

Due Diligence and Valuation Report

Company : American Patriot Oil & Gas Limited



Arrowhead code : 06-10-01
 Coverage initiated : 18 05 2018
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 Fair share value bracket : AUD 0.035 - 0.043

Ticker : ASX:AOW
 Headquarters : Victoria, Australia
 Managing Director : Alexis Clark
 Website : www.ap-oil.com
 Fiscal Year : July 1 - June 30

Market Dataⁱ

Share price on date : AUD 0.028
 52-week range : AUD 0.01 – 0.04
 Average daily volume : 165,578ⁱⁱ
 Market cap. on date : AUD 7.468M

Analyst Team

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American Patriot's stock price has fallen significantly over the last two years. The stock price decreased from AUD 0.170 on May 18th, 2016 to AUD 0.028 on May 18th, 2018. The stock has been volatile and under pressure, ever since the Company filed for an IPO in 2014 at a price of AUD 0.20 per share and raised approximately AUD 8 million.

The Company's long-standing strategy to enter underexplored acreage cheaply, de-risking it through farm out agreements and selling it at a significantly higher price has not paid off. Consequently, the Company has now changed its strategy to focus more on acquiring low cost producing assets. We believe that American Patriot's recent acquisitions will help the Company become more consistent with its cash flow generation, which will ease the capital raising pressure for future acquisitions.

AOW has aggressive acquisition led growth plans for next several years. However, it is expected to face headwinds, as rising oil prices will make it difficult for the Company to source deals at attractive valuations. The Company's management has on-ground presence and deep industry relationships to source off-market proprietary deals. AOW's overdependence on few key personnel poses a significant risk for the Company.

Arrowhead is initiating its coverage on American Patriot Oil & Gas with a fair value bracket of AUD 0.035 – AUD 0.043 based on Discounted Cash Flow Valuation, Asset Based Valuation and Company Comparable Valuation.

Consistent cash flows expected as the Company starts operating the acquired assets

American Patriot has recently acquired multiple conventional producing assets with a combined 1P proven reserves of 1,902 mboe and production capacity of 150 boepd in the Texas and Gulf Coast region. The Company is also in advanced stages of discussions to acquire additional assets with production capacity of 410 boepd in the Texas region. The Company will operate these acquired assets and expects to generate consistent cash flows going forward. This is very different from the long-existing strategy where the Company had been exposed to project execution risks due to its dependence on efficiency and capabilities of JV partners to drill / operate wells.

Lack of operating experience may pose challenges

Becoming an operator is a step in the right direction, but the Company lacks operating experience and is yet to prove its credentials as an efficient operator. This is a significant risk, and

next few months are expected to set the pace for future course of the business.

Inconsistent financial performance

American Patriot has not been able to produce consistent financial results since its inception. The Company's initial strategy to lease acreage cheaply, prove it as a resource project and sell the area at a premium to the acquisition price did not yield desired results. The Company is yet to earn profits at an overall level, however, one of its assets (Anasazi) did produce a net income of AUD 69,000 during quarter ending March 2018.

Slow speed of closing deals and likely to miss production targets

The Company is behind schedule in closing some of the deals that it announced in November 2017

and is less likely to achieve its target production of 2,000 boepd by end of 2018.

Rising oil prices to make it difficult to source attractive deals

Although, rising oil prices may sound as good news for the sector, it will make it difficult for the Company to continuously acquire assets at attractive prices, as sellers will ask for a higher price due to increased demand.

High key personnel risk

American Patriot has a competent management team with decades of experience in oil & gas industry. However, the Company is overly dependent on very few key personnel to source and close deals. Also, the Company is yet to build a reliable operating team.

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Company Presentation

American Patriot Oil and Gas Limited ("American Patriot" or "the Company") is an oil and natural gas exploration & production (E&P) company with operations in the mid-continent of United States of America. The Company is headquartered in Victoria, Australia and has an office in U.S. at Denver, Colorado.

Incorporated in 2011 and raised AUD 8 million in 2014

American Patriot was incorporated as American Patriot Oil and Gas Pty. Ltd. in Australia in 2011. In June 2014, the Company raised AUD 8.181 million through an IPO by issuing 40,905,000 shares at the rate of AUD 0.20 per share. American Patriot listed on ASX at a market capitalization of AUD 28 million based on the issue price. The Company began trading on the Australian Securities Exchange (ASX: AOW) in July 2014.

History of legacy assets

- Till very recently, American Patriot's strategy was to discover and develop oil and gas opportunities with relatively low entry costs and significant acreage positions. The Company's business model was to target early entry into attractive oil field deals and establish joint ventures to fund exploration across its portfolio. The idea was to lease acreage cheaply, prove it as a resource project and then sell the area at a premium to the acquisition price.
- American Patriot made its first acquisitions in 2012 by acquiring acreage in the Rocky Mountain basin in the states of Colorado, Montana, Utah and Wyoming. It acquired 6 projects in total – Northern Star, Rough House, Overthrust, Southern Sun, Panther and Livengood. The total investment for these acquisitions amounted to approximately AUD 2 million.
- Subsequently, American Patriot brought in operators as partners for various projects. The Company sold 70% of its interest in the Northern Star project for USD 3.028 million in a farm-out agreement with Great Western Oil & Gas, LLC. In the Rough House project, American Patriot formed a JV with Running Foxes Petroleum Inc. (RFP).
- American Patriot was not able to make these projects fully operational due to various reasons including non-availability of operators in some cases and dispute with JV partners in others.
- American Patriot successfully did some production from these assets, which resulted in production revenues of AUD 74,715, AUD 47,031 and AUD 50,001 in FY 2015, 2016 and 2017 respectively.
- These assets have been partly impaired since, and the Company is looking to sell these to extract any residual value left in them.

Legacy assets summary:

Project	Location	Gross Acres Held at 31 December 2017	Working Interest %*	Current Status
Northern Star**	Montana	58,032	16-30%	Asset partially impaired
Rough House	Colorado	20,807	100%	Asset partially impaired
Panther	Montana	6,840	100%	Asset fully impaired
Overthrust	Wyoming	2,598	100%	Asset fully impaired
Southern Sun	Utah	1,078	100%	Asset fully impaired

*As at 31 December 2017;

** JV partner - Anadarko Minerals

New strategy of investing in conventional producing assets in Texas & the Gulf Coast regions and becoming a full-fledged operator

American Patriot realized that its strategy over the past few years has not resulted in desired results and recently pivoted its business model to bring more focus to its strategy. The three key parts to the new strategy are:

- **Acquire only conventional producing assets**: American Patriot is now focused on acquiring only conventional producing assets that have low operating costs and have potential for significant production upside.
- **Geographical Focus**: The Company is looking for such assets only in Texas and the Gulf Coast regions.
- **Hands on Approach**: American Patriot is now planning to operate assets on its own, deviating from its initial strategy of farming out assets to other operators. The Company has posted a bond with Texas Railroad Commission and is in process of becoming a licensed operator in next two months.

The shift in focus to only producing assets is expected to bring down the business risk significantly and sets a clear path for the Company to increase its reserve base and to achieve long-term profitable production.

Recent Acquisitions

- In August 2017, American Patriot acquired interests in Anasazi assets for USD 0.55 million. These assets have a production capacity of 70 boepd and 1P proven reserves of 62 mbbbl and 285 mmcf. In September 2017, American Patriot acquired next set of assets in Lost Lake, Goose Creek oilfields with production capacity of 50 bopd and 1P reserves of 300 mboe for USD 0.43 million.
- In November 2017, American Patriot signed a Letter of Intent (LOI) to acquire additional assets in South Texas for USD 1.2 million, having production capacity of 102 boepd and 1P reserves of 430 mboe.
- In February 2018, the Company signed a Purchase and Sale Agreement (PSA) to acquire Peak Energy assets in East Texas for USD 2.5 million. These assets have an initial production capacity of 110 boepd and 1P reserves of 894 mboe.

Texas assets summary:

Project	Location	Reserves (1P mboe)*	Working Interest %*	Net Revenue Interest %*	Acquisition Status	Current Production (boepd)	Production Capacity (boepd)	Operator
Anasazi, Safari, CWS	South Texas	758	51-100%	49-87%	Anasazi Acquired in Aug 2017	30	30	Alta Mesa, Sanchez, AOW
Lost Lake, Goose Creek	South Texas	250	100%	75-81%	Acquired in Sep 2017	-	10	AOW
Peak Energy	East Texas	894	100%	76%	PSA signed in Feb 2018	-	110	AOW
Total		1,902				30		

*As per AGM presentation – November 2017

Target to reach production of 2,000 boepd by end-2018

- The Company is continuously looking to add quality assets to its portfolio. It is currently in advanced stages of discussions for acquiring new assets in the Texas region for an aggregate amount of around AUD 18 million. These assets have a combined production capacity of around 410 boepd. If American Patriot is able to successfully close these deals, its total production capacity would reach 560 boepd.
- The Company has set an aggressive target to achieve 1,000 boepd production by mid of 2018. This would be achieved by a combination of fresh acquisitions, restarting the temporarily shut in wells and by investing in production enhancements through infill drilling and behind pipe strategies.
- The Company plans to continue with acquisitions later in the year as well, and targets to reach 2,000+ boepd by end of 2018.
- The Company claims that it has a strong pipeline of acquisition opportunities that would help it achieve its production targets.

Key Highlights

Strategy of building low-risk portfolio of reserves

American Patriot's new found focus on building a portfolio of only producing assets is complimented by a robust strategy for asset selection & cost optimization, whereby the Company targets only those assets which have relatively low operational and supply chain costs. Abundantly available assets in a buyer's market makes it easy for the Company to be selective. This low-risk strategy ensures profitability and consistent cash flows, which can be sustained even in a declining price environment. However, it also limits the returns that can be generated from these acquisitions.

Wide network of contacts with geological expertise

American Patriot has on ground presence and the senior management has deep industry relationships. The Company has built vast network and connections in the Texas region and this helps the Company source proprietary off market deals. The Company's COO, Nicholas Melosi is based in the US and the CEO, Alexis Clark travels there frequently to evaluate these opportunities. This helps the Company maintain strong connections on the ground.

In-house Technical capabilities to help control costs and increase production

The Company's team of engineers bring strong technical capabilities. They spend significant effort in analyzing regional reserve reports and engineering studies for potential assets to identify opportunities with significant production upside.

American Patriot plans to put its technical expertise to use by applying advance drilling techniques such as infill drilling and behind pipe strategies to increase production at lower operating costs.

Capital raising expertise

Historically, American Patriot has been able to raise funds as and when required. Going forward, the Company plans to use a mix of debt and equity to fund its future acquisition. The Company is on path to become cash flow positive as it has now started generating production revenue from its new Texas assets. Since American Patriot had no outstanding debt as on 30th June 2017, the Company's Balance Sheet would be able to support its future debt raise. In September 2017, the Company signed a term sheet with Arena Investors LLP for a USD 40 million debt facility to fund new Texas acquisitions. American Patriot has also

been successful in raising equity from public and through private placement of shares. Given the Company's growing reserve base, the Company should be able to procure sufficient funds to finance its acquisition plans.

