Indago Energy Limited

31st October 2016

September 2016 Quarterly Activity and Cashflow Report

Summary

- Cash position at September 30th of A$4.4m
- Company enters into MOU for the acquisition of Hydrocarbon Dynamics
- Newkirk asset in Oklahoma maintained

Financial

At September 30th, Indago Energy had cash resources of $4.4 million compared with cash reserves of $4.9 million at the end of June. The reduction in cash from the previous quarter included a once off payment for a redundancy associated with the previous management of $182,000 which was foreshadowed in the June quarter 5B.

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

Indago holds a 100% WI and 81.25% NRI in 4,049 acres located in Kay County, Oklahoma near Ponca City. The leases were largely acquired during 2015 with a three year primary term and two year bonus term. The project is located within the Mississippi Lime tight oil play, a relatively mature play in which hundreds of wells have been drilled in the past decade (Figure 1).

ABN: 75 117 387 354
Tel: +61 3 9642 2899 | Fax: +61 3 9642 5177
Level 6, 412 Collins Street, Melbourne VIC 3000 Australia

Indago Energy Limited

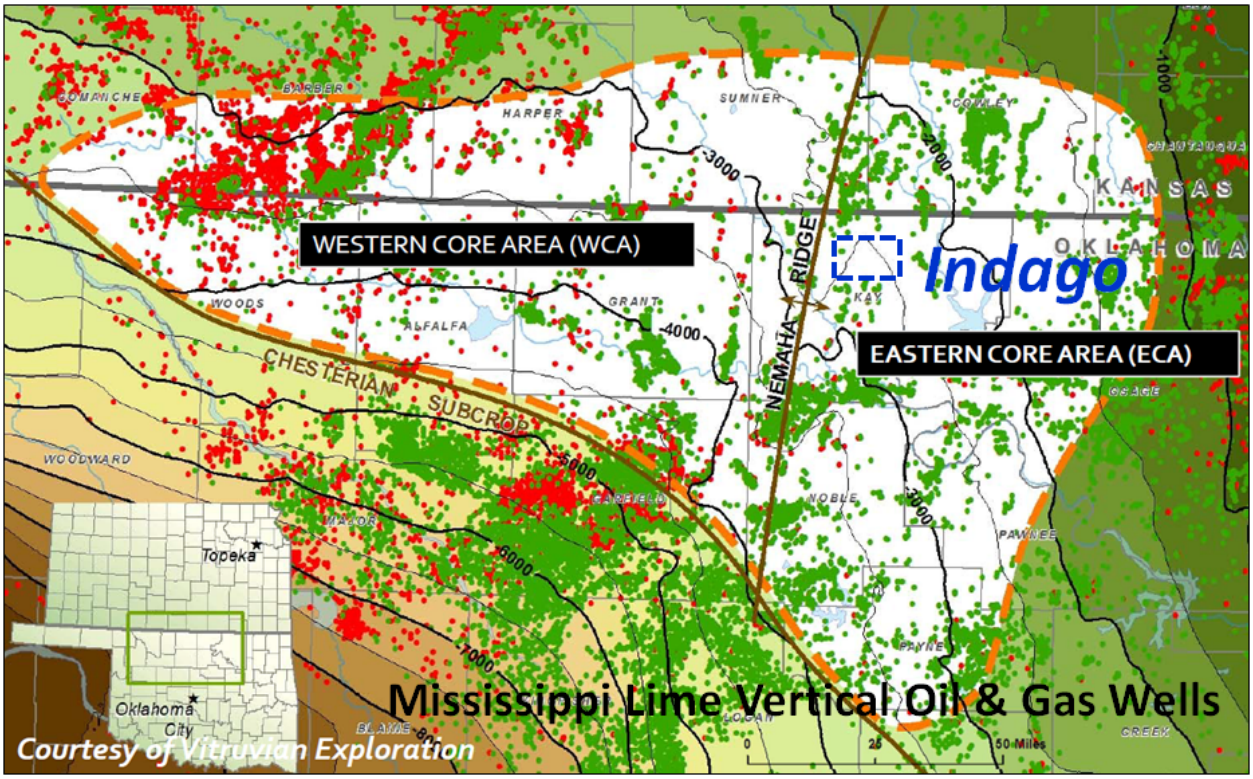


Figure 1: Location.

