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GMP Securities
Griffiths McBurney

January 23, 2013

AusTex Oil Ltd.[1] (AOK)

BUY

Last: $0.13

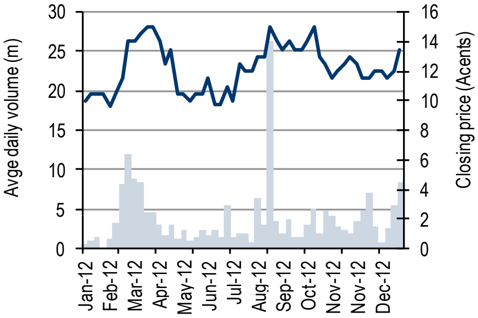
Target: $0.30

WHAT'S CHANGED	NEW	OLD
Rating	nc	BUY
Target	nc	A$0.30
Production 2011A (boe/d) 6:1	nc	80
Production 2012E (boe/d) 6:1	nc	342
CFPS 2011A (f.d.d.)	nc	(0.01)
CFPS 2012E (f.d.d.)	nc	0.00

SHARE DATA	
Shares o/s (mm, basic/f.d.)	433/574
52-week high/low	$0.16/$0.07
Market capitalization (A$m)	$56
Enterprise value (A$m)	$49
Net debt (A$m)	($7)
Dividend yield	n/a
Projected return	131%

FINANCIAL DATA	2011A	2012E	2013E
Oil & NGLs (b/d)	nm	nm	nm
Natural Gas (mmcf/d)	Nm	nm	nm
Total (boe/d) 6:1	80	342	1,410
Equivalent growth	nm	326	312%
WTI (US$/b)	95.05	90.00	85.00
NYMEX (US$/mmbtu)	4.03	2.50	3.50
EPS (f.d.)	($0.02)	$0.00	$0.03
CFPS (f.d.d.)	($0.01)	$0.00	$0.03
Net Debt (mm)	($0.1)	($11.8)	$(10.6)
Debt/CF	nm	nm	nm
P/CF	nm	411.0x	4.4x
P/CF (d'adj'd)	nm	78.4x	3.4x

All figures in USD unless otherwise stated



Update on Production and Operations

Production on the increase as AOK progresses its development program

AOK has provided an update for its production over the month of December, producing 16,785boe at an average 542boepd, a 60% increase on the November monthly average. During the month, production peaked at 740boepd with the lower average due to development activities and a shut-in for 4 days due to weather. Reporting an average oil ratio above 70% and with the strong results from its vertical wells, AOK continues to de-risk its 5,500acres (100% WI) in what appears to be a liquids-rich sweet spot of the Mississippi Lime play.

Recent results a mixed bag but good on average, with sound economics

AOK has provided an update on operations, reporting peak and 30-day rates for 2 new verticals and the Hod #1-19N horizontal well. There was a range of results with one vertical well above average 30-day rates and one below; and the 30-day rate for the Hod #1-19N below expectations. However the average 30-day rate of 65boepd provides good economic returns at ~$1.5m NPV per well and the average result for the horizontals to date (despite the few data points) is also above our expectations.

Recent results validate AOK's strategy in the play

AOK has demonstrated its ability to deliver good results from its vertical development program which provides ongoing production increases and de-risks its acreage; while utilising RRC's expertise to test the potential upside from a horizontal development at a manageable 8% to 14% interest.

Significant activity expected to follow, underpinned by increasing production

AOK is expected to deliver month on month production increases as it turns additional wells to production, with 4 wells at various stages of completion and a 2 well per month drilling program. We are still awaiting news regarding the pooling of additional wells with RRC, including the spud date for the twin well to the successful Balder #1-30N.

A simple but compelling investment thesis

We maintain our BUY recommendation and price target of $0.30/sh. AOK presents a leveraged and simple investment thesis, given the results observed to date - with its vertical results suggesting an NPV of ~$1.5m per well and the potential for 137 wells at 40-acre spacing and longer term development to 20-acre spacing. A potential horizontal development of AOK's acreage provides additional upside and AOK will continue to assess this option via further horizontal wells with RRC.

