



AusTex Oil 20 Feb 13

B

AOK

AUD \$0.14



B

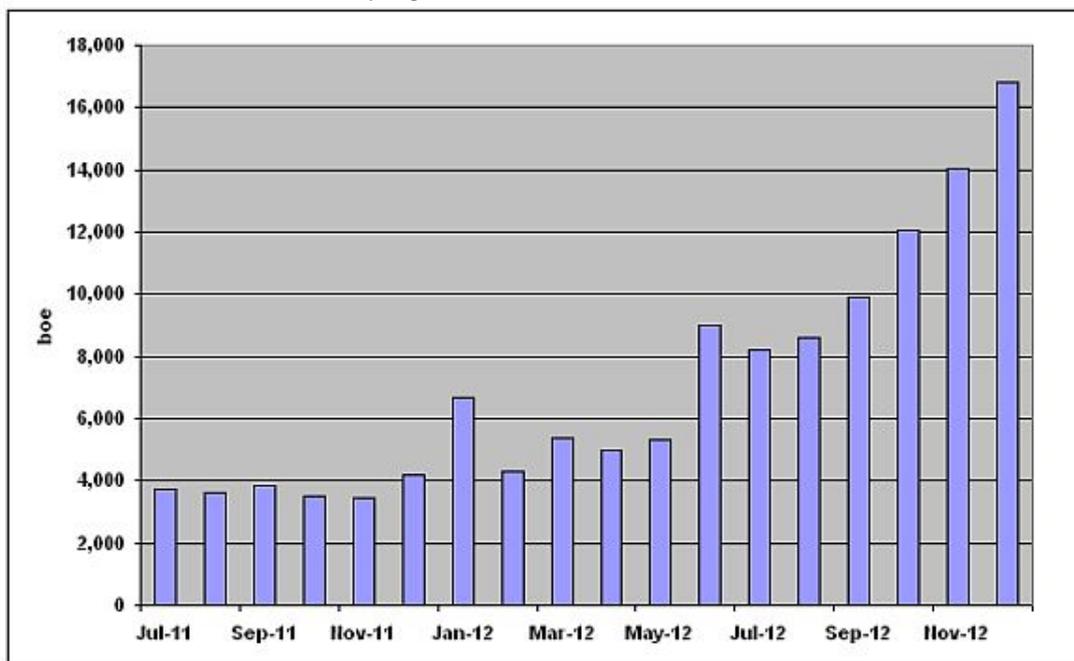
The year of the Snake; River that is

AusTex Oil continues to deliver exploration and production success through its activities at Snake River in northern Oklahoma. Production records continue to fall as the company increases the number of operating wells in the prolific Snake River Mississippi Lime play.

Two recently completed vertical wells at Snake River have been cased and will over the next three to five weeks be tested for future production. Both wells successfully penetrated the targeted Mississippi Lime interval intersecting 270 feet (82.3 metres) and 330 feet (100.6 metres). Initial sampling and logging of both wells have indicated the presences of hydrocarbons and excellent porosity.