After a detailed review of the project was completed in the prior quarter, the board decided to maintain the asset and would look to appraise it with Indago's joint venture partner and Operator, Empire Energy Limited (ASX:EEG):

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

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

ABN: 75 117 387 354
Tel: +61 3 9642 2899 | Fax: +61 3 9642 5177
Level 6, 412 Collins Street, Melbourne VIC 3000 Australia

Indago Energy Limited

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

Vertical well recoverable reserves are expected to average ~30 Mstb oil and 200 MMscf gas. Estimated vertical well drill and completion cost is US$0.5m and for SWD wells is expected to be US$0.75m. One SWD well is required for every 10-12 vertical oil producers.

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

Given the improvement in oil prices, the JV is seeking an update on well costs and a review of well economics with a view to testing the play in the first quarter of next year. It should be noted that some of Indago's leases begin to expire in 2017.

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

Corporate

As announced to the ASX on October 28, 2016, Indago Energy has signed a Memorandum of Understanding ("MOU") to acquire the Hong Kong based HCD Holdings Ltd, its related companies and associated Intellectual Property (collectively "the Companies"). Details of the Companies are contained at www.hydrocarbondynamics.com. Together the Companies own a revolutionary new oil technology and business that allows for the swift, clean and cost effective treatment of heavy asphaltenic and paraffinic oils.

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

Indago Energy Limited

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

Key product applications identified and substantiated by successful trials include:

- flow assurance in onshore/offshore pipeline and oil gathering lines that transport heavy or paraffinic crudes;
- flow assurance in the down-hole and near well bore reservoir interface in reservoirs that produce heavy or paraffinic crudes (supported by a companion product, a paraffin consuming faculitive bacterial brew for treatment down hole);
- efficient clean-up, oil recovery and water and sediment separation of tank bottom sludge in oil tank batteries offshore/onshore;
- efficient clean-up, oil recovery and sediment separation in remediation of hydrocarbon contamination sites and potential application to hydrocarbon recovery in tar sands.

HCD Multiflow™ competes directly with and outperforms chemical polymers and toxic solvents (Benzene-Toluene-Xylene) currently utilised to combat paraffin/asphaltene deposition in pipelines, gathering lines and down-hole production tubulars. Key technical advantages that HCD Multiflow™ possesses over its competitors are:

1) efficacy over a much broader application range;

2) immunity to loss in the water phase of produced fluids;

3) much higher "flash point" than typical chemicals used in the industry;

4) advantage of not reducing the products effectiveness when transported through system pumps (Polymer chemistry typicaly shears when agitated by the pump impeller blades greatly reducing the effectiveness of the chemical product);

5) it is non-toxic making it environmentally friendly as well as much safer to handle;

6) HCD Multiflow™ is much less expensive than its competitors in a cost per barrel of oil comparison;

7) Direct Refinery Feed - no re-treatment of crude required before Refining stage.

Indago Energy Limited

The technology is proven, however is at an early stage of application in the industry with current revenues of around A$1.2m. HCD Multiflow™ is currently being used by Malaysia's national oil company, Petronas, on a major offshore platform and pipeline system as well as in India with excellent reproducible results. Indago will use its technical, financial and commercial resources to expand the technology rapidly. Indago will also look to acquire existing oil accumulations where the technology will be used to increase or commence oil production. Many of the world's oil provinces produce waxy or heavy crudes and experience associated production and transport problems and will represent early targets for the growth in both oil production and technology sales.

