

Adira's CEO: "I don't believe that there will be gas in 2013. Possibly in 2014"

Hezi Kugler, CEO of Canadian company Adira and former Director General of the Ministry of Infrastructure discusses the road that Canadian-Jewish investors have made since their acquisition of the land licenses in the Hula Valley in 2008 and the off-shore licenses of Gabriela (30%), Yitzhak (100%) and Shmuel (38%). "We emphasize the oil and want to supply only Israel" he says in an interview with TheMarker"



Hezi Kugler, CEO of Adira

Age: 53 **Marital Status:** Married + 3 **Education:** BA in Political Science from Bar-Ilan University. LLB in Law from Tel-Aviv University

Previous Positions: Director General of the Ministry of Infrastructures (2006-2009), senior partner in the law firm of Eitan Mehulal Pappo Kugler & Co. **Additional**

Positions: lecturer at Haifa University as part of the School of Natural Resources and Environmental Studies on Energy Policies in Israel **Other:** runs on the beach several times a week

In 2008, a group of Jewish investors from Canada arrived at the Ministry of Infrastructures to meet with then Director General of the Ministry Adv. Hezi Kugler. The Canadian were interested in exploring investment opportunities in gas and oil explorations in Israel and they ultimately filed an application for a license to search the Hula Valley, where they heard of possible gas finds at 1000-1200 meter deep below the earth's surface. This was before the discovery of the large gas fields off Israel's Mediterranean coast. The drilling of Tamar that was supposed to have begun was delayed.

Three years have passed and the Canadian company Adira, relocated company headquarters to the Ramat-Gan Stock Exchange, hired employees and hired Kugler to head the company. Now, Adira is planning an IPO on the TASE, possibly next month. "I don't remember the meeting" Kugler says in an interview with TheMarker to discuss the planned IPO. "I only remember what leaves a strong impression on me or anything that bothers me, but they say that I helped them."

Zionism Mixed with Business

Even for those following the developments in Israel's gas and oil explorations, Adira is not a well-known name. Adira is a Canadian company listed in the Toronto stock exchange, far from the lively trading of shares of similar companies in Tel-Aviv. This past year, Adira has slowly begun cooperating with local organizations and is becoming introduced to the Israeli public. The company, which has attracted Israeli investors, headed by Eli Barkat, one of the owners of DS Apex Holdings, became a partner in Modiin Energy, which is controlled by Tzahi Sultan and Nochi Dankner, and hired Kugler as CEO.

"Adira is a story of Zionism mixed with business", explains Kugler about the entry of Canadian investors in Israel's gas and oil explorations in 2008, when the sector was still in its infancy. "The company began with three affluent South African Jews, headed by Dennis Bennie, former head of the Jewish community in Canada and considered a guru in Canada's hi-tech sector" said Kugler. Bennie is the founder and active CEO of the Canadian venture capital fund XDL and he is the Chairman of the Board at Adira.

Kugler retired from his position at the Ministry of Infrastructure two years ago, and has been involved in the solar energy sector ever since. Kugler is known as one of the most centralized director generals in government ministries – as the person involved in the formulation of macro plans but also reproached pipeline contractors who took their time at work. During his term in the ministry, Kugler managed to approve incentives for independent solar electricity production as well as programs that promote renewable energy.

Yet, Kugler was unable to help implement reforms in the Electric Company. During his term at the Ministry of Infrastructures, negotiations regarding BG's gas reserves also failed, when even then problems began arising with gas flow from Egypt.

Kugler joined Adira in June 2011, two years after he ended his position with the ministry so it is difficult to make any accusations regarding the required cooling off period. As part of his new job at Adira, Kugler received 2.3 million options that could be exercised at 50 cents per share (the share is currently traded at 47 cents per share, after plunging by almost half its value last March). Kugler's name was recently mentioned as one of the candidates for Chairman of the Electric Authority to replace Amnon Shapira.

Looking in Shallow Waters

This past December, Adira managed to privately raise \$11 million. The company began being traded on the Canadian stock exchange (TSX) under the symbol ADL. Since its listing, company shares have experienced sharp fluctuations. At the end of seven months of trading, company shares have lost 12% of their value whereas the Canadian index rose slightly by 0.6% during that period.

The value at which Adira will try to go public in Tel-Aviv has still not been established but Adira is traded at a market value of \$50 million Canadian dollars (approximately NIS 180 million). The company, which raised a total of \$20 million, will need another \$60-70 million to finance its future operations.

