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## ASX ANNOUNCEMENT

12 June 2012

### Acquisition of Ukraine Oil and Gas Project

#### Highlights

- Advance to acquire an operating interest in the Ortynytska Subsoil License in Western Ukraine.
- Ortynytska is in the heart of the Carpathian Basin where US Geological Survey estimates that there are 75 undiscovered fields with a mean of 20BCF of which 37% are in Ukraine
- Attractive gas markets (>US\$11/MCF) and fiscal regime with operating netbacks typically in excess of US\$8/MCF due to low royalties and operating costs
- Advance will seek shareholder approval for the issue of 500m shares and to raise \$3m to undertake re-entry of Ortynytska-3 well drilled to 3,577m in 1993-4

#### Acquisition of Celiastad Pty Ltd

Advance Energy Ltd (**Advance** or **Company**) is pleased to announce that it has executed a binding Term Sheet to acquire 100% of Celiastad Pty Ltd (**Celiastad**). Celiastad has the rights to acquire 100% of Epic Energy Ukraine Ltd (**Epic**), a company incorporated in Ukraine, which has executed a Joint Activity Agreement (**JAA**) with ZakhidUkrGeologiya (**ZUG**), the holder of a 19 km<sup>2</sup> subsoil license over the Ortynytska natural gas project (**License**). ZUG is a subsidiary of Ukrainian National Joint Stock Company Nadra Ukrainy which was established in 2000 by Presidential Decree to “improve minerals supply for country's needs, to reserve and increase geological enterprises' potential”.

The key terms of the JAA are as follows:

- (a) Advance to fund all capital and operational commitments and expenses;
- (b) Advance to receive 70% of net profits from production until payback; and
- (c) Advance to receive 50% of net profits thereafter.

#### Ortynytska Project

##### Location

The Ortynytska Project is located approximately 50km southwest of the city of L'viv in Western Ukraine. It is close to the major European gas markets of Poland, Slovakia and Hungary and to major pipeline infrastructure (See Figure 3).

The Prospect is located in the North Carpathian Basin which stretches in an arc from Ukraine through southern Poland and Slovakia through to the Czech Republic and Austria. Figure 1 (below) shows the North Carpathian Province and the location of the principal gas fields.

**Figure 1: Ortynyska License and its Location in Ukraine**



**EXPLANATION**

- North Carpathian Province (4047)
- Isotopically Light Gas Total Petroleum System (404701)
- - - International boundary
- Gas field center point

Source: US Geological Survey

The Ortynytska Prospect is located in the relatively un-deformed Foreland sediments beneath frontal thrust of the Flysch Belt. The US Geological Survey (USGS) 1999 Assessment of the Foreland Basin Undiscovered Potential stated that:

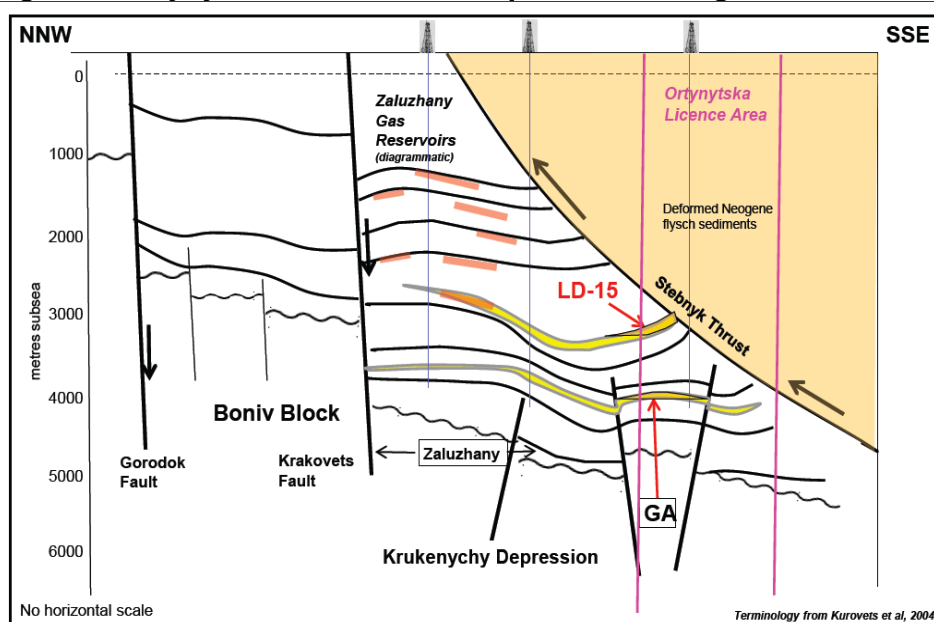
- 10-175 fields remain (mean 75.9 fields)
- Field sizes will range from 6- 400 BCF (recoverable), with a median size of 20 BCF
- Approximately 37% of fields will be in Ukraine

The Ortynytska Prospect is immediately south of the Zaluzhany gas field which was discovered in 1969 and, at peak, had over 27 wells producing from 13 horizons. The Zaluzhany field produced over 134BCF of its total recoverable reserves of 1TCF between 1975 and 1993 with an average daily production of 1 MMCFD per well.

