

Austex Oil Limited

AOK AU / AOK.AX

COMPANY SPOTLIGHT

Market Cap A\$44m US\$45m	Avg (12m) Turnover A\$0.07m US\$0.07m	Free Float 51.0% 358.1 m shares	Current A\$0.12
			Target Range ➤ A\$0.18-0.32
			Previous Target N/A
			Up/downside 50%-167%

Notes from the Field

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

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Share price info

Share px perf. (%)	1M	6M	12M
Absolute	-16.67	8.7	8
Major shareholders	% held		
Iroquois Capital	8.3		
South Ferry L.P.	1.94		
Australian Securities Company, Asset Mgmt Arm	0.65		

Mississippi play takes the Lime light

AusTex Oil Limited (AOK) has achieved 500boe/d peak production during a 7 day period in October with additional drilling underway

In our view there is significant upside value potential to the strategically located acreage in the Mississippi Lime play in Oklahoma and Kansas, with exploration activity in the area gaining momentum - major independent Apache entered the fray earlier this year, and SandRidge and Range Resources already have a strong presence. Our value range is based on \$/boe and \$/ac multiples.

Upcoming Milestones

AOK is currently participating in a second horizontal well with Range Resources in Oklahoma, which we expect to hear initial flows from at the end of December/early Jan. We also expect to hear improving average production rates as additional vertical wells are brought onto production and stabilised, with AOK stating a CY12 year end target rate of 750-800boe/d.

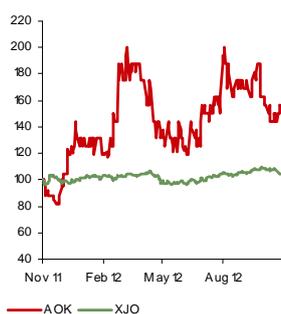
An interesting story

AusTex Oil Limited (AOK) is an emerging oil and gas company with interests in Oklahoma and Kansas, United States. The company holds a 100% working interest in 5,500 acres of the Snake River Project in Oklahoma, and is in the midst of an active drilling program delivering 2 vertical wells per month. Peak production from Snake River as at 14 November 2012 was 500 boe/d and management expect this will increase as the well development program is progressed. AOK also holds interests in Kansas, in the 15,500 acre Colby Project in Thomas County (70% WI), and the 11,600 acre Cooper Project in Sheridan County (53% WI).

Speculative Buy

The ~70% oil to gas ratio in the Mississippi Lime play is good, and decline rates to date indicate that wells are economic. Though the play is in the early stages of appraisal it looks promising. We believe AusTex could be worth A\$0.18-A\$0.32 based on \$/ac and \$/boe comparative multiples. As average production increases and more wells are successfully brought online, we believe there is upside to the current share price. Key risks include exploration success or failure, well performance, regulatory changes, and oil price or AUD/USD fluctuations.

ASX200 Index comp



Source: IRESS

Leadership profile :

Name, position	Description
Richard Adrey, Executive Chairman	Mr. Richard A. Adrey serves as the Vice President of International Energy Corporation at AusTex Oil Limited. Mr. Adrey served as an Investment and Merchant Banker of Andreasen & Co., Kohlmeyer & Co., Mabon Nugent and a private Investment Company, Coastline Financial Partners for 30 years with specializations in mergers, financings and in turn-arounds of distressed assets. He has been involved with numerous private and public companies, such as Piper Aircraft, Cynocom Corp., Telechips, Medisys, Versatech, VacationBreak, Fairfield Communities and Greystone Medical. He served as Officer and Board seats in several companies as an Advisor. He has been the Executive Chairman of AusTex Oil Limited since May 31, 2012. He has been an Executive Director of AusTex Oil Limited since August 31, 2007.
Daniel Lanskey, Managing Director and Executive Director	Mr. Daniel J. Lanskey, Dan has been the Managing Director of AusTex Oil Limited since January 2008. Mr. Lanskey has been involved in senior management positions of Australian companies for over ten years. He has also been involved in a number of companies which have developed international contracts and joint ventures in Asia, Europe and the USA. He has been an Executive Director of AusTex Oil Limited since June 26, 2007. He serves as a Director of International Energy Corporation and is associated with AusTex Oil on a day to day basis overseeing operations in Australia. He serves as a Director of a number of unlisted public and private companies. Mr. Lanskey holds a post-graduate Business Degree.
David Clark, Chief Financial Officer	Mr. David W. Clark serves as the Chief Financial Officer of AusTex Oil Limited. Mr. Clark has been Financial Controller and Company Secretary for Intec Copper Pty Ltd., Intec Hellyer Metals Pty Ltd, Intec Zeehan Residues Pty Ltd, Intec International Projects Pty Ltd, and Intec Exploration Pty Ltd. since March 31, 2008. Mr. Clark has experienced in primary industries, real estate and professional services, tax and chartered accountancy.

