



Indago Energy Limited

31st January 2017

December 2016 Quarterly Activity and Cashflow Report

Summary

- Indago signs agreements for the acquisition of Hydrocarbon Dynamics
- Terms of acquisition changed to reflect new circumstances
- Cash position at December 31st of A\$3.65m (after \$~A525,000 provided to HCD)
- Indago identifies projects on which to trial HCD technology
- Operator at Newkirk considers well test to assess project

HCD Acquisition

Indago ('INK' or 'the Company') has today signed a Share Purchase Agreement to acquire the Hong Kong based HCDI Holdings Ltd, its related companies and associated Intellectual Property (collectively "the Companies"). Details of the Companies are contained at www.hydrocarbodynamics.com. Together the Companies own an exceptional new oil technology and business that allows for the swift, clean and cost effective treatment of heavy, asphaltenic and paraffinic oils.

The technology can be applied to improve oil flow rates by the re-liquification of oil deposition from oil wells and pipelines and can also be used to recover oil from storage facilities. The product has proved its effectiveness in large-scale commercial oil wells and pipelines in Malaysia and India.

The key product, HCD Multiflow™ comprises small, specially engineered carbon-based organic molecules that can disaggregate the large, naturally occurring agglomerations of waxes and asphaltenes in heavy or paraffinic oil. Once disaggregated, these agglomerations are reabsorbed into the crude oil, reducing its pour point, viscosity and increasing API gravity thus providing outstanding flow assurance and transfer system efficiency. The HCD Multiflow™ molecule can also separate water and sediment from the crude oil and the product will have far-reaching applications in the productibility and transport of heavy/paraffinic crudes, as already evidenced by the product's use in a large offshore oil field and with many successful trials to its credit.

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The Transaction Details

There are a range of conditions precedent and subsequent to completion of the proposed transaction including respective shareholder approvals of both Indago and HCD and regulatory approvals. These conditions also include various completion related documentation and processes. Indago will now prepare detailed information on the HCD acquisitions that will be sent to shareholders for their consideration expected to be distributed in Feb 2017 with a meeting expected to be held in March 2017. Indago cautions that there remains a risk that the transaction will not be completed.

In a staged transaction and subject to the various conditions, Indago will initially pay ~A\$1m in cash or assumed liabilities plus 50 million fully paid shares and 33.2 million options (exercisable at \$0.25c for two years). Of the 50 million shares, 20 million will be withheld pending either the re-instatement of drum sales to Malaysia or a new contract is entered into for drum sales of roughly the same amount (note this is a change from the MOU terms where the full 50 million shares were to be issued on completion). Subject to certain EBITDA hurdles being met, Indago may issue up to a further 30 million shares in April/May 2018 and 50 million shares in April/May 2019. To secure ownership of the Intellectual Property Indago will also pay a royalty of 5% of net sales to inventor Nick Castellano until those payments total US\$20m. The royalty is also subject to a US\$20,000/month minimum (once the Malaysian contract has been replaced). Further details will, once finalised, be disclosed in more detail in the Notice of Meeting to shareholders.

The staged payment of the 50 million shares has been introduced due to the fact that sales arrangements to Malaysia have ceased since the MOU was signed and there is no certainty that they will resume in 2017. Indago and HCD have therefore agreed to withhold 20 million shares pending the re-instatement of these sales arrangements or replacement sales of a similar quantum within 3 months of the completion of the acquisition.

As foreshadowed in the initial announcement, Indago has financed approximately US\$400,000 worth of product inventory for HCD to sell to potential customers to enable the Companies to deliver product orders. Indago shareholders will however receive the sale proceeds from this product whether or not the merger completes.

Two representatives (the MOU envisaged three) from HCD will initially, subject to shareholder approval, join the INK board and will include the founder and inventor of the technology, Nick Castellano, along with HCD's Managing Director Allan Ritchie. Both will fulfil Executive Director roles.

The technology is proven, however is at an early stage of application in the industry with revenues of around A\$1.2m in 2016 where HCD Multiflow™ was being used by Malaysia's national oil company,

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Petronas, successfully for 4 years on a major offshore platform and pipeline system. These sales have not resumed in 2017 while an alternate product is tested in an attempt to reduce costs. It should also be noted that sufficient stocks of Multiflow are on hand in Malaysia to resume sales quickly if required.

Early encouraging and reproducible results have been reported in trials at a major oilfield in India where Multiflow has been applied. Test work is also scheduled for Brazil later in the year as well as new projects identified by Indago in North America.

Indago will use its technical, financial and commercial resources to expand the technology rapidly and will also look to acquire existing oil accumulations where the technology will be used to increase or commence oil production. Many of the world's oil provinces produce waxy or heavy crudes and experience associated production and transport problems and will represent early targets for the growth in both oil production and technology sales.

Newkirk Project, Kay County Oklahoma (100% WI 81.25%NRI)

During the Quarter there were no new developments at the Company's Newkirk project where Indago holds a 100% WI and 81.25% NRI in 4,049 acres located in Kay County, Oklahoma near Ponca City. The leases were largely acquired during 2015 with a three year primary term and two year bonus term. The project is located within the Mississippi Lime tight oil play, a relatively mature play in which hundreds of wells have been drilled in the past decade.

