# SEPTEMBER 2016 QUARTERLY ACTIVITIES REPORT

***Highlights:***

**SEPTEMBER QUARTER**

- **Quarterly Net Revenue - USD $2.1mm;**
- **Quarterly Oil and Gas Production – 62.8 MBOE;**
- **Production continues to be targeted to match strong hedging position;**
- **Quarter Ending Cash Position USD $25.0MM;**
- **Strong Focus on Growth through Acquisition and Other Opportunities;**
- **Maintaining improved cash flows and a strong balance sheet;**
- **Marginal wells continue to be temporarily shut in: 16 in Oklahoma.**

**SUBSEQUENT TO QUARTER END**

- **Finalized first Acquisition - $0.2MM spent on acquiring wells immediately surrounding our field;**
- **Ongoing Review of Investment and Acquisition Opportunities with Strategic Review Commenced to Determine Forward Strategy; and**
- **87 Company Operated wells including 16 shut-ins and 2 wells in pre-production with a further 3 non-operated producing wells.**

**ASX: AOK OTCQX: ATXDY**

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## 1. AusTex's September 2016 Quarter

The Board of AusTex Oil Limited (**AusTex** or the **Company**) (**ASX: AOK - OTCQX: ATXDY**) is pleased to provide its Quarterly Activities Report for the quarter ending 30 September 2016.

| | ASX Announcements During the September Quarter | |
|---|---|---|
| **1** | Quarterly Activities Report | 29 July |
| **2** | Appendix 3B – Vesting of Shares | 2 August |
| **3** | Change of Director's Interest Notice – Richard Adrey | 2 August |
| **4** | Appendix 4D – Half Yearly Report | 31 August |
| **5** | Half Year Reserve Report | 31 August |

***Table 1:*** **Summary of ASX Releases during the September 2016 Quarter (above).**

## 2. Operations Overview

Consistent with its strategy outlined in recent quarters, this current downturn in the oil sector is providing the Company with the opportunity to maintain the dual focus of, firstly, using its strong balance sheet and cash reserves of more than USD$25M (up US$400k from the end of the previous quarter) to pursue acquisition opportunities that meet the Company's stringent criteria and, secondly, continuing to prudently develop and produce at its 100% owned Snake River Project in Kay County, Northern Oklahoma targeting the liquid rich Mississippi Lime formation. With recent stability in oil prices and potentially a more favourable outlook going forward, the Board has commenced a review into its strategy to determine whether to recommence an active drilling campaign alongside its focus on acquisitions and expects to be in a position to announce the outcome of this review in the near future.

Acquisitions

The Company is pleased to announce that it has just completed its first acquisition (post quarter's end), acquiring 6 wells in the immediate vicinity of our field for $0.2mm. While the size of the acquisition is not material (representing less than 1% of cash on hand), the Company believes this will prove to be a rewarding deal for the Company, generating Proved Developed Producing (PDP) reserves valued on a PV10 basis at a level higher than the price paid. The Company has also identified two potential drilling targets as part of the ~500 acres acquired as part of the transaction which provides some additional upside from the deal as well and is now considering the timing of drilling those targets as part of its strategic review. While this is a small example, we believe it is indicative of the bulk of the acquisition opportunities we will pursue – built in value in terms of reserves with some upside from working over existing wells and drilling new locations on the acreage.

The Company's pipeline of acquisition opportunities is richer today than it has been in the past 12 months. While there can be no guarantees of success in acquisition efforts, the Board is encouraged about the potential for compelling transactions in the set of opportunities we are currently pursuing.

Development

The Company continues to believe that aggressive in-field well drilling does not make sense in the current oil price environment however is currently reviewing whether some form of limited drilling campaign is warranted in the near future as referred to below. Given that the majority of the Company's acreage is held by production already, the Company believes drilling these targets should be more aggressively undertaken once the oil price environment recovers to levels that are more likely reflective of medium term "fair value". We expect that is $60 - $65 dollars today. In the intervening period of time, the Company will drill selective wells to hold highly prospective acreage, to increase our knowledge of the geology in the area and to test the productive potential of new areas of interest.

