

## **CORPORATE PARTICIPANTS**

**Mr. David Pierce**

**Mr. Richard Hardman**

## **CONFERENCE CALL PARTICIPANT**

**Doug Campbell**  
*Spirit Capital*

## **PRESENTATION**

### **Operator**

Good afternoon ladies and gentlemen and welcome to the FX Energy Inc. Conference Call. This call may include forward-looking information. Actual results could differ materially from what is said. The listener can obtain a readily available document, a list of factors that could cause actual results to differ. I would now like to turn the meeting over to Mr. David Pierce. Please go ahead Mr. Pierce.

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### **Mr. David Pierce**

Thank you. Thank you all for joining this call. We certainly appreciate your time and support. Today's news was exciting with the release of our 2008 budget and drilling plans but far and away the most exciting news is the completion of our Sroda 3D seismic and what we see in terms of upside for the company. We're going to want to look at maps when we talk about that upside and we have the good fortune today to have our senior technical advisor, Richard Hardman with us to walk through those maps. We all are looking forward to that because the Sroda 3D gives us a great deal more confidence that the upside potential we've been talking about for quite some time, really is there and that it's big.

Now I'll move briskly through the highlights of today's news release about budget and drilling plans so we can hear from Richard and we'll have time at the end for a few questions. There are two important points to highlight about the 2008 budget. First, the twenty-nine million base budget is nearly double what we spent in 2007. Later this year we have the opportunity for a further increase to nearly triple our 2007 budget. These are big numbers and this is real progress.

The second point is, we have the money to fund the base budget, cash plus cash flow plus a portion of our undrawn credit facility. It is really exciting to me that we have the resources to support a budget this large. And take note that one of the reasons we can fund a twenty-nine million dollar budget is that we have three wells producing in Poland and don't forget that we have three more waiting to be hooked up.

When we talk about spending money on production facilities this year, remember we're going to be very happy to see more producing wells come on line because they will help us fund even larger exploration budgets.

So let's go through them, there are three major items in the budget, production facilities, drilling and seismic. First, very briefly about production facilities. We expect to spend four million this year for design and construction of production facilities for Roszkow and Sroda-4. There will be some additional costs following the next year with respect to Sroda-4. We're really pleased to be moving forward with production facilities and we expect revenue from these two wells to make a very big contribution to our 2009 capex budget.

Now on a related note, you may remember we have a third commercial well waiting on production facility, that's Winna Gora. We expanded our 3D survey last year to cover Winna Gora because we think this might be an opportunity to drill a horizontal well to increase production rates. We expect to see interpreted results of that seismic survey this summer and then we can decide whether to go ahead and produce the well as a vertical producer or re-enter and drill a lateral section to increase the production rate. To sum up, we have three good wells to bring on line and we expect to see a substantial increase in revenues for 2009 that will allow us to carry out even more exploration work.

Let's talk about drilling. At fifteen million, we're delighted to report that drilling takes up more than half the budget. Now the first well on our list is Grundy-1. We start drilling that well in two days. Grundy is a classic exploration well designed to test a possible CA2/reef play in our fences concession. POGC's largest fields in the last two decades have been CA2/reef plays that produce both oil and gas. If we find either hydrocarbons in carbonate rock or even just carbonate rock with no hydrocarbons, in either case, we may have opened the door to a new, potentially large oil and gas play.

When drilling is finished on the Grundy well, we'll have logs and cores which should tell us quite a bit but if we need to

run a drill stem test for hydrocarbons, we'll need specialty tubulars. These are on back order until about September or October. So if we need the test, we'll have to return with a work over rig probably in the fourth quarter. So we'll keep shareholders informed of material events on this well. We just wanted to let you know.

Now let's turn to the Sroda wells. The other wells that are approved for drilling so far this year are on prospects interpreted from last year's seismic survey, the Sroda 3D. We have a total of nine possible structural traps in the Sroda 3D area. This includes the structures we drilled into with the Sroda-4 and Sroda-5 wells. We calculate the aggregate potential for gas in place in these possible traps add up to six hundred BCF to one point three TCF.

Following Richard's discussion, we'll discuss the methodology we used to calculate these numbers. If the drill bit proves this kind of potential, we will be drilling quite a few wells in the Sroda area. And keep in mind that the Sroda 3D covers only about ten percent of the fences concession. There's a lot more potential to come. Richard will talk about this potential in a minute.

