.

AGR TRACS planned for a full development of Turonian gas with concomitant extraction of liquids, requiring the drilling of five additional wells tied back to a floating platform, with gas condensate and LPG separation, moored close to the existing FPSO. This would allow for condensates to be transferred to the FPSO before evacuation by shuttle tanker and for LPG to be sent to a buoy for evacuation by a dedicated pressurised shuttle tanker. The dry gas would be piped ashore and tied to the Lagos compressor station on the WAGP and then sold to relevant customers. Such development envisaged a total capex of ca. US$1.2 billion and fixed opex in excess of US$100 million per annum.

The partners felt that such development plan was too focused on gas and actually believed that anticipated gas production in excess of 120 MMscfd in the early years would be difficult to monetise in the absence of an existing gas agreement. In addition, oil recovery from the Turonian oil rim could actually be hampered by the loss of energy resulting from the emphasis on gas development, with potentially negative impact on value recovered.

A revised development plan has recently been presented to address some of these perceived shortcomings, this is perceived to be a lower risk phased development focusing on early oil production from the Turonian oil rim and dry gas reinjection into the Turonian gas cap to preserve energy in the reservoir. The partners believe that the better than expected production performance from the Turonian oil-rim validates such a change in approach. This revised development plan is in the process of being approved.

This option requires less new wells being drilled, four rather than five, and makes use of the FPSO to house the gas processing equipment. The revised plan provides for one gas producer, one gas injector and one oil producer to be drilled in 2020-21, as well as one gas producer to be drilled in 2023. As a result, capex and opex levels are materially lower than in the original development plan, with revised capex of ca. US$0.5 billion and opex of US$40 million per annum, i.e. a reduction of some 60% for both capex and opex initially quoted in the CPR (**Exhibit 8**).

EXHIBIT 8: COMPARISON OF DEVELOPMENT CAPEX

REVISED FDP	US$M	2020	2021	2022	2023	2024
1 well	40.5					
2 wells	94.5					
1 well	60.0					
Facilities +LPG plant	290.0					
Total	**485.0**	40.5	94.5	-	250.0	100.0

AGR TRACS	US$M	2020	2021	2022	2023	2024
Drilling	296.6					
Facilitites	870.2					
Total	**1,166.8**	24.2	312.5	732.8	97.2	-

Source: ADM Energy, AGR TRACS, FDC

The plan for the next stage of development, which underpins the CPR, was already approved by the Department of Petroleum Resources in 2017. The Aje partners believe that seeking approval for the revised development plan will only require an amendment to be submitted, and that approval should not be an issue.

In addition to this revised plan, the Aje partners are also considering options for replacing the Front Puffin FPSO with a smaller vessel once the current lease expires and a number of suitable replacements have been identified. This should improve operational efficiencies and provide sufficient gas processing capacity. However, no decision has yet been made.

We believe the entry of PetroNor in the partnership is positive; PetroNor is strongly incentivised through a joint SPV with operator YFP to the success of the future field development phase. We also believe that the partial exit of EER through the announced transaction with ADME might herald further consolidation of interests. A newly reconfigured and consolidated partnership would infuse new ideas as well as provide sharper focus and consistency to complete the technical work necessary for future development phases.

ADME could take advantage of further consolidation within the partnership. In particular, the touted potential exit by NewAge from Africa (Africa Energy Intelligence, 07/01/20) could constitute a future consolidation opportunity for ADME.

The PetroNor-Panoro transaction

On 22 October 2019 Panoro announced it had entered into a sale and purchase agreement with PetroNor to divest all outstanding shares in its fully-owned subsidiaries representing an economic interest of 12.1913% in OML 113 (6.502% participating and 16.255% cost bearing), for an upfront consideration consisting of new PetroNor shares with a fixed value of US$10 million plus a contingent consideration of up to US$25 million based on future gas production volumes.

The total consideration of up to US$35 million for potential reserves to be produced of 21.8 MMboe is equivalent to a unit acquisition cost of US$1.6/ boe.

Concurrently, PetroNor is in the process of finalising a separate agreement with operator YFP, to create a new holding SPV (45% and 55% respective ownership) which will hold a 38.7% economic interest in OML 113, i.e. an economic interest of 17.415% for PetroNor upon completion.

PetroNor will assume a lead technical and management role, providing technical assistance to the partnership in order to progress the next phases of field development. PetroNor's economic interest is expected to reach 24% within 3 years based on project payout phases.

Together these agreements provide the framework and pathway towards sanction of the next phases of the Aje project in order to exploit the substantial gas and liquids reserves and unlock its significant value.

Revised reserves estimates

Based on the production history of the Aje-4 well, completed in the Cenomanian, and of the Aje-5 ST, completed in the Turonian, the partners believe that the connected oil volumes are significantly larger than previously expected.

