

**For Immediate Release ASX Announcement**

27 February 2019

## **TMS Initial Drilling Program Update**

### **Highlights**

- Initial 6 well drilling program underway
- Well #1 continues to produce flow rates materially ahead of the TMS Type Curve
- Well #2 is producing at modest rates which Australis believes are not representative of the TMS
- Well #3 drilled and cased, awaiting stimulation
- Well #4 casing now being run after technical challenges experienced whilst pulling out of hole having completed the lateral drilling
- New technology to be applied to the drilling fluid system from Well #5 onwards specifically intended to address Well #4 technical issues
- Wells #3 and #4 to be fraced in March and IP30 production data expected end April
- Nabors drill rig to commence drilling Wells #5 and #6 from their current pre-drilled surface casing depths
- Preparations for Wells #7 to #10 have commenced

Australis (ASX: ATS) provides the following operational update on the initial drilling program which commenced at the end of Q3 2018 with the following strategic objectives:

- repeat the productivity results and drilling times achieved by Encana in 2014 for the wells within the TMS Core but at the current cost base;
- demonstrate the well economics of the TMS Core acreage with a set of new wells and lift the overall value of the substantial reserves and resources position that Australis holds within the TMS Core;
- convert further acreage to HBP status to help maintain control and flexibility on the development capital obligations; and
- significantly increase field cashflow.

Following the recent share placement, Australis has commenced preparations for Wells #7 – #10 of the initial drilling program and anticipates adding to the 110,000 net acres held within the TMS Core.

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The table below summarises the status of the first 6 wells of the initial drilling program.

Well Number	Well Name	Operational status
1	Stewart 30H-1	Lateral length drilled of 6,900 ft, completed 20 stages, IP30 of 1,177 bbl/day which was 34% above the TMS Type Curve. The well has now been on production for almost two months and has maintained the same margin relative to the TMS Type Curve.
2	Bergold 29H-2	The well was completed with 5 effective stages and continues to produce at modest rates of ~100 bbl/day through the production casing, artificial lift will be installed in early March and this is expected to increase rates. As previously disclosed, Australis does not believe the Bergold 29H-2 is representative of the play.
3	Taylor 27H-1	Lateral length drilled and cased to a depth of 19,138 ft, awaiting completion operations on 6,800 ft horizontal section.
4	Williams 26H-2	Plan to case and complete to a depth of approximately 15,600 ft with a lateral length of approximately 3,000 ft.
5	Saxby 03-10 2H	Vertical surface hole drilled and cased to a depth of 3,210ft, awaiting main rig.
6	Quin 41-30 3H	Vertical surface hole drilled and cased to a depth of 3,220ft, awaiting main rig.

#### Well #4, Williams 26H-2 – Technical Issues Experienced and Rectification Identified

##### *Drilling Operations*

The Williams 26H-2 was drilled to a depth of 19,212 ft when a downhole tool failed and the decision was made to make this a final depth rather than round trip another drilling bottom hole assembly (BHA). This corresponds to a horizontal length of 6,450 ft being successfully drilled, approximately 90% of the planned length.

The rig began protocols in preparation for pulling out of the hole prior to running casing and initially operations proceeded as planned. However, early on Sunday 24 February (AEST) the drill string became stuck whilst pulling out of hole and circulation was lost with the bit at a depth of 17,810 ft.

Attempts over the next 36 hours to move the assembly or establish circulation were unsuccessful, but the drill string has now been recovered down to a depth of 15,640ft. Based on a detailed risk analysis Australis has taken the decision not to attempt fishing operations to retrieve the BHA but to complete the approximate 3,000ft lateral available and at the time of this announcement is preparing to run casing. The well is planned to be completed with 9 stages and our expectation is its production will be equivalent to approximately 40% of the TMS Type curve.

The fracture stimulation equipment and personnel are expected to move onto location following conclusion of Williams 26H-1 operations within the next 7 days and commence stimulation of this well and the Taylor 27H-1.

##### *Cause and Rectification*

The wellbore failure mechanism on the Williams 26H-2 is different to that seen on the Bergold 29H-2, where the instability encountered was above the reservoir due to a localized highly fractured structural feature. In this case, the wellbore issues are within the horizontal target zone and are more typical of difficulties encountered in the TMS historically by previous operators. Australis has to date been utilising a drilling design that was consistent with the best practice achieved in 2014 by previous operators and had proven effective until the very last step of the Williams 26H-2, the fourth well of the initial drilling program.

During the planning of the initial drilling program in 2018 the Company had identified an opportunity to apply new technology to the drilling fluid system used in the horizontal wellbore, which could make a further positive step change in the de-risking drilling operations. The drilling fluid was not used on the first four wells, as the evaluation of operational conditions and real time well data was needed to refine

the fluid design. In early February 2019 the internal decision was made that the engineering analysis was complete and the new drilling fluid system, based on lead times, could first be utilized on well #5 and preparations commenced accordingly. This drilling fluid system is designed and has been tested to specifically address the issues encountered on the Williams 26H-2 well.