Experienced management team in the oil & gas business

American Patriot's management is knowledgeable with a wealth of experience in the oil & gas business. The Company has strict criteria for asset selection that includes checking for lease title, reserves as certified by independent reports, environment liabilities and site visits.

Corporate Strategy

Become a full-fledged operator

Under its new strategy, American Patriot will operate assets on its own, instead of farming out the assets to other operators. The Company will operate most of the new acquisitions including the recently acquired Texas assets. The Company has already posted a bond with Texas Railroad Commission and is in process of becoming a licensed operator.

Achieve cost efficiencies on the growing reserve base

American Patriot plans to achieve competitive advantage with its in-house engineering capabilities. The Company expects to lower operational & supply chain costs and significantly reduce its drilling costs through investments in producing plays with lost cost and low breakeven. The Company sees upside potential through infill drilling and behind pipe strategies. The Company also sees substantial opportunities to lower lease operating expenses and achieve further cost efficiencies using solar power in the field vs diesel to increase net cash flows on the assets. American Patriot is targeting ~30% IRR and Return on Opportunity (ROO) of 3x.

Partner with finance providers

With no outstanding debt on its books, American Patriot plans to optimize its capital structure by raising debt from bank / other lenders. The Company also plans to partner with equity providers and hedge funds for additional financing requirements, if required. In the next few years, the Company plans to up-list to NASDAQ exchange in the U.S.

Monetize acreage on legacy assets

American Patriot intends to maximize value from legacy assets and monetize its acreage position. The Company is actively marketing its legacy assets to potential JV partners and is also in discussion with various parties for selling them as well. The Company has partially impaired the Northern Star and Rough House projects and has fully impaired rest of its legacy assets. The Company expects to receive limited amount by monetizing these assets.

News

[Acquisition of Additional Conventional Oil and Gas Asset in South Texas:](#)

February 7, 2018

The Company announced signing of a Purchase and Sale Agreement (PSA) pertaining to the acquisition of conventional oil and gas assets in East Texas (Peak Energy Transaction), consisting of 37 barrels of oil per day and 440 mcf/d of gas production (110 boepd) located in Harrison, Gregg, Rusk and Upshur Counties.

[Change of Director's interest in American Patriot:](#)

December 11, 2017

The Company announced a change in the Director's interest. Mr. David Shaw, Director, acquired 666,666 fully paid ordinary shares and 333,333 options, exercisable at \$0.045 (4.5 cents), expiring on 20 September 2019. The acquisition raised Mr. Shaw's shareholding to 1.92m fully paid ordinary shares. Mr. Shaw also holds other previously acquired options and performance rights.

[Acquisition of new assets in Texas:](#)

November 30, 2017

The Company announced signing of a Letter of Intent (LOI) to acquire additional conventional oil & gas asset in South Texas from HJH Resources LLC, a private oil and gas company. The assets, containing 430,000 boe 1P reserves, currently produce 40 boepd of oil and 374 mcf/d of gas (102 boepd), with significant upside potential. The reserves, acquired for USD 1.2 million are estimated to have the potential to generate more than USD 15 million in revenue.

[First revenue earned from South Texas assets:](#)

November 17, 2017

The Company announced that it has achieved first oil & gas production and has booked first cash flows from assets acquired in South Texas and Louisiana in August 2017, with Anasazi New Venture Corporation.

[American Patriot close to finalizing USD 40m debt facility:](#)

November 17, 2017

The Company announced that it is close to finalizing the announced USD 40 million facility that will allow the Company to pursue other value accretive acquisitions. The New York based lender is completing additional due diligence including land title and environmental reviews on all American Patriot's assets, with closing of the facility expected in the next 40 days.

[LOI signed for acquisition of assets in East Texas:](#)

November 2, 2017

American Patriot announced signing of a new LOI to acquire additional conventional oil & gas assets in East Texas. The assets consist of 37 boepd and 440 mcf/d of gas production (110 boepd), with significant upside potential. The assets contain 1.1 mmboe proven 1P reserves and the acquisition is anticipated to double American Patriot's reserves to 2.1 mboe. The transaction, scheduled to close in early December, involves acquisition of assets for USD 2.5m and from multiple private oil & gas companies.

Signing of term sheet for increased facility size:

September 22, 2017

American Patriot announced it has signed a term sheet for an increased debt facility size of up to USD 40m with a major New York based institutional investor. The facility is subject to completion of loan documentation satisfactory to both parties and the completion of full technical due diligence on American Patriot's recent and all future acquisitions. American Patriot expects the process to take 30-40 days.

Acquisition of new assets in Texas:

September 12, 2017

The Company announced acquisition of additional conventional oil & gas assets in Texas known as the Lost Lake and Goose Creek Oil fields, consisting of 50 bopd of conventional production with significant upside potential. The assets contain 300 mboe of 1P reserves certified by independent reserve reports. American Patriot estimates the reserves, acquired for USD 430,000, to have the potential to generate USD 11m revenue with a PV10 value of USD 3m. The assets have been acquired out of Chapter 11 Bankruptcy from the major lender Solstice Capital LLC, using existing American Patriot cash plus funding from a U.S. based funder.

Completion of oversubscribed capital raising:

August 14, 2017

American Patriot announced that it has successfully completed a placement of its securities (Placement) to raise AUD 1.3m. The placement was over-subscribed, and the funds from the placement will be used to fund further acquisitions of conventional oil & gas projects in Texas. The placement comprised the issue of 46,539,000 shares to existing shareholders of American Patriot, at an issue price of \$0.03 per share, together with one free attaching option for every two shares subscribed for and issued under the Placement. The issue of the options is subject to shareholder approval and the options will be quoted and exercisable at \$0.045 each on or before 20 September 2019. Capital Investment Partners acted as lead manager for the Placement.

Acquisition of reserves in South Texas:

August 2, 2017

American Patriot announced acquisition of conventional oil & gas assets in South Texas, consisting of 285 boepd and 900,000 barrels proven oil and gas (mboe) 1P reserves as certified by independent reserve reports. The total transaction of the first acquisition was USD 4.5m, split over two tranches, and the assets are expected to generate over USD 2m in annual net cash flow assuming a USD 47/bbl oil price. Under Tranche 1, American Patriot has signed Purchase and Sale agreements (PSA) and Asset Assignments covering transactions with Safari Oil and Gas Production Inc and Anasazi New Ventures Corporation to acquire 100% of these companies' oil and gas assets in South Texas. Tranche 2 was scheduled to close in September 2017.

Listing Information

American Patriot Oil and Gas Limited, headquartered in Victoria, Australia, is listed on the Australian Stock Exchange – (ASX: AOW) in Australia. The Company is also listed on U.S. OTCQB market (OTC: ANPOF).

Contacts

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Major Shareholders as on 30 June 2017ⁱⁱⁱ

Equity Holder	No. of ordinary shares held	% shareholding
Fand (Vic) Pty. Ltd.	15,000,000	6.45%
Xero Nominees Pty. Ltd.	14,582,382	6.27%
AXL Financial Pty. Limited	10,000,000	4.30%
Holicarl Pty. Limited	8,333,334	3.58%
Pellicano Future Fund Pty. Ltd.	7,500,000	3.22%
Silverstone Wealth Pty. Ltd.	5,166,667	2.22%
Others	39,935,400	73.96%
Total	100,517,783	43.19%

On 18 April 2018, American Patriot announced Defender Equities Pty Ltd and Woodville Super Pty Ltd as its substantial shareholders holding 13,484,729 securities in the company with 5.06% voting power.

Management and Governance

David Shaw

(Non-Executive Chairman)

- Mr. David Shaw is an independent Director of American Patriot. He is a Melbourne University law graduate and is currently a practicing solicitor with his own firm, Campbell & Shaw Lawyers.
- He is a director on various private company boards and advisory boards. Also, Mr. Shaw has long been associated with the Australian Football League (AFL) and was the Essendon Football Club President from 1992 to 2002. He also served as Commissioner of the AFL. He is a non-executive chairman of Ambassador Oil and Gas Limited.

Alexis Clark

(CEO & Managing Director)

- Mr. Alexis Clark is a CFA & ACA and serves as the Chief Executive Officer of American Patriot. He has been the Director since February 2014.
- Prior to joining American Patriot, Mr. Clark was an Oil & Gas Analyst at Patersons Securities Limited, responsible for coverage of small-mid cap oil & gas companies. He has previously held positions at Merrill Lynch and Shaw Stockbroking.
- He also has over 10 years of experience in institutional banking and finance sector, having worked at Westpac Institutional Bank, GE Capital and ANZ Banking Group, where he was responsible for the origination and execution of transactions across the Energy & Resources and Infrastructure client base.

Frank Pirera

(Company Secretary & Chief Financial Officer)

- Mr. Frank Pirera serves as the Chief Financial Officer of American Patriot and has been the Company Secretary since February 2014. He holds a graduate degree in Business (Accounting) from Monash University. He is a fellow of the Certified Practising Accountants with 30+ years of experience in public practice.
- Mr. Pirera has experience in financial control & management and strategic planning, having advised numerous public & private companies throughout his career.

Nicholas Melosi

(Chief Operating Officer - U.S. Based)

- Mr. Nicholas Melosi is an Operations, Development and Acquisitions geologist with operations experience in over 250 horizontal wells across U.S. plays.
- He is a geology graduate of Southern Illinois University and has over a decade of experience in the oil & gas industry.
- Mr. Melosi was previously employed by and consulted with large & medium cap companies such as Marathon Oil & Gas, Sanchez Oil & Gas, Carrizo Oil & Gas and BHP Billiton.

Assets and Projects

Overview

The Company's assets can broadly be categorized in two – Recently acquired producing assets and Legacy assets. The Company started focusing on Texas and the Gulf Coast region, as low cost and low breakeven producing plays in Texas and the Gulf Coast regions offer compelling economics vis-a-vis expensive shale plays. The region has other added advantages such as supportive Texas government and local community of the oil & gas industry, and superior access to qualified & cost competitive labor force.

The recent acquisitions in the region include the following projects:

1. Anasazi, Safari, CWS – South Texas
2. Lost Lake / Goose Creek – South Texas
3. Peak Energy – East Texas

The Company plans to continue pursuing attractive opportunities and has set a target to reach 2,000+ boepd by end of 2018.