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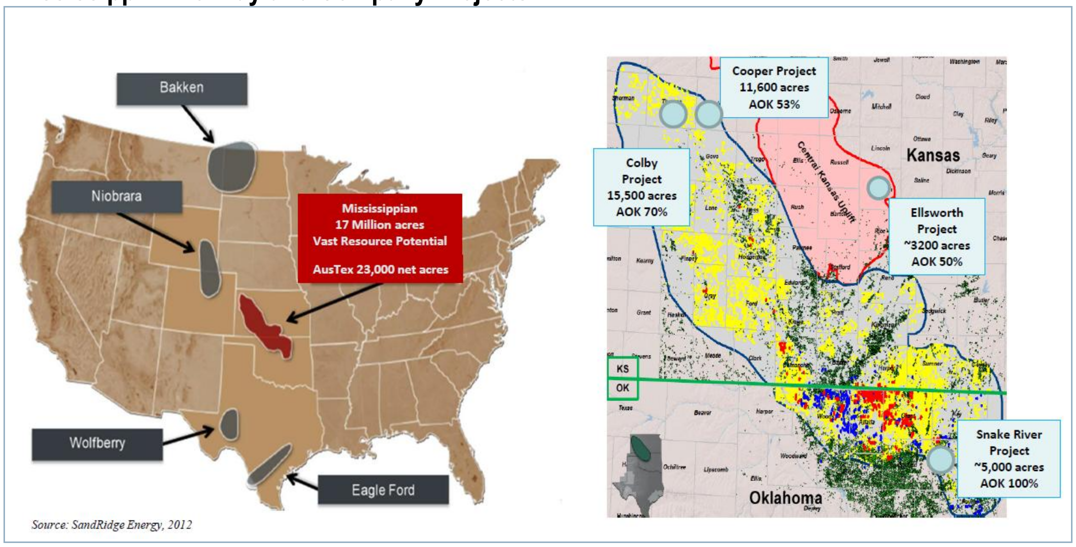
INVESTMENT SUMMARY

AusTex Oil Ltd (AOK) is highly leveraged to the ongoing appraisal of its 23,000net acres of prospective Mississippian Lime across North Oklahoma and Northwest Kansas, with its primary focus a 100% WI in the 5,500acre Snake River Project in Oklahoma. This project is located in the Kay and Noble counties, east of the Nemaha Ridge, in an area which is emerging as a sweet spot in the play, given its high production rates and high oil content. AOK's production is on the increase, averaging 542 boepd for the month of December, with a 70% oil content and peak rate of 740boepd.

AOK's existing production base largely underpins the company's value and has been built on economically robust vertical Mississippi Lime wells, which the company has proven it has the operational capability to deliver. Its average results are above average for the play, supported by some strong wells such as the Blubaugh #20-1 peaking at 160boepd and achieving a 30-day average of 95boepd and a strong 75-day average of 85boepd - which at a cost of $0.6m provides a 50% return on investment. Full field development of the acreage utilising vertical wells would provide significant value given NPV's of ~$1.5m per well and the potential for 137 wells at 40 acre spacing and longer term potential of 20acres. AOK is also currently assessing the potential for horizontal development of its acreage, for which it is utilizing RRC's operational and technical expertise and low interest in each well to mitigate its risks. The first well Balder #1-30N (AOK 14% interest) is RRC's best performing well in the play with a 30-day rate of 889boepd (70% oil) and reported a 67% return on capital after 90 days. The well outperforms Range's 2012 type curve, which has an EUR of 600kboe and a NPV of US$8.0m. These indicative economics highlight a compelling investment thesis for a horizontal development given the potential for 34 net well locations at 160 acre spacing or 110 net wells at a potential longer term 50-acre spacing. Its second well in the play, the Hod #1-19H was below expectations but on average (despite the minimal data points) AOK is outperforming the curve.

We believe that AOK will continue to re-rate as it executes the development of its acreage, delivers well performance in line with expectations, expands its drilling inventory and delivers production growth. It is also highly leveraged to the early-stage northern Kansas extension of the play, with a net 17,000acre position.

Mississippi Lime Play and Company Projects



Source: SandRidge, AOK

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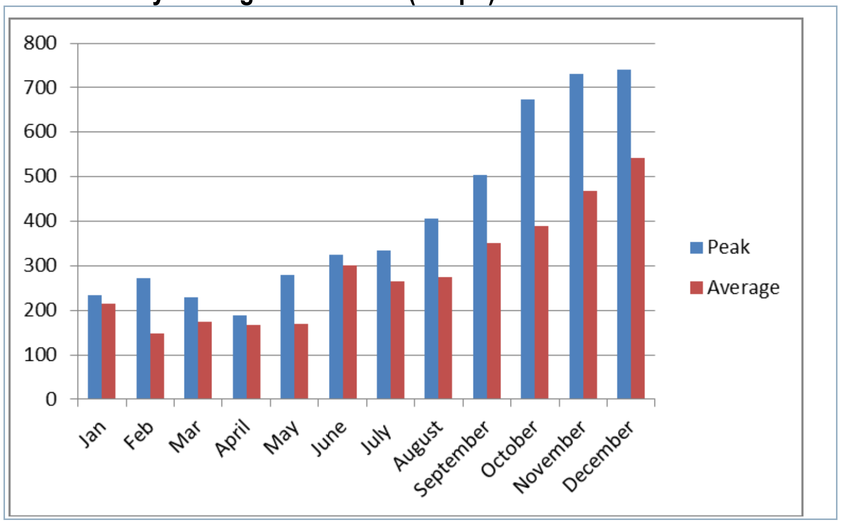
MONTHLY PRODUCTION UPDATE - A 60% INCREASE ON THE NOVEMBER AVERAGE

AOK recently provided an update for its production over the month of December, producing 16,785boe at an average 542boepd, a 60% increase on the November monthly average. During the month, production peaked at 740boepd with the lower average due to development activities and a shut-in for 4 days due to weather. Reporting an average oil ratio above 70% and with the strong results from its vertical wells, AOK continues to de-risk its 100% WI 5,500acres in what appears to be a sweet spot in the Mississippi Lime play. Based on its December month average AOK is trading at an EV/boepd of ~$90k/boepd. We anticipate AOK to continue to appreciate based on its production base alone, as it delivers expected month on month production increases.