Source: Capital IQ

Drilling program driving growth

Table of Contents

1. BACKGROUND	p.2
2. OUTLOOK	p.3
3. RISKS	p.5
4. FINANCIALS	p.5
5. VALUATION AND RECOMMENDATION	p.5
6. APPENDICES	p.7

1. BACKGROUND

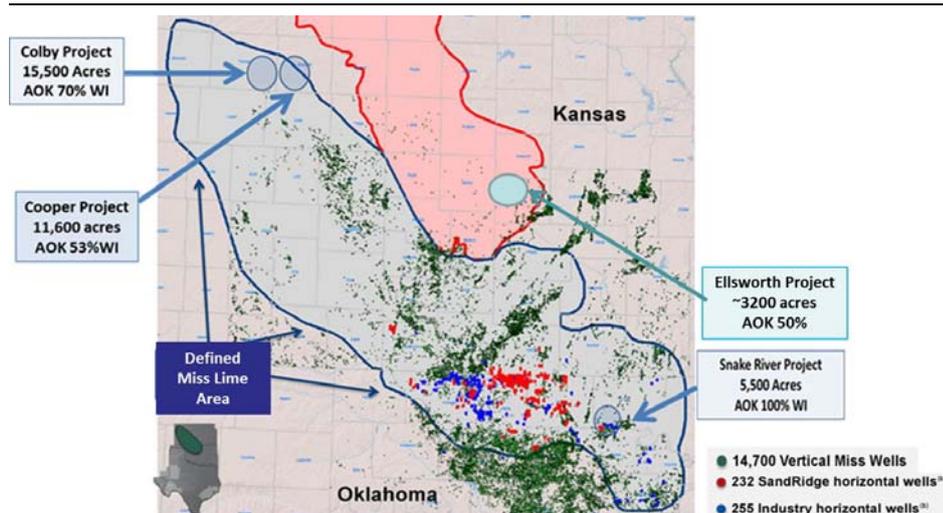
1.1 Expanding Production in its Snake River Project ▶

AusTex Oil Limited (AOK) is an emerging oil and gas company with assets exclusively in the United States. The company is focussing the majority of its efforts on developing ~5,500 acres (100% WI, 81% NRI) of the Snake River Project in Kay County, Oklahoma. An active drilling campaign is well underway. Nine vertical wells have been drilled to date, with five wells on pump and the remaining four wells in various stages of completion. The program is on schedule to deliver two new vertical wells each calendar month between now and December.

Intermittent production from Snake River during October was ~500 boe/d, and management expect a continuing increase in production rates as the well development program progresses, and are targeting 750-800boe/d by the end of CY12. The results of the vertical wells will help finalise plans for additional horizontal wells in the project area. In May 2012, AOK participated with Range Resources (NYSE:RRC) in the successful Balder #1-30N horizontal well (AOK 13.76%). The well achieved a 30 day average of 899boepd (70% oil) and peak rate of 1363boepd. Range Resources plans to drill up to four new horizontal wells in the coming months, with the second horizontal well in which AOK is participating (8.46% interest) already drilling.