So let me just address the drilling schedule. We, that is FX and our operating partner, have so far approved drilling three new Sroda wells in 2008. Now this is in addition to the Grundy well. We had hoped to have two rigs ready to go in December but the seismic interpretation ran longer than anticipated. We elected to give our technical people the extra time to do the best possible job but now we're ready to go on the first three drill sites. We're securing permits and drilling contract tenders right now for all three wells.

We expect to move our first Sroda area rig onto the Kromolice North location in about sixty days and begin drilling. We have, with some reluctance, agreed with the operator's request to hold the second Sroda area rig until we have penetrated the lower Zechstein on Kromolice North. That'll take about two months of drilling time. However, this will give us an empirical test of our seismic interpretation. If there's a mismatch, we can use the new drilling data to remap and if necessary, relocate the next wells. On the other hand, if the drilling data matches prognosis, we will have reduced one more element of risk. At that point, we'll send the second Sroda area rig to its location on the Sroda City prospect.

Now we share everyone's wish to move as fast as possible, but we also need to remember, these are multi million dollar wells. We don't want to waste even one. We expect to spud four wells this year, the Grundy well this

week, Kromolice North in about sixty days using a second rig, then the Sroda City well with a third rig. Thereafter, the two rigs in the Sroda area can leapfrog each other, so long as we have drill sites lined up. And that's going to be our focus in the coming months, to build a growing inventory of prospective drill sites in the Sroda area and expanding to the southeast.

And that leads us to the third element of our 2008 budget, ten million dollars for new seismic. We have a seismic crew up in our hundred percent owned northwest block shooting 2D seismic over specific leads even as I speak. This is the first new seismic in more than twenty years on that one point two million acre block. We see big potential up there and we hope the new seismic supports our view. We should have results to discuss around mid year. We are also shooting 2D seismic over a specific lead, Taczanow, that lies on the trend of our two biggest discoveries to date. These two discoveries, the Zaniemysl field and the Roszkow field, together have fifty-three BCF in gross proved reserves from just two wells. We'd sure like to come up with another drill site with that kind of performance.

But the Sroda area and its expansion will receive most of the funding. We're continuing to enhance the Sroda 3D survey itself. Right now we're performing 3D pre-stack time migration to help us firm up the leads of Sroda City West and Sroda City East as possible drill sites. And right now we're also processing the first expansion survey area that covers the Winna Gora discovery. Later this year we'll send a crew out to continue that expansion with the first portion of the Lubinia seismic survey. We plan to acquire seismic over the first one third to one half of the Lubinia grid this year. You can see these areas on one of the two maps on your computer for those of you who are on line.

We want to build an inventory of exploratory drill sites to stay ahead of the drilling rigs and keep them busy, perhaps even add rigs if we can outpace the two-rig drilling rate. We believe this trend starting from the Sroda area and moving to the southeast is our best opportunity to build momentum and so far, things look very good.

And that brings me back to the Sroda 3D. A few minutes ago, I said we have interpreted nine possible structural traps on the Sroda 3D. Three of these, let's call them collectively the "Plawce leads."

Now if you'll look at the Sroda 3D map up in the upper right hand corner, you can see the word Plawce, it's got an L on it. But they lie up in the northern portion of the Sroda area.

These are interesting because they appear to be part of something that's quite large.

The Plawce structure itself was drilled several decades ago. The Plawce-1 well had a one hundred seven meter gas column. Now this is intriguing because the structure itself is only about sixty to seventy meters in height. The implication is that the big tectonic block it sits on is itself trapping gas and this possibility is our ninth possible structural trap. Now none of this mattered two or three decades ago because even though the well had good porosity, the permeability was so low, it would not produce conventionally.

Also, several decades ago, four other wells, the Siekierki wells, were drilled by POGC north of Plawce. Now they too had long gas columns, okay porosity but inadequate permeability for conventional production. Last year the leaseholder north of us drilled and fractured the Trzek-1 well which is located up in amongst the Siekierki wells and they reported testing at rates up to seven and a half million cubic feet of gas per day.