2012 Monthly Average Production (boepd)



Source: AOK

PRODUCTION RESULTS FROM THE LATEST 3 WELLS - A MIXED BAG

Vertical wells good on average

AOK today provided an update following the receipt of 30-day data for 3 of its wells. There was a range of results with one vertical well above average 30-day rates and one below; and the 30-day rate for the Hod #1-19H below expectations. The #20-5 was a great result with a peak rate 212bopd and an average of 80bopd over the first 30 days. Note that this does not include the gas production which is currently being flared and typically makes up 30% of the production on a boe basis. This well looks similar to some horizontal wells in the play but drilled at ~1/5 of the cost.

The second vertical well announced was below the running average of ~65boepd for AOK's wells in the play. The #20-2 vertical well flowed at a peak rate of 97boepd with an average of 38boepd over the first 30 days. However AOK's average to date is likely above general results in the play and provides strong economics, with an NPV of ~$1.5m per well. With the potential for 137 vertical wells at 40–acre spacing and a longer term down spacing to 20-acres, ongoing production results in line with these vertical wells should continue to de-risk a very simple upside story. Another important factor is the decline rate of the wells, and while we assume a fairly steep decline, some of AOK's wells are reported to have produced at relatively flat

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rates for a period of time. The #20-1 well was reported to have a peak rate of 150boepd and a 30 day rate of 88boepd but averaged 85boepd over the first 75-days with a 50% return on investment.

Hod #1-19N below expectations, average dragged up by Balder #1-30N

AOK provided an update for the production results from the Hod #1-19N (8.33% WI) which had a peak rate 205boepd and averaged 151boepd over the first 30 days. This result is below expectations with RRC's 2012 type curve assuming a 30 day average of +300boepd. The oil content of the well was not reported. Expectations of wells in and around AOK's acreage are considerably higher than elsewhere given AOK's 1st horizontal well in the play, the Balder #1-30N (14.15%WI), which flowed at a peak rate of ~1,400boepd with a 30 day average of 899boepd. On average AOK's results to date outperform our expectations, noting of course the very few data points. In addition, the economics at Hod are supported by a high oil content for wells in this core area east of the Nemaha Ridge - with the Balder #1-30 initially flowing at 70% oil. AOK's net investment in this well was also de-risked at ~US$280k. Putting these numbers through our type curve suggest that the well is certainly still economic with an IRR of 30% and an NPV of +$2m however on average we hope to see average results around the 2012 RRC Type Curve.

Results validate our investment thesis and AOK's strategy in the play

We believe that today's announcement and the ongoing production increases validate our investment thesis for AOK and the company's strategy. AOK is steadily building its production base by delivering high-value 100% WI vertical wells while testing the upside potential from a horizontal development at a low interest/cost of 8-14%. AOK has demonstrated itself to be very capable of developing its acreage on a vertical basis and is benefitting from RRC's expertise and capabilities for its horizontal program.

The vertical results to date show an average 30-day IP of ~65boepd which as previously reported, results in strong economics of ~$1.5m per well. With the potential for 137 vertical wells at 40–acre spacing and a longer term down spacing to 20-acres, ongoing production results in line with these vertical wells should continue to de-risk a very simple upside story – with a steady ramp-up in production providing a bellwether and underpinning value. In addition, AOK will continue to investigate the potential upside from the horizontal development of the acreage.

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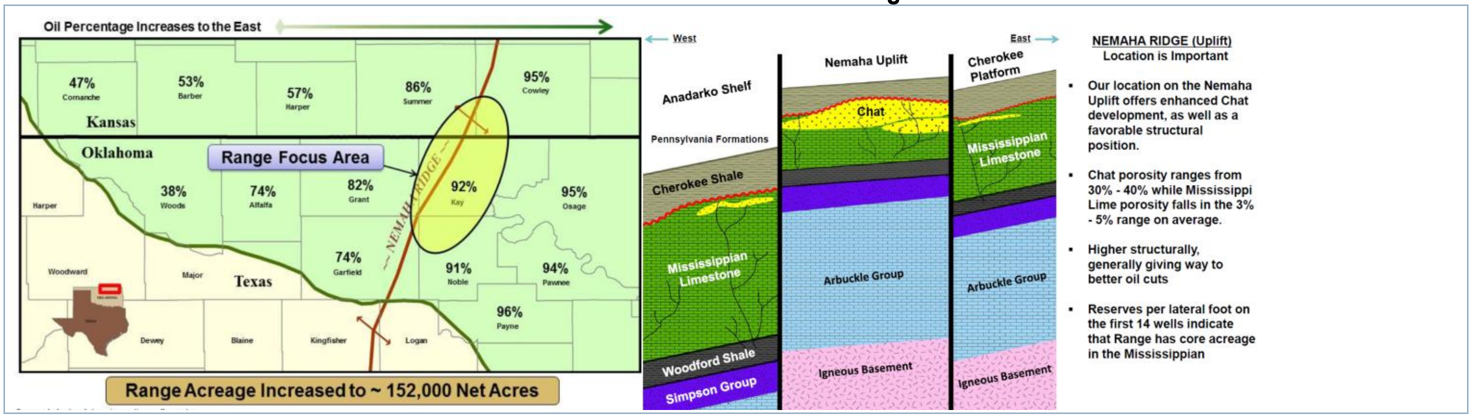
SNAKE RIVER PROJECT (100% WI)