Following on from the RPS study in August 2019, ADME remapped and reassessed the hydrocarbon volumes of the Turonian and Cenomanian reservoirs. The remapping and subsequent volume estimates for both reservoirs was based on a very detailed reinterpretation of the 3D seismic data, including amplitude studies and adjustment of the velocity model to fit well ties.

The comparison between the net 2P reserves identified by AGR TRACS (at end 2018) and the net reserves produced according to the revised development plan is shown below, together with the corresponding net reserves post-transaction (**Exhibit 9**).

EXHIBIT 9: COMPARISON OF NET 2P RESERVES

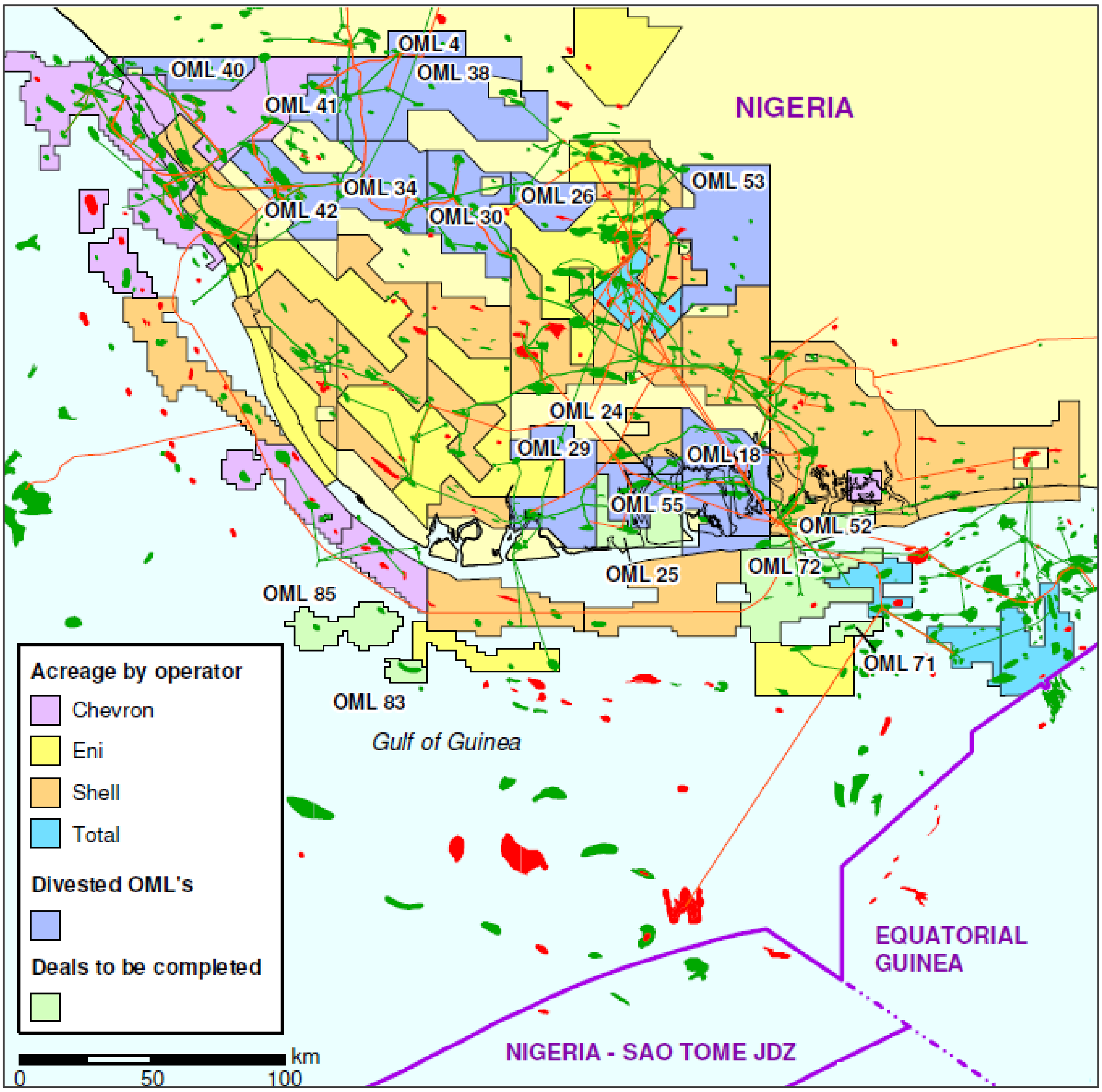
	AGR TRACS at end-2018 MMboe	**Revised pre-transaction** estimated at end-2019 MMboe	**Revised post-transaction** estimated at end-2019 MMboe
Cenomanian Oil 2020-2021	0.02		
Turonian Oil 2020-2021	0.04		
Cenomanian Oil 2022+	0.04		
Turonian Oil 2022+	0.12		
Oil	0.22	1.60	2.94
Condensates (Turonian)	1.12	1.01	1.86
Liquids	**1.34**	**2.60**	**4.79**
LPG (Turonian)	2.20	1.07	1.98
Gas	5.35	4.79	8.83
Total - 2P reserves	**8.89**	**8.47**	**15.60**