Some of the points that American Patriot evaluate as part of its acquisition criteria are:

- Proven oil producing basins in targeted area of focus with production from multiple zones
- Significant historical production and geological knowledge
- Lower operational & supply chain costs and reduced drilling costs
- Easy access to quality operators and infrastructure with extensive pipeline infrastructure and transportation in place



Source: AGM Presentation – November 2017

Anasazi, Safari, CWS in South Texas

A. Asset Overview:

American Patriot successfully completed due diligence and signed Purchase and Sale Agreement (PSA) and Asset Assignments to acquire 100% of oil and gas assets of Safari Oil and Gas Production Inc. and Anasazi New Ventures Corporation in August 2017. These assets are located in Hidalgo, Hopkins and Goliad Counties in the South Texas region. These assets include over 30 well bores of existing conventional production. These assets are operated by Alta Mesa and Sanchez Energy. These assets also include the non-operated Williams Gas unit and some non-operated producing oil wells owned by Rose Royalties.

Details of acquisitions:

1. Safari Oil & Gas Production Inc.

American Patriot signed PSA to acquire assets from the Safari Production Company Inc. in August 2017. The assets consist of 2 producing gas wells, 1 producing oil well, 1 non-producing well and 1 salt water disposal well.

The assets include 40 leasehold acres Held by Production (HBP). American Patriot will be operator of the asset with the existing owner assisting with the process. The Company claims that the operating costs are as low as \$20/bbl in the region.

2. Anasazi New Ventures Corporation

American Patriot acquired the assets from Anasazi New Ventures Corporation in August 2017. The transaction included the non-operated Williams Gas unit and non-operated producing oil wells owned by Rose Royalties.

Operator of the Williams gas asset is Alta Mesa, a private U.S. oil & gas company. Operator of the Rose Royalties oil wells are Sanchez Energy Corporation, Belle Exploration and CTR.

Asset Snapshot

Current Production	30 boepd in Anasazi
Expected Production	128 boepd and 123 mcf gas
1P Proven Reserves	758 mboe
Company's Interest	49%-87% (Mix of Operator & Non-Operator Assets)
PV10	USD 7.4m
Potential Revenue	USD 33m

Source: AGM Presentation – November 2017

1P Proven Reserves Details

	OIL (mdbl)	GAS (mmcf)	PV10 (USD'000)
PDP	190	700	2,766
PDNP	219	751	3,456
PUD	56	311	1,174
TOTAL	465	1,762	7,396

Source: AGM Presentation – November 2017

Safari Assets Snapshot

Potential Production	25 bopd oil, 470 mcf gas
1P Proven Reserves	30 mdbl and 709 mmcf
GWI	100%
NRI	78%
Operator	American Patriot
Location	CanoMexico field in Hidalgo County and Hopkins counties

Anasazi Assets Snapshot

Potential Production	20 bopd oil, 300 mcf gas
1P Proven Reserves	62 mdbl and 285 mmcf
Producing Wells	Gas - 1, Oil - 22
Operators	Alta Mesa, Sanchez Energy Corporation, Belle Exploration, CTR
Location	Goliad County in Texas, La Salle Parish in Louisiana

B. Acquisition Terms:

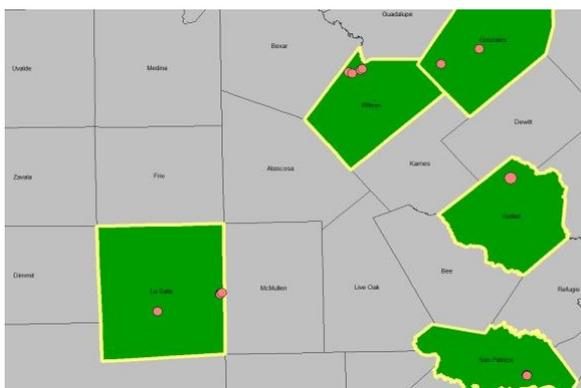
The Company acquired a working interest in the Anasazi assets for total consideration of USD 0.55 million. These assets were acquired using existing American Patriot cash plus funding from a U.S. based lender.

C. Historical E&P:

- **Goliad County** - Memsa, Erskin and Alta Mesa developed and drilled the Wilms Gas Unit #1 in 2016, and successfully completed the well in July 2016. As per a reserve report, the well comes at over 2.5 mmcf of gas per day and over 40 boe per day.
- **Louisiana** - As per reports by Anasazi New Ventures Corporation, the Middle-Wilcox formation contains sediments located in central Louisiana and western Mississippi. It is a proven source of large reserves of oil with some wells having sustained commercial production since the 1940's. There have been over 160,000 commercially producing wells established in and around the Wilcox Basin since 1910. The area is a proven oil province with the exploitation of multiple accumulations of Wilcox oil being produced for decades.

D. Regional Geology:

- **Goliad County** - 280 acres prospect called Wilms Gas Unit located in Manahuilla field in Goliad County, Texas.
- **Louisiana** - The Four Rivers oil and gas properties and producing wells are located on lands in La Salle and Catahoula Parishes, Louisiana and Jefferson and Wilkinson Counties, Mississippi. The asset has targeted multiple 'stacked' oil zones throughout the Middle-Wilcox formation at depths ranging from 4,000 to 7,000 feet. The Middle-Wilcox contains sediments located in central Louisiana and western Mississippi.



La Salle, Wilson, Gonzales, Goliad and San Patricio counties



La Salle, Catahoula, Jefferson and Wilkinson counties

E. Potential E&P:

American Patriot claims that there is substantial workover and behind pipe potential on the existing wells and the Company has the ability to grow production significantly for minimal capital expenditure to restart shut-in production.

F. Recent Activities:

In November 2017, American Patriot achieved first oil and gas production and booked first cash flows from these assets. The net income received from these assets during the Oct-Dec quarter of 2017 was AUD 56,146.

G. Current Status:

American Patriot is currently producing 30 bopd from Anasazi Assets. The Company is also in discussions to close the CWS and Safari deals. The management expects CWS transaction to close by April / May 2018. We understand that the probability of Safari assets closing is very low.

H. Future Plans:

American Patriot believes that it would require an additional investment of USD 0.3 million to achieve production gain of 60 bopd on these assets.

Lost Lake & Goose Creek in South Texas

A. Asset Overview:

In September 2017, American Patriot acquired these assets in South Texas. The assets *contain 65 oil wells* producing from the Miocene zones / Salt domes at the depth of 1,200-3,860 feet. The assets cover approximately *340 leasehold acres HBP at 100% GWI / average 75-81% NRI in Harris and Chambers counties, Texas*. American Patriot estimates the reserves to have the potential to generate revenue of USD 11m revenue with a PV10 value of ~USD 3m.

The Company expects the assets to generate daily production of 50 bopd from shut-in wells, with significant proven behind pipe pay reserves that have not yet been exploited.

B. Acquisition Terms:

American Patriot acquired these assets in Lost Lake, Goose Creek oil fields for a total of USD 0.345 million using existing cash plus funding from a U.S. based lender. The assets were acquired from Solstice Capital LLC at the Bankruptcy court in Houston Texas and consist of the assets owned by OTeX Resources LLC, a Texas limited liability company.

C. Regional Geology:

The Lost Lake and Goose Creek Oil fields are located in the mature legacy fields of Harris and Chambers Counties, Texas.

The *Lost Lake field* is located in Chambers County and encompasses the entire Lost Lake Salt dome. The wells in the region produce from the shallow Miocene zones, with cumulative production of 1.37 mmbbl oil and 230 mmcf of gas since the first production in the 1970's. Existing 2D seismic has identified 8-10 additional infill drilling sites upon the leases.

The *Goose Creek field* is located in Baytown Texas. The wells produce from the shallow Miocene at depths from 1,200 to 3,860 feet. Total production of 1.8 million barrels of oil has been recovered from the region since the first production in the 1950's.

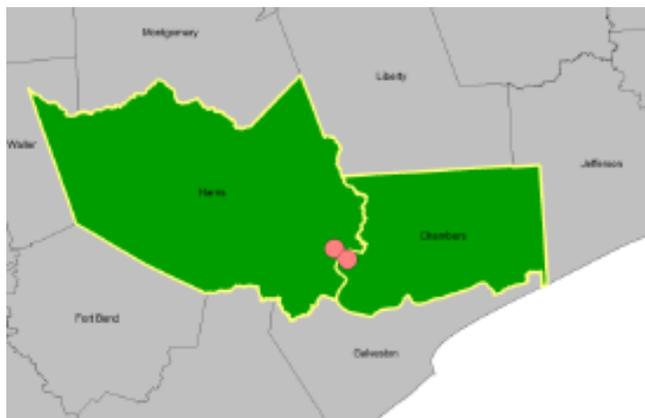
Asset Snapshot

Current Production	-
Expected Production	50 bopd
1P Proven Reserves	~300 mboe
Company's Interest	100% WI; 75-81% NRI
Location	Harris and Chambers Counties
PV10	USD 2.8m
Potential Revenue	USD 11m

1P Proven Reserves Details

	OIL (mmbbl)	GAS (mmcf)	PV10 (USD'000)
PDP	0	0	0
PDNP	130	0	1,725
PUD	101	103	1,167
TOTAL	231	103	2,892

Source: AGM Presentation – November 2017



Harris and Chambers counties

D. Potential E&P:

American Patriot expects operating costs in the region to be as low as \$22/bbl. The Company sees substantial opportunities to lower lease operating expenses and achieve further cost efficiencies by the use of solar power in the field vs diesel to increase net cash flows on the assets. American Patriot also believes that there is substantial workover and behind pipe potential on the existing wells.

E. Recent Activities & Current Status:

American Patriot restarted the production from these assets in April 2018. The Company expects production to be 10 boepd in each of the 3 months to June 2018. The production from these assets is expected to increase gradually post June 2018.

F. Future plans:

The Company claims that in the Lost Lake field, it has identified 8-10 additional infill drilling sites using existing 2D seismic. The Company, therefore, plans to restart shut-in wells and rework behind pipe zones.

In the Goose Creek field, the Company expects the rework of the shut-in wells to result in daily production increases in the range of 25-30 bopd per well at minimal capex. The Company also believes there are additional locations for infill drilling targeting 50 to 100 bopd per well and additional reserves of 300 mboe.

The Company sees a potential to increase production from these assets by 20% by using enhanced techniques in the field. The Company also believes that it would require an additional investment of USD 0.4 million to achieve production gain of 50 bopd on these assets.

Peak Energy in East Texas

A. Asset Overview:

American Patriot signed a Letter of Intent (LOI) in November 2017 and a PSA in February 2018 to acquire these assets in East Texas, having a production of 37 boepd oil and 440 mcf/d gas (110 boepd). The assets consist of 38+ producing wells over 43 leases with an average NRI of 76%.

American Patriot will be the operator of the assets with the current owner assisting with the process. The assets contain ~1,000 mboe of proven oil and gas 1P reserves, as certified by independent reserve reports.

B. Acquisition Terms:

American Patriot signed the PSA to acquire the assets from various private oil & gas companies for USD 2.5m, using funding from the facility provided by Arena Investors LLC. The Company estimates the asset to have the potential to generate USD 22 million revenue over a period of time.