AOK's primary focus is a 100% WI in the Snake River Project, which covers 5,500 acres in Kay and Noble Counties in Oklahoma, in a core area of the Mississippian Lime play, east of the Nemaha Ridge. The project is well located adjacent to gas pipelines and compression and within close proximity to an oil refinery. The project is divided into the East Tonkawa production hub and its Blubaugh production hub. With a 90% water cut, the facilities include significant SWD (salt water disposal) infrastructure and each well is completed with an ESP (electric submersible pump), although many of its wells are yet to be turned to pump. The company is currently progressing concurrent vertical and horizontal drilling campaigns, drilling 2 vertical wells per month to delineate its acreage and deliver production, while moving towards a full field horizontal development via a partnership with RRC on select well locations.

Oil Wells as a % from East to West and Nemaha Ridge Focus



Source: AOK, RRC

AOK's focus - East of the Nemaha Ridge

AOK's Snake River project is focused on a core area of the play to the East of the Nemaha Ridge in Oklahoma, which is emerging as a sweet spot in the play. This area is structurally higher leading to significantly higher observed oil to gas ratios and importantly the ridge area has a significant chat section which provides additional pay with 30-40% porosity. In addition, the area is thought to contain a higher degree of natural fracturing which leads to higher flow rates from the lime formation. RRC's acreage is located in this uplift area, noting the comments on its slide above. The chat section presents a unique additional high porosity zone in this area of the play which AOK targets with both its vertical wells and its horizontal wells, as does RRC. Generally, the play is believed to get oilier from the west to the east with the above chart showing the number of wells deemed oil wells vs. gas wells. On a similar basis, regional geology reportedly suggests the potential for high oil content in the Northern Kansas area which is located up-dip of the Hugoton Embayment.

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Results to date

AOK's most recent announcement provided a good summary of the individual well results to date.

Production Results to Date and Well Locations

ID	Well Name	Peak Rate BOE/DAY	30 day IP BOE/DAY	Current Status	Comments
H1	Balder #1-30H	1396	899	Producing	*Non-op 13.76% interest
H2	Hod #1-19H	205	151	Producing	*Non-op 8.33% interest
1	ETU #15-4	68	46	Producing	Undergoing pump change
2	ETU #14-5	172	77	Producing	
3	ETU #17-6	61	36	Producing	Mechanical issues during deepening
4	ETU #14-7	134	63	Producing	
5	#20-1	150	88	Producing	
6	#20-2	97	38	Producing	Estimated – shared battery
7	#20-3	196	81	Producing	
8	#20-4	169	75	Producing	
9	#20-5	212	80	Producing	Oil only gas flared
10	ETU #1-6			Fracced	Under completion
11	ETU #1-7			Fracced	Under completion
12	#20-7			Drilled	Awaiting stimulation and completion
13	#21-1			Fracced	Under completion
14	#20-1 SWD	Disposal		Operating	
15	#21-3			Fracced	Under completion
16	#20-8			Drilled	Awaiting stimulation and completion
17	ETU #14-8			To be drilled	
18	#20-6			To be drilled	

Source: AOK

Forward program

The forward program will see AOK drill 2 wells per month through to the end of CY2013. It currently has a number of vertical wells at various stages of completion (#1-6, #1-7, #21-1 and #21-3) and the ETU #14-8 and #20-6 wells are expected to be drilled by the end of January.

In 2012, AOK entered into 2 further agreements with RRC to drill additional horizontal wells under lease pooling agreements. Drilling of the Hod #1-19N horizontal was the first of 3 wells in Section 19 Township 25 North Range 1 East in which AOK will have an 8.33% interest. A commitment and the timing on drilling of these additional wells is not clear at this stage. Under an additional agreement AOK and RRC plan to drill the Balder #2-31N well, a twin to the successful Balder #1-30N. The well was set to spud in the Dec Q, however an update on timing has not been provided at this stage.

