

Initiation - Ready for Ruvuma

The combination of solid cash flows from low-risk, US production assets together with high risk/reward Tanzanian exploration assets and a strong balance sheet provides Aminex with an attractive balance of risks. Our risked net asset value of \$208m or 33p/share implies that the company is trading at roughly half core value, with no recognition of the potential upside from its 50% stake in its Tullow-operated Ruvuma asset, where a first well is due to be spudded at the very end of this year.

● Ruvuma: building on success in Tanzania

With its KN-1 gas discovery on the Nyuni PSC being appraised for development, Aminex is now being rewarded for its early positioning in under-explored Tanzanian acreage. As the company works with its 50/50 partner and operator, Tullow Oil, to explore the potential of several identified leads in the Ruvuma PSA, the company is now set to build on its track record of successfully delivering value in Tanzania. Likonde-1 in the Ruvuma Basin is due to be spudded towards the end of this year.

● Cash position underpinned by low-risk US assets

Production from Aminex's low-risk US assets provides cash to support the central costs of the company as well as providing further potential for fund raising from farming-down stakes (Shoats Creek, Louisiana).

● Successful fund-raising

Solid cash flows together with the company's oversubscribed equity placings over the summer, which raised around \$17m (gross), provide sufficient funding for its upcoming drilling campaign in the Ruvuma Basin. It also demonstrates that management has sufficient investor support to be able to raise cash in very difficult markets.

● Valuation

We value Aminex using a risked net asset valuation (NAV), calculating core NAV at \$110m or 17p/share, largely attributable to the company's US assets. In addition to this we calculate upside of \$98m or 15p/share, attributable to Aminex's Tanzanian exploration assets. Our total risked NAV of \$208m or 33p represents considerable upside over the shares now trading at 8.63p.

Share performance (p)



Share information

Price	8.63p
Shares	412.7m
Market capitalisation	£35.62m
Ticker	LSE: AEX
Sector	Oil and Gas Producers

Financial analysis

(\$m)	2008	2009e
Revenue	10.18	7.30
Profit after tax	(9.66)	(2.43)
Net debt/(cash)	(3.91)	(5.49)
Capex	(15.04)	(12.56)

Valuation metrics

Core NAV	\$110m
Upside NAV	\$98m
Total NAV	\$208m

Company description

Aminex is an established upstream oil and gas company listed on the London and Irish Stock Exchanges with interests in the USA, Tanzania, Egypt and North Korea.

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Contents

1	Introduction	4
2	Investment case	5
	Overall positioning	5
	Ruvuma: building on success in Tanzania	5
	Solid cash flows from low-risk US assets	5
	Successful fund-raising	5
	Valuation	5
3	Company analysis	6
	Company overview	6
	Strategy	6
	Operations	6
	News flow	11
	Key attractions	12
	Potential concerns	12
	Financials	13
	Valuation	13
	Financial forecasts	15

1 Introduction

In this report we initiate our coverage of Aminex, setting out the company's strategy, operations and assets, key attractions and potential concerns before turning to financials and valuation. We divide our initiation into two sections:

- Investment case
- Company analysis

Omni Investment Research is an independent research company focusing exclusively on global oil and gas.

Exhibit 1 - Aminex's global footprint



Source: Aminex, Omni Investment Research

2 Investment case

Overall positioning

The combination of solid cash flows from low-risk, US production assets together with high risk/reward Tanzanian exploration assets and a strong balance sheet provides Aminex with an attractive balance of risks. Having shored up its balance sheet over the summer, the company is now set for a busy 24 months.

Ruvuma: building on success in Tanzania

Aminex is finally being rewarded for its early positioning in the under-explored Tanzanian acreage with two key events:

- The Kiliwani North-1 well flowed gas at 40 mmcf/d under production test conditions and is now being appraised for development.
- Aminex and its 50/50 operating partner Tullow Oil are due to commence work at the Ruvuma Basin this quarter, with the first of two wells planned to be drilled over several identified leads.

These developments should prove up additional reserves and will provide further evidence that Aminex is set to build on its track record of delivering value in Tanzania.

