APPROACH RESOURCES INC.

NASDAQ: AREX | APPROACHRESOURCES.COM

J. ROSS CRAFT, president and CEO of Approach Resources Inc., is a petroleum engineer with 30-plus years of experience drilling in the West Texas Permian Basin. Craft led the Approach team in pioneering the Wolfcamp shale oil resource play. Stacked pay zones, current estimates of oil in place and potential recoveries suggest that the Wolfcamp is destined to become a hub of oil production for many years to come.

Describe the strategy that drives the company, and how you plan to implement it.

Approach's strategy is to grow production and reserves at competitive costs in order to drive value for our stockholders. Since 2004, we have increased reserves at a compound annual growth rate of 32%, primarily through the drill bit. We are a growing company with great exposure to a prolific resource play. We control 170,000 gross acres in the southern Midland Basin, where we believe we have more than 1 billion barrels of oil equivalent (BOE) in gross, unrisked resource potential, or more than 10 times our current proved reserves base.

We launched a pilot program to test the Wolfcamp in 2010, and given our successful drilling program, we have now de-risked approximately 110,000 gross acres of our leasehold. After establishing the commerciality of the play, we set about delineating our acreage, optimizing our processes and building infrastructure to help us drive down our drilling and completion costs. We invested approximately $60 million on infrastructure during 2012 and 2013, bringing us very close to our well cost target. We now have established a new target of $5 million per horizontal well.

We are on the threshold of entering full-scale manufacturing mode in the play. As we drive down costs and gain efficiencies, we are prepared to accelerate our drilling. Initially, we believe we can accelerate our drilling without bringing in additional rigs. This is because we are learning to do more with less. In the past, we planned to drill 10 to 12 horizontal wells per rig each year. Today that number stands at 20 to 24. We recently added to our technical staff, including several management-level engineers who have significant experience developing large-scale shale drilling programs. As we enter the fourth quarter of 2013 and look ahead to 2014, we are quickly moving from testing and delineating the play to large-scale development.

How have high oil prices and low gas prices affected your business?

With concentrated drilling in the oil-rich Wolfcamp shale, we have quickly transitioned from a natural gas focus to an oil focus. Since 2009, we have increased our oil proved reserves seven times and our oil production four times, primarily due to our drilling program targeting the oil-rich Wolfcamp shale. Given our shift toward oil and the current high commodity price environment for oil, we are benefitting from higher revenues and cash flow.

Will you be expanding into any new basins or plays? Why or why not?

We have a business development and special projects team focused on evaluating acquisitions and new play opportunities. At the same time, we have identified more than 2,000 horizontal Wolfcamp locations on our existing leasehold. At our current pace of drilling, this translates into a multi-decade inventory of drilling opportunities. In addition to the Wolfcamp, there are several additional stacked play formations that we can explore on our existing acreage. We are in the enviable position of having significant organic growth opportunities, which allows us to be very selective as we evaluate potential acquisitions or new play opportunities.

Which of your projects yield the best return?

Essentially all of our capital spending in 2013 is directed toward horizontal Wolfcamp drilling. At current commodity prices and assuming 450 MBOE recoverable per well and drilling and completion costs of $5.5 million per well, the company anticipates a 40% rate of return. If we achieve drilling and completion costs of

$5 million per well and oil prices remain at the $100 per barrel mark, this rate of return increases to 56%. Even if commodity prices drop to $75 per barrel, our horizontal Wolfcamp wells generate a 25% rate of return assuming drilling and completion costs of $5 million per well. The Wolfcamp is one of the highest rate-of-return projects in one of the lowest cost basins in the country.

How does your projected 2013 budget compare to 2012?

In 2013, we established a capital budget of $260 million, which is expected to fund a three-rig program through the end of the year. With this level of spending, we anticipate drilling approximately 40 horizontal Wolfcamp wells. This compares to a capital budget of almost $300 million in 2012. This funded the drilling of 26 horizontal Wolfcamp wells as well as infrastructure build out.

We have not yet announced a capital budget for 2014, but we are focused on doing more with less. For example, if we were to repeat a three-rig program, we anticipate being able to drill approximately 70 horizontal wells, a 75% increase, due to gains in drilling efficiencies and lower drilling and completion costs.

Are you constrained by midstream capacity at all?

We anticipated the potential of tight takeaway capacity in the Permian, and entered into a joint venture in September 2012 to build a 50-mile, high-pressure oil pipeline across Crockett and Reagan counties. Our investment in the project was approximately $16.3 million. In September of 2013, we announced an agreement to sell our interest in the pipeline for $108 million, or approximately 6.6 times the amount that we invested. Importantly, we will continue to have firm takeaway capacity from our core operating area on this pipeline. The sale provided a strong return on our investment and further strengthened our liquidity position.

How much are you hedged?

To ensure a steady stream of cash flow to fund our drilling program, we hedge a portion of our projected oil, natural gas and natural gas liquids production. Assuming the mid-point of our production guidance, we have hedged approximately 46% of our anticipated production in 2013. We have also put into place hedges covering a portion of our production streams for 2014 and 2015.

What is your greatest challenge this year?

Our Wolfcamp discovery presents a great opportunity and a great challenge for the Approach team. The Wolfcamp formation is approximately 1,000 to 1,200 feet thick, compared to the average shale formation that is approximately 150 to 300 feet thick. While the thick column of Wolfcamp shale has an exceptional amount of oil in place, it represents uncharted territory for the industry in terms of optimizing a field development plan. To better describe this rock column, we have divided it into four benches: the A, B, C and D. Currently, we have identified more than 2,000 horizontal drilling locations in the A, B and C benches. There are multiple other prospective targets above and below the Wolfcamp that we could potentially explore in the future.

In 2013, we are testing multi-zone stacked laterals to determine the optimal placement for maximum productivity. We are also in the process of building water storage and containment systems to reuse and recycle our flow back water. Our goal is to completely eliminate the use of potable water in our completion operations. We view this as critically important. In order to expand our drilling program, we need to make the most of limited water resources. At the same time, preserving fresh water for the community is simply the right thing to do.

Any final comments or thoughts?

We are a pure-play Permian company with proved reserves of 95.5 MMBOE and resource potential of over 1 billion BOE in the Wolfcamp shale oil play. We offer an excellent avenue for investors to participate in the "new Permian" oil boom. Our Wolfcamp shale oil project yields a 56% rate-of-return for horizontal wells with an EUR of 450 MBOE, assuming $100 per barrel oil and $5 million of targeted drilling and completion costs. This is a higher return than projects with a 650 MBOE EUR at $100 per barrel oil and $8 million well costs, which yield a 48% rate-of-return. The key to creating value for our investors is to drive down costs. We have spent the last 18 months building field infrastructure in order to efficiently develop the large resource potential under our acreage. As a result, Approach is one of the lowest cost operators in the Wolfcamp shale oil play and offers one of the most attractive rates of return for investors.