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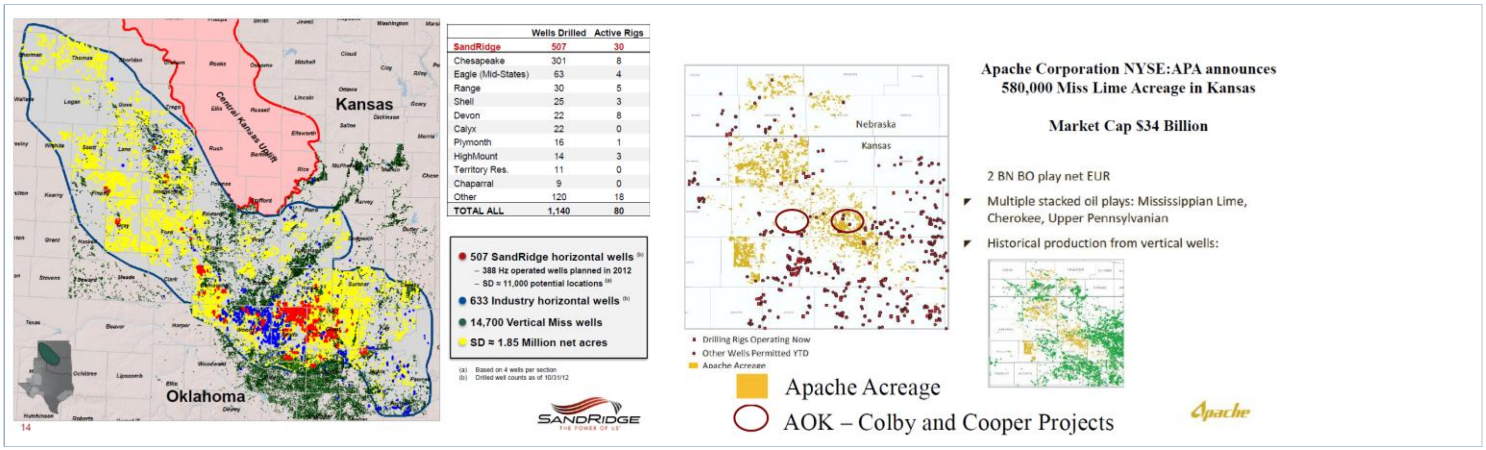
KANSAS (53-70% WI)

AOK hold interest in a number of project areas in the northern areas of Kansas with a further ~17,000net acres of prospective Mississippian acreage consisting of a 53% WI in the 11,600acre Cooper area and a 70% WI interest in the 15,500acre Colby area. There has been minimal drilling activity in AOK's Kansas acreage, with the current focus on analysis of seismic data over the play. Both SandRidge and Apache have put together significant positions in and around AOK's acreage. In 2H 2012 Apache completed 1 of 3 wells in acreage close to AOK's Cooper Project however the results are unknown at this stage. SandRidge has now drilled 121 wells in Kansas and is suggesting 'more of the same' with a healthy 30-day average of 290boepd. AOK has minimal appraisal activity planned at this stage and should benefit from others exploration activity. Hence, its net 17,000acre position provides free-leverage.

Kansas Mississippi Lime Play, Apache acreage



	Wells Drilled	Active Rigs
SandRidge	507	30
Chesapeake	301	8
Eagle (Mid-States)	63	4
Range	30	5
Shell	25	3
Devon	22	8
Calyx	22	0
Plymonth	16	1
HighMount	14	3
Territory Res.	11	0
Chaparral	9	0
Other	120	18
TOTAL ALL	1,140	80

Source: SandRidge, AOK/Apache

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VALUATION AND RECOMMENDATION

We maintain our BUY recommendation and our $0.30/sh price target, which is set in line with our NAV of $0.30/sh. Our valuation is based on a risked full field development of AOK's Snake River project and a notional $/acre value for its early-stage Kansas acreage.

AOK's NAV and Target Price

Target Price Calculation		
Austex Oil Ltd	**A$**	**A$/sh**
Snake River - Mississippi Development (average of scenarios 1&2)	125	0.29
Cash	14	0.03
Convertible Notes	-8	-0.02
Other Items incl G&A	-8	-0.02
Core NAV	**123**	**0.28**
Risked Upside	**$**	**$/sh**
Kansas - Mississippi Potential (at $400/acre)	7	0.02
	7	**0.02**
Other		
Unpaid Capital	0	0.00
Total NAV	**130**	**0.30**
TARGET PRICE		**0.30**
Share Price		0.13
Expected Return		131%

Notes:
All asset values are NPV10 After Tax and in AUD unless noted.

Five years of G&A NPV 10 are deducted to ensure 'going concern' costs are captured.

Source: GMP Estimates

The valuation has been structured to reflect the potential upside value of the acreage while also reflecting AOK's current program and ability to develop the acreage. It considers both a vertical and horizontal development of the field given the early stage of appraisal.