C. Regional Geology:

- Upshur County wells – The Shipp is a single well located on the Southern end of the Gilmer field. It is Cotton Valley lime/Haynesville with Cotton Valley Taylor behind pipe.
- Rusk County wells – The busby well was drilled in the Oak Hill field to produce from the Pettit formation. Finley well is located in Minden area and has produced from Travis Peak, Pettit and Rodessa.
- Gregg County wells – Hooper well is located in the East Texas oil field. In the past 10+ years, a lower tighter ashy Woodbine sand was discovered and targeted. This well is likely not within this deepening trend. Henry Foster 30407 well produces from a lower depleted Pettit section. Minnie Jones well is located on the western edge of the Willow Springs field.

Asset Snapshot

Current Production	-
Initial Production	37 boepd oil and 440 mcf/d gas
1P Proven Reserves	~1,000 mboe
Company's Interest	100% WI, 76% NRI
Location	East Texas - Harrison, Gregg, Rusk and Upshur Counties
PV10	USD 5.3m
Potential Revenue	USD 22m

1P Proven Reserves Details

	OIL (mmbbl)	GAS (mmcf)	PV10 (USD'000)
PDP	210	2,032	3,068
PDNP	25	1,923	2,472
PUD	0	0	0
TOTAL	235	3,712	5,540

Source: AGM Presentation – November 2017



Upshur, Gregg, Marion, Harrison and Rusk counties

- Harrison County – Multiple wells have produced from the Rodessa, Travis Peak, with best production from Pettit oil unit.

D. Potential E&P:

American Patriot believes that significant proven behind pipe pay reserves and infill drilling opportunities exist in the region that have not yet been exploited. With operating costs as low as \$23/bbl, American Patriot claims the asset would require minimal workover expenditure to increase the production in the field. Also, all infrastructure, including pump jacks, tanks and batteries, is in place, with ready access to market through gas pipeline and delivery to nearby refineries.

The Company expects production to increase significantly – up to double or triple over the next 12 months with workovers at low cost. The Company sees substantial opportunities to lower the lease operating expenses and achieve further cost efficiencies.

E. Recent Activities:

In February 2018, American Patriot signed a PSA pertaining to the acquisition of these assets in the East Texas region. The Company announced that majority of the due diligence has been completed, including an independent reserve report and full engineering study on the assets and environmental assessment, with only the land title work to be finalized.

F. Current Status:

American Patriot expects the deal to close by end of June 2018. The Company expects to start producing 110 boepd from July 2018 onwards.

G. Future plans:

American Patriot expects to start producing 110 boepd without including production from shut-in wells. The Company plans to increase production by 20% to 30% by restarting shut in wells.

Legacy Assets

American Patriot holds acreage and working interest in the legacy assets that the Company acquired over the years since 2012. The Company holds interest in the Northern Star project covering an area of 12,000 net acres located in Montana. American Patriot has 100% working interests in the Panther project in Garfield County of Central Montana, the Southern Sun project in San Juan County of Utah and the Overthrust project in the Wyoming. The Company holds total area of 11,729 net acres in the three projects. The Company also holds 100% interest in the Rough House project, which covers 4,508 net acres in DJ Basin, Colorado.

Project	Location	Gross Acres Held at 31 December 2017	Working Interest %	Current Status
Northern Star	Montana	58,032	16-30%	Asset partially impaired
Rough House	Colorado	20,807	100%	Asset partially impaired
Panther	Montana	6,840	100%	Asset fully impaired
Overthrust	Wyoming	2,598	100%	Asset fully impaired
Southern Sun	Utah	1,078	100%	Asset fully impaired

1. Northern Star

A. Asset Overview:

In 2012 and 2013, American Patriot acquired acreage on the Northern Star project at Wolf Creek Nose, up dip and surrounding the Lustre Field in Valley County, Montana, USA.

JV agreements on the project:

In November 2013, American Patriot entered into a farm out arrangement on the Northern Star project. The JV agreement was signed with **Treasure Exploration**, an operator and 100% subsidiary of Great Western Oil & Gas, LLC, a U.S. based private oil and gas company. The agreement was completed for cash upfront on the land.

As per the agreement, Treasure Exploration had to carry American Patriot for 2 horizontal wells, with American Patriot also having an option for a back-in-after-payout on 2 additional wells - a spend of up to USD 24m on the acreage with no cost caps. Great Western held 70% interest in the project and paid cash amounting to 3X American Patriot's purchase price of the asset.

In September 2014, American Patriot partnered with **Anadarko Minerals** on the project. The acreage on the asset totaled 61,489, with American Patriot holding net 12,602 acres and remaining free carried for 2 horizontal Ratcliffe wells and 2 optional horizontal wells by Treasure Exploration (Great Western). American Patriot held 21.5% working interest in the well. JV with Anadarko and Treasure was expected to deliver to American Patriot, a portfolio of 17 new conventional oil prospects generated by 3D seismic data, with multi-stacked targets and proven producers in the region.

Acreage acquisitions over the years:

As on June 2014, American Patriot had 30% working interest in the project, covering 36,714 Gross Acres (30,778 Project Net Acres), with 9,233 Net Acres to American Patriot.

In August 2014, the Company acquired an additional 12,638 gross acres in the region, taking American Patriot's holding to 49,352 gross acres and 41,258 mineral acres (12,377 net to American Patriot / 28,881 net to Treasure) in Montana. The lease terms were 3 to 5 years.

Between 2014 and 2015, the Company increased its project acreage position from 36,000 to over 61,000 gross acres.

Production from assets:

In October 2014, American Patriot announced successful completion of the first conventional well, Fort Peck 6-32, with an Initial Production (IP) of 508 bopd. The Company claims the well had settled to an average flow rate of 216 bopd (99% oil) in the Lustre Field.

In February 2015, American Patriot commenced the unconventional drilling program on the asset and the management claims that the well had successfully reached its target depth and was drilled faster than expected.

Drilling and testing on the second horizontal well of the project was expected by H2 2016. However, the commitment was not met by JV partner by the due date as per the agreement. Accordingly, Treasure Exploration has returned its acreage to American Patriot.

B. Regional Geology:

The project is located on the western extent of the Williston basin, an 80,000 square mile inter-cratonic basin, which covers North & South Dakota and Montana in USA. The region had Charles 'C' limestone or "Ratcliffe formation" reservoirs and Mission Canyon limestone reservoirs. The Lustre oil field area was a conventional oil field, discovered in 1982 by Exxon Corporation and had produced over 7 mmbbl oil from the low permeability Charles C and Mission Canyon formations.

C. Acquisition Terms:

American Patriot acquired its interest in the Northern Star prospect from Ambassador Oil and Gas Ltd., for USD 948,500 and then sold 70% of its interest for USD 3.028 million, at a net gain of AUD 1.122 million after deducting cost base of the leases transferred to Great Western. The Company retained its interest in the project which was carried at USD 0.267 million.

D. Current Status:

American Patriot has recognized a partial impairment for abandoned leases. As on December 2017, the Company held 58,032 gross acres in the project. The Company is currently marketing the acreage to new potential JV partners.

2. Rough House

A. Asset Overview:

In July 2014, American Patriot signed a PSA to acquire a 100% working interest (82% net interest) in the assets. The Company acquired 15,910 gross mineral acres (2,678 net acres) package of tenements in Washington County of the Denver-Julesburg (DJ) Basin, with lease term of 5 years.

The Company further acquired 100% working interest in 4,400 additional gross acres (2,200 net acres) in the DJ Basin, Elbert County, Colorado, with lease term of 5 years. Both acquisitions increased American Patriot's position to 26,943 gross acres (8,251 net acres) in the DJ Basin.

During the quarter ended December 2014, American Patriot acquired, from different vendors, additional 5,206 net acres in the DJ Basin, in Washington & Elbert Counties, Colorado. The lease terms were for an average 5 years with no seismic or drilling commitments on the acreage acquired. As part of the transaction, American Patriot acquired the remaining 10% interest held by Colorado Land Management and extinguished a commitment of \$2.5m to undertake seismic and drill a well on the acreage by February 2015. These transactions lifted American Patriot's holding in the project to 30,706 gross acres (13,456 net acres).

During the June 2015 quarter, American Patriot relinquished leases of total 2,393 net acres that were considered of low potential. As on June 2015, American Patriot held 17,415 gross acres, 11,291 net acres in the project.

JV agreement on the project:

In February 2016, American Patriot entered into a farm out arrangement with Running Foxes Petroleum (RFP), a private company based in Denver, Colorado. American Patriot signed a 5 well JV agreement that covered the entire project acreage in the DJ basin.

RFP was expected to drill the first well in late 2016 and the second well thereafter. Under the agreement, American Patriot had agreed to assign a 70% working interest in the Rough House Project to RFP upon completion of two commitment wells, with an option to drill three additional wells.

B. Regional Geology:

The project is located on the flanks of an oil rich basin and is in close proximity to producers and infrastructure. The project is a conventional oil play, focused on stacked pay with multiple targets within a 7,000 to 8,000-foot-deep carbonate, adjacent above and below to the black, carbon rich Atoka and Cherokee black shales. 100% of the acreage acquired by American Patriot is Fee leasehold.

C. Current Status:

As on November 2016, American Patriot held 30% working interest in the project, covering 24,221 gross acres and 4,508 net acres in the project.

In 2017, the Company recognized a partial impairment for abandoned leases. As on December 2017, American Patriot held 20,807 gross acres in the project and controlled 100% working interest. The Company has terminated its JV with RFP following a dispute with RFP. American Patriot is now looking for another operator for the asset.

3. Panther Project

American Patriot, as on June 2014, owned 100% working interest in the Panther project covering 8,790 Gross Acres, (8,490 Net Acres) in the Blood Creek Syncline in Garfield County, Central Montana.

In August 2014, American Patriot acquired an additional 3,360 gross acres on the project. American Patriot, thus, controlled a 100% net working interest in 12,150 gross acres / 10,293 net mineral acres in Garfield County, Montana. The Company acquired the acreage from a private company in August 2014 for an undisclosed price and with lease term of 5 years.

The project is located on the flanks of the oil rich Williston basin on a structural nose and the Company believes that the region offers vertical drilling opportunities with upside potential as an unconventional tight reservoir horizontal play. The conventional oil play is focused on stacked pay with multiple targets at 5,000-8,000 ft in carbonate reservoir.

Since 2014, American Patriot had marketed the project to potential JV partners to enter into a farm out arrangement. However, during the year ended June 2017, American Patriot's management recognized full impairment to the project as the Company decided not to renew the acreage associated with this project. As on December 2017, American Patriot held 6,840 gross acres in the project.

4. Southern Sun

American Patriot controls 100% working interest in the Southern Sun project, located in the Paradox Basin in San Juan county, Utah. The acreage on the project was acquired in late 2012 and early 2013. American Patriot took a first-mover position in the basin to capture any upside in the province after reviewing geochemical data from the USGS Core Research Centre and Utah Geological Survey for the feasibility of the project.

