



## QUARTERLY ACTIVITY REPORT TO 31 March 2013

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- **US\$20m funding commitment secured for Ukraine operations**
  - **Funding negotiated to provide interim working capital**
  - **Securities to re-list in early May**
  - **Ukraine continuing and proposed operations**
  - **Golden Eagle 70 II Unit approved & suspensions granted pending permit approvals**
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### REVIEW OF OPERATIONS

Aleator Energy Limited ("*Aleator*" or "*the Company*") is an active explorer for oil and gas with its flagship project in Crimea, Ukraine where it jointly operates the Povorotnoye Gas and Condensate field with the license holder. The Company is also the 100% operator of the Golden Eagle Gas Field in Grand County Utah USA. Royalty interests are retained in several projects in Western Australia.

#### THE POVOROTNOYE GAS & CONDENSATE FIELD

The Povorotnoye Gas Field is located on the Kerch Peninsula in the region of Crimea, Ukraine, where the Company has an initial 61.2% beneficial interest in the project. Operational management of the field is conducted under a Joint Activity Agreement with the license holder, Nadra Krymu.

The licence area covers some 104 km<sup>2</sup> with productive sands estimated at more than 5,000 acres. The discovery well (POV-1) in the Povorotnoye oil and gas field flowed gas at a stabilised flow rate of 5.1 mmcf/gpd with some condensate through a 20/64" choke with a shut-in surface pressure of 5,100 psi. The gas is from the M-3 sandstone reservoir (gross thickness 18m) at a depth of 3,900m where the formation pressure is 11,000 psi. The second well (POV-2) had a gas flow estimated to be 17 mmcf/gpd during a loss of well control, probably from the same M-3 reservoir and in other wells in the field this reservoir is logged to have a gross thickness of up to 50m.

Aleator's recent focus has been to secure funding for the planned Pov-105 well on this highly prospective gas and condensate appraisal/production project. The Company recently signed a binding preliminary agreement for a funding amount of US\$20 million. This amount is to be provided as project finance to drill the new POV-5 well.

## **FUNDING FOR THE NEW POV-5 WELL**

On 27 March 2013 the Company announced that it had signed a binding term sheet with financier, Gres Holdings Ltd ("*Gres*") for a funding amount of US\$20m dollars. The funds will be used to drill the much anticipated Pov 105 well in the highly prospective Povorotnoye gas and condensate field in Crimea, Ukraine. The Company will also allocate part of the funds for the provision of a pipeline and plant to process and deliver anticipated gas and condensate when the well is completed and prepared for production. Under the agreement Gres will provide a cash backed Bank Guarantee from a "AA rated" major bank to secure the loan funds to a subsidiary of the Company. The Directors consider that this is a non-dilutionary funding instrument and therefore a good outcome for existing shareholders.

The material terms of the proposed loan are as follows:

- A loan amount of US\$20 million;
- The loan is secured against the Subsidiary controlling the Povorotnoye project;
- A loan term of 5 years from the draw date, with the first draw down planned for early May 2013;
- The funds are to be drawn in tranches of \$10 million;
- Conditions precedent including:
  - Due Diligence by Gres on Aleator to be completed by 29 March 2013 or as otherwise agreed.
  - The Povorotnoye Licence and Joint Activity Agreement remain in good standing and full force prior as at the date of draw down;
  - All Finance and security documentation executed and registered as necessary;
  - Aleator group to have net available cash of at least \$1,500,000 at the date of the first draw down; and,
  - Aleator to have paid all expenses and legal fees prior to the first draw down.
- An arrangement fee of 10% is payable contemporaneously upon each draw down;
- The funds are to be repaid over five years out of production revenues at an effective interest rate of 5%.

The first two of the above five conditions precedent for the loan have already been satisfied, and it is expected that the remaining conditions precedent will be satisfied circa the end of April.

Gres Holding Ltd is an international finance company of more than 50 finance, banking and legal consultants with substantial experience in providing structured finance solutions. Gres advises that since 2008 it has arranged funding of over four billion dollars for projects in the petrochemical, food manufacturing, pharmaceutical, construction and property sectors in Egypt, United Arab Emirates, Kuwait, Cyprus and Saudi Arabia.