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Snake River Assessment

1. Scenario 1 - Transition to Full Field Horizontal Development

Property/Prospect	Gross Resource (mmboe)	Working Int. (%)	Net Resources (mmboe)	Gross Wells Drilled	Overall COS (%)	Risked NAV ($A mm)	Risked A$/sh (FD)	Unrisked NAV ($A mm)	Unrisked NAV (A$/sh)	Comments
Mississippi Verticals	3.9	100.0%	3.9	40.0	90%	50.32	0.12	55.91	0.13	2 wells per month through 2013
Mississippi Horizontals - Initial Pooled	2.1	10.0%	0.2	5.0	50%	1.33	0.00	2.65	0.01	5 wells through 2012/2013
Mississippi Horizontals - 160 acre	37.4	34.4%	12.9	98.0	50%	47.92	0.11	95.84	0.22	98 wells through 2013-2017
Mississippi Horizontals - 80 acre infill	34.0	34.4%	11.7	100.0	30%	19.23	0.04	64.11	0.15	100 wells from 2017
Mississippi Horizontals - 50 acre infill	34.0	34.4%	11.7	120.0	20%	5.98	0.01	29.90	0.07	120 wells from 2020
			40.4			**124.8**	**0.29**	**248.4**	**0.57**	

Key Assumptions

Vertical Type Curve - 100kboe EUR	Operating Costs - $8/boe
Vertical Well Cost - $0.6m tied in with SWD	State and Severance Tax - 12%
Horizontal Type Curve - 550kboe EUR	Vertical Drill Rate - 24 wells per year through 2012 and 2013
Horizontal Well Cost - $3,4m tied in with SWD	Horizontal Drill Rate -8 wells per year through 2012 and 2013, 32 wells per year thereafter

2. Scenario 2 - Full Field Vertical Development

Property/Prospect	Gross Resource (mmboe)	Working Int. (%)	Net Resources (mmboe)	Gross Wells Drilled	Overall COS (%)	Risked NAV ($A mm)	Risked A$/sh (FD)	Unrisked NAV ($A mm)	Unrisked NAV (A$/sh)	Comments
Mississippi Verticals - 40 acre	12.3	100.0%	12.3	137.0	60%	91.80	0.21	153.00	0.35	4 wells per month from 2013 -2015
Mississippi Verticals - 20 acre	12.3	100.0%	12.3	275.0	30%	33.00	0.08	110.00	0.25	4 wells per month from 2015 -2018
			24.6			**124.8**	**0.29**	**263.00**	**0.61**	

Key Assumptions

Vertical Type Curve - 100kboe EUR	Operating Costs - $8/boe
Vertical Well Cost - $0.6m tied in with SWD	State and Severance Tax - 12%
	Vertical Drill Rate - 24 wells per year through 2012, 48 wells per year thereafter

3. Combined Valuation for Snake River

	Risked NAV ($A mm)	Risked A$/sh (FD)	Unrisked NAV ($A mm)	Unrisked NAV (A$/sh)
Scenario 1 (50%) + Scenario 2 (50%)	124.8	0.29	255.7	0.59

Source: GMP Estimates

Scenario 1 assumes a total of 40 wells are drilled across the play to delineate the Mississippi Lime formation through 2013 (risked at a 90% POS). We have then assumed that AOK transitions through current RRC agreements into a 160-acre horizontal development in 2013 (50% POS), followed by infill drilling to 80-acre from 2017 (30% POS) with allowance for potential 50-acre spacing (20%) as suggested by RRC.

Scenario 2 is based on continued vertical development of the play at 40-acre spacing (risked at a 60% POS), followed by infill drilling to 20 acre spacing (30% POS). While there is significant upside via the de-risking of a horizontal development, our vertical development provides a low-risk approach given the sound results seen to date. It is worth noting that our unrisked NPV valuations will continue to increase for some time as more wells are brought online.

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Peer Comparison

There are limited listed pure Mississippi Lime plays that provide meaningful comparison to AOK. The most relevant are ASX listed Red Fork (RFE ASX) and Sandridge (SD NYSE).

Mississippi Lime Play Peer Comparison

AOK

EV		50	$m	
Net acres		5,500	acres	Snake River Only
		16,998	acres	Kansas Miss Only
		22,498	acres	Total
		24,062	acres	Including other
EV/acre		**9,060**	**$/acre**	**Snake River only**
		2,215	**$/acre**	**All Miss**
Reserves		Total mmboe		NPV US$m
	1P	3.85		97
	2P	5.95		158
	3P	13.38		389
EV/1P Reserves		**12.94**	**$/boe**	
EV/2P Reserves		**8.37**	**$/boe**	
EV/3P Reserves		**3.72**	**$/boe**	
Production		542	boepd	Dec Q average
		740	boepd	Peak
EV/Production		**91,935**	**$/boepd**	**Dec Q average**
		67,336	**$/boepd**	**Peak**

RFE

EV		219	$m	
Net acres		75,000	acres	
EV/acre		**2,918**	**$/acre**	
Reserves		Total mmboe		NPV US$m
	1P	2.07		25
	2P	4.73		46
	3P	29.03		158
EV/1P Reserves		**105.72**	**$/boe**	
EV/2P Reserves		**46.27**	**$/boe**	
EV/3P Reserves		**7.54**	**$/boe**	
Production		1,100	boepd	Current
EV/Production		**198,945**	**$/boepd**	**Current**

