

31 October 2013

ASX Announcement

## September 2013 Quarterly Activity Report

- **Completion of acquisition of Citation Resources Aus Pty Ltd**
- **Citation now owns a 60% interest in the Atzam and Tortugas Oil Fields**
- **Atzam #4 produced over 11,000 barrels for the quarter**
- **Atzam #4 continuing to produce on natural reservoir pressure- strong flow rates and well head pressure maintained (~300 psi) on restricted choke (12/64 inch), with no water production to date**
- **Well being produced on a highly restricted choke to preserve initial reservoir integrity**
- **Total sales of approximately 11,500 barrels completed with Perenco Guatemala during the quarter**
- **Atzam #4 Reserve Report – Initial 1P reserves of 362,515 barrels for 6 foot producing section alone, to increase in excess of 500,000 upon production of additional 7 foot C17 section**
- **Revenue netbacks received of ~ \$60 per barrel**
- **Atzam #5 development well set to commence drilling in November 2013**
- **Planning advanced for Tortugas Salt Dome re-entry operations on 63-4 and 63-5 wells with the Operator for early 2014**

### Operational Activities

#### Atzam Oil Project

In early June 2013 the Company announced Atzam #4 as a discovery well, with the well generating an initial production rate of 610 barrels of oil per day (bopd) from the perforated 6 foot section in the Upper C17 carbonates (2,846-2,852 feet) unassisted over a 24 hour period. The well continued to produce strongly over the testing period and flowed at a rate equivalent to an excess of 1,000 bopd through the initial 48 hours of testing, until the well was shut in to run a series of pressure tests across the producing zone.

During the September quarter the Atzam #4 well has continued to produce good quality 38°API oil on a highly restricted choke (between 8-12/64 inch), with a production rate of approximately 140 bopd during the period. Total production from the well exceeded 11,000 barrels for the September quarter, with the Operator completing oil sales of approximately 11,500 barrels during the quarter to Perenco Guatemala.

The Operator (Latin American Resources) plans to increase the Atzam #4 production rate over the coming months to maximise the flow rate and revenue stream to the project, whilst integrity of the producing C17 carbonate structure. Importantly the well is continuing to produce 100% oil with no associated water from natural reservoir pressure. The continuing production on a restricted choke without assistance from a submersible pump is a strong indication of the quality of this reservoir section.

Latin American Resources is currently selling the projects oil production to Perenco Guatemala, and is also in negotiations with a number of oil companies on short term and long term offtake contracts for the Atzam #4 oil production, and for future production from Atzam #5.

## Drilling Atzam #5 Development Well

The Company recently advised that preparations for the drilling of the Atzam #5 development well on Block 1-2005 in Guatemala (CTR: 60%) are significantly advanced with drilling now expected to commence in November. The scheduling for the Atzam #5 well has been delayed from late September due to a late end to the wet season rainfall in Guatemala delaying the construction of the drilling pad and location. The well location for Atzam #5 is approximately 1,100m to the south-east of the Atzam #4 production well and the well has been designed to test the same carbonate reservoir intervals that were intersected and produced oil shows in Atzam #4.

Like Atzam #4, the Atzam #5 well will be drilled to a depth of approximately 4,000 feet and will target the C18 and C19 carbonate reservoirs as the primary objectives in addition to the producing C17 carbonate zone. The C18 and 19 carbonates were intersected in Atzam #4 and produced strong oil shows at surface during the drilling of the well but were unable to be effectively production tested.

Following the successful drilling of Atzam #5 and the well becoming the second major producing well on the Atzam Oil Project, the Operator is targeting a combined production rate in excess of 600 bopd from both wells.

## Atzam #4 Well Reserve Report- First 1P Reserves for Atzam Project

During the quarter Independent Reservoir Engineers, Ralph E Davis (RED) from Houston, completed an updated independent reserve report for the Atzam #4 well, producing an initial proven reserve (1P) of 362,515 barrels from only the producing 6 foot section of the C17 carbonate section alone. The combined 1P and 2P reserves for the well exceed 2.3m barrels.

The untested 7 foot section in the C17 carbonates that sits above the producing zone is still to be tested and brought onto production, upon which this would increase the 1P reserve estimate in excess of 500,000 bbls from the C17 section. The highly prospective C13 and C14 carbonates in the Atzam #4 well are still to be flow tested and would also be converted from 2P to 1P reserves following a successful testing program.