Source: ADM Energy, AGR TRACS, FDC

Nigeria consolidation play

The upstream oil sector is the single most important sector of the Nigerian economy, accounting for over 90% of exports and ca. 80% of Federal Government revenue. Although it was initially dominated by international companies (IOCs), since the discovery of crude oil in 1956 by Shell-BP in the Niger Delta, indigenous private operators' activity now accounts for ca. 15% of oil production following the implementation of enabling legislation in the early 1990s and onshore asset divestments by IOCs more recently (**Exhibit 10**).

EXHIBIT 10: LICENCE DIVESTMENTS



Source: Wood Mackenzie

Nigeria is estimated to hold remaining recoverable proved reserves of around 37.5 billion bbl of oil and 184 TCF of gas, making it a globally significant source of long-term supply. Nigeria hopes it could boost its oil production to around 3-4 MMbopd within 5 years from ca. 1.9 MMbopd currently, and in order to do so the government hopes to be able to attract some US$48 billion of investment into the upstream sector between now and 2025. There is certainly appetite for the sector at large, upstream but also mid and downstream, and large companies such as Adnoc and Aramco are reported to be assessing investment opportunities.

Although the government is looking to attract investment, some of the recent changes to the fiscal framework for deepwater are not likely to promote private sector investment, making production increase targets rather difficult to achieve. Nevertheless, deepwater is still where large reserves are to be found and remains the focus of larger companies. For small and medium size companies, most investment opportunities are located in shallow-water and onshore, areas exited by larger companies due to the smaller pool size and the less attractive JV licensing regime. Hence a large consolidation play, which started in the early part of last decade and still has a long way to go.

Highly Qualified Team

Peter Francis – Non Executive Chairman

Peter was appointed Chairman of ADM Energy in October 2019 and has over 35 years of experience working with major international oil companies. He spent 30 years with ExxonMobil in a number of executive, treasury and government related positions across the US, Europe, Russia and Africa. More recently, he worked for Royal Dutch Shell in Abuja and served as CEO of Oracle Energy, a Canadian TSX exploration and producing company focused on oil and gas activities in West Africa. Peter has extensive knowledge of working in developing and transition economies, building relationships with senior government officials and developing strategies to support new business entry. Peter is a member of the Board of Africare, the largest Africa/US Development Agency supporting health, education and food security in Sub-Sahara Africa.

Osamede "Osa" Okhomina – CEO

Osa was appointed CEO of ADM Energy in July 2019 on the recommendation of its directors and some of its shareholders to restructure the board and management and establish a strategy for aggressive growth and development. He has more than 20 years' experience in the global oil and gas industry, particularly in Africa, financing projects and growing businesses. Osa started his career at Terra Energy Services, helping to introduce new deep-water technologies in Nigeria. He is a founding partner of Africa-focused Energy Equity Resources, a partner investor of ADM Energy, where he has secured more than $300 million of direct foreign investment into Nigerian oil and gas. He brings considerable government expertise and connections to the ADM Energy board. Osa holds a BSc and MA in Philosophy from Cambridge.

Richard Carter – COO

Richard is a qualified accountant with extensive experience of raising funds for public and private companies. He has worked and advised across energy, media, telecoms and engineering sectors in various corporate finance and investor relations roles. As Chief Operating Officer, Richard supports the CEO and management team with its regulatory functions.

Sergio Lopez – CFO

Sergio has been in the oil and gas industry for the last 13 years with experience ranging from finance to operations. Lewis Energy Group appointed Sergio as its Mexico Country Manager to coordinate a 15-year E&P contract with Pemex, which represented the first move by an American independent oil and gas company into Mexico since 1938. He negotiated a special budget to drill the first exploratory Eagle Ford Shale well in Mexico, named Emergente-1. This resulted in the first and only producer in the Eagle Ford Shale in Mexico called Habano.