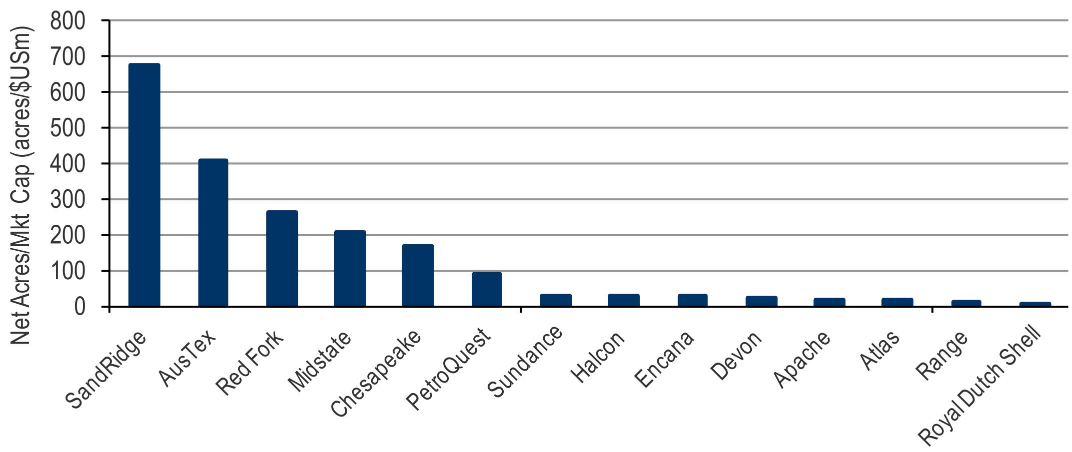
SandRidge

EV		7650.55876	$m	
Net acres		1,850,000	acres	Miss Only
		2,075,000		Incl Permian
EV/acre		**4,135**	**$/acre**	**Miss Only**
EV/acre		**3,687**	**$/acre**	**Incl Permian**
Reserves		Total mmboe		NPV US$m
	1P	533		8771
	2P			
	3P			
EV/1P Reserves		**14.35**	**$/boe**	
EV/2P Reserves			**$/boe**	
EV/3P Reserves			**$/boe**	
Production		91,233	boepd	2012 Guidance
EV/Production		**83,857**	**$/boepd**	**2012 Guidance**

Source: Company Data

The following table provides an alternate way to look at acreage and highlights AOK's leverage to the play.

