Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'

'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Red Fork Energy Limited

Date of lodgement: 17/12/2013

TITLE: "Company Interview. Outlook for Strategy, Capex & Production"

Highlights:

- **Growing the Company.**
- **Explains why spending capex is to bring forward production & revenue.**
- **Excellent performance on developed wells.**
- **A strong balance sheet to fund growth.**
- **Exploration program and ability to add value.**

Introduction

Founded in 2004 and trading on the Australian Securities Exchange (RFE.AX) and the OTCQX (RDFEY), Red Fork Energy has a large landholding in Oklahoma with leasehold and held by production acreage covering both proven producing oil and gas fields as well as highly prospective development acreage. The Company has positioned itself in one of the premier on-shore United States horizontal oil resource plays, with a large and growing acreage position in the heart of the exciting Mississippi Lime oil and liquids rich gas play.

Record of interview:

Company Interview question:

Red Fork Energy Limited (ASX code: RFE, market capitalisation of ~$170 million) is less than 10 years old. Before we discuss the future, can you give a brief history on how you've developed the Company?

Managing Director, David Prentice

We listed the Company in 2005 at a time when a number of small Australian companies were looking to US onshore oil and gas for opportunities. Like most of our peers we started out life with a US based operating partner and a very small asset base.

Within 12-months or so the Board moved to change the focus with a view to moving away from the non-operated model towards being an operator and building up specific oil and gas expertise in our US based team. Today we have 36 full-time employees in our Tulsa office.

We have always held the view that being an operator is strategically important and will ultimately deliver greater value for shareholders.

Again, like many of our peers we started life with relatively small conventional oil assets. With our team established in 2007 we identified an opportunity in the unconventional gas space. We subsequently got this asset into production with a large development-drilling program planned before natural gas prices moved down sharply and prevented us from developing this asset.

In 2010, we identified a huge opportunity in the Miss Lime formation, in a specific area east of the Nemaha Ridge in northern Oklahoma. Breaking up the next three years into blocks of time - 2011 was largely about securing our lease position (which now stands at 77,000 acres). 2012 we kicked off our horizontal drilling program but that year was fundamentally about developing our operating capabilities and securing equity to fund our HBP development program. This year the focus shifted to reserve and production growth and this enabled us to start to look at debt as a reliable and cost effective source of capital.

To put all of that in context, in 2011 we drilled just two horizontal wells, in 2012 we drilled 13 wells and this year we are on track to drill our forecast 38 wells.

As you can see this is a very aggressive ramp-up of activity with development capital associated with this years’ 38 well program of in excess of US$130 million.

Company Interview question:
What are the main oil and gas plays types across the assets? Does the unconventional (horizontal well) developments present any major challenges, including with recoveries?

Managing Director, David Prentice
Early in the life of the Miss Lime play, the area east of Nemaha Ridge was identified by us and others as the preferred area because of the very high oil to gas ratios (greater than 70%) seen in historic vertical wells targeting the Mississippian formation. We leased our acreage and designed our drilling program with this in mind. Over the last 6-12 months the Woodford shale (the source rock for the hydrocarbons in the Miss Lime) has emerged as a real opportunity with several operators achieving very good results. Red Fork has also adjusted its strategy to incorporate the Woodford Shale with promising early results.

With regard to challenges associated with this type of development – I think the technologies around horizontal drilling and completion are now well understood with opportunities for reduced costs and improved recoveries coming incrementally as operators learn more about their play.

Infrastructure, specifically water disposal and electricity supply presents a challenge in this play – with the necessity to deploy relatively large amounts of capital during the HBP phase that will ultimately support a very large number of development wells.

I think it's also important to note that while as a Company we cannot control commodity prices we can control our costs and Red Fork is committed to being a low cost producer.

Company Interview question:
The number of development and completed wells are up very strongly over 2013 (at end October, there were 66 wells at various stages from drilling to producing, with 50 in the producing/testing stage).