In addition to its assets in Oklahoma, AOK holds interests in the 15,500 acre Colby Project in Thomas County (70% WI), and the 11,600 acre Cooper Project in Sheridan County (53% WI), in Kansas. In our view, AOK's holdings in Kansas represent upside potential if nearby drilling is successful, with exploration activity in the area having gained momentum with the arrival of large independent O&G player, Apache Corporation (NYSE:APA), earlier this year.

Chart 1 : AOK's US interests



Source: Company presentation

2. OUTLOOK

2.1 Mississippi Lime Play – Making Progress ▶

The 5,500 acre Snake River Project is located in Kay County, Oklahoma, 15 miles south west of Ponca City, the home of a Conoco Phillips oil refinery.

The project lies within the liquids-rich portion of the Mississippi Lime play which extends from Northern Oklahoma across Kansas, west of the Central Kansas Uplift and into the southern parts of Nebraska. In Kay County, the top of the Mississippian interval is ~4,300 feet below surface and ~320 feet thick, including ~30 feet of a high porosity "chert / chat" section. The Woodford Shale interval is immediately below the Mississippi Lime and is a good source rock with total oil content estimated at 10%.

Chart 2 : Snake River Project



Source: AOK Presentation

Recent horizontal drilling success in the immediate vicinity of the Snake River Project has seen multiple >1,000 BOEPD wells with 70% liquid production. One of these wells, the Balder #1-30, in which AusTex holds a 13.76% working interest, was drilled by Range Production Company, a subsidiary of NYSE listed Range Resources Corporation (NYSE:RRC). AOK has entered into agreements to participate in up to four new horizontal wells with Range Resources Corporation (NYSE: RRC) in the coming months, with the second (Hod#1) underway.

Extensive infrastructure is in place with multiple oil and gas gathering systems available allowing ease of delivery of produced oil and gas. AOK has now drilled 10 vertical wells (nine production wells and one salt water disposal well) at its Snake River Project to an average depth of 4,750 feet and at an average cost of \$600k per well. The #20-1D Salt Water Disposal (SWD) well is approved and operational at Production Hub No. 2. Five production wells are now on pump with a further four wells awaiting completion.

Such an active well development program has required intermittent field shutdowns as construction of new surface infrastructure for new vertical wells has been built and commissioned. This has resulted in lower gross monthly production levels in the short term to facilitate a medium to longer term growth in production. Additional development wells have been permitted, and AusTex is on schedule to drill two new vertical wells each calendar month between now and December.

Recently, active drilling by Sandridge, Range Resources, and Apache has begun derisking larger areas of the play. We believe the acreage that AOK holds could become more valuable with the success of the larger neighbouring companies. We currently value it at \$2000/ac plus give value for the reserves assigned.

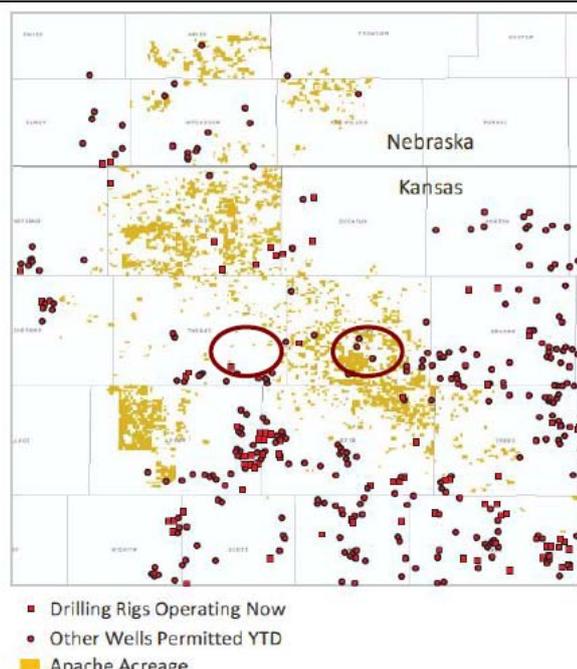
AOK has independent 1P reserves of 3.1mmbbls of oil and 4.546mmcf of gas, 2P reserves of 4.9mmbbls and 6.3mmcf and 3P reserves of 11.29mmbbls and 12.54mmcf.