Leverage to the Mississippi Lime Play



Source: Company Data

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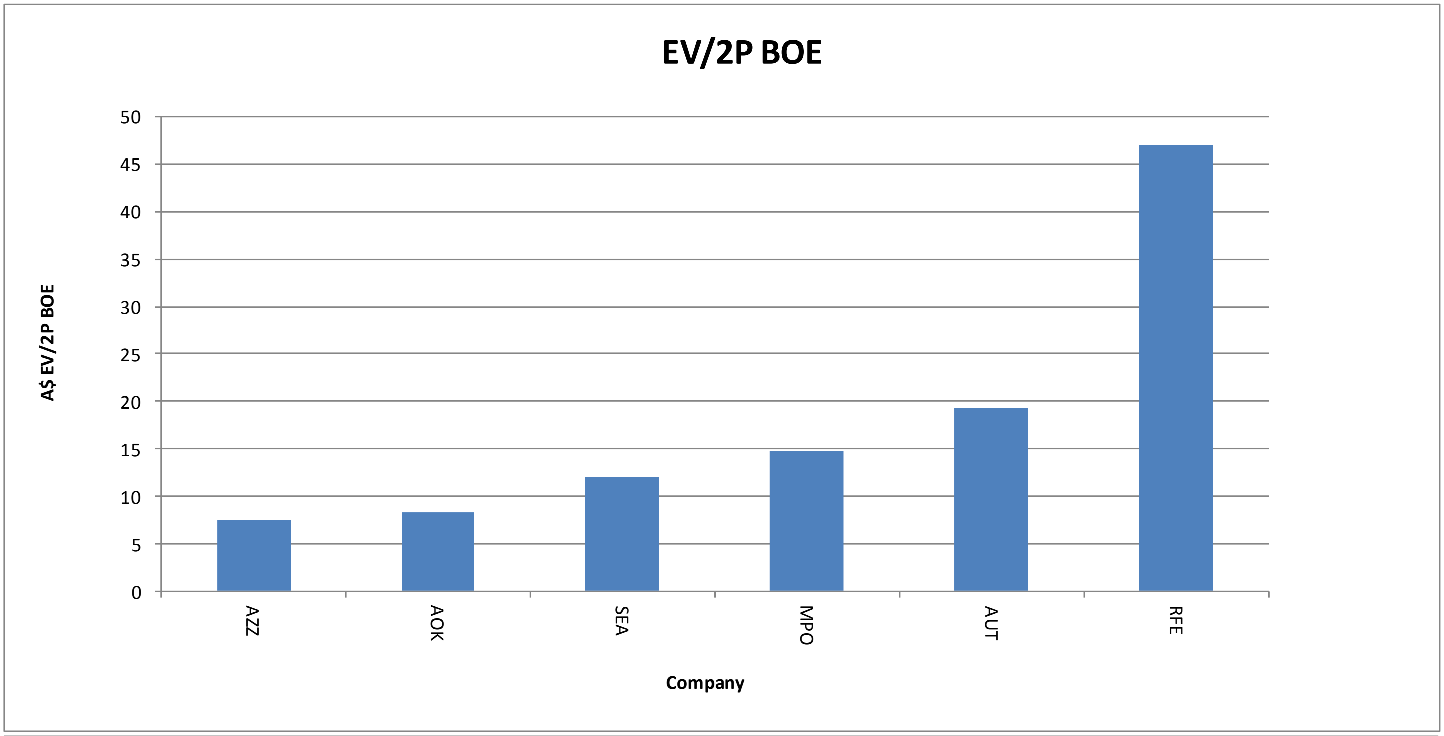
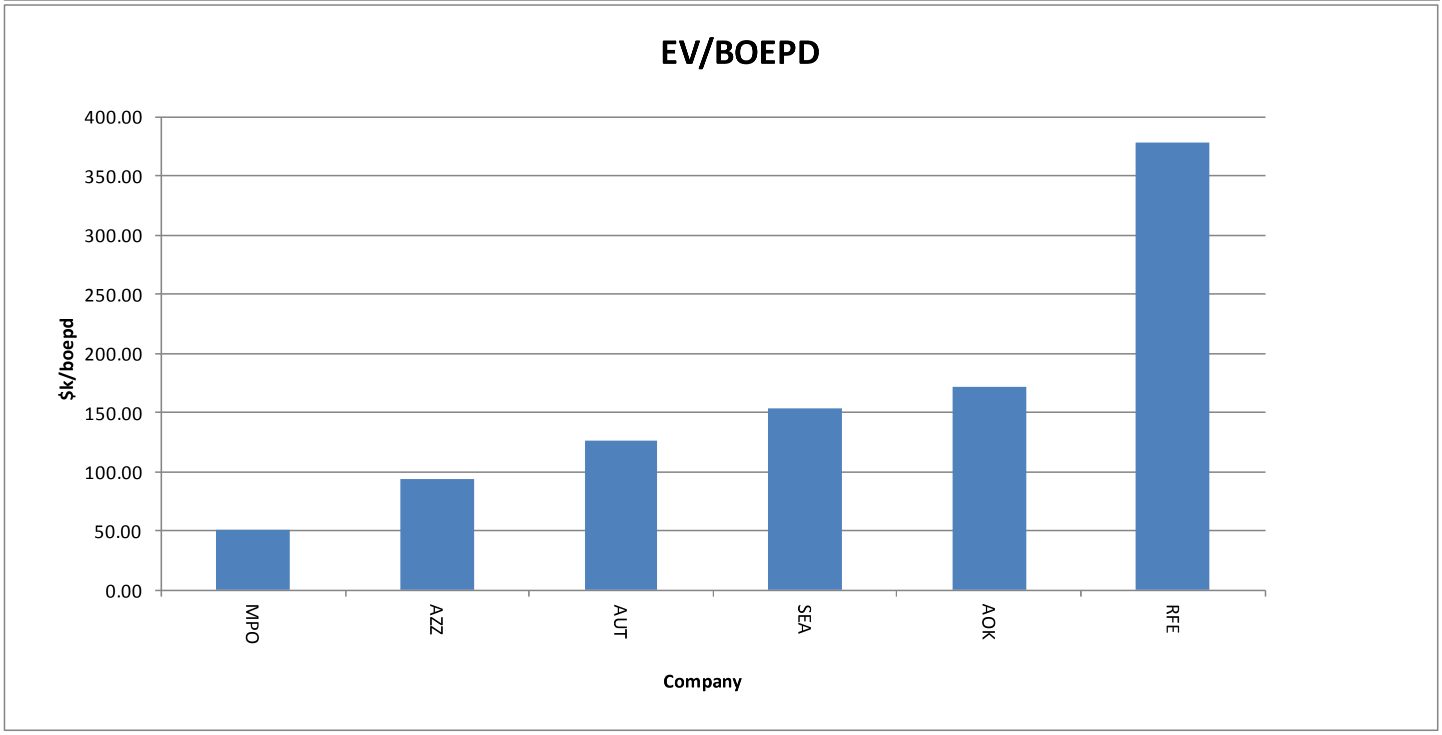
The following table is for information only and provides comparison to AOK's ASX listed Nth American focused peers. This is based on Sep Q data.

ASX Listed Nth American Focused Peers





Source: Company Data

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