



## AUSTEX NOW FULLY FUNDED<sup>1</sup> FOR LONG TERM DEVELOPMENT AT SNAKE RIVER

### AusTex Oil Limited

A.C.N. 118 585 649

ASX: AOK  
OTCQX: ATXDY  
TSX-V: ATO

### Corporate Snapshot

Market Cap: \$156m @  
\$.20p/share<sup>2</sup>  
Shares on issue  
Ordinary: 562.5m  
Preference: 220.1m  
Options: 83.2m  
Shareholders: 2,224

### Directors

#### Michael Stone

(Non-Executive Chairman)

#### Richard Adrey

(Co-Managing Director)

#### Nick Stone

(Co-Managing Director)

#### Russell Krause

(Non-Executive Director)

#### Justin Clyne

(Non-Executive Director &  
Company Secretary)

### Contact

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### HIGHLIGHTS

- AusTex has secured up to US\$60m term loan
- Significant expansion of drilling activity planned
- Additional acreage acquired – now 10,500 acres at Snake River
- Gas infrastructure now complete for drilled sections of the field
- Nick Stone joins as Co-Managing Director to support accelerated growth
- Auditor transition to comply with the terms of the loan
- New corporate structure implemented
- Hedging in place at average price of \$86.89 per barrel of oil for 80% of current production through 2016

AusTex Oil Limited (ASX:AOK, OTCQX:ATXDY, TSXV:ATO, AusTex or the Company), is pleased to provide shareholders with this Company update including the key milestone of securing a US\$60m term loan facility to significantly accelerate and fully fund<sup>1</sup> development at its Snake River Project in Northern Oklahoma.

### TERM LOAN FACILITY

AusTex is pleased to announce that it has entered into a binding term loan agreement with Macquarie Bank Limited (Houston) with an immediate draw down facility of US\$20m and additional availability of up to US\$40m as required to rapidly continue its drilling development program at Snake River. AusTex believes this financing fully funds its drilling program<sup>1</sup>.

The key terms of the term loan are:

<b>Immediate Draw Down:</b>	US\$20m over the first 6 months
<b>Additional Capacity:</b>	Up to a further US\$40m
<b>Annual Interest Rate:</b>	1 month LIBOR + 4.50%
<b>Use of Capital:</b>	For the development and expansion of the Company's acreage position in the Snake River and surrounding areas
<b>Loan Period:</b>	3 years with moderate interim amortization
<b>Reserve Assessment:</b>	Solely based on 3 <sup>rd</sup> party reserve engineering No lender involvement in assumption setting
<b>Key Covenants:</b>	1.3x Proved Developed Reserve PV 10 coverage 1.0x Current Ratio coverage

Unlike many of the proposals offered to the Company, the Macquarie package removed the Bank's involvement from the determination of the reserves, and as a result the Board concluded the lending commitment was more durable in the Macquarie structure than the other proposals made to the Company.

The US\$~\$9.5m of cash on the debt-free balance sheet today, combined with the incremental US\$20m available under this facility today is currently expected to accommodate the Company's cash requirements to breakeven<sup>1</sup>. The additional \$40m will be available upon the joint satisfaction of certain terms and conditions by both Macquarie and AusTex. The Company structured the agreement in tranches to avoid the payment of commitment fees on capital for which it has no short term use.

### **FORWARD WORK PLAN**

With its existing cash and the first tranche of the debt facility, AusTex is now fully funded<sup>1</sup> to develop its ~10,500 acres at Snake River, with significant financial flexibility to accelerate the pace and scope of well development.

Based on the current acreage, AusTex has approximately 270 locations which can be drilled. The Company plans to increase its rate of drilling from 4 per month to 6 per month commencing in the spring after the rainy season. Near term drilling activity will continue to focus on the Company's northern and eastern acreage with a plan to capitalise on the new gas infrastructure.

### **MANAGEMENT ADDITION**

To keep pace with the increasing complexity and growth of operations, the Board of AusTex has appointed Mr. Nicholas Stone, currently a non-executive director, as Co-Managing Director. Rich Adrey will continue to lead the field operations of the Company. Over the last few months, Nick has been leading efforts on the build out of a new field and financial reporting system, human resources issues, term loan negotiations, production analytics and strategy. Nick will begin a full time executive role based in Tulsa effective November 1<sup>st</sup>, 2014.