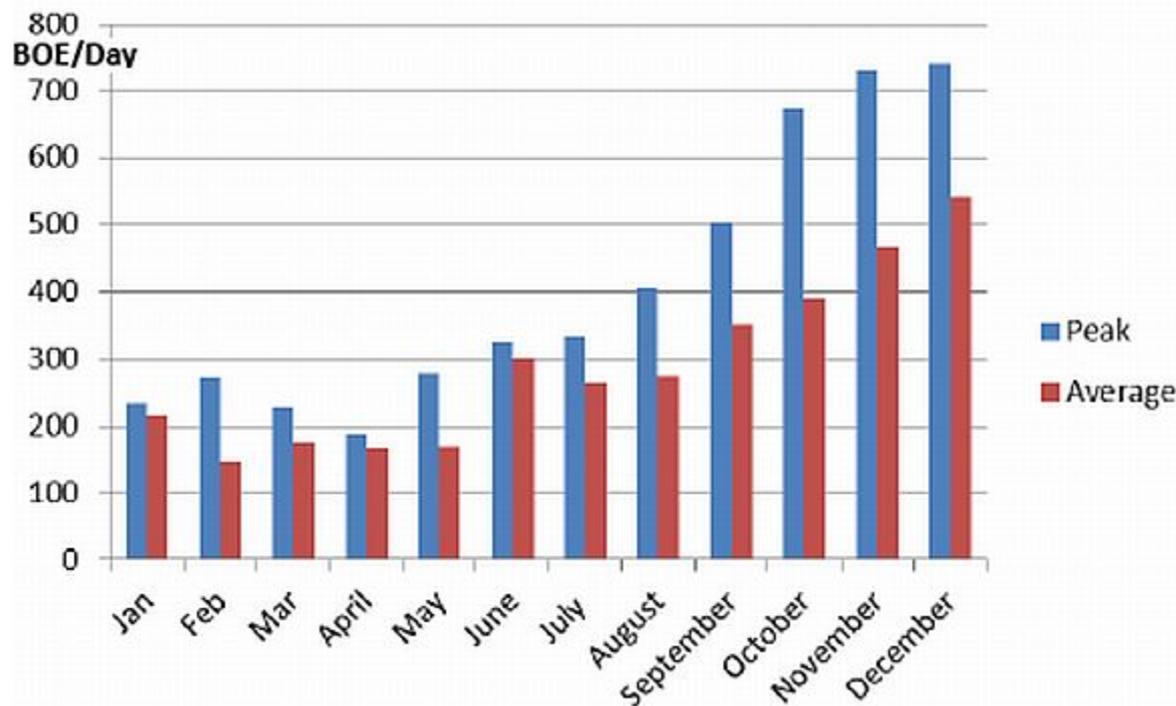
The rig is on the move and will spud a new well on the Snake River block very shortly. The company is targeting the spudding of two new wells a month. Four additional horizontal wells are currently scheduled for spudding at Snake River.

The continued cycling of exploration activity to successful production has had a profaned impact on the company's production levels. The following chart shows monthly barrels of oil equivalent (boe) production attributed to the company.

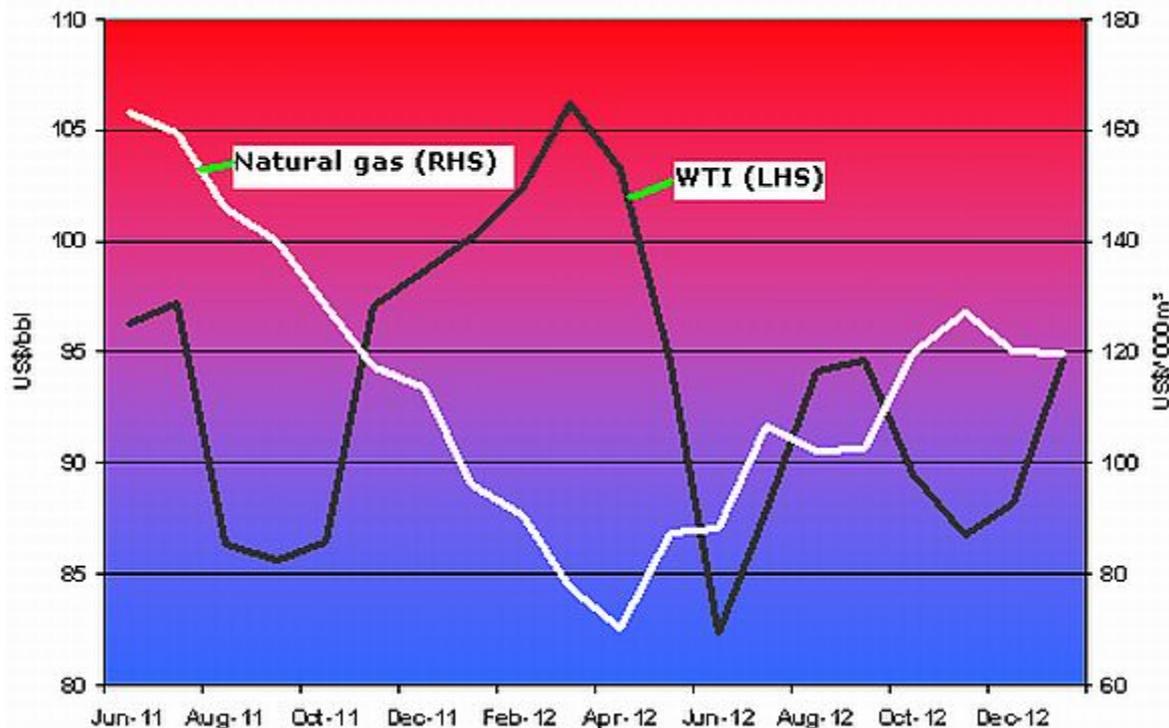


As Members can see for the month of December 2012, a record production level of 16,785 boe was achieved. **The company has indicated that the current strong growth in boe production should persist as further wells come on stream, including the two wells mentioned above.**

What we find exciting about the Snake River is the consistency of the wells once brought into production. The following chart shows peak and average daily boe production rates attributable to the company.