Solid cash flows from low-risk US assets

Aminex is benefiting from growing revenues from its US asset base as a result of:

- Production growth, which for the first six months of 2009 nearly doubled year-on-year to 74,000 boe following the start up of production at the Sunny Ernst-2 well at Alta Loma.
- New wells coming on stream e.g. Sunny Ernst-3, planned for 2010.
- The re-development of the asset base e.g. Sunny Ernst-1 and Shoats Creek.
- Firmer commodity prices.

Successful fund-raising

Aminex raised funds over the summer, totalling \$17m (gross). This will provide Aminex with sufficient funding for its upcoming drilling campaign in the Ruvuma Basin and will mitigate any concerns about funding following its draw-down of cash since 2007. The results of the placing also demonstrated that management has sufficient investor support to be able to raise cash in very difficult markets.

Valuation

We value Aminex using a risked net asset valuation (NAV), calculating core NAV at \$110m or 17p/share, largely attributable to the company's US assets. In addition to this we calculate upside of \$98m or 15p/share, attributable to Aminex's Tanzanian exploration assets. Our total risked NAV of \$208m or 33p represents considerable upside over the shares now trading at 8.63p.

3 Company analysis

Company overview

Aminex is an oil and gas exploration and production company with development and production assets in the USA and exploration assets in Tanzania and Egypt. The company also has a long-term petroleum co-operation agreement with the North Korean Government and owns the oilfield services and supply company, AMOSSCO.

Strategy

The company's strategy is to maintain a diversified risk-reward profile by balancing steady production growth in the USA with high-risk/high-reward exploration activity in the under-explored region of East Africa. It aims to prove up commercial quantities of hydrocarbons by applying its in-house technical expertise and to reduce the risks associated with exploration by finding appropriate farm-in partners. Recent fund raising has put Aminex in a strong financial position. This, together with potential farm-in opportunities, provides the company with exposure to significant upside at the same time as reducing downside risk.

Operations

Currently all of Aminex's production is from its US assets and averages c400 boepd. The company plans to add to this by re-working its US assets as well as from the commercialisation of its Kiliwani North-1 gas discovery in Tanzania. Key exploration activity for Aminex is its drilling programme at the Ruvuma Basin in Tanzania, which starts this quarter, funded by the proceeds of its recent equity placings (\$17m, gross).

The company recently exchanged its 25% holding in the L17 and L18 Blocks in Kenya for an increased 10% interest in Nyuni, giving Aminex a 50% stake. This, together with the disposal of its Madagascar licence last year, now means Aminex is focusing on four geographical locations:

- USA
- Tanzania
- Egypt
- North Korea

USA

Aminex's oil and gas production is currently from four mature fields in the US:

- Alta Loma, Texas
- Shoats Creek, Louisiana
- South Weslaco, Texas
- Somerset, Texas

Over the last 15 years the company has participated in over 50 wells in the region.

Exhibit 2: USA licences in Texas and Louisiana



Source: Aminex

Alta Loma

The Sunny Ernst-2 gas discovery in 2008 is to date Aminex's most successful well drilled in the US. Four separate oil and gas bearing sands were encountered at the well: the Weiting Sand, the S Sand, the Upper Andrau Sand and the Massive Sand, all of which were logged as potential reservoirs, with the S Sand the most significant with 60 ft of gross gas pay. Initial production of 6 mmcf/d and 300 bopd is from the Upper Andrau Sand, but once production begins to decline, plans will be executed to perforate the S Sand to bring it on-stream for dual production.

Following the success at Sunny Ernst-2, Aminex is planning to re-enter its adjoining Sunny Ernst-1 well, which has been producing from its Upper Andrau Sand since 2001, with a workover to test the S Sand for its 18 ft of potential gas pay. All production from Alta Loma is sold to BP's Texas City Refinery. A further follow-up well, Sunny Ernst-3, is planned for 2010 and will be treated as a development well converting proved undeveloped reserves into the proved, developed, producing category.

Shoats Creek

Aminex has been operating the Shoat Creeks field since 1995 and is currently producing up to 40 bopd from two wells in the Frio and Cockfield formations. However, recent interpretation of new 3D seismic data has revealed considerable potential in the deep Wilcox formation. A farm-out partner is being sought to drill a deep and high cost exploration well to test the Wilcox, while shallower drilling in the Frio and Cockfield sands,

due to spud before the end of the year, should allow Aminex to exploit part of the 2P reserves in the field valued by OPC in their 2008 Reserves Report at \$95m, twice as large as all the other US assets combined.