Now all of this is much more relevant today in light of Mobil's experience with the Soehlingen field onshore northwest Germany. This is a deep, fifty-seven hundred meters, ultra tight rotliegend gas reservoir with extremely low permeability. So they go from .01 mD to .02 mD. In the mid 1990's the operator tackled this reservoir with horizontal drilling up to a thousand meters and four to five separate hydraulic fractures. The first of these wells, the Soehlingen Z10 had a three year plateau rate of sixteen million cubic feet a day and produced a cumulative twenty-one BCF in five years.

In the Plawce area we're quite a bit shallower, about four thousand meters and we anticipate much better permeability say from point one mD up to maybe single digit mD, about one to two orders of magnitude better. Our technical group currently is collecting and analyzing log, core and drilling data from the Polish wells and working with Halliburton to come up with the best drilling and completion techniques to tackle this very large opportunity.

Later this year we also plan to send a seismic crew back to this area and in fact we'll go north of our boundaries so we can get full fold 3D coverage all the way up to our border. We have to wait for our neighbors to the north to finish shooting their 3D in order to avoid sonic interference. But we do expect to have the new data integrated and interpreted around the end of this year so we can begin working the Plawce area in 2009. We think this could be a very important area to us in 2009. And with that I'm going

to invite Richard Hardman to continue the discussion and talk about the potential that we've interpreted on the Sroda area 3D seismic. Richard.

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### **Richard Hardman**

Thank you David. Well I'm going to underline most of what David said. I've been with FX Energy just about four years and I think this is the most exciting time in the history of this company, I really do. I think that we're made for the future. Now I'm going to give you some reasons for that. First of all as you know from previous presentations, we've got some of the best rock quality. The Roszkow and the Zaniemysl wells are some of the best producers in Poland and they're equal to the very best in the North Sea. Secondly, we've shot this large 3D survey in the Sroda area. It's two hundred and sixty-four square kilometers source area, hundred and thirty-six square kilometers full fold and that gives us about ten percent of the fences concession with 3D. And we're delighted with what we've seen. Not only are the trends which we already knew about the Sroda and the Sroda City trends proved but we have this added bonus to the north.

So let's just talk a little bit about the proved trend. The Komolice looks to me very solid and I'll be absolutely amazed if we don't find gas there. I always try and give some sort of risk, I would say that's a forty percent chance. And then we move north to the Sroda City trend where the structure is even bigger, potential is bigger but the risk is higher and here the risk is probably nothing more than rock quality. As we go north, the rock quality, as we know go towards Plawce, the rock quality gets worse. But we've been telling about that.

We're doing pre-stack time migration as David mentioned. That pre-stack time migration should help us to identify areas of better rock quality and I think that's the key. Now the other point that I'd like to make is that the structure that we've got at Plawce, a very, very big structure with potential up to eight hundred billion cubic feet in our portion of the field alone, if it had been in the North Sea, we'd be in production now, there's no doubt. I think that we have not been thinking in North Sea terms. I'd like to draw your attention to the West Sole field that BP first discovered. It has very low permeability and reserves which have proved because it's nearly all gone now, the gas, of one and a half trillion cubic feet.

So I am absolutely ecstatic about this. I think this is the most important thing that's happened that we have, that

our neighbours to the north Aurelian have shown even with a small frac, you can get very very good flow rates. So that is really something that we're excited about and as David mentioned, we're going to do something about it this year. Though in net upshot, I would be absolutely amazed if our net recoverable gas in this area does not exceed three hundred billion cubic feet and that's a number that I'm putting as my base. And the upside of course is considerably more as you can see on the map.

So what else is there. Well David's mentioned Grundy and that particular trend. We're not holding our breath on that. That's risky, we know that. But the other area which we have serious consideration is the northwest concession and the Szczecin Basin where we're shooting a couple of hundred kilometers to define prospects. I think this is of enormous potential. It's quite a long way behind the Sroda area but what it should show you as shareholders, that not only do we have a very good present, but we've got an excellent future. And I think at that point I'd be prepared to hand back to David or answer questions.

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#### **Mr. David Pierce**

Richard, thank you. Please stay around, let's do questions but just give me a moment. I said earlier that I wanted to take a minute to describe the process we use to calculate how much gas we think might be in these Sroda structures. Just for the non industry shareholder out there, we start out with 3D seismic and that gives us a picture of the sub surface measured in time. We then convert that to a depth picture and that's a bit of an art. With that done, we then develop the contour map like you see it here, applying a bit more art to try and see faults and contour closures that might be traps.