The Ortynytska Prospect is a Miocene gas play comprising thermogenic and microbial gas. The primary target is the Lower Dashava 15 (LD-15) sand which is located at approximately 3,500m and there are two deeper secondary (GA) sands at approximately 4,500m and 4,700m.

The LD-15 is crossed by the east-west Stebnyk Thrust which dips strongly to the south eliminating some of the shallower sands that have produced in the Zaluzhany field. However, the Stebnyk Thrust does appear to provide an excellent closure for the LD15 sand (See Figure 2).

**Figure 2: Ortynytska License – Principal Gas-bearing Horizons**



The Ortynytska-3 well was drilled to 3,577m in 1993-4 and discovered gas in the LD-15 sand. The operator experienced a number of mechanical problems and, consequently, did not bring the well into production or drill to the lower GA horizons.

## Oil and Gas in Ukraine

The project is located in the Carpathian Basin, which stretches approximately 600km across several east and central European countries, including Ukraine, Poland and Slovakia. To date, approximately 500 fields have been identified with more than 2.1 billion barrels of oil and 11.2 TCF of natural gas discovered.

### Infrastructure and Economics

With more than 36,000 km of natural gas and 4,500km of oil pipelines, Ukraine has long served as an important transportation hub between producing natural gas fields in Russia and end users in Western Europe. As a major customer of Russia itself, Ukraine has been involved in numerous disputes with Russia over pricing and has seen natural gas supplies cut off on several occasions. The uncertainty in the supply of gas coming from Russia through Ukraine has spurred several potential alternative supply routes to Europe over the years.

Natural gas production has remained relatively stagnant since the country became independent 20 years ago. However, while consumption has trended downward, the country still imports approximately 65-75% of its natural gas needs.

**Figure 3: Principal Gas Transport Infrastructure - Ukraine**



### Ukraine Oil and Gas Petroleum Regime

Ukraine is a favourable oil and gas regime, particularly for gas production. Subsoil hydrocarbons are regulated by the Oil and Gas Law with permits either auctioned in a public process or granted to state companies. Royalties, comprising production a production rent charge and a subsoil charge, are less than US\$1.00 per MCF enabling many companies to achieve operating netbacks of over \$8/MCF.



## **Proposed Transaction and Work Program**

Advance has executed a Heads of Agreement to acquire 100% of the issued shares of Celiastad Pty Ltd for 500,000,000 shares, with these shares to be distributed on a pro rata basis amongst the vendors (none of whom are related parties of the Company).

Celiastad has already invested in excess of USD900,000 securing the license and JAA, commissioning an independent report and constructing a road to the Ortynytska-3 well.

### Work Program and Capital Raising

The Company proposes to undertake a re-entry of the Ortynytska-3 well, undertaking a sidetrack to intersect the optimum point of entry to the LD-15 sand. It is anticipated that the re-entry would commence in the third quarter of calendar year 2012. The Company therefore plans to seek shareholder approval to raise up to \$3,000,000 to fund the re-entry. The proposed issue price has yet to be finalized.

### Shareholder and Regulatory Approval

The Company has already submitted an application to ASX in relation to Chapter 11 and has been advised that, in accordance with Listing Rule 11.1.2, the Company will need to obtain shareholder approval for the proposed transaction. The Company expects to dispatch a Notice of Meeting in the next week seeking shareholder approval for the acquisition and for the proposed capital raising.

### Management Team

Advance is fortunate to have the experience of its US in-country manager, Steve Fast, to assist it in Ukraine. Steve is an oil and gas professional with more than 12 years experience in Russian-speaking countries and, primarily, Kazakhstan. He has near-native proficiency at reading, writing and speaking Russian and holds a Certificate in Petroleum Asset Management and Economics from Texas A & M University.

Steve accompanied the Company's Managing Director, Anthony Short, on his visit to Ukraine in November 2011, has met with the key stakeholders and will join the JAA Committee.

Through the acquisition, Advance will be acquiring the services of an in-country technical team. It will engage other suitably qualified professionals as required.

## **FOR FURTHER INFORMATION CONTACT**

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