South Weslaco

The mature South Weslaco field has been the focus of a continuous drilling campaign since 2005, with five successful wells drilled to date, the most recent being the SWGU-39 well in December 2008. Combined gross gas production at the field currently averages 3 mmcf/d.

Somerset

Production from the Somerset field is from several hundred shallow “stripper” wells and is currently around 100 bopd. This provides Aminex with reliable production cash flows, producing around 58% of total oil production in 2008. However, given the quality of oil produced (South Texas Sour Crude) it is sold at a discount of \$10-20 to WTI, and requires oil prices above \$50/bbl to be remain economic.

Exhibit 3 - Summary of reserves in the US

Asset	Interest	Category	Net oil & gas mmboe	NPV10 \$mln
Alta Loma, Texas	37.5%	1P	1.8	39.9
		2P	1.8	39.9
Shoats Creek, Louisiana	100%	1P	0.05	0.9
		2P	4.5	95.4
S. Weslaco, Texas	25%	1P	0.37	6.8
		2P	0.42	7.6
Somerset, Texas	100%	0	0	-1
Totals		1P	2.2	46.6
		2P	6.8	142.9

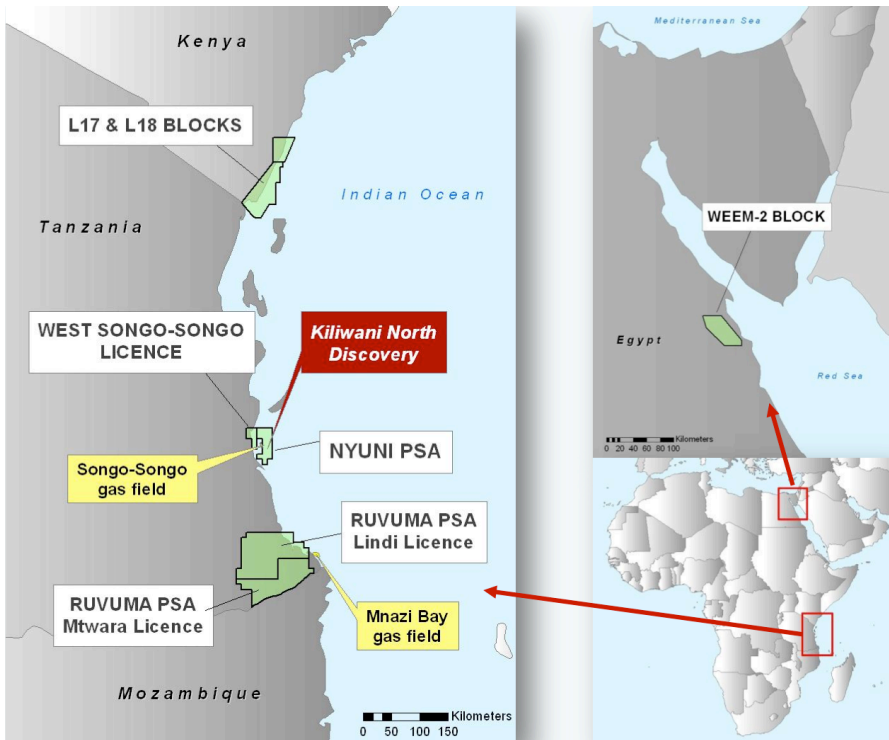
Source: OPC, Aminex

Tanzania

Aminex has built up a portfolio of high-impact exploration assets across three Production Sharing Agreements (PSAs) in Tanzania:

- Nyuni
- Ruvuma
- West Songo-Songo

Exhibit 4: African licences in Tanzania and Egypt



Source: Aminex

Nyuni

The Nyuni PSA adjoins the Songo-Songo gas field, the main source of gas for powering Tanzania's capital, Dar es Salaam. Following the successful drilling of the Kiliwani North-1 well in March 2008, Aminex has completed a seismic survey over the area and is in the process of defining the extent of its 40 mmcf/d natural gas discovery. Export of gas is likely to be via the Songas pipeline, the input terminal for which is close to the discovery well but the plant requires an upgrade in order to handle the gas.