The initial Atzam #4 independent reserve report from February 2013 stated a 2.3m barrel 2P reserve based on the drilling and logging data from the well. The updated reserve report with the conversion of an initial 1P reserve for the producing 6 foot section in the C17 carbonates is set out below:

1P: Proved Gross Oil Volumes, Bbls			
Formation: Zone	RF 20%		
C-17	362,515		
Total Proved	362,515	-	-

Proved + Probable Gross Oil Volumes, Bbls			
Formation: Zone	RF 20%	RF 25%	RF 30%
C-13 A	336,939	421,174	505,409
C-13 B	161,758	202,198	242,637
C-14 A	63,990	79,988	95,985
C-14 B	222,972	278,715	334,458
C-16	126,340	157,925	189,509
C-17	362,515	453,143	543,772
C-18 A	161,121	201,401	241,681
C-18 B	106,205	132,757	159,308
Total Proved + Probable	1,541,840	1,927,301	2,312,759

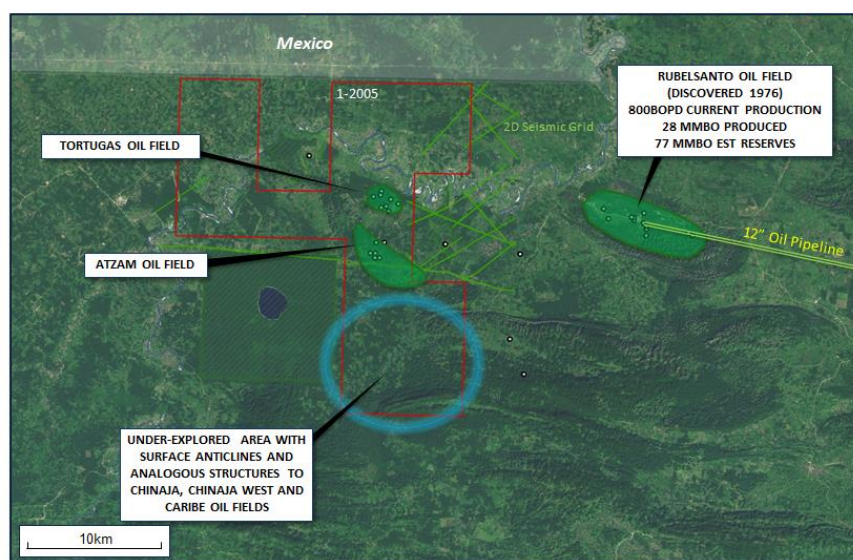
Individual reserve estimates are based upon analyses of those specific intervals with indications of hydrocarbons utilising reservoir parameters based upon an evaluation of the well logs. An assignment of a 160 acre drainage area was utilised for each reservoir and a recovery factor was varied from 20% to 30% as indicated in the table above.

The reserve estimates included in this report conform to the appropriate definitions of reserves and resources as approved by the SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE- PRMS) document as co-sponsored by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

### **Tortugas Salt Dome Project**

The Company is currently advanced with operations planning with the Operator to complete 2 well re-entries on the Tortugas Salt Dome structure in early 2014. The well re-entries on two Tortugas wells, 63-4 and 63-5 are expected to produce between 200-300 bopd each of high quality 34°API oil based on historical flow rates and production profiles. In the mid 80s, two wells flowed oil at initial rates over 1,500 bopd, however were subsequently suspended.

The Tortugas Salt Dome structure is a suspended oil field, with Monsanto having drilled 17 wells on the structure including wells for both sulphur and oil. One of the wells (T9B) experienced an oil blowout at approx. 1,500 feet, with the majority of the other wells having oil shows in multiple zones.



***Project Location and Exploration Potential***

### **Corporate Activities**

#### **Acquisition of 60% Interest in Atzam Oil Project/Block 1-2005**

Following the production success of the Atzam #4 well and satisfying the LAR funding obligations under the earn-in agreement, Citation now holds a direct 60% equity interest in LAR.

Upon the decision to drill the Atzam #5 development well, the Company was required to issue the remaining consideration shares to the Citation Resources vendors (Milestone 1 and 2 securities). In addition the Company executed a debt conversion agreement with Range Resources Ltd as detailed in previous releases, and following shareholder approval the total loans and interest owed to Range were converted into direct equity in the Company and the transfer of a 10% working interest in LAR. As a result, Citation has converted all the Range loans to equity and retains its 60% equity interest and is the major shareholder of LAR.

### **Short Term Loan Agreement**

As announced in July, the Company entered short term loan agreements with third parties for \$750,000 to provide working capital prior to the subsequent capital raising in August. The loans were unsecured, interest free and the lenders had the right to have the loans repaid or convert them on equivalent terms to any capital raising undertaken by the Company prior to maturity. The maturity date on the loans has been agreed with the lenders to be extended from 30 September to 31 December 2013, on similar terms as the original loans.

### **Completion of \$6,000,000 Capital Raising**

In August 2013 the Company completed a \$6,000,000 capital raising to sophisticated investors to fund the next phase of the operations on the Atzam Oil Project, to be prioritised for the drilling of the Atzam #5 development well and funding of operational facilities for both the Atzam and Tortugas Oil Projects to complement both drilling programs to be undertaken in the next 6 months.