Manuel Lamboley – Non Executive Director

Manuel was appointed Non Executive Director of ADM Energy in October 2019. He is a financier with over 30 years' experience in international broking and investment banking. He previously served as Head of the Geneva office of Williams de Broe and has held senior positions at Bank Julius Bar, Kidder Peabody, Paine Webber International and Prudential-Bache Securities. Manuel has longstanding relationships with major investors and financial advisers worldwide, with a particular focus on the natural resources sector. He has been a non-executive director of several listed companies in the mining and energy sectors, including International Mining & Infrastructure Corporation plc, and was also previously an independent director of UK-based African Aura Resources Limited. Manuel is a director of Zark Capital Limited.

Wim Burgers – Technical Director

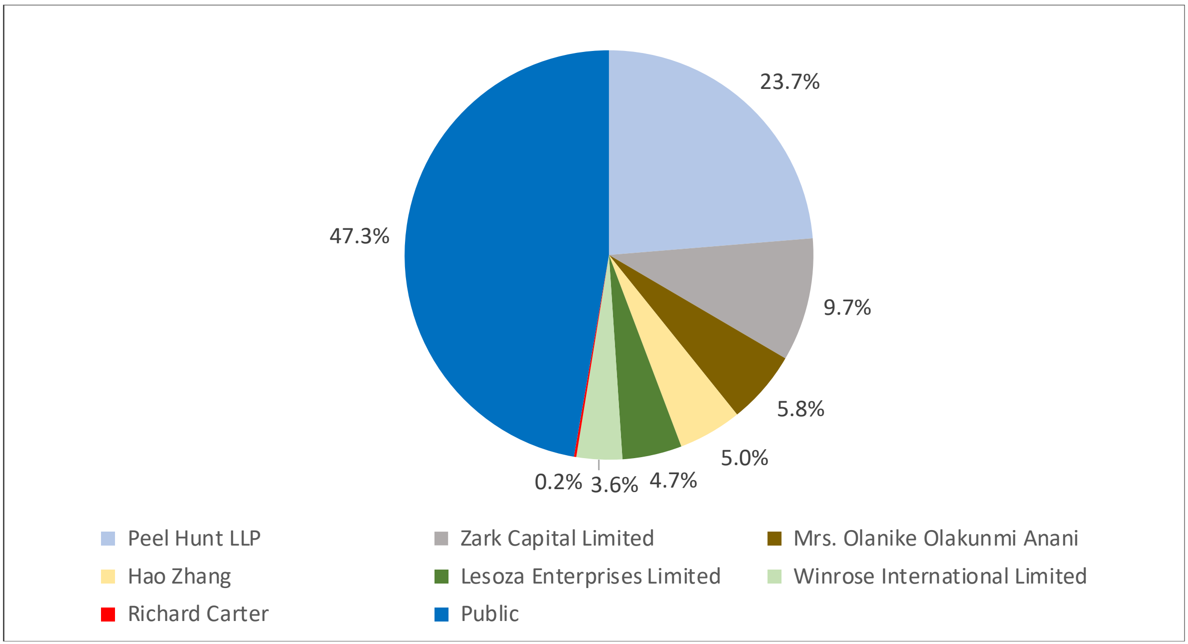
Wim has more than 40 years international exploration and development experience in the oil and gas industry. His work with Exxon Mobil, his main employer, was concentrated on asset evaluations in conventional & unconventional plays, including heavy oil & tight liquids. Wim has identified many exploration and development opportunities in various areas like Mexico, Gulf of Mexico, Offshore Brazil, Colombia, Caspian Region, Sub-Sahara Africa and the North Sea. He earned a master's degree in geology from Leiden University, The Netherlands, and he is fluent in many languages including Spanish.

Current Shareholders

ADME has a mix of long-term and more recent shareholders, and a free float of approx. 47%. Lesoza Enterprises Limited is one of the founding shareholders and Hao Zhang is also a longer-term investor. Mrs Olanike Olakunmi Anani is a HNWI who invested in the company at the last fund raise in H2 2019.

Winrose International Limited secured its interest when a major Dubai-based investor bought into the company, and Peel Hunt LLP acquired the position from of the latter investor when he decided to exit subsequently. Zark Capital is an investment management company which invested at the last fund raise (**Exhibit 11**).