2.2 The Golden Egg – Kansas Acreage Play ▶

AOK holds a 70% working interest in the 15,500 acre Colby Project in Thomas County and 53% Working Interest in the 11,600 acre Cooper Project, Sheridan County, Kansas. 3D seismic has been acquired on both projects and in January 2010 AOK participated in the Clarke #1 well which was a wildcat discovery in the area producing from the Lansing Kansas City interval. Target formations include the Lansing Kansas City, Cherokee and Mississippi Lime intervals.

Exploration activity in the area has gained momentum with the arrival of Apache Corporation (NYSE:APA) which announced in June 2012 that their exploration program would target the Lansing Kansas City, Cherokee Sand and Mississippi Lime formations across a 580,000 acre lease position. Apache has stated that their lease area holds an estimated 2 billion barrels of oil.

Chart 3 : Apache acreage position



Source: AOK company presentation

The 3,200 acre Ellsworth Project is located on the Central Kansas Uplift in an area renowned for historical oil production from the Arbuckle Formation. Drilling on the project is targeting additional breaks in the formation at depths of less than 3,500 feet. The Mississippi Lime is thin or absent on the Central Kansas Uplift. AOK now holds interest in three producing wells in the project.

In our view, AOK's focus will not be on this area, however the group should benefit from the success of Apache and others. The area is in early exploration, and therefore if there is success, AOK's acreage may become more valuable. We currently value it at \$400/ac but see upside potential.

3. RISKS

3.1 Variability in Oil Price or Exchange Rate ▶

Variability in the oil price or the exchange rate could change the economics of the wells. To date, the wells have flowed approximately 70% oil vs. 30% gas with a 5% oil cut. Given the gas prices in the US currently (~\$3.50/mmbtu), if the ratio were to alter, it could affect commerciality. Water production is also high, and if it increases too much it could make it uneconomic to dispose of the water.

3.2 Well performance ▶

Exploration in a new area can hold risk, as early well performance may not be indicative of long term performance. In addition, the extent of the play that is commercial is still being defined and therefore there is no guarantee that the reserves associated with the acreage will be successfully developed.

4. FINANCIALS

4.1 Raising Capital to fund growth ▶

During October, the company announced an offer to raise up to A\$12.5m to fund the ongoing appraisal and development of the company's acreage in Kansas and Oklahoma. The offer comprised:

- A placement of ~83.3m new fully paid ordinary shares to sophisticated and professional investors at a price of A\$0.12 per share to raise A\$10m and
- A share purchase plan to raise up to A\$2.5m at A\$0.12 per share.

Tranche 1 of the placement settled on 24 Oct 2012 and 29.3m fully paid ordinary shares were issued raising a total of A\$3.5m before costs. Additionally, 20m new options were issued to holders of convertible notes.

Tranche 2 of the placement, to raise A\$6.5m is subject to an extraordinary general meeting (EGM) to be held on 26 November 2012.

4.2 Production and Revenue ▶

AOK have received A\$2.6m from product sales during the first three quarters of 2012 with gross sales from the September quarter totalling US\$1.4m. Production from the Mississippi Lime play as at October 31 2012 was ~500boe/d (70% oil).

4.3 Net Cash Position ▶

AOK has issued A\$7.5m in convertible notes with an exercise price of A\$0.15 and exercisable within 3 years from the date of issue (31 May 12). The notes have been issued to a group of North American-based oil and gas focused Institutional Investors, including New York based Iroquois Capital Opportunity Fund, LP, Los Angeles-based Young Capital Partners, LP and Toronto based The K2 Capital Principal Fund, LP.

As at the September quarterly announcement in October 2012, AOK had A\$3.1m and during October, settled Tranche 1 of a share placement for A\$3.5m. We also expect Tranche 2 of the placement will raise A\$6.5m at an EGM on 26 November 2012.

5. VALUATION AND RECOMMENDATION

5.1 Speculative Buy ▶

We value AOK using \$/ac and \$/boe multiples. AOK is at an early stage of appraisal, with only one horizontal well currently on production and nine vertical wells on production, with more to come online. This is an unconventional play, and therefore having at least 12-18months of production

is preferred when using a DCF method for valuation. However, having an independent reserves report gives some indication of the potential of the acreage surrounding current wells, with upside potential from additional drilling possible.