**Brett Mitchell**  
**Executive Director**

### Competent Person Statement

*The information included in this Announcement that relates to resources was prepared by Mr Allen L. Kelley, who is an executive with Ralph E. Davis Associates, Inc. based in Houston, Texas. Mr Kelley has over 30 years of oil and gas experience and is a Certified Petroleum Geologist (Certificate Number 6092). Mr Kelley is a member of the American Association of Petroleum Geologists, Houston Geological Society, and the Society of Petroleum Engineers. In addition Mr Kelley has been a contributing member of the Potential Gas Committee for over 20 years holding positions of Eastern Region Vice President, Chairman of the Gulf Coast and Atlantic Committees and currently is on the Editorial Committee and Chairman of the Alaska Committee. Estimates as to recoverable hydrocarbon volumes contained in this Announcement are based upon certain assumptions. Accordingly, actual results will differ, and may differ significantly and materially, from those presented.*

## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

CITATION RESOURCES LTD

ABN

90 118 710 508

Quarter Ended ("Current Quarter")

30 SEPTEMBER 2013

#### Consolidated statement of cash flows

		Current Quarter \$A'000	Year to Date (3 months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(3,113)	(3,113)
	(b) development	-	-
	(c) production	-	-
	(d) administration & staff	(225)	(225)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	11	11
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (Research & Development Government Rebate)	-	-
<b>Net Operating Cash Flows</b>		<b>(3,327)</b>	<b>(3,327)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loan repayment	-	-
1.11	Loans to other entities	(265)	(265)
1.12	Other (refund of mining security bonds)	-	-
<b>Net investing cash flows</b>		<b>(265)</b>	<b>(265)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(3,592)</b>	<b>(3,592)</b>

1.13	Total operating and investing cash flows (brought forward)	(3,592)	(3,592)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	6,000	6,000
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	1,100	1,100
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (capital raising costs)	(394)	(394)
	<b>Net financing cash flows</b>	<b>6,706</b>	<b>6,706</b>
	<b>Net increase (decrease) in cash held</b>	<b>3,114</b>	<b>3,114</b>
1.20	Cash at beginning of quarter/year	512	512
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>3,626</b>	<b>3,626</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	65
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions.

Consulting fees and directors' fees.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

During the quarter, pursuant to a loan settlement agreement between Range Resources Limited and the Company, the company settled the outstanding loan amounts through the issue of 318,660,487 shares and 59,500,000 share options.

In June 2013, a short term working capital facility of \$990,000 provided by unrelated third party lenders convertible into ordinary shares of \$0.01 per share. Following the conversion of the loan into ordinary shares 99,000,000 ordinary shares were issued by the company on 31 July 2013 to the third party lenders.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount Available \$A'000	Amount Used \$A'000
3.1 Loan facilities	750	750
3.2 Credit standby arrangements	-	-
3.3 Convertible note	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and Evaluation	2,600
4.2 Development	-
4.3 Production	-
4.4 Administration	196
<b>Total</b>	<b>2,796</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	3,592	402
5.2 Deposits at call	34	110
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,626</b>	<b>512</b>

### Changes in interests in mining tenements

	Tenement Reference	Nature of Interest (note (2))	Interest at beginning of quarter	Interest at end of Quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A	N/A	N/A	N/A

6.2 Interests in mining tenements acquired or increased

N/A	N/A	N/A	N/A
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#### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total Number	Number Quoted	Issue Price per Security (see note 3) (cents)	Amount Paid Up per Security (see note 3) (cents)
7.1	<b>Preference</b> <b>*securities</b> (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	1,031,278,448	1,031,278,448		
7.4	Changes during quarter (a) Increases through issues	286,222,222 ordinary fully paid shares issued on 31 July 2013	286,222,222	\$0.02 per share	\$0.02 per share
		300,000,000 ordinary fully paid shares issued on 19 August 2013	300,000,000	\$0.02 per share	\$0.02 per share
	(b) Decreases through returns of capital, buy-backs	n/a	n/a	n/a	n/a
7.5	<b>*Convertible debt securities</b> (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	371,750,000	371,750,000	<b>Exercise Price</b> \$0.04	<b>Expiry Date</b> 15 December 2015



7.8 Issued during quarter

93,611,111 options issued on 31 July 2013	93,611,111	\$0.04	15 December 2015
150,000,000 options issued on 26 September 2013	150,000,000	\$0.04	15 December 2015
7.9 Exercised during quarter			
7.10 Expired during quarter	226,563,271	-	\$0.07 31 July 2013
7.11 <b>Debentures</b> <i>(totals only)</i>			
7.12 <b>Unsecured notes</b> <i>(totals only)</i>			

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



**Brett Mitchell**  
Executive Director

Date: 31<sup>th</sup> October 2013

## 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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* applies to this report.
- 5 **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.