## 3. Production and Revenue

Given the ongoing oil price compression, production remained constrained in the September quarter so as to preserve oil in the formation for sale in a more favourable pricing environment. The Company intends to continue to roughly match production with the Company's hedging book. At the end of the quarter a total of 16 wells were shut in as being non-economic at this time (up 1 from the previous quarter). This strategy will continue in the near term with the Company continuing to monitor oil prices. Should the forward curve move up or down significantly from September quarter levels, management will likely adjust the number of wells in active production according to their economic contribution.

The Company concluded its first small acquisition, acquiring 6 wells in the immediate vicinity of our field for $0.2MM. The past 18 months has proven to be a time where the best and most efficient allocation of capital is capital preservation in itself. The Company continues to look for investment opportunities comprising exploration, development, production and infrastructure. While the Board is keen to make one or more investments that are accretive for shareholder value, particularly in the current environment, it won't rush into making unsound business decisions and invest the Company's capital unless the Board believes an opportunity presents itself that provides an appropriate return on shareholder's funds.

As of September 30 there was a slight increase of US$400k in the Company's cash position from the previous quarter. The quarter's production saw a decline on the previous quarter due to wells being temporarily shut in to minimize noneconomic operation and the natural declines associated with reservoir mechanics. Production numbers by month for the first three quarters of 2016 are shown in *Table 2* and by quarter in *Table 3*.

***Table 2*: Monthly Production and Cumulative Annual Total for 2016 (below).**

| Month | Monthly Production (BOE) | Average Daily Production (BOE) | Change from Previous Month | Cumulative Calendar Year Production (BOE) |
|---|---|---|---|---|
| January | 23,944 | 772 | -1,756 | 23,944 |
| February | 21,857 | 754 | -2,087 | 45,801 |
| March | 23,713 | 765 | 1,856 | 69,514 |

| | | | | |
|---|---|---|---|---|
| April | 21,474 | 716 | -2,239 | 90,988 |
| May | 24,302 | 784 | 2,828 | 115,290 |
| June | 21,328 | 711 | -2,974 | 136,618 |
| July | 21,617 | 697 | 289 | 158,235 |
| August | 20,912 | 675 | -705 | 179,147 |
| September | 20,245 | 675 | -667 | 199,392 |

***Table 3:*** **Quarterly Production and Cumulative Annual Total for 2016 (below).**

| Quarter Ending | Total Production ('000BOE) | Change from Previous Quarter | Cumulative Calendar Year Production ('000BOE) |
|---|---|---|---|
| 31 March | 69,514 | - | - |
| 30 June | 67,104 | -2,410 | 136,618 |
| 30 September | 62,773 | -4,331 | 199,391 |

A summary of the Company's producing and pre-production wells at Snake River at the end of the September quarter is shown in *Table 4* below.

***Table 4:*** **Wells by stage of production process (below).**

| Well Count as of: | 30 September 2016 |
|---|---|
| **Pumping – Non Operated** | 3 |
| **Pumping – Operated** | 69 |
| **Flowing / Testing** | 1 |
| **Drilled / Fracked** | 1 |
| **Current Shut-In** | 16 |
| **Total Wells** | 90 |

Gross profit from operations for the September quarter was USD $1.4M. Capital investments made during the quarter for development were negligible. The Company acquired a series of near-by wells for $0.2MM. Cash and cash equivalents on hand at the end of the quarter was USD $25M.

# 4. Oklahoma

**4.1 Snake River Project, Kay County, Northern Oklahoma – ~10,000 acres**
**AusTex 100% Working Interest (WI) ~81% Net Revenue Interest (NRI)**

The Snake River Project is located in Kay County, Northern Oklahoma, and is the Company's primary development focus. AusTex is the operator of the Snake River Project and will continue to develop vertical wells with the primary target being the Mississippian interval which is approximately 4,300 feet below surface (or deeper according to structural relief). The centre of the project lies approximately 5 miles south west of Ponca City and the general area hosts significant infrastructure including an oil refinery, gas gathering facilities, gas sales lines and a compression and liquids stripping plant owned by other companies.