Now with that done, the engineers then use a planimeter to measure the area, height and volume of these possible structures. That gives us gross rock volumes. We then use porosity figures from the nearby wells to calculate the pore space in the rock and this volume is going to be filled either with water or gas or both. We use water saturation figures from the nearby wells to arrive at the final figure for gas in place. That's the mechanics of how it's done.

Now most of these steps are pretty straightforward mathematical steps but there is a fair amount of art in the time to depth conversion and some additional art in interpreting faults and trying to close contours that may or may not in fact close. We don't actually know if there's gas in these things until we drill them and finally we don't

know until drilling the precise characteristics of the reservoir.

Reservoir characteristics do have quite an impact on how much gas can be recovered. In our best wells, we expect to recover about eighty percent of the gas initially in place.

Proved reserve figures in such reservoirs typically assume a sixty percent recovery and the independent engineers typically will hold you at sixty percent right up until you produce seventy. The Soehlingen field in Germany that we talked about earlier with the ultra tight reservoir, that's reported to have recoveries of only fifty percent, but of course it's got much lower permeability than we've seen anywhere in the Sroda area. So I hope that helps put some context around these gas in place numbers.

Now I'd like to wrap up before we take questions by saying we feel gratified to see that the potential as indicated on the Sroda 3D actually exceeds our expectations. I also need to remind you that we're looking at only about ten percent of the fences acreage so far. We feel greater confidence today in talking about our upside potential, even when we're only talking about the fences concession. We're beginning our drilling program, not just single wells in the Sroda area. Once we have a well in each of these structures, we need to focus on how best to develop the reserves. Our earlier discussion about working with Halliburton on the Plawce prospect has relevance here.

We'll be forming our ideas this year about how best to develop all the fields that we may find in the Sroda area. We hope that our capex budget for 2009 contains a separate section captioned development drilling and that it's the largest part of the budget. In fact, next year, I'd like to see a development drilling program running right alongside our exploratory drilling program, and outside the fences area, I'd like to see another drilling program with partners on what are now our hundred percent blocks.

Now the fences concession and Sroda in particular are very much the focus for us today but I have to say that we're excited about our three other exploration areas, the northwest block, Kutno and Warsaw South.

We are soliciting interest from industry today, even as we carry on technical discussions with companies that already are interested. But we'll continue the early stage exploration work in the northwest and we may expand the budget later this year to include seismic in Warsaw south. These are not academic exercises but efforts to increase the value of this land and accelerate the drilling that a partner could participate in. We think this exploration

acreage gives us a real second stage of upside. We're pleased to be moving forward with it and we're pleased with the industry response so far. So I thank you for being on this call. I'll open to questions and please let us know if you prefer Richard or me to answer.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

If you have a question, please press star one on your telephone keypad. If you're using a speakerphone, please lift the handset and then press star one. If at any moment you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register for questions. Thank you for your patience. Once again, please press star one on your telephone keypad if you have a question. The first question is from Doug Campbell of Spirit Capital. Please go ahead.

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### **Doug Campbell, Spirit Capital**

Thank you. Would you go back and elaborate slightly on your comments on Halliburton. I was scribbling some notes on something that was said earlier and I didn't get all of that.

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### **Mr. David Pierce**

Well just, they're an industry service provider. In particular they have performed quite a lot of work in tight reservoirs in Germany. And so they are one of the companies that has the expertise that we'll be looking to as we talk about how to develop the Plawce area. They also will help us when we talk about development drilling on Winna Gora for example or other of the fields that we're currently drilling first wells into.

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### **Doug Campbell, Spirit Capital**

And then second, who was the exploration company to the north of Plawce where the porosity has proven to be so much better, in other words, a better comparison on the

part of some other driller I think from maybe horizontal drilling?

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### **Mr. David Pierce**

Oh well the porosity is not better to the north of us. It is probably better as you move south because you're going up dip. So you might want to go back and sort of review the transcript. But the operator to the north of us in the fences area is a company called Aurelian Oil and Gas. They're on the AIM, they're out of London.

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### **Doug Campbell, Spirit Capital**

Thank you.

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### **Operator**

Thank you. Once again, please press star one on your telephone keypad if you have a question. There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Pierce.

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### **Mr. David Pierce**

Thank you very much, we appreciate your attendance. Richard, thank you and good bye.

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### **Richard Hardman**

Good bye.

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