EXHIBIT 11: CURRENT SHAREHOLDERS



Source: ADM Energy

Valuation

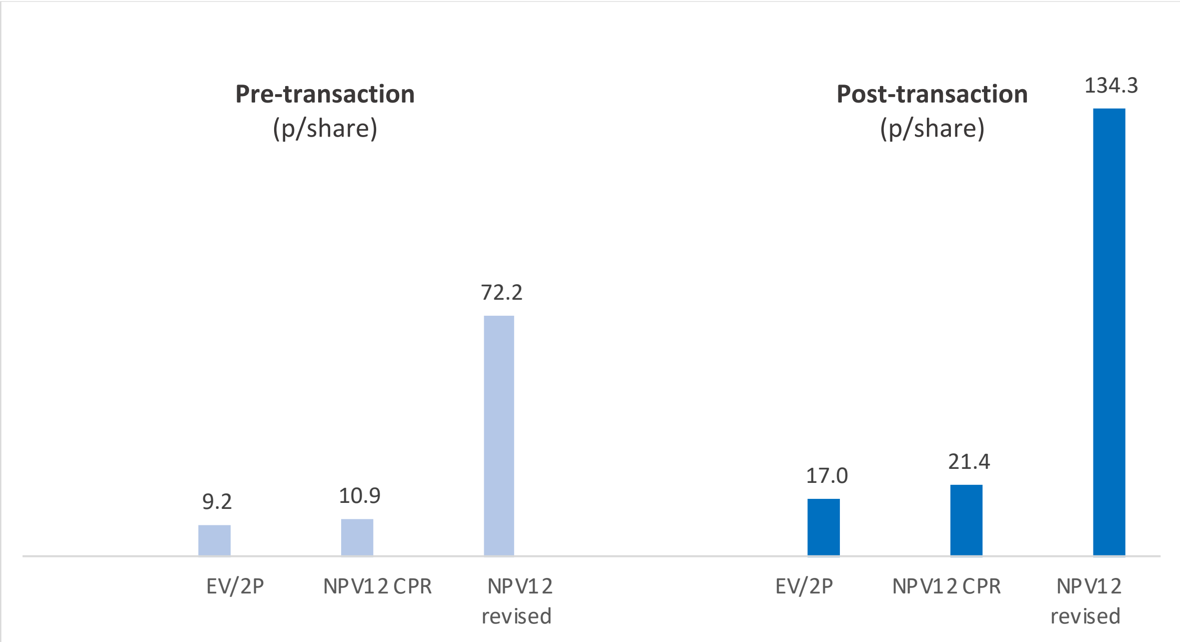
We use a combination of valuation methods to estimate a risked value of the company, i.e. multiple of 2P reserves from a peer group of publicly listed companies, multiple of 2P reserves from private transactions, and DCF. Although we base our valuation on the development plan independently audited in the CPR, we believe that the revised development plan, in the process of being approved, provides genuine upside (**Exhibit 12**).

We estimate a post-transaction risked value of 17.0p for ADME, by applying an EV/2P median multiple from a peer group of publicly listed companies with assets in Nigeria, and then applying a discount of 40% to account for risks and uncertainties remaining in the Aje project. The corresponding pre-transaction value is 9.2p.

These values compare with a post-transaction NPV12 of 21.4p derived from a DCF valuation based on the AGR TRACS development plan, and a corresponding pre-transaction value of 10.9p. The same DCF valuation based on the revised development plan results in a value of 134.3p, and a corresponding pre-transaction value of 72.2p.

We believe that the remaining subsurface and project uncertainties do warrant a discount, and we believe that a post-transaction risked value of 17.0p adequately reflects these risks and still represents a large upside to the current share price. At this stage, we have left out the potential value of the limited contingent resources.

EXHIBIT 12: VALUATION RESULTS



Source: AGR TRACS, ADM Energy, FDC

Public market valuation

We use a peer group of publicly listed companies with their main assets located in Nigeria. The EV/2P multiples for these companies range from US$0.9/ boe for Lekoil to US$4.3/ boe for Africa Oil. We explain such a wide range by the fact that the value of Lekoil has recently been negatively impacted by governance issues, whilst Africa Oil benefits from its recent acquisition of interests in world-class offshore IOC-operated oil producing assets in Nigeria. The multiple for Seplat coincides with the average of the range at US$2.5/ boe and probably reflects the relatively higher proportion of gas reserves present in Seplat's portfolio. We note that these EV/2P values are materially lower than that resulting from our DCF valuation.

Applying the median EV/2P multiple of US$1.4/ boe to ADME's estimate of pre-transaction net 2P reserves (8.9 MMboe) results in an EV and Market Capitalisation for ADME of US$12.4 million corresponding to a share price of 15.4p. We estimate this is equivalent to the equity market applying a discount of ca. 74% to ADME versus what it would be valued by applying the median EV/2P multiple of this peer group. Even though a discount might be justified to account for the remaining subsurface and project uncertainties, we believe that such a high discount is somewhat excessive and unwarranted.

If we use a 40% discount, the resulting share price is 9.2p. The corresponding post-transaction share prices are 28.3p and 17.0p, based on post-transaction net 2P reserves of 16.4 MMboe (**Exhibit 13**).