Aminex's commitment to Nyuni was recently underscored by its decision to swap a 25% interest in two Kenyan blocks in exchange for a further 10% in the Nyuni, taking its total working interest to 50%. No estimates have yet been published for Kiliwani North reserves. Aminex is currently processing and interpreting existing seismic data over the remainder of the Nyuni licence, outside the Kiliwani North discovery, to assess further prospects for future exploration drilling.

Ruvuma

The Ruvuma PSA is operated by Aminex's 50% partner, Tullow, and is divided into two licence areas: Lindi and Mtwara. 80% of Ruvuma is onshore and 20% offshore. 2D seismic data has been acquired over the two licence areas and this has identified several key leads and prospects.

Initially, both partners agreed to drill the first prospect, Mikindani-1. However, following trial seismic reprocessing by Tullow during the year, another prospect, Linkode-1, has been chosen for first drilling since this is a stronger lead and has a higher potential for oil rather than gas production, with a likely spud date in late December 2009. Aminex will fund the drilling programme at Ruvuma using the proceeds from its recent share placings. In addition to this, the company is also seeking to farm-out a proportion of its interest to reduce risk and to conserve funds for any follow-up drilling.

West Songo-Songo

Awarded 50/50 to Aminex and Key Petroleum (operator) in May 2008, the West Songo-Songo PSA is a prospective asset in a favourable location close to both the producing Songo-Songo gas field and Aminex's own Kiliwani North-1 well at Nyuni. There is existing, modern seismic coverage in the PSA. Interpretation of existing data has identified four Neocomian structural leads, two of which are considered strong, and four Campanian leads. Key Petroleum's preliminary estimates of potential resources are 735 mmbbls of oil or 1.3 tcf of gas.

Other assets

Egypt

Aminex has a 10% free-carried interest through to commercial production in the West Esh El Mellaha-2 (WEEM-2) PSA in the Gulf of Suez. This means that the company incurs no financial costs until after production has started. The PSA was signed in 2006 and the third of three obligation wells is currently being drilled and is close to TD.

The first two wells, Malak-1 and Tanan-1, were drilled in early 2008, but did not encounter commercial hydrocarbons and were subsequently plugged and abandoned. A third well, South Malak-1, has been spudded and is expected to reach a total depth of 11,000 feet shortly, after exceeding an original target depth of 9,000 feet. The potential sandstone reservoirs in this well have yet to be reached. Due to the lack of success at the first two wells, licence renewal and participation in this field may depend on the final results of South Malak-1 well.

North Korea

As part of its strategy of combining low-risk production in the US with high-risk/high-reward exploration assets in new frontier areas, Aminex signed a Petroleum Agreement with the government of North Korea in 2004. This agreement gives Aminex the rights of first refusal on new exploration licences, in return for providing the Government with technical, commercial and legal support. Although this is currently a low cost project for Aminex, the broader political situation in North Korea has limited any real progress to date.

AMOSSCO

Aminex has an oilfield service company, (AMOSSCO - an acronym for Aminex Oilfield Service and Supply Company Ltd.) which supports its own E&P activities and also provides services to other companies in the sector. AMOSSCO provides cash flow to the group and a service which few smaller E&P companies have in-house.

News flow

Over the next 24 months Aminex is planning participation in 10 wells within its existing asset base. In the following table we set out the company's near term exploration programme, indicating where news flow may be forthcoming.

Exhibit 5 - Expected news flow

Asset	News flow	Timing
Ruvuma	Firm exploration well	Q4 2009
Ruvuma	Partial farm-out	2009/10
Ruvuma	Conditional exploration well	Q3 2010
W Songo-Songo	Drill 1 well	Q4 2010
Nyuni	Exploration well	Q1 2011
WEEM-2	Firm exploration well	Q4 2009
WEEM-2	Conditional exploration well	Q2 2010
Shoats Creek	Drilling/recompletions first Frio spud	Dec-09
Shoats Creek	Potential farm-out	2009/10
Alta Loma	Recomplete SE-2	2010
Alta Loma	Drill SE-3	2010

Source: Aminex

Key attractions

Key attractions of Aminex we see include:

- **Exploration upside**

Aminex has a substantial exploration asset base in Tanzania and Egypt (over 15,000 sq km), and an active work programme to realise the potential of these assets. We have included 15p risked upside in our valuation for Aminex's exploration assets in Tanzania. While we have nothing in our valuation for any success in Egypt a commercial discovery would clearly add value.