We do see upside potential for AOK, from a \$/ac perspective given its neighbours in Kansas and from additional reserves being defined from additional drilling in Oklahoma. While there is certainly risk associated with the early stage of this play and the funding required to develop it, we believe that the upside potential looks promising and can see a valuation range of A\$0.18-A\$0.32 per share.

Appendix 1: Asset Overview

The table below provides an overview of AOK's interests and projects:

Table 1 : AOK Acreage assets

Lease Name	Acreage	WI	NRI	County, State
Snake River Project	~5,000	100%	81.25%	Kay and Noble Counties, OK
Tulsa and surrounds	~1,600	100%	81.25%	Tulsa, OK
Cooper Project	11,600	53%	43.5%	Sheridan, KS
Colby Project	15,500	70%	58.8%	Thomas, KS
Beltz Project	160	40%	33.8%	Ellis, KS

Source: Company Data

The Reserve Report was compiled by Denver based Integrated Petroleum Technologies Inc. (IPT), in accordance with the standards contained in the Canadian Oil and Gas Evaluation handbook and with the Canadian National Instrument 51-101. A summary of oil and gas reserves by category is as follows:

Table 2 : AOK Reserves

Reserve Category	Oil Reserves Net (Mbbbl)	Gas Reserves Net (MMscf)	Undiscounted Cash Flow (M\$)	10% NPV Cash Flow (M\$)*
Proved	252	657	16,150	10,926
Proved non-producing	113	113	9,119	6,549
Proved undeveloped	2,736	3,776	156,062	79,241
Total Proved (1P)	3,101	4,546	181,331	96,716
Probable undeveloped	1,803	1,736	103,801	61,751
Total Proved + Probable (2P)	4,904	6,282	285,132	158,467
Possible undeveloped	6,386	6,254	375,995	230,365

Source: Company Data

Appendix 2: Management and Board Profile

Table 3 : Board of directors and management team

Name	Position	Background
Richard A Adrey	Executive Chairman	Mr Richard Adrey was an investment and merchant banker with Andreasen & Co., Kohlmeier & Co., Mabon Nugent and a private investment company, Coastline Financial Partners for 30 years with specialisations in mergers, financings and in turnarounds of distressed assets. He has been involved with numerous private and public companies, such as Piper Aircraft, Cynocom Corp, Telechips, Medisys, Versatech, VacationBreak, Fairfield Communities and Greystone Medical. Mr. Adrey holds a B.S. in finance and held Officer and Board seats in several companies as an advisor.
Kwang Hou Hung	Non-executive Deputy Chairman	Mr Hung qualified as a Chartered Accountant with KPMG, United Kingdom in 1982. He is a member of both the Institute of Chartered Accountants in England & Wales ("ICAEW") and the Malaysian Institute of Accountants. He has extensive experience in line and corporate management, having served in various senior management and director positions in companies listed on the Bursa Malaysia (formerly called the Kuala Lumpur Stock Exchange). Mr Hung is also a past Chairman of Rocklands Richfield Ltd, an ASX-listed company.
Daniel Lanskey	Managing Director	Mr. Lanskey has been involved in senior management positions of Australian companies for over 10 years. He has also been involved in a number of companies which have developed international contracts and joint ventures in Asia, Europe and the USA. Mr. Lanskey holds a post-graduate Business Degree. He is currently a director of a number of unlisted public and private companies. Mr. Lanskey is also a Director of International Energy Corporation and oversees the operations of AusTex Oil in Australia and the USA.
Patricia Kay Philip	Non-Executive Director	Kay Philip is a geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, mining exploration and management. Ms Philip has worked in the securities industry, conducting courses in Australia and South East Asia. She also has experience in the financial markets, involving rights issues and other capital raisings. She is an Honorary Associate at the School of Physics, University of Sydney, and has been a director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is currently or has been a a director of Alexanders Securities Ltd (since 1985), Longreach Oil Ltd (since 1986) and Proto Resources and Investments Ltd (since 2006) - all ASX listed companies. Ms Philip was decorated by the French Government in 2005 with the award of Chevalier de l'Ordre National du Merite, for facilitating collaborations between French and Australian scientists. Ms Philip is a Senior Fellow of the Financial Services Institute of Australia ("FINSIA"), Member of the Australian Institute of Physics ("AIP"), Member of the Australian Society of Exploration Geophysicists (M.ASEG.), and Secretary of the Australian-French Association for Science and Technology ("AFAS").
Mr Luis Vierma	Non-Executive Director	Luis Vierma holds a Bachelor's Degree in Chemistry and a Master's degree in Geology (Geochemistry of Petroleum). He is a partner in New York based Iroquios Capital Opportunity Fund LP (ICO Fund). Prior to joining ICO Fund, he was formerly the Deputy Chairman of OPEC Long Term Strategy, Deputy Director Hydrocarbons at the Energy Ministry of Venezuela, President of CVP, an affiliate of Petroleos de Venezuela S.A. (PDVSA), and Director and Chairman of CITGO. Mr Vierma was also the Vice President of Exploration and Production PDVSA, President of PDVSA Research Centre and Professor of Chemistry at the Univesidad Central de Venezuela. He has 32 yrs of global experience in the oil and gas industry.