Final Agreements are currently being prepared and are planned to be signed in early May with the funds available approximately 20 days later. Aleator requested the ASX to maintain its existing trading suspension until the formal funding agreement has been concluded. The Company's securities are expected to be re-listed on the execution of funding documents.

## **INTERIM FUNDING**

On 22 February 2013 the Company announced that it had completed a converting loan agreement to provide an interim funding amount of \$625,000. On 09 April, Aleator advised the market that it had negotiated an increase of the loan amount by a further \$150,000. This interim funding was negotiated to provide working capital whilst the Company completes funding arrangements for the drilling of the Povorotnoye-105 well.

The terms attached to the additional \$150,000 loan are the same as the initial \$625,000 secured converting loan.

The material terms of the entire loan are as follows:

- The total loan amount is \$775,000;
- The loan is secured against the assets of the Company;
- A loan term of 90 days from the draw date;
- A loan fee of 20% will be payable on the total loan amount; and,
- The loan may be converted into shares in the Company at a share price equal to 80% of the price at which Shares are issued under a Capital Raising of at least \$1 million or repaid, at the election of the Company.

This loan provided necessary funds to allow the Company to continue delivering already purchased long lead items into Ukraine and to provide working capital while conditions precedent to the \$20 million loan funding are satisfied and formal agreements are concluded.

## **CONTINUING AND PROPOSED OPERATIONS**

Work has continued in Ukraine with procurement receivables being stored in the local subsidiary's warehouse. In addition to the work being done in procurement of materials and drilling services, the Pov-105 drill site preparations are complete, which includes the installation of concrete slabs as a base for the rig, construction of the cellar and setting of the liner. Other construction works completed are associated with facilities such as water storage, fluid containment and mixing of drilling mud.

The POV 105 well is designed to twin the initial discovery well POV-1, which flowed at a stabilised rate of 5.1 mmcf/gpd. POV-105 will be engineered and electric logged to investigate and test the primary objective - the known deep gas reservoirs. The well will also investigate the secondary objectives - the 700m of gas shows at about 3,000m depth, as well as the shallow

oil prospectivity which has been recognised on the well logs from the existing wells. The well is planned to spud in the middle of 2013 and to take approximately 60 to 90 days to drill and run electric logs, with production casing and testing programmes to follow.

Current Ukraine gas prices stand between US\$11- 12 per mcf. Gas which is produced can be tied into local infrastructure with a relatively short connecting pipeline, with nearby processing facilities having ample spare capacity.

## **GOLDEN EAGLE GAS FIELD**

The Golden Eagle gas field was discovered by Aleator Energy Ltd in 2006 with drilling the first of three Paradox Basin wells, Paradox Basin #1. The field is a large shelf-edge/basement structure with multiple objectives within Pennsylvanian and Mississippian aged strata.

Over the past five years in the context of exploration and discovery the Company has drilled three successful wells on the Golden Eagle Field with an ASX announced Independent Resource Evaluation providing a best estimate (P50) Discovered Gas Initially in Place (GIIP), of over 80 Billion Cubic Feet. Two of the wells are capable of gas production of a combined 1MMcfd in their current condition. A production and stimulation assessment will be conducted when a production pipeline is in place, which is subject to ongoing environmental review and recovery of local gas prices.

On 22 February 2013, the Company announced that final approval for the new Golden Eagle 70 II Unit had been granted by the US Bureau of Land Management ("*BLM*") and that the BLM had granted suspension of operations and production of the Federal Unit. Suspensions were requested on the basis of permit approvals which are delayed whilst awaiting completion of environmental assessments.

## **JOHNSTON RANGE**

The Company has an agreement with Cliffs Asia Pacific Iron Ore Pty Ltd ("*Cliffs*") with respect to its previously owned Johnston Range Iron Ore tenements in the Yilgarn region of Western Australia. Cliffs will pay the Company a gross royalty of 2% on the iron ore sales from the tenements as well as a 2% gross royalty on the sale of all other minerals. Mining operations are scheduled to commence later this year.

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*Technical information contained in this report was approved by Wal Muir, who has had more than 33 years experience in the practice of petroleum exploration. Wal Muir consents to the inclusion in this announcement of the information in the form and context in which it appears.*

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