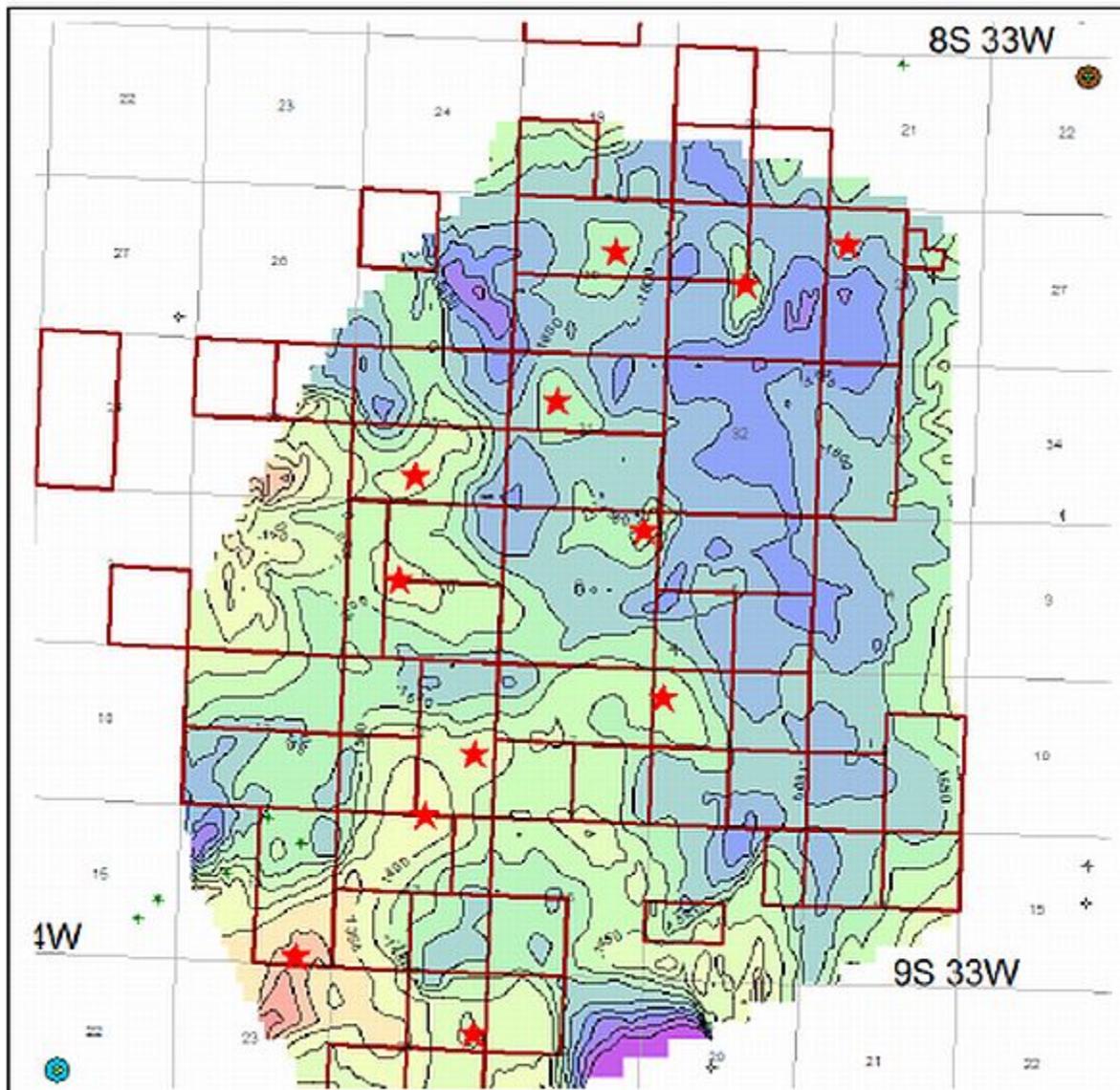
The characteristics of the Mississippi Lime are such that the extraction process does not significantly reduce field pressure or the flow of liquids and gas to the wellhead from the surrounding ground. The other exciting factor about the Mississippi Lime play is its high liquids content at around 70% to 75%. The following chart shows near-term US natural gas and West Texas Intermediate (WTI) prices.