Chief Operating Officer, Chris Girouard
Our current development plan is designed around our drilling schedule, which is in turn designed around our lease expiry schedule. As David indicated we have already spudded our 38th operated well for this calendar year, which importantly is in line with our forecast. This will leave us well ahead of schedule at the end of this calendar year with ~50% of our operated acreage held by production. This years' 38 operated wells will also take our total operated well count to 53 which we expect will support our 2013 net and post royalties production exit rate of between 2,600 and 2,700 boe/day once once all wells have been completed and tied-in to sales and achieved peak rate.

On the forward program, we are looking to drill up to 45 operated wells in calendar 2014. Importantly, the lease expiry schedule only requires 28 wells to be drilled in 2014. The remaining 27 wells that need to be drilled to HBP the acreage are spread over 2015, 2016 and beyond. So we have a lot of flexibility in the forward program.

This year we have been focused on improving productivity – particularly around making sure we have infrastructure available to recently drilled and completed wells so that we can bring them on line quickly. We have made significant improvements in this area but as you can see from our monthly and quarterly production reports from time to time there is a lag in production growth. This is very typical of the early phase of development in these resource plays.

Company Interview question:
What are the benefits of a higher development spend? What is the recent production performance of newly developed wells, including the capital cost per well?

Managing Director, David Prentice
We've had a very strong year with very solid growth in reserves, production and sales. It is important to note that this is in line with our expectations and is a function of the amount of drilling we did this year. As I said earlier - we embarked on a very aggressive plan this year that involved drilling 38 operated wells and establishing infrastructure to support that development.

This required an investment in capital (direct drilling and completion costs and infrastructure costs) of in excess of US$138 million, which we have been able to fund during the year with a mix of debt and equity. In terms of the implications for 2014's 45 well plan we would expect to see another very strong year of growth in reserves, production and sales revenue. This growth is to be funded from a mixture of debt and operating cash flow.

We have seen very pleasing productivity improvements this year with 12-month average spud-to-spud days falling to 26-days (and averaging just 21-days in the last 6 months). 12-

month average spud-to-sales days fell to 55-days (and averaged just 42-days over the last six months). These improvements underpin our reserve and production growth.

Whilst we don't expect the dramatic downward trend in cycle times to continue we do see room for continued improvement and we are excited about the possibility of continued significant improvement in play wide economics in 2014 stemming from cost reductions and the improvements in production and reserves that could be brought about from the combined strategy of drilling wells with the lateral placed in the Woodford Shale and drilling wells with an extended-reach lateral. Importantly, as we build a larger inventory of producing wells we also expect to see a more smooth and direct relationship between capex spend, production and sales.

Company Interview question:
Cash expenditure on development was US$41.95 million in the September quarter 2013. There has been comment in the market that capital expenditure on development has been hard to predict and recently has been higher than predicted. Why is that? What are the benefits of a higher development spend?

Chief Financial Officer, Kevin Humphrey
It has appeared at times that our capital expenditure has exceeded some of the market's expectations, partly due to the requirement for a short term capex forecast for the next quarter, and to timing differences relating to matching our development plans and capital availability.

To be clear, in early 2013 we outlined a forward program that would see us drill 38 operated wells this calendar year. Based on our average working interest this required direct drilling and completion capital of ~$98 million with an additional ~US$40 million allocated to infrastructure. This equates to average quarterly development capex spend of ~US$36 million (including non-operated capex). The last three quarters we have averaged ~US$35.5 million in development capex and we are on track for a similar capex spend for the quarter ending December 31, 2013. So as you can see we are actually managing capex very effectively and in line with the longer term development plans we have outlined to the market.

From time to time we have adjusted our quarterly development capital estimates down to allow for timing of capital availability – initially through equity, then through our reserve based lending facility and most recently through our facility with Guggenheim Partners. When capital became available we reverted to our budgeted 38 well program.