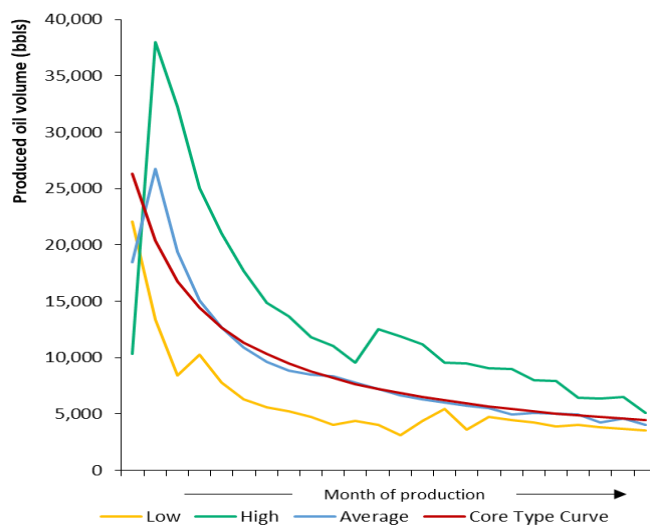
*Next Steps*

The Nabors B14 rig will now move to the Saxby and Quin pad location to drill wells #5 and #6 from the pre-drilled surface casing depths, and the new drilling fluid will be used in the horizontal well sections. Australis anticipates that the IP30 data for the Taylor 27H-1 and Williams 26H-2 wells will be available around the end of April.

**Initial Drilling Program - Background**

**Drill Program:** The Nabors drilling rig has been contracted to drill a minimum of 6 wells with the ability to negotiate an extension after this initial program.

**Key Objective:** For the average production performance of the initial new wells to replicate the historical well performance achieved within the TMS Core from wells drilled in 2014, but at the current cost base. The range and average production performance of the 15 wells drilled by Encana in 2014 and used by Australis to generate its type curve is shown below in Figure 1. The target for Australis is that the average performance of new wells drilled will be equal to the red line shown below. In doing so the intention is to demonstrate the attractive TMS Core well economics and lift the value of the 110,000 net acres Australis holds in the TMS Core and the inventory of 410 net future well locations.



*Figure 1: Monthly TMS production - the average, upper and lower range of the 15 wells drilled by Encana in 2014*

**Well Selection:** All planned well sites are within the Company designated TMS core and have been selected on the basis of a variety of criteria including reservoir quality, proximal well production performance and surface factors such as access roads and power.

**Funded:** Funding will be sourced from Australis’ US\$38 million in cash as at 1 January 2019 (which following settlement of the recently announced placement will be US\$59 million on a proforma basis) and the credit facility with Macquarie Bank for up to US\$75 million, of which only US\$10 million has been drawn. As previously mentioned, following settlement of the placement, proceeds will be used to increase financial flexibility for negotiation of rig and other services for the next phase of the TMS initial drilling program after the sixth well, acquire additional de-risked TMS Core area lease holdings and strengthen the balance sheet and working capital.

## Ends

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## About Australis Oil & Gas Limited (Australis)

Australis (ASX: ATS) is an ASX listed upstream oil and gas company seeking to provide shareholders value and growth through the strategic development of its quality onshore oil and gas assets in the United States of America and Portugal. Australis' 110,000 net acres within the production delineated core of the oil producing TMS provides significant upside potential with an estimated 410 net future drilling locations, and an independently assessed 50 MMbbl of 2P oil reserves (including 4 MMbbl producing reserves providing net free cash flow)<sup>1</sup> as well as 108 MMbbl of 2C contingent oil resource<sup>1</sup> (based on net acreage at the effective date of the report of 110,000 acres). The Company was formed by the founders and key executives of Aurora Oil & Gas Limited, a team with a demonstrated track record of creating and realising shareholder value.

## GLOSSARY

Unit	Measure	Unit	Measure
<b>B</b>	Prefix – Billions	<b>bbl</b>	Barrel of oil
<b>MM</b>	Prefix – Millions	<b>boe</b>	Barrel of Oil equivalent (1bbl = 6 mscf)
<b>M</b>	Prefix – Thousands	<b>scf</b>	Standard cubic foot of gas
<b>/d</b>	Suffix – per day	<b>Bcf</b>	Billion cubic feet of gas

Term	Definition
<b>TMS Core</b>	The Australis designated productive core area of the TMS delineated by production history
<b>WI</b>	Company beneficial interest before royalties
<b>Net or NRI</b>	Company beneficial interest after royalties or burdens
<b>C</b>	Contingent Resources (1C/2C/3C equivalent to low/most likely/high)
<b>NPV(10)</b>	Net Present Value (@ discount rate)
<b>EUR</b>	Estimated Ultimate Recovery of a well
<b>WTI</b>	West Texas Intermediate oil benchmark price

<b>LLS</b>	Louisiana Light Sweet oil benchmark price
<b>D, C&amp;T</b>	Drill, Complete and Tie - in
<b>2D/3D</b>	2 and 3 dimensional seismic surveys
<b>Opex</b>	Operating Expenditure
<b>HBP</b>	Held by production – within a formed unit a producing well meets all lease obligations within that unit. Primary term remains valid whilst well is on production.
<b>PRB</b>	Probable Reserve or 2P Reserves
<b>PDP</b>	Proved Developed Producing Reserves
<b>PDNP</b>	Proved Developed Not Producing Reserves
<b>PUD</b>	Proved Undeveloped Reserves
<b>Net Acres</b>	Working Interest before deduction of royalties or burdens
<b>Field Netback</b>	Oil and gas sales net of royalties, production and state taxes, inventory movements, field based production expenses but excludes depletion, depreciation and hedging gains or losses
<b>IP30</b>	The average oil production rate over the 30 days of production.
<b>BPO</b>	Before Pay Out
<b>TMS Type Curve</b>	Refer to the Appendix of the Australis Corporate Presentation

**Notes:**

1. The most recent TMS estimates have been taken from the independent Ryder Scott report, effective 31 December 2018 and announced on 6 February 2019 titled 'Reserve and Resource Update – Year end 2018'. The report was prepared in accordance with the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management (SPE-PRMS) as revised in June 2018. Ryder Scott generated their independent reserve and contingent resource estimates using a deterministic method. The Company is not aware of any new information or data that materially affects the information included in the referenced market announcement and that all material assumptions and technical parameters underpinning the estimates in the referenced market announcement continue to apply and have not materially changed.