Source: Company data

QUEENSLAND			
BRISBANE	(07) 3334 4888	PARRAMATTA	(02) 9615 4500
BUNDABERG	(07) 4153 1050	PORT MACQUARIE	(02) 6583 1735
CAIRNS	(07) 4222 0555	SCONE	(02) 6544 3144
CALOUNDRA	(07) 5491 5422	SYDNEY – LEVEL 9	(02) 8215 5000
CAPALABA	(07) 3245 5466	SYDNEY – LEVEL 33	(02) 8216 5111
CHERMESIDE	(07) 3350 9000	SYDNEY – MACQUARIE STREET	(02) 9125 1788
EDWARD STREET	(07) 3121 5677	SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
EMERALD	(07) 4988 2777	WOLLONGONG	(02) 4227 3022
GLADSTONE	(07) 4972 8000		
GOLD COAST	(07) 5581 5777	ACT	
IPSWICH	(07) 3202 3995	CANBERRA	(02) 6232 4999
MACKAY	(07) 4957 3033		
MILTON	(07) 3114 8600	VICTORIA	
NOOSA	(07) 5449 9511	MELBOURNE	(03) 9947 4111
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	CARLTON	(03) 9066 3200
SUNSHINE COAST	(07) 5479 2757	FARRER HOUSE	(03) 8644 5488
TOOWOOMBA	(07) 4639 1277	GEE LONG	(03) 5222 5128
TOWNSVILLE	(07) 4725 5787	RICHMOND	(03) 9916 4000
YEPPOON	(07) 4939 3021	SOUTH YARRA	(03) 9098 8511
		TRARALGON	(03) 5176 6055
		WARRNAMBOOL	(03) 5559 1500
NEW SOUTH WALES			
SYDNEY	(02) 8215 5055	WESTERN AUSTRALIA	
ARMIDALE	(02) 6770 3300	PERTH	(08) 6462 1999
BALLINA	(02) 6686 4144		
BALMAIN	(02) 8755 3333	SOUTH AUSTRALIA	
CHATSWOOD	(02) 8116 1700	ADELAIDE	(08) 8464 5000
COFFS HARBOUR	(02) 6651 5700	NORWOOD	(08) 8461 2800
GOSFORD	(02) 4325 0884		
HURSTVILLE	(02) 9570 5755	NORTHERN TERRITORY	
MERIMBULA	(02) 6495 2869	DARWIN	(08) 8981 9555
NEUTRAL BAY	(02) 8969 7500		
NEWCASTLE	(02) 4926 4044	TASMANIA	
NEWPORT	(02) 9998 4200	HOBART	(03) 6236 9000
ORANGE	(02) 5310 2111		

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