- **Strong financial position**

Having recently raised \$17m (gross) in a placing and open offer to existing shareholders the company now has cash to fund its future work programme. In addition to this, further funding opportunities are likely to exist as it looks to farm down stakes in its interests in Ruvuma and Shoats Creek.

- **Early positioning in Tanzania**

Having started exploring in Tanzania in 2002, Aminex was able to build up significant acreage in advance of high levels of industry interest which the region enjoys today. With its successful Kiliwani North-1 discovery and plans progressing to monetise gas into the Songo-Songo gas plant, Aminex will be one of the first independents to achieve commercial production in Tanzania.

- **Commodity upside**

With oil prices currently around \$79/bbl, while global economies are still emerging from financial crisis, there is the potential for oil prices to rise as key economies - particularly the US, India and China - recover and demand for oil overtakes supply. This, together with possible oil price shocks resulting from instability in the Middle East and Nigeria, gives us reason to believe that there is likely to be further upside in oil prices from today's levels. As Aminex enjoys production from its US assets it too will share in this potential upside.

Potential concerns

Potential risks or concerns identified include:

- **Exploration risk**

The majority of Aminex's exploration assets are based in the relatively under-explored East African Margin, and therefore attract the risks associated with frontier exploration.

- **Commodity price risk**

Although some E&P companies have started to hedge production against falling oil prices (albeit with loss of upside as a result) Aminex has not done this so far. Therefore, if oil prices were to dip like they did earlier in 2009, Aminex would be potentially exposed. However, as mentioned above, we believe the likelihood is for further upside in the oil price rather than a return to \$30/bbl levels.

- **Political risk**

Given that Aminex operates in the new frontier regions of Tanzania and Egypt there is a degree of associated political risk. However we note that compared with most African countries Tanzania enjoys political stability. Although the situation in North Korea has resulted in slow progress Aminex has very little exposure and we have nothing in our valuation for this.

Financials

Aminex's last set of results were for the 6 months to 30 June 2009, reporting a loss of \$1.15m. Losses are not unusual for explorers. Although oil and gas production in the US was significantly higher, it was offset by lower commodity prices, resulting in revenues from production down 15% to \$2.2m year-on-year. Oilfield services and supply also fell 14.6% to \$1.62m as a result of lower demand. This was offset by Aminex's cost cutting programme and the impact of a weaker pound (the company reports in US dollars), resulting in SG&A falling \$0.94m to \$1.87m.

Critical to companies in this sector is the availability of cash to fund exploration. Given that Aminex has successfully raised \$17m (gross) since the end of June, this has provided enough cash to mitigate any concerns over being able to fund its forthcoming drilling campaign in the Ruvuma Basin. With a significant net cash position, production cash flows contributing to central costs and the potential for further farm-outs, Aminex is in a strong position compared with many of its peers.

Looking forward, we see Aminex benefiting from full-year production at Alta Loma and South Weslaco along with rising forecasted oil and gas prices, resulting in narrowing losses. With the commercialisation of the Kiliwani North-1 well, along with potential farm out opportunities, we also expect Aminex's balance sheet to strengthen.

Valuation

We value Aminex using a risked net asset valuation (NAV), splitting it up into a core NAV (producing assets, AMOSSCO, net cash and NPV of overheads) and an upside NAV (exploration assets). On the basis of estimates prepared by independent consultants OPC on the company's US assets, we value Aminex's core NAV at \$110m or 17p/share. On the basis of the work done by consultants, ISIS, in Tanzania, we value the company's upside NAV at an additional \$98m or 15p/share. Our total risked NAV of \$208m or 33p/share is after making the following key assumptions:

- 10% discount rate
- Oil price assumptions per OPC of \$40/bbl average for 2009 rising to \$72 in 2015, and gas prices rising from \$6.45/mcf in 2009 to \$7.29/mcf in 2015 (per OPC)
- \$/£ exchange rate of 1.60
- Net 2P reserves per OPC risked 100% except for Shoats Creek, which attracts a 20% risk for attracting a farm-in partner on acceptable terms
- A value of \$6/bbl for resource estimates for Nyuni and Ruvuma

A summary is set out in the following table.

