AusTex Oil Limited

ACN 118 585 649

NOTICE OF EXTRAORDINARY GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting

Friday, 24 January 2014

Time of Meeting

10.30 am (AEST)

Place of Meeting

Sofitel Sydney Wentworth
Adelaide Room
61–101 Phillip Street
Sydney NSW 2000
Australia

NOTICE OF EXTRAORDINARY GENERAL MEETING

AusTex Oil Limited hereby gives notice that an Extraordinary General Meeting of Shareholders will be held at 10.30 am on Friday, 24 January 2014 at the Sofitel Sydney Wentworth, Adelaide Room, 61-101 Phillip Street, Sydney, NSW, Australia.

An Explanatory Memorandum accompanies this Notice and provides additional information on the Resolutions to be considered at the Meeting. The Explanatory Memorandum forms part of this Notice and should be read in conjunction with it. We refer Shareholders to the Glossary in the Explanatory Memorandum which contains definitions of capitalised terms used in this Notice and the Explanatory Memorandum.

AGENDA

ITEM 1 - ORDINARY RESOLUTIONS

To consider and, if thought fit, pass the following ordinary resolutions of the Company:

Resolution 1:

Approve the issue of RCPA Shares

"That, for the purposes of Listing Rule 7.4, and for all other purposes, the Shareholders ratify, authorise and approve the issue of 51,995,234 RCPA Shares to Ptolemy and 6,947,422 RCPA Shares to Young Capital Partners in accordance with the Subscription Agreement, on the terms set out in the Explanatory Memorandum."

Voting exclusion statement:
The Company will disregard any votes cast on Resolution 1 by:
- *Ptolemy or Young Capital Partners; and*
- *an associate of Ptolemy or Young Capital Partners.*

However, the Company need not disregard a vote if:
- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

Resolution 2:

Approve the conversion right in respect of the RPB Shares

"That, for the purposes of Listing Rule 7.1, and for all other purposes, the Shareholders approve the conversion right in respect of the RPB Shares, which are convertible into Shares on the terms set out in the Explanatory Memorandum."

Voting exclusion statement:
The Company will disregard any votes cast on Resolution 2 by:
- *Ptolemy or Young Capital Partners; and*
- *an associate of Ptolemy or Young Capital Partners.*

However, the Company need not disregard a vote if:
- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

Resolution 3:

Approval for Ptolemy to increase relevant interest

"That, for the purposes of item 7, section 611 of the Corporations Act, and for all other purposes, the Shareholders authorise and approve the acquisition by Ptolemy of a relevant interest in the Shares as a consequence of the conversion of the 51,995,234 RCPA Shares and 46,771,433 RPB Shares held by Ptolemy on the terms set out in the Explanatory Memorandum."

Voting exclusion statement:
The Company will disregard any votes cast on Resolution 3 by:

- *Ptolemy; and*
- *an associate of Ptolemy.*

However, the Company need not disregard a vote if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

Further information in relation to these Resolutions is set out in the Explanatory Notes below. In particular, Shareholders should read the Independent Expert's Report in its entirety before deciding how to vote on Resolution 3.

Dated at Sydney, 23 December 2013.

BY ORDER OF THE BOARD

Thomas Bloomfield
Company Secretary

NOTES

1. Explanatory Memorandum

An Explanatory Memorandum accompanies this Notice and provides additional information on the Resolutions to be considered at the Meeting. The Explanatory Memorandum forms part of this Notice and should be read in conjunction with it. We refer Shareholders to the Glossary in the Explanatory Memorandum which contains definitions of capitalised terms used in this Notice and the Explanatory Memorandum.

In addition, the Independent Expert's Report has been prepared in order to assist Shareholders in determining how they wish to vote on Resolution 3.

2. Record Date

For the purposes of regulation 7.11.37 of the Corporations Regulations, the Company determines that Shareholders recorded on the Company's register at 7.00 pm (AEST) on 22 January 2014 (**Record Date**) will be entitled to attend and vote at the Meeting. If you are not the registered Shareholder in respect of a particular Share on the Record Date, you will not be entitled to vote in respect of that Share.

If you cannot attend the Meeting in person, you are encouraged to sign and deliver the proxy form attached to this Notice and return it in accordance with the instructions set out below.

3. Appointment of Proxies

A Shareholder entitled to attend and vote at the Meeting may appoint an individual or a body corporate as a proxy to attend the meeting and, on a poll, vote on the Shareholder's behalf. A proxy need not be a Shareholder.

A Shareholder entitled to cast two or more votes may appoint not more than two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

Unless under Power of Attorney (which should have been noted by the Company), a proxy form completed by a body corporate should be executed under its common seal or in accordance with the Corporations Act. The enclosed proxy form provides further details on proxies and lodging proxy forms.