A high liquid content leads to better revenue and operating margins from the well due to the pricing differential between US natural gas and WTI. We expect the WTI price will remain robust over the

remainder of 2013. Ongoing soft petroleum demand in the United States and a growing domestic production pool of crude may retard any major price rises. Higher crude prices from supply shock events however do remain a constant threat. Natural gas prices in the US may remain relatively subdued as a result of the availability of domestic supply.

The company is eager to drill on the Colby project (AusTex's working interest 70% and net revenue interest 58.8%) in Kansas. The Colby project consists of 15,500 acres that hosts a number of potential hydrocarbon bearing zones. The following figure shows prospective targets that have been identified at Colby.



A 3 dimensional seismic survey has been conducted across the Colby blocks, and following an analysis of the results the company is eager to commence drilling. At this stage two exploration wells are planned for the Colby project.

At 31 December 2012, the company held cash of A\$11.9 million. The budgeted expenditure for the current quarter is A\$2.9 million, of which A\$500,000 and A\$1.5 million are earmarked for exploration and development. A budgeted amount of A\$400,000 has been set aside to meet current period production costs. We consider the company is well resourced through its revenue generation and cash to complete all its current undertakings.

Attributable revenue of A\$1.7 million was generated over the December quarter. Production costs were budgeted at A\$500,000 over the same period. **Based on the budgeted cost number and real revenue, the December quarter operating margin appears to be very robust.**

The company's reserves position is shown in the following table (Mbbbl stands for thousands of barrels and MMscf millions of square cubic feet).

Reserve Category	Oil Reserves Net (Mbbbl)	Gas Reserves Net (MMscf)	BOE Mboe 6:1
Proved	252	657	383.4
Proved Producing	113	113	131.8
Proved undeveloped	2,736	3,776	3,365
Total Proved (1P)	3,101	4,546	3,858
Probable Undeveloped	1,803	1,736	2,850
Total Proved + Probable (2P)	4,904	6282	5,951
Possible Undeveloped	6,386	6,254	7,428
Total Proved + Probable + Possible (3P)	11,290	12,536	13,379

The reserves provide the company with a potential long life operational platform. We expect that ongoing exploration and development activities will lead to future upgrades to replenish declines through extraction. An update to the reserve statement is expected to be announced during the current quarter. **Despite the extractions to date, we expect the company's reserve numbers will receive a major boost.**



Prices have broken above both the 50 and 200 day moving averages which is suggestive of momentum to favour the upside. Initial resistance is located at the 15 cents level, followed by the 16.5 cents region.



With reference to the weekly chart, prices continue to form higher lows, which is bullish. A decisive break above resistance located at the 16.5 cents level would spark a strong boost of upward momentum to follow. Should this bullish scenario unfold, the broader term target level is expected at the 22 cents level being the 2010 high.

AusTex Oil is a junior oil and gas producer and explorer, holding blocks in a pedigree oil and gas region of Oklahoma and Kansas. With production already underway and very encouraging results from ongoing exploration across the company's Snake River blocks, a re-rating of the stock may ensue. We are of the view the stock will certainly continue to de-risking, as it delivers higher oil and gas production from ongoing development success across its blocks.

Accordingly, we recommend AusTex Oil as a buy for Members whose portfolios are not already exposed to the stock.

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in AGO, AMM, AMP, ANZ, APA, ASX, BHP, BKN, BLY, BNR, BOQ, BRU, BTR, BTU, BWP, CBA, CBP, CFE, CJO, CKF, CLA, CRZ, CWN, DLS, DUE, EBT, ENV, EVN, FMG, FML, GMG, GNS, GOR, GPT, IFL, ILU, IMF, IPL, ISS, JHX, JIN, MEF, MFF, MFG, MGR, MML, MMS, MND, MNF, MTU, NAB, NCM, NMG, OBS, ORE, OSH, OTH, POS, QBE, RIO, RUL, RXL, SDM, SGP, SIV, SLR, SOC, SSM, SUN, SYD, TAM, TCL, TLS, TTN, WBC, WDC, WES, WHC, WOW, WPL, WRT, ZRL. These may change without notice and should not be taken as recommendations.