Company Interview question:
What is the recent production performance of newly developed wells, including the capital cost per well?

Chief Operating Officer, Chris Girouard
We're very encouraged by what we are seeing in well performance during 2013. Like all operators drilling wells in this play we continue to see a wide variance in IP's however the work we have done this year through the use of jet pumps, refining and our completions and more recently exploiting the Woodford as part of the drilling plan has seen a steady improvement in EUR's and a flattening of initial declines. If I look at the progress made by

other operators in the play in terms of EUR's, drilling and completion costs and reserve and production costs I believe Red Fork is tracking very well and probably ahead of the curve.

Company Interview question:
What is your current funding position in terms of cash, current debt, unutilised facilities and future operating cash flow? What will be the main areas of expenditure? Can you fund the activities to achieve acceptable growth?

Chief Financial Officer, Kevin Humphrey
Our current cash position is around about US$40 million. We have drawn US$100 million on our US$150 million facility with Guggenheim Partners. In addition, in early May 2014 we can re-establish a reserve based lending facility up to US$50 million. So this gives up to US$200 million in liquidity through 2014 and beyond with US$100 million of that currently drawn. Our current modeling shows that this liquidity combined with operating cash flow funds us to a point in mid 2015 when operating cash funds development.

Company Interview question:
As at 30 June 2013, net Proved Reserves were 14 mmboe (PV10 US$196.3m) and net 3P plus Contingent Resources were 66.4 mmboe (PV10 US$754m). Can you explain the process of converting the 3P plus contingent Resources into classifications of greater certainty and the prospects for doing that?

Chief Operating Officer, Chris Girouard
Conversion is a function of drilling. We expect the growth in our Proved reserves to increase at a rate commensurate with the planned forward drilling program. Initially conversion will be based on wells drilled under our HBP program (one well per 640-acre unit going to three wells per 640-acre unit). Ultimately there is considerable upside to these numbers through increased density (greater than three wells per unit), through the influence of the Woodford Shale and through improved recoveries.

Company Interview question:
Aside from your development drilling, what does you exploration program look like and planned expenditure? Do you plan to add to your already large acreage position and if so, how?

Managing Director, David Prentice
As you can see, we have our hands full with the current development program – so for at least the foreseeable future this will be our focus. It's important to note however that we are in the fortunate position that to some extent our non-operated activity with Devon Energy and others provides us with the opportunity to be exposed to some exploration with limited capital outlay.

Company Interview question:
At the AGM, you stated that you aim to unlock the ~$25,000/acre or more in net present value you recognize in the acreage. The market was at that time valuing the Company's acreage at $3,600/acre. How did you arrive at the ~$25,000/acre valuation? How can you unlock that value, particularly from the very large acreage positions?

Managing Director, David Prentice

$25,000 per acre, is our estimate of the present value per acre based on four wells per 640-acre unit. Typically in these plays this value gets unlocked when the acreage moves from leasehold to held by production. So we need to finish out our HBP program and the required infrastructure and as we highlighted earlier we have broken the back of this program and can now see a path to having this completed within 12-months.

Company Interview question:
Longer term, in creating ongoing value for shareholders will you continue to work the current acreage or do you plan to diversify geographically?

Managing Director, David Prentice
We are focused on our large Miss Lime/Woodford acreage position and the value we can unlock for shareholders. We are well funded to execute our HBP development plan through to when operating cash flows will sustain future development (middle of 2015). We have flexibility in our funding arrangements to reduce funding costs as our reserves grow and we can re-institute an RBL facility. Our forward development program is clear so there is good visibility on our longer-term capital expenditure despite any short-term fluctuations. We are well placed in terms of infrastructure. We expect our development program to continue to deliver strong growth in production, reserves, cash flow and ultimately shareholder value. We are confident the market will recognize this value as the results come through.

Company Interview
Thanks David, Chris and Kevin.