

MARKET ANNOUNCEMENT

Continual Disclosure

AOW MARKET UPDATE

Sydney, 22 May 2019: Further to its announcement on 22 March 2019 ("**22 March Announcement**"), American Patriot Oil and Gas Limited ("**AOW**") provides the following updates in relation to:

- AOW's investigation into its recent rights issue and dispute with its underwriter;
- the proposed acquisition of the Foothills Resources oil and gas assets in Texas ("**Foothills Acquisition**"); and
- the status of AOW's financial accounts.

1. Rights issue and underwriter dispute

As noted in the 22 March Announcement, AOW's board has been conducting a thorough investigation of the accounting treatment of its recent rights issue. While investigations are still ongoing, the board considers it is appropriate to update the market of the key findings of its investigation so far.

By way of background, AOW announced a fully underwritten rights issue to raise \$3M (before costs) on 3 August 2018. A prospectus for the rights issue was lodged on that date (a supplementary prospectus was subsequently lodged on 13 August 2018).

Existing AOW shareholders had applied for 21,309,060 shares (and associated free attaching options) which raised \$532,726.50. On 30 August 2018, AOW issued a shortfall notice requiring the underwriter to subscribe for the remaining 99,916,022 shares (and free attaching options) ("**Shortfall**") and announced the results of the rights issue and details of the Shortfall on 3 September 2019.

As a result of the investigation, the board of AOW has become aware of certain issues arising out of the allocation of the Shortfall and the disclosures relating to the allocation of the Shortfall. These issues are as follows:

- a) A number of investors (clients of the underwriter) ("**Underwriter's Clients**") who were to take up a portion of the Shortfall alleged to have conditionally advanced subscription funds to AOW on the basis that those funds would be:
 - i. applied to the subscription of Shortfall shares provided that the Foothills Acquisition ; or
 - ii. otherwise, returned to the Underwriter's Clients if the Foothills Acquisition failed to complete ("**Conditional Subscription Funds**").

A number of the Underwriter's Clients have made claims against AOW for the return of their Conditional Subscription Funds.

- b) Certain other investors who were issued Shortfall securities did not advance any subscription funds for the Shortfall securities they received. The quantum of the subscription moneys that was not received by AOW is still being ascertained.
- c) Notwithstanding 1 and 2 above, it appears that AOW issued all the securities available under the rights issue (and associated shortfall). Further, it appears that securities may not have all been issued directly to the Underwriter's Clients but instead allocated and issued to other investors. AOW is still reconciling these securities issues and will update the market as soon as it has completed this exercise.

For the reasons above, AOW considers that its announcement of 12 October 2018 advising the market that it had raised the full \$3M pursuant to the rights issue and issued the shortfall securities to clients of the

underwriter will likely be incorrect (subject to completion of its ongoing investigation). Particularly, shareholders are advised that the amounts actually received by AOW pursuant to the rights issue is likely to be materially less than what has been announced previously to the market.

Once the reconciliation exercises referred to in 2 and 3 above have been completed, AOW will provide a more fulsome update advising the exact quantum of the discrepancy in the amount raised. It will also obtain professional advice on the appropriate rectification steps to take in the circumstances.

As a result of the actions referred to above, the new board of AOW is pleased to advise that it has settled all outstanding claims with the underwriter and certain Underwriter's Clients. In total, to settle these claims, AOW agreed to repay a total of \$1,488,075.29 ("**Settlement Amount**") over a 12-month period, with \$1,198,768.45 having been paid as of the date of this announcement. The Settlement Amount includes an amount of \$198,000 that AOW has agreed to pay to the underwriter in satisfaction of all payment obligations under the underwriting agreement. The underwriter has agreed to receive this amount partly in shares and will be issued 4,950,000 AOW shares at an issue price of \$0.02 (i.e, \$99,000 in stock). Subject to this stock being issued, AOW owes a total of \$190,306.84 as at the date of this release under the Settlement Amount.

2. Foothills Acquisition

Since AOW's announcement on 24 July 2018 regarding the signing of an acquisition agreement in relation to the Foothills Acquisition, AOW has been actively seeking financing arrangements to fund the Foothills Acquisition. The board has not been able to obtain such finance on commercial terms which are acceptable to the board and as such the Foothills Acquisition has not completed. The board regrettably informs shareholders that AOW has now received a notice from the vendor terminating the acquisition agreement and as a result, the Foothills Acquisition will not proceed and AOW will forfeit the approximately US\$1 million deposit it advanced pursuant to the terms of the acquisition agreement.

3. Financial accounts

As noted in its announcement of 22 March 2019, AOW continues to work with its auditor on finalising the Half Year Accounts. AOW considers it will be in a position to finalise this once the reconciliation exercises in relation to the rights issue (referred to further above in this announcement) have been completed.

The new board of directors is working expeditiously to resolve all outstanding issues in relation to the completion of the financial accounts and any irregularities which may have occurred over the last year under the stewardship of the previous board. The directors are confident in the outlook for AOW's oil and gas operations. AOW's cash flows remain strong and at this stage, AOW has the ongoing support of its main creditor, Defender No.2 Fund P/L.

The directors will continue to update the market in relation to the above matters.

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About American Patriot Oil and Gas

American Patriot Oil and Gas (AOW) is an oil and natural gas exploration and development (E&P) group headquartered in Houston, Texas, with a registered office in Sydney, Australia. The Company is focused on developing a significant conventional oil and gas production company focused on assets in the Texas and Gulf Coast region. The company has announced a number of recent acquisitions with a focus on acquiring conventional producing properties with low operating costs onshore USA with reserve reports and significant production upside via shut in wells, workover potential, behind pipe potential and infill drilling upside.