EXHIBIT 13: PUBLICLY LISTED PEERS

Name	Price (local)	FX	EV (US$M)	2P (MMboe)	Production (boe/d)	EV/2P (US$/boe)	EV/Prod. (US$/boe/d)
Africa Oil	1.3	CAD	300.4	80.6	34,000	3.7	8,835
Lekoil	3.3	GBp	23.0	22.7	2,122	1.0	10,847
Oando PLC	3.5	NGN	669.5	479.8	40,000	1.4	16,737
San Leon Energy	25.1	GBp	121.9	124	4,763	1.0	25,604
Seplat	109.8	GBp	1,189.6	481.0	52,000	2.5	22,876
Median						**1.4**	**16,737**
ADM Energy	4.0	GBp	3.2	8.9	145	0.4	22,085
Implied risk factor (%)						74	
Pre-transaction							
ADM Energy	15.4	GBp	12.4	8.9		1.4	
ADM Energy	9.2	GBp	7.4	8.9		0.8	
Applied risk factor (%)						40	
Post-transaction							
ADM Energy	28.3	GBp	22.9	16.4		1.4	
ADM Energy	17.0	GBp	13.7	16.4		0.8	
Applied risk factor (%)						40	
Number of shares (million)						61.6	
GBP / USD rate						1.3	

Source: FDC, Bloomberg

Private market valuation

We have compiled several corporate and asset transactions that have occurred in the past three years in Africa and calculated the implied EV/2P multiple for each transaction from the transaction value and reserves transacted (**Exhibit 14**).

The EV/2P multiples for these transactions range from US$1.1/ boe to US$14.0/ boe, with a median of US$4.4/ boe. The median multiple is notably higher than that obtained from the peer group of publicly listed companies. This can be due to the wide distribution of this sample and a fairer comparison would need to account for differences in fiscal terms, asset maturity etc. Another reason could be that industry players recognise the value of 2P reserves beyond what the public market is prepared to pay for them, due to either potentially asymmetric information (private vs. public) and/or a different perspective from industry players vs. public investors.

Applying the median EV/2P multiple of US$4.4/ boe results in an EV and Market Capitalisation for ADME of US$38.8 million corresponding to a share price of 48.1p. If we use a 40% discount, to account for the remaining subsurface and project uncertainties, the corresponding share price is 28.8p (or 53.1p post-transaction).

We believe that a more realistic and representative valuation is to apply the unit acquisition cost of the PetroNor-Panoro transaction of US$1.6/ boe, which results in a value of US$14.3 million and a share price of 17.7p (or 32.6p post-transaction), still a significant upside from the current share price.

EXHIBIT 14: RECENT TRANSACTIONS IN AFRICA

Announced	Buyer	Seller	Countries	EV (US$m)	2P (MMboe)	EV/2P (US$/boe)
Sep-19	Total	Occidental	Mozambique	3,900	811	4.8
Jun-19	Lukoil	NewAge	Congo	800	325	2.5
Jun-19	Dragon Oil	BP	Egypt	743	58	12.8
May-19	Total	Occidental/ Anadarko	Moz./ Ghana/ Algeria	8,800	1,200	7.3
Oct-18	Vitol/ Delonex/ Africa Oil	Petrobras	Nigeria	1,407	102	13.8
Sep-18	SOCO International	Merlon Int.	Egypt	233	24	9.7
Jul-18	Assala Energy	Total	Gabon	100	12	8.3
Mar-18	Mubadala	Eni	Egypt	934	232	4.0
Mar-18	Total	Marathon	Libya	450	293	1.5
Feb-18	Aker Energy	Hess	Ghana	100	91	1.1
Jan-18	Swala O&G	Orca Exploration	Tanzania	130	33	3.9
Dec-17	Sonangol	Cobalt	Angola	500	n/a	
Oct-17	Kosmos/ Trident	Hess	Equatorial Guinea	650	60	10.8
Jun-17	China Great United Pet.	San Leon	Nigeria	470	124	3.8
May-17	Delonex	United Hydrocarbon	Chad	100	n/a	
Mar-17	Assala Energy	Shell	Gabon	872	63	13.8
Mar-17	XOM	Eni	Mozambique	2,800	642	4.4
Feb-17	Perenco	Total	Gabon	350	25	14.0
Jan-17	Sound Energy	Oil & Gas Investments	Morocco	232	n/a	
Jan-17	Total	Tullow Oil	Uganda	717	174	4.1
Dec-16	BP	Kosmos Energy	Mauritania/ Senegal	916	n/a	
Dec-16	Rosneft	ENI	Egypt	1,575	696	2.3
Nov-16	BP	ENI	Egypt	525	232	2.3
Sep-16	CEFC China Energy	CPC Corp.	Chad	110	n/a	
Median						**4.4**
Max						14.0
Min						1.1

Source: FDC

DCF valuation

We provide below the cash flow model (2020-2027) for the revised development plan as well as the AGR TRACS CPR upon which our NPV12 are based. Both use an oil price of US$60 /bbl, whilst gas price assumptions are US$3.4 /mcf and US$4.0/mcf respectively, all prices flat in real terms and inflated at a rate of 2% p.a. from 2020 onward. Cash flows are calculated to the end of economic life (**Exhibit 15**).