The Operator at Newkirk, Empire Energy Limited (ASX:EEG) suggested in a corporate presentation that they are considering a 2 well appraisal programme at Newkirk in the March Quarter, though no formal proposal has been presented to Indago. In EEG's presentation, they suggest well costs are expected to be US\$375,000 to drill and complete. Indago had earlier estimated well costs at US\$500,000 and net recoverable reserves/well expected to average ~30 Mstb oil and 200 MMscf gas.

As reported previously, the main target Mississippian Lime (MSSP) is a carbonate formation which underlies a large portion of northern Oklahoma and southern Kansas. The play lies at shallow depth of 1200-2200m (4000-7000') and is about 100m (300') thick. Oil & gas is sourced from the underlying, highly prolific Woodford shale.

Reservoirs comprise the upper 'Chat' and lower 'Solid' members. The Chat is 12-15m (40-50') thick and is typically high porosity with variable permeability. The underlying Solid displays low porosity with local higher porosity 'sweet spots'.

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Both MSSP reservoirs have been the focus of drilling and fracture simulated completions employing vertical wells since the 1940's and horizontals since 2007. Initial flow rates for vertical wells average ~45 stb/d oil and ~80 Mscf/d gas. For horizontals, initial flow rates are highly variable dependant on how many 'sweet spots' are encountered. Wells produce significant salt water with low oil cuts, typically 10:1. Consequently, salt water disposal/injection (SWD) is an important consideration at the Newkirk Project.

As reported last quarter, the prospectivity review concluded that Indago's leases are prospective for oil and gas but given the paucity of modern wells in the immediate vicinity of Newkirk, the project should be appraised with 2-4 wells prior to development. Should the appraisal programme confirm typical play production and recovery characteristics, the project would present an attractive development when US domestic oil prices approach US\$60/bbl.

Indago is currently awaiting a proposed work programme from the Operator. Initial joint venture discussions revolved around a two well work programme to test the key characteristics of the play. It should be noted that some of Indago's leases begin to expire in 2017.

Oil and gas leases held by Indago are contiguous with an additional 4,936 acres held by EEG. Under a Joint Operating Agreement, the two companies have agreed to the further development of the combined acreage (8,985 acres) on a 50/50 basis.

Financial

At December 31st, Indago Energy had cash resources of \$3.65 million after providing HCD with ~A\$525,000 (US\$400,000) for the production of its main product, Multiflow, as described above. For clarity, should the acquisition not proceed the US\$400,00 will be paid back from product sales.

Corporate

The Company continued to review upstream oil projects that would complement the HCD technology. Samples from three projects in North America have undergone preliminary testing with two showing encouraging early results.

Oil and Gas Tenements



Indago Energy Limited

Project	Location	Interest acquired or disposed of during the quarter net to Indago	Total acres owned net to Indago	Working Interest held as at 30 June 2016
Newkirk	Kay and Noble Counties, Oklahoma	0	4,049 acres	100% in Acreage, 50% in JV

For further information please contact:

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ASX Code: INK

Glossary



Indago Energy Limited

\$	Australian Dollars
US\$	United States Dollars
Bbls/day	Barrels (of oil) per day
MBO	Thousand barrels of oil
MMBO	Millions barrels of oil
MBOE	Thousand barrels of oil equivalent
MMBOE	Millions barrels of oil equivalent
BOE	Barrels of oil equivalent
BOE/day	Barrels of oil equivalent per day
EUR	Estimated Ultimate Recovery
Mcf	Thousand cubic feet (of natural gas)
Mcfd	Thousand cubic feet (of natural gas) per day
MMcf	Million cubic feet of natural gas
NRI	Net revenue interest
WI	Working interest
TVD	Total vertical depth
TMD	Total measured depth
MD	Measured depth
3.28 feet	Equals 1 metre

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Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Indago Energy Limited

ABN

75 117 387 354

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
144 Receipts from customers	-	144
1.2 Payments for		
(a) exploration & evaluation	(25)	(133)
(b) development	-	-
(c) production	-	(36)
(d) staff costs	(51)	(717)
(e) administration and corporate costs	(183)	(1,196)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	21	45
1.5 Interest and other costs of finance paid	(1)	(3)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other - bond refund	3	39
Other - redundancy for former management and associated legal costs	(39)	(221)
1.9 Net cash from / (used in) operating activities	(275)	(2,078)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(c) investments	(525)	(525)
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	31
(b) tenements (see item 10)	-	3,060
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(525)	2,566

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	57
3.6 Repayment of borrowings	(16)	144
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(16)	201

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,425	2,849
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(275)	(2,078)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(525)	2,566
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(16)	201

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	44	115
4.6	Cash and cash equivalents at end of period	3,653	3,653

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,653	4,425
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,653	4,425

6. Payments to directors of the entity and their associates

- | | Current quarter
\$A'000 |
|-----|------------------------------------|
| 6.1 | 107 |
| 6.2 | - |
| 6.3 | |

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7. Payments to related entities of the entity and their associates

- | | Current quarter
\$A'000 |
|-----|------------------------------------|
| 7.1 | - |
| 7.2 | - |
| 7.3 | |

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	25
9.2 Development	-
9.3 Production	-
9.4 Staff costs	50
9.5 Administration and corporate costs	222
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	297

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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Company secretary

Date: 31 January 2017

Print name: Julie Edwards

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.