American Patriot claimed that the region offered near term conventional production potential from the Tin Cup Mesa field (480 acres) and other vertical drilling opportunities with potential to turn to horizontal oil plays.

The Company, with 6 leases in the project, held 3,728 gross acres as on June 2014. Since 2014, American Patriot has been seeking an industry partner to participate in the project to de-risk its position.

As on December 2017, American Patriot held 1,078 gross acres in the project. The Company, however, has recognized a full impairment of the project as it decided not to renew the acreage within its area of interest.

5. Overthrust

American Patriot acquired the acreage in the Overthrust project in 2013 with lease term of 5 years. American Patriot controlled 100% working interest in the project, located in Wyoming. The Company, with 1 lease in the project, held 640 gross acres, 640 net acres as on June 2014.

American Patriot acquired additional 3,078 acres in the project during the quarter ended March 2016, of which the Company acquired 1,958 acres for USD 327,000 from Colorado Land Management and Development LLC.

As on December 2017, American Patriot held 2,598 gross acres in the project. Since 2014, American Patriot has been marketing the project to industry players with a focus to farm out an interest to technically sound operators with experience in the basin.

6. Livengood

In 2016, American Patriot partnered with Running Foxes Petroleum (RFP) for the Livengood oil field located in Kansas. As per the Company, each well averages 45,000 to 100,000 bbls per 10 acres with upside reserve and production potential. American Patriot expected initial production of 20-80 bopd from the low cost conventional drilling of the asset.

As on November 2016, American Patriot controlled 75% working interest in the asset, covering 20 net acres in the Kansas assets, with RFP as the Operator for the assets.

American Patriot has recognized a full impairment on the project as the Company will not renew the acreage within its area of interest.

Industry Analysis

Market dynamics

Oil and gas industry is undergoing major transformation amid changes in Global Energy Market which are changing the dynamics of the oil and gas market.

Global Oil and Gas Supply & Demand Outlook

As per U.S. Energy Information Administration (EIA), major oil suppliers globally are OPEC (Organization of the Petroleum Exporting Countries), followed by United States and Russia. While OPEC produces 40% of the total production, United States and Russia each contribute approximately 12% to the total production. There was a decline in global oil output post oil price collapse in 2014, due to supply cut by OPEC countries and Russia, coupled with decrease in oil output in U.S. driven by declining investments. *However, with the rebound in oil prices since mid-2016, there has been an increase in the daily production and inventory in the U.S., which is expected to continue as indicated by the increasing number of rig counts.*

Supply of Oil – As per EIA’s Short-Term Energy Outlook, production of crude oil in U.S. is expected to increase by 15% in 2018 from ~9.3 million barrels per day (b/d) in 2017 to ~10.7 million b/d in 2018^{iv}. Production is expected to increase to 11.9 million b/d in 2019, an increase of 11.2% from 2018 levels. Crude oil production from the OPEC countries which was 32.5 million b/d in 2017 is expected to increase only marginally by 0.6% in 2018 and by 1% in 2019^v.

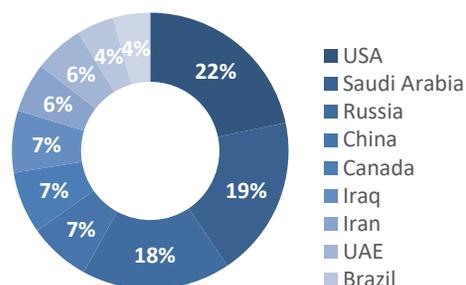
According to IEA^{vi}, global oil production capacity is forecast to grow by 6.4 million b/d from 2017 levels to reach 107 million b/d by 2023. U.S. is expected to lead the picture, with total liquids production reaching nearly 17 million b/d in 2023, up from 13.2 million b/d in 2017^{vii}, thanks to the shale revolution. OPEC is expected to continue with further production cuts in the short run in order to reduce inventories and stabilize oil price. Global oil production will also be impacted by U.S.’s decision to pull out of the nuclear deal with Iran and reimposing sanctions on the country. Iran ramped up its oil production by 1 million barrels per day after sanctions were lifted in early 2016. Some of this production is expected to be pulled off from the market after this decision.

Supply of Natural Gas – U.S. natural gas production is expected to increase from 73.6 billion cubic feet per day (bcf/d) in 2017 to 80.5 bcf/d in 2018, and by 2.9 Bcf/d in 2019.

Moody’s predict that the oil & gas industry will continue its slow recovery as upstream companies increase production. Outlook for E&P business is positive, with earnings likely to rise more than 10% in 2018, amid increasing production volumes, helped by modestly higher capital spending.

American Patriot, though a small company, has its operations focused in Texas and the Gulf Coast regions. Texas being the highest crude oil producing state in U.S., offers ample opportunities for E&P companies such as American Patriot to exploit the region’s potential.

Top Ten Global Oil Producers (2016)



Note: Oil includes crude oil, other petroleum liquids & biofuels.
Source: EIA (International Energy Outlook 2017)

Demand

Demand for crude oil is primarily generated by three sectors – industrials that accounts for 50%, residential/commercial use, and transportation. Energy consumption is expected to increase in the coming years due to increase in industrial production. Growing urbanization and expanding middle class with rising disposable income, increasing dependence on electrical appliances and heating & cooling systems due to adverse climatic conditions is expected to increase demand from the residential and commercial sector. Increasing trade & commerce and rising income are leading to an increase in vehicles, thereby increasing consumption in the transportation sector. Thus, the demand for crude oil and natural gas is expected to continue rising amid increasing population, urbanization, transportation, and higher GDP growth.

Region wise, the developing Asian countries, primarily China and India are expected to have the highest energy consumption, whereas the developed economies - U.S., Europe and Japan are expected to have stable demand. In the long-term, it is expected that India and Africa will be the major markets for energy consumption.

Demand for Oil - The demand for oil is expected to increase in the short term at a rate of 0.5% per annum but is expected to fall in the long run due to increase in consumption of renewable energy and rapid penetration of electric vehicles. Also, according to International Energy Agency (IEA), global oil demand will increase by 6.9 mb/d by 2023 to 104.7 mb/d, owing to economic growth in Asia^{viii}.

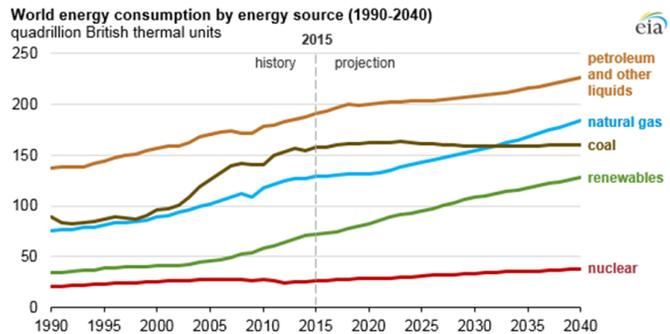
Demand for Natural Gas – As per International Energy Outlook 2017^{ix}, demand for natural gas is expected to increase at a rate of 1.4% in the short-term. The consumption of natural gas is expected to be higher than crude oil and it is expected to replace coal in the long run due to low carbon content and global push towards usage of low-carbon products amidst deteriorating climatic conditions. In the long-term, it is expected that the share of natural gas will be much higher in the fuel mix and surpass coal.

Commodity Pricing

Crude oil price increased consistently from 2009 to 2013 before the price collapsed by 40% in 2014 from \$110/bbl to \$60/bbl, driven by oversupply and rising inventories. In 2016, the prices declined further and touched a low of \$30/bbl. After hitting rock bottom, prices started to rebound and have been rising since mid-2016 till date.

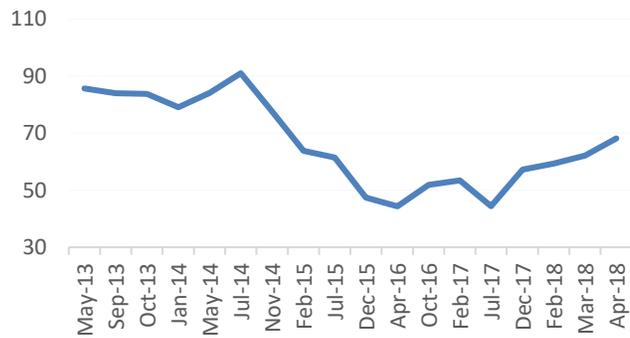
Price of Oil - In its Short-Term Energy Outlook May 2018, EIA estimates that Brent Crude oil prices which averaged at \$54/bbl in 2017 will increase to

Global energy demand composition from 1990-2040



Source: EIA (International Energy Outlook 2017)

WTI Crude oil price for last 5 years



Source: <https://oilprice.com/oil-price-charts>

\$71/bbl in 2018 and \$66/bbl in 2019. Oil prices are expected to fall marginally in 2019 as there is a high probability that the total global output will exceed demand.

Oil prices has continuously risen over the past few months as a result of production cuts by OPEC and Russia as well as instability in Venezuela. Oil prices shot up further after the announcement of the reinstatement of sanctions on Iran, which is likely to contribute to declines in the country's crude oil production. Current market price for WTI crude oil and Brent crude oil is \$71.56 and \$79.42 respectively.

Price of Natural Gas - The natural gas prices are expected to average \$3.01/million British thermal units (MMBtu) in 2018 and \$3.11/MMBtu in 2019 due to increase in production at a faster rate than consumption.

Strategic changes in the upstream oil industry

The Exploration and Production (E&P) companies are going through major transformation from asset acquisition, production, and cost optimization in view of the changing market dynamics. Given a history of negative cash flows due to oil price collapse, and a high probability of increasing cost of debt in future, the upstream companies have shifted their focus from large acquisitions towards improving profitability and cash flows by changing the asset mix, cost optimization and implementation of digital and advanced technologies.

1. Diversified asset portfolio of productive brownfield assets and renewable businesses

The E&P companies are not just divesting the non-core assets to increase cash flow and acquire low cost assets with high proven reserves, they are also diversifying the asset mix by adding renewable sources to adapt themselves in a changing low-carbon environment. Upstream companies are trying to acquire assets in regions which have good infrastructure, low operating cost and high reserves.

American Patriot's new strategy to acquire low cost, conventional brownfield assets in Texas and the Gulf Coast regions is in line with this trend. The Company believes that the newly acquired Texas assets have good infrastructure with complete facilities consisting of pumpjacks, tanks etc. The region has access to competitive labor and operators and enjoys government support. However, the Company's business model is exposed to the risk of rapid growth in renewables as the availability of substitutes at attractive prices makes the operations of upstream oil & gas companies uneconomical.