The three Canadian founders – Bennie; Alan Friedman VP of Business Development who also serve as directors in small gold prospecting companies in Canada and South Africa; and Ilan Diamond, former CEO who after having completing his job is waging legal proceedings against the company – holds 17% of the company. In addition to them, the main shareholders in Adira are Barkat's BRM group (10%), which invested \$4 million in the company (BRM as previously mentioned, holds DS Apex, which serves as Adira's investment bank) and private investment fund Quantum Partners, which belongs to the George Soros Fund Management Hedge Funds, which invested \$6.5 million last February (10%).

Other recognizable shareholders in Adira include Jacob Luxenburg's Lapidoth Oil Prospectors Corps (0.5%); Halman-Aldubi Investment House, which also holds a prospectus partnership listed on the TASE Israeli Opportunities (2%) and a Canadian exploration company BrownStone (symbol BWN) which is listed in Canada at a market value of Canadian \$108 million (3.5%).

According to recent reports, Adira holds Gabriella (30%), Yitzhak (100%) and Shmuel (38%) licenses, which are located in the shallow Mediterranean waters, as well as the on-shore Eitan license in the Hula Valley (100%). In addition, Adira has the rights that enables it to become a partner in the offshore licenses Sarah and Myra, at 5%, currently held by drilling operator GGR, which holds 10% of both licenses, in consideration for partial financing of the cost of drilling that is scheduled to take place at the site.

Something very few people know is that BrownStone has the right to hold 15% of every license held by Adira, at its holding expense. Essentially, Adira holds 15% of

Gabriella and 85% of Yitzhak and Eitan. Kugler says that the Chairman of BrownStone serves as director at Adira."A person with status in the field of explorations and one of the leaders in oil, gas, diamond and gold investments in Canada".

Captions in map Adira Looks for Gas and Oil



Red box – Adira licenses

Eitan – 85%

Sarah – 5%

Myra 5%

Gulliver

Yitzhak – 85%

Gabriella 15%

Yam Thetis

Shmuel 35%

Shemen License

"Just like Saudi Arabia"

Adira obtained the Eitan license in the Hula Valley in April 2008. Kugler: "At that time, the rig finally arrived at Tamar. The drilling was successful and the rest is history. Everyone began applying for off-shore licenses. Adira also decided to look at what was available and began employing Israeli professionals such as geologist Moshe Politi"

Following the recommendation by Politi, Adira applied and received the Gabriella off-shore license located 20 km off the coast of Tel-Aviv and Rishon le Zion. The Gabriella license borders in the south by Shemen license, which is controlled by Chaim Lebovits, Jacki Ben Zaken and Avraam Nanikashvili.

In Gabriella, 70% of which Adira later sold to Sultan's and Dankner's Modiin, contained an abandoned off-shore oil well Yafo 1. In the past, Gabriella was known as Med Tel-Aviv license and Shemen – Med Ashdod license, where an abandoned off-shore well was also found. Both drew a great deal of attention in the 1990, with enthusiastic investors waiting on the hills waiting for a flame to leap out of the rig.

"Both wells come to the same geological formation (not the same repository, the same large geological formation) from the same period and soil layers – the Jurassic Era. The same geological formation stretches from Heletz in the south and Zohar in Arad" explains Kugler.

Med Ashdod was abandoned after it managed to produce 800 barrels a day and found to be not economically viable. Med Tel-Aviv managed to produce only 500 barrels a day and was abandoned for similar reasons.

You filed an application for the Gabriella license in July 2009. If you believe in the geological formation, why didn't you try to cope with Med Ashdod six months later? They managed to produce a larger amount of oil from the same layer.

"I don't know what the considerations were at that time. Prospects (goals that may contain gas or oils) are not simple. The strategy is to not focus on one specific site but to spread the risks. Adira found Yitzhak in the north, Gabriella in the center and Shmuel in the south – each of which has its own unique geological access.

"The offshore well Yaffo is located in shallow water, up to 100 meters. This changes the drilling strategy, and makes it far less expensive in comparison with deep water offshore drilling, such as in Tamar and Leviatan. Assuming that the formation has genuine prospects, the drilling program becomes the classic program and the rig will move and perform several consecutive drills."

You are returning to a well that already had a great deal of money invested in it but produced no economically viable results. What changed?