The post-transaction NPV12 is 21.4p, based on the AGR TRACS development plan, which compares to a value of 134.3p when based on the revised development plan. The corresponding pre-transaction NPV12 are 10.9p and 72.2p respectively.

EXHIBIT 15: CASH FLOW MODEL PRE- AND POST-TRANSACTION

		2020	2021	2022	2023	2024	2025	2026	2027
Profit interest		9.2194	12.3000	12.3000	12.3000	12.3000	12.3000	12.3000	9.2194
Capex paying interest		12.3000	12.3000	12.3000	12.3000	12.3000	12.3000	12.3000	5.0006
Opex paying interest		12.3000	12.3000	12.3000	12.3000	12.3000	12.3000	12.3000	9.2194
REVISED DEVELOPMENT PLAN									
Net daily production	boe/d	267.6	709.8	1,046.7	2,542.3	3,589.7	3,562.4	3,543.1	2,626.4
Net yearly production	MMboe	0.098	0.259	0.382	0.928	1.314	1.300	1.293	0.959
Reserves produced	MMboe	0.098	0.259	0.382	0.928	1.314	1.300	1.293	0.959
Capex (Oil)	$M	-	-	-	-	-	-	-	-
Opex (Oil)	$M	3.9	4.0	4.0	4.1	4.2	4.3	4.4	3.1
Costs recovered (Oil)	$M	3.1	9.9	17.1	16.9	19.1	19.2	12.4	3.1
Profit share (Oil)	$M	0.7	1.9	3.2	3.1	3.5	3.5	10.5	10.1
ADM Energy cash flow (Oil)	$M	(0.1)	7.9	16.2	15.9	18.3	18.4	18.5	10.1
Capex (Gas)	$M	5.5	13.1	-	36.0	14.7	-	-	-
Opex (Gas)	$M	0.0	0.0	0.0	0.0	1.4	1.4	1.5	1.0
Costs recovered (Gas)	$M	(0.0)	(0.0)	(0.0)	9.1	22.4	23.0	19.1	1.0
Profit share (Gas)	$M	-	-	-	2.5	3.6	4.4	8.7	15.4
ADM Energy cash flow (Gas)	$M	(5.5)	(13.1)	(0.0)	(24.4)	9.9	26.0	26.4	15.4
JV specific CF adjustments	$M	-	-	-	-	-	-	-	-
Net JOA CF adjustments	$M	(2.2)	(0.3)	-	-	-	-	-	-
ADM Energy cash flow	**$M**	**(7.8)**	**(5.5)**	**16.2**	**(8.5)**	**28.2**	**44.3**	**44.9**	**25.5**
AGR TRACS CPR									
Net daily production	boe/d	183.4	143.6	4,627.4	4,538.4	4,444.4	4,380.0	4,307.1	4,237.0
Net yearly production	MMboe	0.067	0.052	1.689	1.657	1.627	1.599	1.572	1.546
Reserves produced	MMboe	0.067	0.052	1.689	1.657	1.627	1.599	1.572	1.546
Capex (Oil)	$M	-	-	-	-	-	-	-	-
Opex (Oil)	$M	5.2	5.3	6.4	6.5	6.6	6.7	6.8	6.9
Costs recovered (Oil)	$M	2.2	1.7	14.9	15.1	14.3	13.4	12.4	11.3
Profit share (Oil)	$M	0.6	0.5	3.1	3.1	2.9	2.7	2.6	2.4
ADM Energy cash flow (Oil)	$M	(2.4)	(3.1)	11.7	11.7	10.6	9.5	8.2	6.9
Capex (Gas)	$M	3.4	42.6	99.7	14.8	1.1	-	-	-
Opex (Gas)	$M	0.0	0.0	0.0	0.0	12.5	12.7	13.0	13.2
Costs recovered (Gas)	$M	(0.0)	(0.0)	16.2	17.9	31.3	32.1	32.6	33.1
Profit share (Gas)	$M	-	-	4.4	4.9	8.4	8.6	8.3	7.0
ADM Energy cash flow (Gas)	$M	(3.4)	(42.7)	(79.1)	8.0	26.1	27.9	27.9	26.9

Source: AGR TRACS, ADM Energy, FDC

Financials

ADME's yearly financials for 2018-2022, with forecasts based on the revised development plan and post-transaction, are shown below (**Exhibit 16**).