2. Strategic alliances to leverage the expertise of industry specialists

For cost optimization, upstream companies are focusing on strategic alliances with exploration specialists to leverage their expertise and save time & cost. Instead of having a fully integrated business model wherein the companies handle all the processes from exploration to drilling, companies are hiring specialists to manage some of these operations. For example: British major British Petroleum formed an alliance with Kosmos, which specializes in exploration to acquire assets in Mauritania and Senegal.

American Patriot is acquiring assets in regions with access to quality operators. Also, the Company is now planning to operate these assets on its own instead of getting into agreement with other operators.

3. Cost optimization through advanced drilling techniques, automation and digitalization

Upstream companies are focusing on advanced drilling techniques, autonomous processes and use of digital technologies across all segments to increase efficiency. Drilling costs can be reduced by proper selection of specialized rigs which depends on availability and pricing, as rig rate is the major component

of drilling cost. Besides this, there are various technologies which are used to increase production in cost efficient manner such as infill drilling, MPD. Given the volatility in oil prices, companies need to explore alternatives to survive in the industry and gain a competitive edge.

American Patriot aims to manage its costs by investing in low cost and low breakeven conventional producing plays. The Company also targets regions with low operational and supply chain costs. Increasing investments by major oil and gas companies in innovating existing technologies, digitalisation, analytics, in the oil and gas industry is expected to pose a big threat to mid-sized companies. American Patriot is currently not investing in research & development and should increase investments to implement digital technologies to compete with other market players.

4. Use of superior drilling techniques to increase productivity

Multiple advanced drilling techniques are being used by the E&P companies such as Infill Drilling, MPD, Logging While Drilling, Rotary Steerable drilling, and smart completions to increase productivity, reduce cost & non-productive time (NPT), and generate data related to oil well in the drilling phase. Infill drilling increases the total reserves by deciphering new reserves and increases the rate of recovery from the wells. MPD technologies are increasingly being used to drill wells which are complex and impossible to be drilled using conventional techniques. MPD technology leads to lower NPT, environment risk and leads to cost reduction by reducing formation damage, casings and gas kicks & losses.

Assets acquired in Texas offer American Patriot upside potential to increase production through additional work overs, infill drilling and behind pipe strategies. The Company is planning to start operating assets on its own instead of relying on a JV partner. We believe that American Patriot has no experience in operating wells and will face some challenges in the short run. However, this strategy is expected to benefit the Company in the long run as it will give the Company better control over its cash flows.

5. Use of automated systems to reduce human deployment in adverse environment

Automated systems such as robotic drilling and high speed well communication lead to increase in productivity at lower cost by enabling standardization of operations, lower work stoppages, timely and accurate execution and reduction in monitoring cost. High speed well communication helps in automating drilling by generating real time data from the well downhole diagnosis. It enables the use of MPD and helps save time and cost by detecting transport problems & stuck pipe. It also improves wellbore conditions, generates high data quality related to drilling, and ensures higher safety. Robotic drilling systems are used for land and under water operations. Large companies such as BP use sensors into rigs, wells and pipelines, to derive real time operational data like temperature, pressure, chemicals and equipment vibrations and analyze it to increase productivity and lower safety risk. American Patriot does not use any such automated techniques. Being a small / mid-sized company, American Patriot doesn't need to invest in these automated techniques at this stage.

6. Employment of digital technologies likely to change upstream ecosystem

Implementation of digital technologies are expected to transform the complete value chain of upstream companies from exploration, project execution, to drilling and production. Upstream companies are investing in big data and analytics, cloud & artificial intelligence for faster and accurate information processing in various areas related to production, maintenance, and asset management. Big Data and predictive analytics help in real-time decision making by better understanding of reservoir activity and thus leads to higher refinery efficiency and production. BP has funded an artificial intelligence company, Beyond Limits, for the development of Artificial Intelligence (AI) software used in deep space

exploration missions. They have also partnered with Oceaneering International to explore underwater pipelines and subsea infrastructure in the Gulf of Mexico using Seabed robots.

Big upstream companies, with their strong balance sheet and stable cash flows can invest in big data and analytics. Small cap companies such as American Patriot are building a portfolio of producing reserves to be cash flow positive. Huge investments in analytics is not their focus currently.

Industry Prospects

Oil Industry expected to further increase in the short run: In the short run, oil prices are expected to continue to rise due to production cuts by OPEC as well as instability in Venezuela. There has been recent surge in oil prices as the US government and its allies decided to pull out of the nuclear deal with Iran, reimposing sanctions on the country. However, the increase in oil prices is not expected to last long as the increase in U.S. crude production and increase in supply by Saudi Arabia should offset the decrease in supply from Iran. As per EIA, oil prices are expected to fall marginally in 2019 from 2018 levels, as there is a high probability of total global output exceeding total global demand.

Bleak long-term prospects amid increasing share of renewable energy: In the longer term, the fuel mix is expected to change. Currently, oil & gas which contribute 40% to the total energy demand, is expected to have a share of approximately 25% and the share of renewable energy will grow at the fastest rate and may surpass oil & gas. Share of cleaner fuels such as natural gas is also expected to increase and replace coal as demand for carbon-free energy sources increase, amidst rising environmental concerns. Consumption of crude oil is expected to reduce in the long run due to increase in supply of alternative sources of energy, availability of superior technologies, rising demand of oil due to electrification of transportation, increasing use of renewable energy for industrial and residential uses, and favorable government policies.

Digitization, automation and innovation to drive future growth: Development and application of autonomous systems such as robotic drilling systems for exploration is expected to drive growth of businesses in future. Companies should also reduce dependence on labor as the supply of qualified staff has declined considerably in the oil & gas industry given a history of layoffs and low employment opportunities in the past. The scope for digital technologies to manage operational and decision-making process is high as these can improve real time decision making and reduce operational and exploration cost and improve efficiency. In an increasing competitive environment, the companies which have quality assets, superior drilling techniques, low operating costs and access to digital technology will survive in the long run.

Risk Profile Analysis

1. OPERATIONAL RISKS

A. Risk Definition:

Following are the various parameters considered to define and measure the operational risk of the Company:

- **Regulatory factors:** The location of projects and their regulatory environment are key factors that affect the acquisition of licences and the subsequent development of the project. Obtaining necessary approvals can be time consuming, and any delay could impact operations significantly. Other regulatory risks include non-renewal of licenses, leases, permits etc.
- **E&P techniques:** The development plan for the assets, including resource determination, extraction and production methodology, and the corresponding capex estimates, together define the operational efficiency of the project. The high quality of reserves and the ease of extraction provide higher return on investment and reduce the operational risk involved.
- **Other operating factors:** Technical ease, implementation of new technologies for operations, and availability of operators also determine the operational risk of projects.

We consider a project based on all the above parameters and assign high/medium/low risk profiles in comparison with their peers. Also, as the company matures, the operational risk gets reduced considerably.

High risk: A Company is considered as having a high operational risk profile when its assets are in early stage of development and are located in regions with regulatory uncertainties.

Medium risk: A Company is considered as having medium operational risk, if it has already made some progress progresses towards the acquisition of necessary licenses and environmental clearances. Also, depending on the reserve and the possible methodologies of extraction and development, an operational risk profile is assigned in comparison with peers.

Low risk: A company that is in the advanced stages of development has attractive project characteristics such as high percentage of proven and producing reserves, healthy cash flows, and low opex etc. Such a company has a low operational risk profile.

B. Risk Analysis:

- **Regulatory risk:** American Patriot's operations depend heavily on obtaining and maintaining appropriate licenses, concessions, leases, claims, permits and regulatory consents which may be withdrawn or made subject to limitations. The maintenance of license and contracts, obtaining renewals, or getting them granted may depend on American Patriot being successful in obtaining required statutory approvals for its proposed activities. American Patriot is exposed to the risk that

such renewals are not granted or are revoked to the detriment of American Patriot. However, the Company has already made significant progress and has posted a bond with Texas Railroad Commission to become a licensed operator. Further, the state of Texas has policies that are favorable to the oil and gas sector, which reduces risk for long-term operations in the state. Overall, the Operational Risk due to regulatory factors is MEDIUM for the Company.

- **Risk in reserve & resource determinations:** Significant judgement is required by management when assessing each area of interest and therefore management judgement carries the risk of being misstated. Reserve and resource determination may alter as new techniques or information becomes available or as analysis change. Any alterations to exploration, development and production plans may adversely affect American Patriot's operations. However, the Company is focused on acquiring only those assets which have significant 1P proven reserves and are producing. The Operational Risk due to this factor is LOW for the Company.
- **Risk of lease expiry:** Successful drilling is fundamental to the appraisal and development of the leases and the leases may expire if there is no production within a specified period, with the lease holder losing its right to continue to explore oil and gas on the relevant land. In projects such as Northern Star, where American Patriot is a non-operating leaseholder, American Patriot has less control over the timing of drilling and therefore faces higher risk of lease expirations. However, these legacy projects contribute little value to the business and the strategy of the Company has now changed. The focus is to apply advanced techniques to newly acquired assets and accelerate production. This will reduce the risk of lease expiration to a larger extent. Overall, the Operational Risk due to this parameter is MEDIUM for the Company.
- **Risk in exploration, development and production:** American Patriot's future profitability depends on the results of exploration, development and production. Money invested on such activities is no guarantee of economically viable results. Drilling activities are subject to risks of curtailment/cancellation due to weather conditions, mechanical difficulties, shortages or delays in the delivery of rigs, etc. Although American Patriot insists on having sector experience and claims to have excess to highly qualified and technical team of engineers, it has yet to prove itself as a successful operator. Aggressive plan to grow through acquisitions, may bring down focus on operational improvements in the short term as different Company initiatives compete for management time. The Operational Risk due to these factors is HIGH for the Company.
- **Other risks in project execution:** In projects where American Patriot is not the operator of the leases, the Company is dependent on the efficiency and capability of outside operator, which in some cases could be a JV partner. Any failure by JV partner to meet its commitment (to drill and operate wells etc.) by due date will expose American Patriot to project execution risk. Although the Company is in the process of becoming a full-fledged operator itself, these risks may continue in the short run. The Operational Risk due to this parameter is LOW for the Company.

C. Risk Rating:

We believe American Patriot has a **MEDIUM** operational risk profile based on all the above parameters.

2. FINANCING RISK

A. Risk Definition:

Initial stages of project development, including exploration and resource estimation, require higher capital investment. Investments in the exploration stage can be riskier, as the economic viability of region/project is not established. As the project stages proceed, a company has varied options such as equity (IPO) and debt financing, among others.

High risk: Companies in the initial stages of project development without proper estimates on funding requirements and a clear view on financing options are considered to have high financing risk.

Medium risk: When a company has established reasonable estimates on funding requirements and has visibility on early funding for planned project milestones, it is estimated to have medium financing risk.

Low risk: When a company's funding requirements are clearly stated and has already secured adequate funding, the company has low financing risk.