"That was at the beginning of the 1990s. There was a glut of oil in the world and the price of a barrel of oil was \$20. They generated 500 barrels of top quality sweet crude oil a day, just like in Saudi Arabia – but prices then were unviable. In addition, at that time, the intifada was raging."

"Drilling must begin by the end of 2012"

In April 2010, Adira obtained another offshore license, adjacent to Gabriella in the north – Yitzhak, which stretches from Netanya to Hadera. In the 1970s, drilling of Delta 1 took place, and signs of oil were detected but according to Kugler, the drilling only went down 4200 meters. The Jurassic layer begins at 4700 meters. Now, Adira will try to complete the job and drill deeper.

So you are primarily searching for oil. Is natural gas only a secondary goal?

"The emphasis is on oil. We believe that there is oil but we are also looking for gas. If what we believe, hope and think will happen – this could help Israel avoid importing oil for many years into the future. This is part of the Canadian mentality. They know how to work and are tied into these deals."

"We are emphasizing oil and do not wish to supply anywhere else but Israel. We are also close to the infrastructures so that we can do this easily. Israel consumes 10 million tons of oil a year and we believe that we can supply a significant percentage of its needs."

What are your work plans?

"With Gabriella and Yitzhak, we completed the three dimensional seismic surveys seven months ago. We decided to work in two parallel fronts. The data was sent to Gustavson (international consulting firm used by most offshore drilling in Israel), which will complete processing in October. At the same time, we are processing and interpreting the data here and this is not done in other Israeli companies. We characterize the data and argue over them."

We recently witnessed that the partnership in Sarah and Myra signed a contract with a drilling rig even before you obtained final seismic data. Have you also signed with the rig?

"I don't want to give out scores but I believe in orderly work. We are planning to carry out three drillings in Gabriella, Shmuel and Yitzhak although there might be more. We must begin drilling by the end of 2012 but what is most important to us is to do the work right. We are not in a crazy race of who will convince the Electric Company to buy from us some natural gas".

In his statements, Kugler hints at the declared intentions of the Sarah and Myra partnership to compete with Tamar, if gas is found in their licenses. Tamar is scheduled to begin supplying gas to Israeli in 2013. Sarah and Myra have already announced in the past that they too would try to meet the timetable to earn tax easements promised by the government to anyone who accomplishes this through glazed boats that will convert the natural gas into liquid.

Kugler, however, finds it difficult to believe that this will happen. "In order for gas to flow, the basic conditions must exist – a pipeline that connects the repository to the delivery systems. I don't see anyone laying a pipeline and working on this. In my opinion, gas will not be flowing in 2013. Maybe in 2014. Regarding the statements of the sophisticated boats, it is important to remember that they are suitable for extremely limited amounts of gas, BCM1-2 per year, and their prices are insane".

How many prospects exist in your licenses?

"In Shmuel, a three-dimensional survey is now being carried out and I believe that there is more than one prospect. In Gabriella, I believe that there will be one prospect, as is the case in Yitzhak. Everyone at depths of 5000-6000 meters below the surface. We believe that we have significant amounts of commercial oil and gas."

"We are exploring in shallow waters, not deep waters since Israel's offshore territorial borders in the water are far less difficult. I know what it means to create something from nothing in Israel. I know how it is to move things. Although drilling plans are complicated – they are far less complicated than deep water drilling."

“No one panicked”

You mentioned territorial waters and economics. What do you think about the dispute with Lebanon about these borders?

"Their claim is complete nonsense. Lebanon itself agreed to the border years ago. The issuing of licenses and the tremendous discovery at Leviatan forced Israel to anchor these borders and it did so legally. This was done when I was in the position and good for the minister who implemented this and signed an agreement with Cyprus last year over offshore borders. I am sure that they tell Lebanon where to go. I wouldn't hesitate to begin explorations in this reason for that."

What do you think about the Shashinsky Committee conclusions to increase the government's share of gas and oil revenue?

"I don't like the entire system but you can understand that politicians are behaving in a populist manner – it earns them votes. The claim was legitimate but I believe that it was illegitimate to change the rules.

"Well, at least partially, they went overboard with Tamar. Several organizations hitched a ride on this but ultimately it was balanced. We work with foreign banks and analysts. No one became panicked over this. In fact, we managed to raise money since then and are continuing to raise money."

Lior Zeno