Exhibit 6 - Valuation summary

Asset	Net 2P mmboe	Unrisked \$m	Risk %	Risked \$m	Risked p/sh
Alta Loma	1.8	39.9	100%	39.9	6
Shoats Creek	4.5	95.4	80%	76.3	12
W Weslaco	0.4	7.6	100%	7.6	1
Somerset	0.0	-1.0	100%	-1.0	0
Oil Services		5.1	100%	5.1	1
Net cash		18.0	100%	18.0	3
G&A		-36.3	100%	-36.3	-5
Core	6.8	128.7		109.6	17
Nyuni		540.0	10%	54.0	8
Ruvuma		441.0	10%	44.1	7
Upside		981.0		98.1	15
Total		1,109.7		207.7	33

Source: Aminex, OPC, Isis, Omni Investment Research

Financial forecasts

Aminex

Year end 31 December	2006	2007	2008	2009e	2010e
USDm	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	5.019	9.304	10.177	7.300	12.250
Cost of Sales	-3.401	-7.363	-6.486	-4.723	-6.125
Gross Profit	1.618	1.941	3.691	2.577	6.125
SG&A	-3.974	-4.970	-4.455	-4.020	-4.620
DD&A	-0.431	-0.539	-0.837	-0.980	-1.324
Other	-0.228	-0.177	-0.139	-0.098	
Operating Income	-3.015	-3.745	-1.740	-2.521	0.181
Exceptionals	-0.011	-0.017	-0.013		
Other			-8.107		
Net Interest	0.164	0.493	0.198	0.094	0.126
Profit Before Tax	-2.862	-3.269	-9.662	-2.427	0.306
Tax					
Profit After Tax	-2.862	-3.269	-9.662	-2.427	0.306
Weighted average shares o/s	164.3	206.8	242.1	327.4	412.7
Basic EPS	-0.017	-0.016	-0.040	-0.007	0.001
Diluted EPS	-0.017	-0.016	-0.040	-0.007	0.001
Dividend per share					
BALANCE SHEET					
Fixed Assets	26.907	37.046	41.312	52.892	55.638
Gross PP&E	30.149	40.435	45.636	58.196	62.266
Accumulated Depreciation	-3.660	-4.202	-4.809	-5.789	-7.113
Other LT assets	0.418	0.813	0.485	0.485	0.485
Current Assets	5.180	23.952	8.392	10.260	7.960
Stocks		0.098	0.385	0.405	0.410
Debtors	1.532	5.212	3.910	4.107	4.520
Cash	3.648	18.642	4.097	5.748	3.030
Other Current Assets					
Current Liabilities	-1.353	-6.338	-5.351	-5.993	-5.941
Creditors	-0.662	-5.618	-4.774	-5.732	-5.810
Current Portion of Long Term Borrowings					
Other Short Term Liabilities	-0.691	-0.720	-0.577	-0.261	-0.131
Long Term Liabilities	-2.285	-1.544	-1.367	-1.420	-1.611
Long Term Borrowings					
Other Long Term Liabilities	-2.183	-1.398	-1.244	-1.420	-1.611
Net Assets	28.449	53.116	42.986	55.739	56.046
Equity	28.449	53.116	42.986	55.739	56.046
Net Debt/(cash)	-3.503	-18.401	-3.914	-5.487	-2.899
CASH FLOW					
Cash From Operations	-2.378	-2.119	-0.142	-0.969	1.352
Capex	-3.534	-10.131	-15.040	-12.560	-4.070
Acquisitions/disposals	0.045	0.288	0.152		
Financing	5.631	26.956	0.485	15.180	
Other/forex					
Dividends					
Other Cash Flow items					
Net Cash Flow	-0.236	14.994	-14.545	1.651	-2.718
Opening cash	3.884	3.648	18.642	4.097	5.748
HP finance leases initiated					
Other/forex					
Closing cash	3.648	18.642	4.097	5.748	3.030

Source: Aminex, Omni Investment Research