As part of AusTex's focus on capital allocation, the Company has allowed some of its leases to expire un-renewed in the Snake River project. Some of that acreage has been deemed to be uncompelling. In other circumstances, it is more cost effective to allow the lease to expire and release than to pay the extension bonus. Leasing in the area now occurs at $100 - $150 per acre versus 2014 levels of $300 - $350.

**Operations**
During the quarter, the Company acquired 6 wells in the immediate vicinity of the field and started the process of cleaning up and recompleting the well bores. That activity will likely occur over the next 6 months.

# 5. Other Projects

**5.1 Tulsa and Surrounds**

During the quarter there was no significant exploration, development or production work on the Company's other acreage in Oklahoma outside of the Snake River Project. These lease areas surrounding Tulsa contributed only a nominal amount to production in the quarter.

**5.2 Kansas**

In accordance with previous announcements to the market, given the success of the Snake River Project in Northern Oklahoma, following on from previous quarters there was no exploration, development or production work on the Company's acreage in Kansas in the previous quarter. The Company continues to review its acreage throughout Kansas as it prioritizes the acceleration of development and production at Snake River and identifying acquisition and other corporate opportunities. The Company's acreage in Kansas contributes only a nominal amount to production of around 1% to 2% of total production.

## 6. Lease Operating Schedule

Pursuant to Listing Rule 5.4.3, a schedule of the Company's leases and interests therein is provided as follows (gross acreage shown).

| Lease Name | Net Acreage | Wi | NRI | Status | County, State |
|---|---|---|---|---|---|
| **Snake River** | ~10,000 | 100% | ~81% | Development Producing | Kay County, OK |
| **Tulsa and surrounds** | ~600 | 100% | 81% | Producing | Tulsa, OK |
| **Ellsworth** | ~500 | 50% | 38% | Producing | Ellsworth, KS |

***Table 5 (above):* AusTex Oil's Lease Operating Schedule as at 30 September 2016.**

## 7. Corporate Update

A summary of ASX releases during the September quarter is outlined in *Table 1* (on page 2).

**7.1 Significant Hedge Position:**

AusTex's current production remains substantially hedged at oil prices well in excess of the current spot market. The Company's current hedge position is as follows:

| Oil Hedging | Volume (bbl) | Wtd Avg Price | Gas Hedging | Volume (mcf) | Wtd Avg Price |
|---|---|---|---|---|---|
| July 2016 | 5,890 | 80.00 | July 2016 | 27,900 | 3.80 |
| August 2016 | 5,890 | 80.00 | August 2016 | 27,900 | 3.80 |
| September 2016 | 5,700 | 80.00 | September 2016 | 27,000 | 3.80 |
| October 2016 | 5,580 | 80.00 | October 2016 | 24,800 | 3.93 |
| November 2016 | 5,400 | 80.00 | November 2016 | 24,000 | 3.93 |
| December 2016 | 5,580 | 80.00 | December 2016 | 24,800 | 3.93 |
| January 2017 | 5,000 | 60.75 | January 2017 | 15,500 | 3.05 |
| February 2017 | 5,000 | 60.75 | February 2017 | 14,000 | 3.05 |
| March 2017 | 5,000 | 60.75 | March 2017 | 15,500 | 3.05 |
| April 2017 | 4,000 | 51.50 | April 2017 | 15,000 | 3.05 |
| May 2017 | 4,000 | 51.50 | May 2017 | 15,500 | 3.05 |
| September 2017 | 4,000 | 51.50 | September 2017 | 15,000 | 3.05 |
| July 2017 | 4,000 | 51.50 | July 2017 | 15,500 | 3.05 |

| | | | | | |
|---|---|---|---|---|---|
| August 2017 | 4,000 | 51.50 | August 2017 | 15,500 | 3.05 |
| September 2017 | 4,000 | 51.50 | September 2017 | 15,000 | 3.05 |
| | | | October 2017 | 15,500 | 3.05 |
| | | | November 2017 | 15,000 | 3.05 |
| | | | December 2017 | 15,000 | 3.05 |

***Table 6 (above):* AusTex's Current Hedge Position.**

**Note:** For simplicity and ease of understanding, all financial figures in this release exclude the impact of unrealized hedging gains and losses

For and on behalf of AusTex Oil Limited

**Justin B Clyne**

Non-Executive Director & Company Secretary

31 October 2016