B. Risk Analysis:

- Capital is like a raw material for American Patriot. The business model heavily relies on acquisitions for growth. Cash flows from operations would not be adequate to fund these acquisitions and timely fund raising is critical for the business.
- American Patriot has a professional approach to fund raising and plans well in advance on the upcoming funding requirements. Even before completion of any acquisition, the Company engages third party consultants to prepare independent reserve reports to estimate investments that would be required in addition to the acquisition price.
- The Company has decent track record of raising capital in the past. It raised AUD 8.181 million through an IPO in 2014. Subsequently, it raised AUD 6.95 million in Equity, including recent equity raise of AUD 1,450,089 between July and December 2017, as well as some additional debt to fund recent acquisitions.
- The Company also has a good track record of paying debt back in time. It did not report any debt on the balance sheet as on June 30, 2017.
- With no outstanding debt as on June 30, 2017, and equity capital of 4.8 Million, the Company's Balance Sheet can support future debt raises.
- In September 2017, the Company signed a term sheet with Arena Investors LLP for a USD 40 million debt facility to fund its acquisitions and further developments. American Patriot has also been successful in raising equity from public and private placement of shares.

C. Risk Rating:

Although the Company has a successful track record and has secured funding for imminent acquisitions, the risk of financing cannot be understated. We believe American Patriot has a **MEDIUM** financing risk profile.

3. ENVIRONMENTAL RISK

A. Risk definition:

Exploration and development activities are subject to state and federal environmental laws. Production of oil and gas can adversely impact the environment due to improper handling of hydrocarbons, emissions to air and water, improper disposal of wastes, etc. The Company is subject to various operational risks and hazards such as explosions, pipe failures, gas leaks etc. Such events could lead to loss of life, damage to property, natural resources, other environmental damages.

B. Risk Analysis:

American Patriot may be exposed to environmental costs and liabilities that would affect American Patriot's operations and reduce the funds available with the Company for future explorations and developments. American Patriot is also exposed to risks due to changes in government policies. The Company holds participating interests in petroleum exploration interest. However, there have been no known breaches of the tenement conditions, and no such breaches have been notified by any government agencies during the past 3 years.

C. Risk Rating:

We believe American Patriot's risk profile is **MEDIUM** based on above parameters.

4. KEY PERSONNEL RISK

A. Risk Definition:

A company is considered to have a low risk profile, if the management team is highly qualified, has good experience in the resource sector and the company does not have high dependence on a few people. Better the quality and profile and higher the number of independent directors on the board, lower is the key personal risk for a company.

B. Risk Analysis:

American Patriot's management team is knowledgeable with decades of experience in the oil & gas and financing industry. The Company has a small team and high dependence on a few people. It often contracts engineering and operational talent from outside and is yet to build a reliable operating team. The Company has one Independent Director on its board.

C. Risk Rating:

We believe American Patriot has a **HIGH** key personnel risk profile.

American Patriot is also exposed to the following additional risks:

Commodity price risk:

Revenue of the Company is exposed to external factors such as fluctuations in oil and gas prices and the exchange rates. Viability of the entire business is dependent on future oil and gas prices and any price decline could result in production becoming uneconomical.

Economic risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on American Patriot's exploration, development and production activities. Share market conditions may also affect the value of American Patriot's quoted securities. Market conditions are affected by general economic outlook, interest rates, currency fluctuations, inflation rates, demand of capital etc.

Credit risk:

The Company undertakes due diligence of potential project acquisitions and pays deposits prior to due diligence commencement. Although the deposits are fully refundable in case the acquisition does not materialize, the Company is still exposed to credit risk if the counterparty defaults and the deposits are not recovered.

Foreign currency risk and interest rate risk:

The Company undertakes transactions in foreign currency and is therefore exposed to risk due to foreign exchange rate fluctuations. The Company operates in U.S. with the functional currency as USD but the results are presented in AUD. Therefore, the results of operations in U.S. and net assets are exposed to exchange rate fluctuations.

The Company is also exposed to interest rate risk in relation to short term deposits held with financial institutions.

We have factored in these risks while arriving at the discount rate to be applied to the Company's cash flows for calculating the Equity Value.

Financial Analysis

Financial Analysis

1. American Patriot's cash position

- American Patriot has been dependent on proceeds from sale of shares and options to meet its expenditures.
- From FY 2013 to FY 2017, the Company spent AUD 9.6 million on payments to suppliers and employees and AUD 6.1 million on payments for exploration and evaluation. Over the same period, Company earned AUD 0.17 million from production revenue and AUD 3.028 million in a farm-out agreement. The Company received net income during the Oct-Dec quarter of 2017 amounting AUD 56,146 from production in South Texas assets.
- Given rising oil prices, American Patriot is expected to benefit from production in Texas acquired assets. However, at the same time, it would make acquisition of production assets challenging.
- The Company had a cash balance of AUD 0.49 million as at 30 June 2017. Though the current cash balance is low, American Patriot can fund its future acquisitions from a mix of cash, debt and revenue from production in Texas assets.
- We believe that the Company has challenges in maintaining a stable cash position and the Company needs to generate production revenue to mitigate this risk.

2. Liquidity

- American Patriot had a current ratio of 8.3 in 2015 as against 0.6 in 2014. This was because of massive increase in cash balance between the two years due to fund raised IPO proceeds. On excluding the cash received from IPO proceeds, American Patriot would have a negative ratio signaling its inability to meet short term liabilities.
- American Patriot had a current ratio of 9.1 in 2017 as against 20.3 in 2016. The figure in 2016 is inflated due to inflated Current Assets owing to cash received from sale of shares in FY 2016.
- Even though American Patriot's cash balance has remained low, the Company has very few current liabilities.

3. Debt and Equity structure

- Currently, American Patriot has relatively low outstanding debt. However, given the Company's aggressive acquisition plan, further debt raises would increase the debt on the Balance Sheet.
- American Patriot has also signed a term sheet for debt facility of USD 40 million to fund its acquisitions. The expected cash flows would not be able to fund the margin required for future acquisitions and the Company would have to fund that through additional equity raises.

4. Profitability

- American Patriot had a negative Return on Equity in the past years due to various reasons. The Company incurred huge losses in the past owing to little revenue but substantial operating expenses in terms of corporate, travel and consulting expenses and employee benefit expenses.
- American Patriot is expected to achieve a positive return on equity by FY 2019.
- The Company also had a negative Return on Assets in the past years. The Company is expected to achieve a return of 2.2% in FY 2019.

Valuation

Equity Value of American Patriot stands between **AUD 9.398 million and AUD 11.486 million.**

Fair price per share for American Patriot stands between **AUD 0.035 and AUD 0.043.**

Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent, depending on the sub-sectors in which the research is conducted. But all Arrowhead valuation researches possess an underlying set of common principles and a generally common quantitative process.

With Arrowhead commercial and technical due diligence, Arrowhead researches the fundamentals, assets and liabilities of a company, and builds estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance such as price/earnings ratios, indicated as applicable, are mainly for reference. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

We have presented the discounted cash flow estimate approach for FCFF valuation. We have also presented Asset based valuation and Comparable Company Analysis. The fair value bracket is built on the basis of these three methods.

Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analyses such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for projects, especially relevant to projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a valuation tool.

In principle, an investor comfortable with the high brackets of our key variable analysis will align with the high bracket in the Arrowhead Fair Value Bracket, and, likewise, in terms of low estimates. The investor will also note the company intangibles to analyze the strengths and weaknesses, and other essential company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in investor's own analysis.

The bracket should be taken as a tool by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader must also understand that while on the one hand global capital markets contain inefficiencies, especially in terms of information, on the other, corporations and their commercial and technical positions evolve rapidly. This present edition of the Arrowhead valuation is for a short to medium-term alignment analysis (one to twelve months).

Estimation of Final Equity Value

Value of American Patriot's equity has been arrived at using three approaches- Comparable Company Analysis, Asset Approach and DCF Valuation Approach. The results have been summarized in the table below.

(All figures in AUD)

Valuation Approach	Equity Value (as on 18-May-2018)	Price per share	Weight (%)
Comparable Company Analysis	11.859 million	0.044	50%
Asset Approach	4.670 million	0.018	25%
DCF Valuation	13.380 million	0.050	25%
Weighted Average Equity Value	10,442 million	0.039	100%

Share Price Range

	Variance	Equity Value as on 5/18/2018	Price per Share (in AUD)
Downside Case	-10%	9,398	0.035
Base Case	0	10,442	0.039
Upside Case	10%	11,486	0.043

Following is the detailed methodology of the three valuation approaches:

1. Comparable Company Analysis

Comparable Company Analysis method operates under the assumption that similar companies will have similar valuation multiples, such as EV/EBITDAX. We have shortlisted companies similar in business with American Patriot based on parameters such as market size, regions of operations etc.

A list of available statistics for the companies was compiled, and the EV/EBITDAX, P/CF, EV/Reserves, EV/Daily Production and Market Cap/ PV10 multiples were calculated for each of the comparable companies. Since most of the data was not normalized, we have left outliers in our calculations. The weighted average of the resulting multiples was then calculated and used as benchmark for valuing American Patriot.

The weights allocated to the comparable companies were based on the degree of their business match with the subject company. The results have been tabulated below.

(Figures in AUD thousands)

Relative Valuation based on:	Weights	Equity Value as on 18-May-2018	Implied Share Price
EV/EBITDAX	25%	2,679	0.010
EV / Proven and Probable Reserves	20%	35,357	0.133
EV / Daily Production	15%	13,889	0.052
Price / Cash Flow	20%	7,051	0.026
Market Cap / PV10	20%	3,123	0.012
Weighted Average		11,859	0.044

Stock Exchange	Ticker	Company Name	Business Match %	EV/ EBITDAX	EV/Proven & Probable Reserves	EV/Daily Production	Price/ Cashflow	Market Cap/PV10
ASX	AOK	AusTex Oil	80%	4.6	(1.3)	(3,603)	4.2	0.2
NYSE American	CEI	Camber Energy, Inc.	80%	-	0.3	2	(0.3)	0.1
ASX	E2E	Eon NRG	80%	8.4	7.7	27	147.1	0.2
NYSE American	HUSA	Houston American Energy Corporation	80%	(9.0)	23.9	682,686	(9.3)	2.3
NYSE American	YUMA	Yuma Energy, Inc.	75%	3.6	6.7	21,685	3.3	0.1
ASX	XST	Xstate Resources Ltd	60%	(4.8)	-	29,015	(4.6)	-
NASDAQ	TRCH	Torchlight Energy Resources	60%	(207.1)	13,603.3	3,812,994	190.4	923.3
NYSE American	TGC	Tengasco, Inc.	60%	47.0	11.6	35,586	50.0	0.9
ASX	SEA	Sundance Energy Australia	50%	11.5	15.4	97,053	4.8	947.3
NASDAQ	LONE	Lonestar Resources	50%	7.6	8.3	97,464	4.1	0.3
NYSE American	MCF	Contango Oil & Gas Company	35%	7.4	5.6	-	3.3	0.4
Median				4.6	7.7	29,015	4.1	0.3
Mean without Outliers				6.3	8.0	28,762	3.9	0.2
Weighted Average without Outliers				6.0	6.1	8.2	28,230	3.9
ASX	AOW	American Patriot Oil & Gas Limited		5.6	2.6	15,772	3.7	0.4

Sensitivity Analysis

We have also analyzed the sensitivity of Company's equity value to industry multiples such as EV/EBITDAX, EV/Proven & probable Reserves, calculated in the Comparable Company Analysis method.