The parties will commence a period of due diligence while a comprehensive share purchase agreement, royalty agreement and other documentation are entered into. There are a range of conditions precedent in the MOU including, due diligence, respective shareholder approvals at both the Indago and HCD levels, definitive documentation and regulatory approval. Indago therefore cautions that there remains a risk that the transaction will not be completed.

In a staged transaction and subject to the various conditions, Indago will initially pay ~A$1m in cash or assumed liabilities plus 50m fully paid shares and 33.2 million options (exercisable at $0.25c for two years). To secure ownership of the Intellectual Property Indago will also pay a royalty of 5% of net sales to inventor Nick Castellano until those payments total US$20m. The royalty is also subject to a US$20,000/month minimum.

Two performance payments may be earned as follows: Up to an additional 30m Ordinary Shares may be payable upon the HCD business achieving an EBITDA of $USD 4 million for a twelve month period closing March 31, 2018 with 10 shares deducted per $1 of EBITDA below USD 4 million. No shares will issued if EBITDA is below USD 1 million (**Performance Milestone Tranche 1**), and; up to an additional 50m Ordinary Shares payable upon the HCD business achieving an agreed EBITDA of USD8 million for the twelve month period ending March 31st , 2019 with 10 shares deducted per $1 of EBITDA below USD 8 million and no shares issued if EBITDA is below $3m (**Performance Milestone Tranche 2**).

In addition Indago has also agreed finance approximately US$400,000 worth of product for HCD (prior to completion of the proposed transaction) to sell to existing customers to enable the Companies to finance product orders. Indago shareholders will however receive the sale proceeds from this product whether or not the merger completes.

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

Indago Energy Limited

Oil and Gas Tenements

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

For further information please contact:

Stephen Mitchell
Chairman
Indago Energy Limited

Don Beard
Director
Indago Energy Limited

Telephone: +61 3 9642 2899
Website: www.indagoenergy.com

ASX Code: INK OTCQX Code: POGLY

Indago Energy Limited

Glossary

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

ABN: 75 117 387 354
Tel: +61 3 9642 2899 | Fax: +61 3 9642 5177
Level 6, 412 Collins Street, Melbourne VIC 3000 Australia



Indago Energy Limited

ABN: 75 117 387 354
Tel: +61 3 9642 2899 | Fax: +61 3 9642 5177
Level 6, 412 Collins Street, Melbourne VIC 3000 Australia

+Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Indago Energy Limited

ABN	**Quarter ended ("current quarter")**
75 117 387 354	30 September 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
1.	**Cash flows from operating activities**		
144	Receipts from customers	-	144
1.2	Payments for		
	(a) exploration & evaluation	(53)	(108)
	(b) development	-	-
	(c) production	-	(36)
	(d) staff costs	(51)	(666)
	(e) administration and corporate costs	(229)	(1,013)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	23	24
1.5	Interest and other costs of finance paid	(1)	(2)
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other - bond refund	33	36
	Other - redundancy for former management and associated legal costs	(182)	(182)
1.9	**Net cash from / (used in) operating activities**	**(460)**	**(1,803)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
	(c) investments	-	-
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	31	31
	(b) tenements (see item 10)	-	3,060
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**31**	**3,091**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	57
3.6	Repayment of borrowings	(17)	160
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**(17)**	**217**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	4,902	2,849
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(460)	(1,803)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	31	3091
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(17)	217

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
4.5	Effect of movement in exchange rates on cash held	(31)	71
4.6	**Cash and cash equivalents at end of period**	**4,425**	**4,425**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	4,425	4,902
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**4,425**	**4,902**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	89
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	35
9.2	Development	-
9.3	Production	520
9.4	Staff costs	50
9.5	Administration and corporate costs	170
9.6	Other (provide details if material)	
9.7	**Total estimated cash outflows**	**775**

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

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: ..... Date: 31 October 2016
Company secretary

Print name: Julie Edwards

Notes

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