### **AUDITOR TRANSITION**

In keeping with the commitments made in the credit agreement entered into today, AusTex will transition its auditor services to an oil and gas focused audit firm in the US in advance of year end. Hayes Knight has agreed to resign as auditor of AusTex but will remain involved through the next audit to ensure a smooth transition. Upon selecting its US based audit firm, Hayes Knight will petition ASIC to voluntarily resign. Going forward, the US firm will audit all of the US subsidiaries on a US GAAP basis for the purposes of reporting to the Company's lenders and then convert the financials into Australian compliant IFRS for the purposes of the Company's annual and half yearly reports.

### **NEW CORPORATE STRUCTURE IMPLEMENTED**

AusTex has completed a corporate restructuring of its subsidiaries to focus its operator liability in a single subsidiary and to transition away from its prior US Corporation structure. In addition to better containing the Company's corporate liability, the new structure will also ultimately simplify all of the ongoing leasing efforts, streamline the required reporting to the local oil and gas authorities and improve the Company's tax efficiency.

### **UPDATE ON GAS INFRASTRUCTURE AND CONTRACTS:**

AusTex has completed the first three phases of its pipeline infrastructure work, tying in all producing areas to a gas delivery point. All gas produced in the north is now delivered through a 6" pipe from production hubs in section 4 and 10 to a sales point in section 20. Gas from section 24 continues to run through the existing gathering infrastructure but at a much reduced pressure thanks to relief created by our pipeline work and some improvements made by the purchaser. Gas from section 23 and 26 is now delivered through a 6" pipeline to a sales point in section 30 on the eastern side of the field.

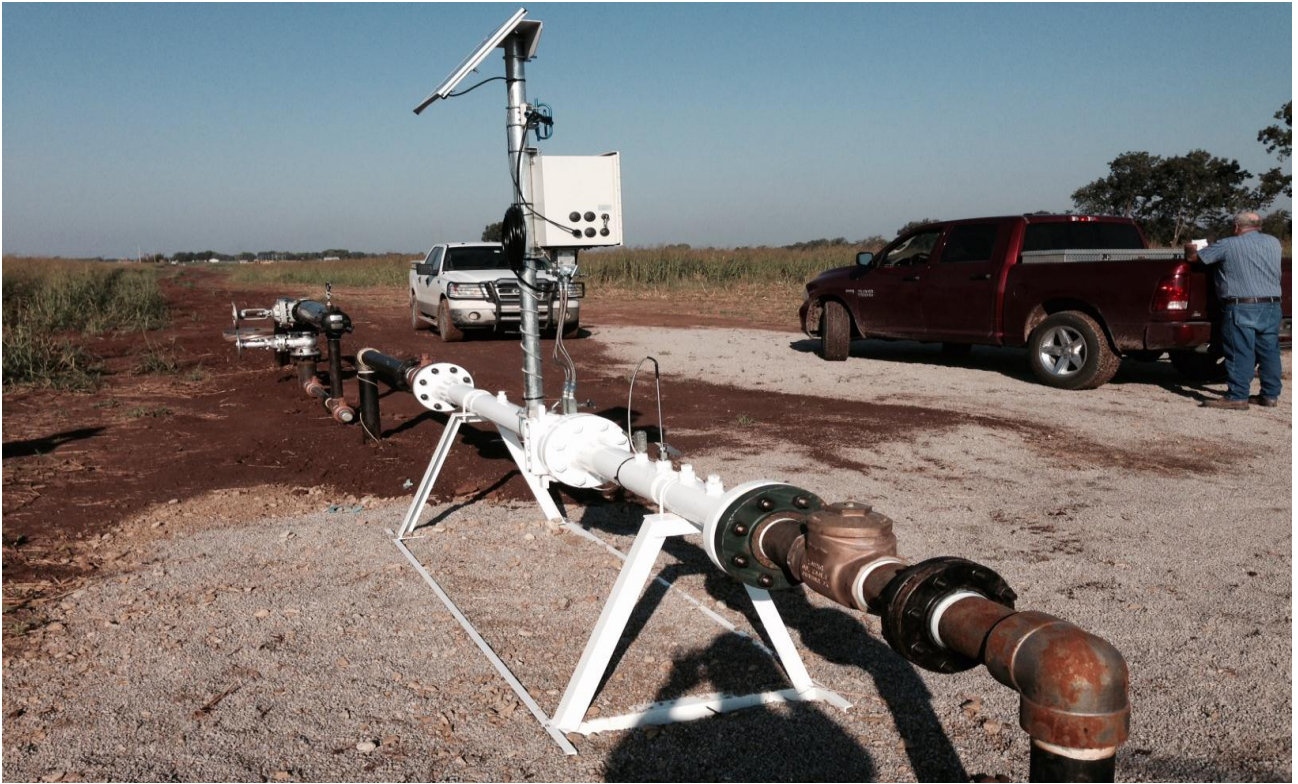
In addition to gas pipeline infrastructure, AusTex has selectively laid salt water lines to create an operational back up in case of a disposal well interruption. The 4" lines should enable the company to move roughly 4,000 barrels of salt water per day. At current levels of production, the line should enable AusTex to continue production with minimal