EXHIBIT 16: FINANCIAL STATEMENTS

	£000	£000	£000	£000	£000
Consolidated Profit and Loss Account	**2018**	**2019E**	**2020E**	**2021E**	**2022E**
Revenue	3,127	2,204	4,960	9,096	15,577
Operating Cost	(2,356)	(2,118)	(4,735)	(3,068)	(3,129)
Administrative expenses	(1,620)	(1,725)	(1,400)	(1,400)	(1,400)
Operating Profit (Loss) profit	**(849)**	**(1,640)**	**(1,175)**	**4,628**	**11,048**
Finance cost	-	(14)	-	-	-
Profit (Loss) on ordinary activities before taxation	(849)	(1,654)	(1,175)	4,628	11,048
Exchange Translation movement	404	-	-	-	-
Profit (Loss) for the year	**(445)**	**(1,654)**	**(1,175)**	**4,628**	**11,048**
Consolidated Balance Sheet					
NON-CURRENT ASSETS					
Intangible fixed assets / Development Cost	16,362	16,403	22,403	32,458	32,458
	16,362	16,403	22,403	32,458	32,458
CURRENT ASSETS					
Investments held for trading	200	200	200	200	200
Trade and other receivables	29	41	-	-	-
Cash & cash equivalents	216	84	(1)	3,127	14,175
	445	325	199	3,327	14,375
CURRENT LIABILITIES					
Trade and other payables	1,643	1,643	5,379	13,933	13,933
NET CURRENT LIABILITIES	(1,198)	(1,318)	(5,180)	(10,607)	441
NET ASSETS	**15,164**	**15,085**	**17,223**	**21,851**	**32,899**
EQUITY					
Share Capital/Premium	41,945	43,968	47,281	47,281	47,281
Retained Earnings	(26,781)	(28,883)	(30,058)	(25,430)	(14,382)
TOTAL EQUITY	**15,164**	**15,085**	**17,223**	**21,851**	**32,899**

Source: FDC, ADM Energy

Please note: we assume a US$4.5 million cash injection in Year 2020

Fiscal Terms

Yinka Folawiyo Petroleum (YFP) was awarded OPL-309 in June 1991 in the indigenous bid round, and the licence was later converted to OML 113. The OML 113 licence is a tax and royalty licence, where the royalty is paid to the Nigerian Government and calculated based on the water depth at the take point.

YFP is the operator and will be carried through the appraisal and development program, and ADME's revenue interest in the project varies according to the progress of YFP's preferential cost recovery.

OML 113 is located in a "Frontier Basin" and is held as a "Sole Risk" licence under the "Deep Offshore and Inland Basin Production Sharing Decree". The licence therefore benefits from lower royalty and PPT tax rates than projects located in the main petroleum production regions onshore and offshore the Niger Delta. The key elements of the fiscal system are as follows:

Oil and Condensate revenue:	8% royalty + 50% PPT
Gas revenue:	5% royalty + 30% CITA
Capex Depreciation:	5 years straight line (only 19% in 5th year)
Cost Oil:	80% of revenue after royalty
Investment tax allowance (Oil):	50% (Sole risk licence terms)
Investment tax allowance (Gas):	20% (NAPIMS)
VAT:	5%
Education tax:	2% of assessable profits and not cost recoverable
Customs duty:	Exempt
NDDC tax:	Exempt
Training fees:	US$0.15 per annum

There are no Signature or Production bonuses due under the applicable fiscal terms.

Research Disclosures

Lionel Therond CFA

Lionel has 30 years of experience in Oil & Gas and Banking. He is currently a Director of Fox-Davies Capital and a Director of Blue Oak Advisory, a London-based corporate finance boutique.

Until 2016, Lionel was Head of Oil & Gas Equity and Commodity Research and a Managing Director at Standard Bank, focusing on the financing of mid-size Oil & Gas companies in Emerging and Frontier Markets, in particular sub-Saharan Africa. Lionel joined Standard Bank from Fox-Davies Capital where he was Head of Oil & Gas Research. Prior to that, Lionel was an equity fund manager and buyside analyst with JPMorgan Asset Management in London, specialised in the Oil & Gas, Industrials and Media sectors. His oil industry experience includes nine years as a geoscientist with Royal Dutch Shell managing exploration projects internationally.

Lionel has an MBA from INSEAD, a DEA in Geology and Geophysics from Institut National Polytechnique de Lorraine and a Diplôme d'Ingénieur Géologue from Ecole Nationale Supérieure de Géologie (Nancy, France). He is a CFA Charterholder and a Fellow of the Geological Society of London.

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Research disclosure as of 24 February 2020

Company Name	Disclosure
ADM Energy Plc	2, 3, 7

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