Sensitivity based on EV/EBITDAX Multiple

Target Multiple	Equity Value (AUD)	Price per share (AUD)
5.0x	(443)	(0.00)
6.0x	2,427	0.01
7.0x	5,296	0.02

Sensitivity based on EV/Proven & Probable Reserves Multiple

Target Multiple	Equity Value (AUD)	Price per share (AUD)
7.0x	28,211	0.106
8.0x	34,354	0.129
9.0x	40,497	0.152

Sensitivity based on EV/Daily Production Multiple

Target Multiple	Equity Value (AUD)	Price per share (AUD)
27000.0x	12,640	0.047
28000.0x	13,656	0.051
29000.0x	14,672	0.055

Sensitivity based on Price/Cash Flow Multiple

Target Multiple	Equity Value (AUD)	Price per share (AUD)
3.0x	5,363	0.020
4.0x	7,150	0.027
5.0x	8,938	0.034

Sensitivity based on Market Cap/PV10 Multiple

Target Multiple	Equity Value (AUD)	Price per share (AUD)
0.1x	2,103	0.008
0.2x	4,205	0.016
0.3x	6,308	0.024

2. Asset Approach

Asset Approach has been used to compute values for each of American Patriot's already acquired assets – Anasazi & Lost Lake, Goose Creek and to be acquired assets- Safari, CWS and Peak Energy. We have assumed that all impending acquisitions deals would close by April 2018.

We have discounted the entire value of legacy assets since they have very little value. For the value of new Texas acquisitions, PV10 values serve as benchmark. We have tried to calculate asset values in a similar manner as PV10 calculations.

Following is the summary of PV10 values. We have compared our computed values with PV10 values as per third party independent valuation and values reported in Company's AGM presentation.

PV10 values:	Anasazi	Safari	CWS	Lost Lake, Goose Creek	Peak Energy
Computed values as on 6/30/2018	7,852	1,910	3,829	5,579	6,822
As per third party independent valuation	3,712	-	-	3,701	6,567
As reported in AGM presentation	-	-	-	3,827	7,332

Apart from the costs considered in PV10 calculations, there is an additional impact on cashflows due to royalty and corporate overheads. Additionally, the Company has expressed interest in increasing production of these assets beyond the current level. Therefore, additional investment for increasing production will be a negative cash flow. Also, since we see additional risk in these assets, we have applied a modified discount rate of 15%.

In our valuation approach, we have derived the value that is expected to be created because of acquisitions. Also note that in some cases, value has been destroyed by paying too much for the assets.

Implied Share Price as per this approach is **AUD 0.018**.

(All figures in AUD thousands)

Asset Approach	
Value created / (destroyed) because of acquisition:	
Anasazi	2,723
Safari	1,056
CWS	633
Lost Lake, Goose Creek	2,278
Peak Energy	(2,020)
Book Value of Legacy assets as on 18-May-2018:	0
Asset based Equity Value for American Patriot as on 18-May-2018	4,670
No. of Shares Outstanding	266,730
Implied Share Price (in AUD)	0.018

Our analysis shows that the current Texas acquisitions may not end up creating a lot of value for the company and the purchase price paid for these acquisitions seems to be on the higher side.

3. Discounted Cash Flow (DCF) Approach

- **Valuation Methodology:** The Arrowhead fair valuation for American Patriot Oil & Gas Limited is based on the Discounted Cash Flow (DCF) analysis of the Company's exploration & evaluation assets and the recently acquired Texas assets – Safari, Anasazi, CWS; Lost Lake/Goose Creek and Peak Energy.
- **Time Horizon:** The time period chosen is based on the life of various assets under consideration. Period chosen for valuation is 17 years (2018E – 2034E).
- **Terminal Value:** Terminal value is based on three criteria – Assets, EBITDAX multiple and Proven & probable reserve multiple.
- **Prudential Nature of Valuation:** This Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it is based on the company's current projects and excludes the value of other projects.

The following table calculates the weighted average cost of capital (WACC) for AOW, based on assumed values for debt and equity, as well as assumed risk similar to that of the broader market.

WACC	
Risk-free rate	3%
Beta	1.1
Expected Annual Return on Market	15.0%
Cost of Equity	16.2%
Cost of Debt	10.0%
WACC (Discount Rate)	9.3%

The following tables summarize the free cash flow to equity calculations, which are subsequently discounted at the WACC.

FCFF (Figures in AUD thousands)							
	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	(1,367)	2,523	2,774	3,454	4,593	5,186	11,499
Taxes	-	-	-	-	-	-	-
Depreciation	32	29	9	7	6	4	4
Amortization Expenses	1,419	3,020	5,950	7,818	9,649	11,471	13,287
Exploration Costs written off	3,276	-	-	-	-	-	-
Capital Expenditure	31,524	700	33,971	26,768	26,286	27,299	28,649
Change in Net Working Capital	478	(703)	(406)	539	(83)	125	(1,278)
Free Cash Flow to Firm	(28,643)	5,575	(24,833)	(16,029)	(11,956)	(10,763)	(2,581)
Present Value	(28,643)	5,101	(20,786)	(12,275)	(8,377)	(6,900)	(1,514)

FCFF (Figures in AUD thousands)							
	2025E	2026E	2027E	2028E	2029	2030	2031
EBIT	14,073	14,386	14,567	14,710	15,089	15,488	20,592
Taxes	670	2,060	3,259	4,329	4,527	4,646	6,178
Depreciation	3	2	2	1	1	1	1
Amortization Expenses	13,159	13,111	13,070	13,019	12,947	12,921	12,833
Exploration Costs written off	-	-	-	-	-	-	-
Capital Expenditure	-	-	-	-	-	-	-
Change in Net Working Capital	2,005	417	(21)	10	(40)	(34)	(917)
Free Cash Flow to Firm	24,560	25,022	24,401	23,391	23,550	23,798	28,165
Present Value	13,179	12,285	10,960	9,613	8,855	8,186	8,865

FCFF (Figures in AUD thousands)			
	2032	2033	2034
EBIT	24,302	23,825	9,067
Taxes	7,291	7,148	2,720
Depreciation	1	-	-
Amortization Expenses	12,744	12,483	6,296
Exploration Costs written off	-	-	-
Capital Expenditure	-	-	-
Change in Net Working Capital	284	882	6,355
Free Cash Flow to Firm	29,472	28,279	6,288
Present Value	8,487	7,450	1,516

We have calculated the terminal value at the end of 2034 using three different methods and have given a weightage to each of them to arrive at the final Equity Value.

Enterprise Value Calculation	Terminal Value based on Assets	Terminal Value based on EBITDAX multiple	Terminal Value based on Proven and Probable Reserve multiple
Closing Book Value of Production Assets (FY 2033)	6,296		
EBITDAX (FY 2033)		36,309	
Proven & Probable Reserves (FY 2033)			1,979
Industry Multiple*		6.1	8.2
Terminal Value (TV)	6,296	221,050	16,152
Present Value of TV	1,518	53,280	3,893
Enterprise Value as on 6/30/2018	17,518	69,281	19,893

Method for Terminal Value Calculation	Enterprise Value	Weights
Book Value of Exploration and Production Assets	17,518	33%
EBITDAX	69,281	33%
Proven & Probable Reserves	19,893	34%
Weighted Average Enterprise Value as on 6/30/2018	35,407	100%

Enterprise Value as on June 30, 2018	35,407
Debt as on 6/30/2018	21,789
Equity Value as on 6/30/2018	13,619
Equity Value as on 5/18/2018	13,380
No. of Shares Outstanding	266,730
Implied Share Price (in AUD)	0.050

The equity value of the Company is sensitive to cost of equity. The following table captures the sensitivity of American Patriot's Value to these assumptions.

(Figures in AUD thousands)

Cost of Equity	Equity Value as on 18-May-2018
13%	22,287
14%	19,523
15%	16,856
16%	14,282
17%	11,798

Analyst Certifications

I, Ankit Gupta, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

I, Srishti Gulati, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

Important disclosures

Arrowhead Business and Investment Decisions, LLC received fees in 2018 and will receive fees in 2018 from American Patriot Oil & Gas Limited for researching and drafting this report and for a series of other services to American Patriot Oil & Gas Limited, including distribution of this report, investor relations and networking services. Neither Arrowhead BID nor any of its principals or employees own any long or short positions in American Patriot Oil & Gas Limited. Arrowhead BID's principals have a mandate for investment banking services from American Patriot Oil & Gas Limited and expect to receive compensation for investment banking activities from American Patriot Oil & Gas Limited in 2018.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgment.

Any opinions expressed in this report are statements of our judgment to this date and are subject to change without notice.

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, any of the financial or other money-management instruments linked to the company and company valuation described in this report, hereafter referred to as "the securities", may not be suitable for all investors.

Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Investors are advised to gather and consult multiple information sources before making investment decisions. Recipients of this report are strongly advised to read the information on Arrowhead Methodology section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision taking process.

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Appendix

Glossary

AOW	American Patriot Oil & Gas Limited
AUD	Australian Dollar
USD	US Dollar
PSA	Purchase & Sale Agreement
LOI	Letter of Intent
JV	Joint Venture
HBP	Held by Production
GWI %	Gross Working Interest %
NRI %	Net Revenue Interest %
Bcf/d	Billion Cubic Feet per day
Boe	Barrels of Oil Equivalent
Mboe	Thousand Barrels of Oil Equivalent
Mmboe	Million Barrels of Oil Equivalent
Mmbtu	Million British Thermal Units
Mb/d	Million Barrel per day

Notes and References

ⁱ Bloomberg as on 18-May-2018

ⁱⁱ 30 Day Avg Volume from Bloomberg as on 18-May-2018

ⁱⁱⁱ American Patriot Oil & Gas Limited - Annual Report – 30 June 2017

^{iv} https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

^v https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

^{vi} <https://www.iea.org/newsroom/news/2018/march/record-oil-output-from-us-brazil-canada-and-norway-to-keep-global-markets-well-.html>

^{vii} <https://www.ogj.com/articles/2018/03/iea-more-investment-needed-to-spur-oil-supply-after-2020.html>

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^{ix} [https://www.eia.gov/outlooks/ieo/pdf/0484\(2017\).pdf](https://www.eia.gov/outlooks/ieo/pdf/0484(2017).pdf)