If a Shareholder appoints the Chairman of the Meeting as the Shareholder's proxy and does not specify how the Chairman is to vote on an item of business, the Chairman will vote, as proxy for that Shareholder, in favour of that item on a poll.

For Shareholders registered on the Australian register, section 250B of the Corporations Act stipulates that proxies must be delivered at least 48 hours prior to the Meeting (i.e. not later than 10.30 am (AEST) on 22 January 2014), or at least 48 hours prior to any adjourned meeting, to the Company's Share Registry Service Provider, Boardroom Pty Limited as follows:

By mail: Share Registry – Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2000

By fax: +61 2 9290 9655

In person: Share Registry – Boardroom Pty Limited
Level 7

207 Kent Street
Sydney NSW 2000

4. Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as the Company's representative. The authority may be sent to the Company in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

5. Designated Foreign Issuer

The Company is a reporting issuer in Canada but is eligible for an exemption from certain Canadian rules, including in relation to specified proxy solicitation and disclosure requirements, pursuant to National Instrument 71-102 – *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (**NI 71-102**) as a "designated foreign issuer" as defined in NI 71-102. The Company is subject to the regulatory requirements of ASIC and/or the ASX, including the preparation of this Notice.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum forms part of the Notice convening the Extraordinary General Meeting of the Shareholders of **AusTex Oil Limited** to be held at 10.30 am on Friday, 24 January 2014 at the Sofitel Sydney Wentworth, Adelaide Room, 61-101 Phillip Street, Sydney, NSW, Australia.

The purpose of this Explanatory Memorandum is to assist Shareholders in determining how they wish to vote on the Resolutions. Specifically, the Explanatory Memorandum contains information to help Shareholders understand the background to, and the legal and other implications of, the Notice and the reasons for the Resolutions. The Notice and Explanatory Memorandum should be read in their entirety and in conjunction with each other.

1. Background to transaction

1.1 Background to Subscription Agreement

On 18 October 2013, the Company entered into a Subscription Agreement with Ptolemy Energy Holdings, LLC (**Ptolemy**) and Young Capital Partners (**Subscription Agreement**). Under the terms of the Subscription Agreement, the Company has issued:

(a) to Ptolemy:

(i) 51,995,234 RCPA Shares for an aggregate purchase price of US$7,799,285 on the terms set out in Annexure A; and

(ii) 46,771,433 RPB Shares for an aggregate purchase price of US$7,015,715 on the terms set out in Annexure B; and

(b) to Young Capital Partners:

(i) 6,947,422 RCPA Shares for an aggregate purchase price of US$1,042,113 on the terms set out in Annexure A; and

(ii) 10,952,578 RPB Shares for an aggregate purchase price of US$1,642,887 on the terms set out in Annexure B.

In addition to the full terms of the RCPA Shares and RPB Shares set out in Annexure A and Annexure B, respectively, a brief overview of the key terms of the Preference Shares is set out below:

	RCPA Shares	**RPB Shares**
Convertible into Shares	Yes	No See sections 1.2 and 3 for further information as to the proposed convertibility of the RPB Shares
Conversion price	US$0.15 per RCPA Share	US$0.15 per RPB Share
Conversion date	Convertible at any time in the future	Not currently convertible. Subject to Resolution 2 being passed, will be convertible at any time in the future
Dividend rate	11.75% per annum	11.75% per annum See section 3.4 for further information

Dividend payment dates	31 March 30 June 30 September 31 December	31 March 30 June 30 September 31 December
Rights to dividends	In priority to Shares	In priority to Shares

The Company entered into the Subscription Agreement in order to raise funds for the purposes of:

- accelerating the pace of development at the Company's Snake River Mississippi Project in Northern Oklahoma;
- meeting general working capital requirements; and
- meeting the Company's Convertible Note obligations when due and payable.

1.2 The Resolutions

Resolution 1 seeks to approve the issue of the RCPA Shares under Listing Rule 7.4 in order to refresh the ability of the Company to issue further equity securities up to the 15% limit imposed under Listing Rule 7.1

Under the terms of the RPB Shares, a holder of RPB Shares may elect to convert some or all of the RPB Shares that it holds into Shares, subject to the Shareholders approving the right of conversion attaching to the RPB Shares. Resolution 2, therefore, seeks Shareholder approval for the right of conversion in respect of the RPB Shares.

Ptolemy may acquire a relevant interest in more than 20% of the Shares on conversion of the Preference Shares that it holds. Accordingly, Resolution 3 seeks Shareholder approval under item 7, section 611 of the Corporations Act for the acquisition by Ptolemy of a relevant interest in the Shares as a consequence of the conversion of its RCPA Shares and RPB Shares where such acquisition would otherwise breach section 606 of the Corporations Act.