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<sup>1</sup> Assuming \$80 or better oil price, \$3.50 or better gas price, continued progression on current type curves and maintenance of current cost structure







**Figure 2:** Pig receiver and check meter at the sales point east of Area #2.



**Figure 3:** Gatherer's gas line immediately behind AusTex's check meter.





**Figure 4:** Pig receiver – these are arrayed across our lines to ensure they remain clear and available.



**Figure 5:** Infrastructure plumbed to manage flow bi-directionally, ultimately enabling gas delivery to either sales point

### **HEDGING INCREASED**

Consistent with market practice, the term loan requires the Company to hedge between 70% and 90% of its expected future production from wells currently online for at least 2 years. Through a combination of existing hedges and newly added protection, AusTex is now approximately 80% hedged through the end of 2016. The protection through the end of 2016 on oil consists of 46.8% swaps at a weighted average price of \$94.71 and 53.2% puts with a strike price of US\$ \$80.00. By using put protection, the Company has provided a locked in downside while retaining the upside associated with a rebound in crude prices. Natural gas is 80% swapped through 2016 at an average price of \$3.76 per mcf of dry gas. AusTex typically sells each cubic foot of its gas at a premium to the NYMEX benchmark because of its high liquids content.

## **VARIATIONS REQUIRED TO SUBSCRIPTION AGREEMENT**

Commenting on the Term Loan Facility, Rich Adrey AusTex's Co-Managing Director said:

*"I am excited to announce the successful completion of negotiations with both Macquarie and the Company's Preference Shareholders, resulting in the Company having secured the long term funding to rapidly accelerate the development of our Snake River Project. With this funding, AusTex aims to capitalise on drilling out the roughly 270 locations that exist on its current acreage as well as using current funds to consider the acquisition of other acreage and production opportunities that may arise in the Snake River area. This funding also allows AusTex to continue its recent transition from junior explorer to producer and now to an oil and gas company of significant size and opportunity.*

*We look forward to working with our funding partner, Macquarie, over coming years who share the Company's vision of growing to be a mid tier producer in the shortest time frame possible.*

*As is customary in lending arrangements of this nature and was common among the financing offers available to the Company, Macquarie required the termination of most potential cash liabilities borne by AusTex outside of its normal day to day operations. The loan agreement required (i) the removal of the put right held by the owners of the Redeemable Convertible Preference B Class Shares ("RPB") under section 5.2 of the RPB terms and (ii) the cessation of all cash dividends under the preference share agreements.*

*The non-Ptolemy directors acting on behalf of the board are now pleased to announce that they have managed to relieve AusTex of its put obligation under section 5.2 of the RPB terms throughout the duration of the loan and thereby secure a sizeable new credit facility for the Company with solely the payment of shares that were otherwise due to the Preference Shareholders. As a result, the Company will no longer bear any ongoing dividend liability in either cash or stock."*

*The operations team in Tulsa is also pleased to welcome Nick Stone to the executive ranks. Nick has added considerable value to AusTex to date and his decision to take on the role of Co-Managing Director represents a significant value-add for the company. I am looking forward to continuing to work closely with Nick to take AusTex to the next stage of its development and capitalising on numerous growth opportunities in the near term."*

Commenting on the Company's future development plans, the Company's Chairman, Michael Stone said:

*"This funding gives AusTex the wherewithal to capitalise on its superb development potential and look toward expanding its footprint in and around Snake River. I am not only pleased that the Board has shown a collective vision about positioning the Company for future success but also the manner in which the Independent Board was able to work through a complex process in which it had to ensure the interests of all shareholders were properly represented and in in agreeing a suitable outcome. We will now get on with the business of building our inventory of wells and increasing production."*

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### **About AusTex**

*AusTex Oil Ltd is an Exploration and Production company that is focused on the development of oil and gas leases in the USA. The company produces oil and gas in Oklahoma and Kansas. AOK holds interests in oil and gas leases, including acreage in the highly prospective Mississippi Lime Play in Northern Oklahoma and Kansas. The Company's flagship 100%-owned Snake River Project in the Mississippi Lime Play currently delivering average monthly production of roughly 1,200 BOE.*