For further information on Resolutions 1, 2 and 3, please refer to sections 2, 3 and 4 of this Explanatory Memorandum.

1.3 Background to Convertible Note Agreement

In June 2012, in accordance with the Convertible Note Agreement, the Company issued (with subsequent Shareholder approval) a Convertible Note to each Convertible Noteholder to raise up to a maximum of US$7,500,000. Each Convertible Noteholder also received free attaching Options. The number of free attaching Options granted to each Convertible Noteholder was equivalent to half the number of Shares issuable on conversion of the Convertible Notes into Shares (assuming the Convertible Notes were converted on the day the Convertible Notes were issued).

The Convertible Note Agreement also provided the Convertible Noteholders with the right of first refusal to participate in 25% of certain future offers by the Company of Shares, other equity securities and equity-linked debt securities where such offer is solely to sophisticated and professional investors, or where such offer is a public offer made with a full-form disclosure document (**Right of First Refusal**). Accordingly, the Company is required to offer the Convertible Noteholders the opportunity to participate in the issue of the Preference Shares.

The following Convertible Noteholder exercised its right to participate in the issue of the Preference Shares: Young Capital Partners, LP.

The ASX has formed the view that the Right of First Refusal is contrary to Listing Rule 6.18. Accordingly, the Company has provided an undertaking to the ASX that it will not in the future permit the Right of First Refusal to be exercised.

ITEM 1: ORDINARY RESOLUTIONS

2. <u>Resolution 1:</u>

2.1 Resolution 1: Approve the issue of RCPA Shares

"That, for the purposes of Listing Rule 7.4, and for all other purposes, the Shareholders ratify, authorise and approve the issue of 51,995,234 RCPA Shares to Ptolemy and 6,947,422 RCPA Shares to Young Capital Partners in accordance with the Subscription Agreement, on the terms set out in the Explanatory Memorandum."

2.2 Listing Rule 7.4

Listing Rule 7.1 prevents the Company from issuing more than 15% of its issued Share capital within a 12 month period without shareholder approval. The issue of the RCPA Shares fell within the 15% Restriction and consequently did not breach Listing Rule 7.1. Accordingly, the Company is not seeking Shareholder approval under Listing Rule 7.1.

Nevertheless, the Company seeks Shareholder approval in accordance with Listing Rule 7.4 for the issue of the RCPA Shares in order to refresh the ability of the Company to issue further equity securities up to the 15% limit provided for by Listing Rule 7.1 from time to time and as required by the Company.

The Directors believe that it is in the best interests of the Company to maintain the ability to issue up to its full placement capacity so that the Company retains financial flexibility and can take advantage of opportunities that may arise.

2.3 Information provided pursuant to Listing Rule 7.4

Shareholder approval of Resolution 1 is sought for the purposes of Listing Rule 7.4. The following information is provided in relation to the issue of the RCPA Shares in accordance with Listing Rule 7.4:

(a) The number of securities issued

The Company has issued 58,942,656 RCPA Shares in total, with 32,500,000 RCPA Shares being issued on 21 October 2013 and 26,442,656 RCPA Shares being issued on 11 November 2013.

(b) The price at which the securities were issued

The Company issued the RCPA Shares for US$0.15 per RCPA Share.

(c) The terms of the securities

The RCPA Shares were issued on the terms set out in Annexure A.

(d) The names of the persons to whom the Company issued the securities

The RCPA Shares were issued to the following persons:

(i) 51,995,234 RCPA Shares to Ptolemy, a current Shareholder; and

(ii) 6,947,422 RCPA Shares to Young Capital Partners, as a participating Convertible Noteholder under the terms of the Convertible Note Agreement.

Neither Ptolemy nor Young Capital Partners is a related party of the Company.

(e) *The use or intended use of the funds raised*

The funds raised through the issue of the RCPA Shares will be used to:

(i) accelerate the pace of development at the Company's Snake River Mississippian Project in Northern Oklahoma;

(ii) meet general working capital requirements; and

(iii) meet obligations to Convertible Noteholders in accordance with the Convertible Note Agreement when due and payable.

The Company, along with the subscribers of the RCPA Shares, have agreed to fully reserve 100% of the funds necessary to retire the Convertible Notes currently on issue upon their maturity in June 2014. The ability to reserve such funds alleviates any potential concern about the Company being able to retire the Convertible Notes when they mature.

2.4 Recommendation

The Directors unanimously recommend that each Shareholder vote in favour of Resolution 1. Each Director intends to vote in favour of Resolution 1, in respect of Shares they hold in the Company.

3. <u>Resolution 2</u>

3.1 Resolution 2: Approve the conversion right in respect of the RPB Shares

"That, for the purposes of Listing Rule 7.1, and for all other purposes, the Shareholders approve the conversion right in respect of the RPB Shares, which are convertible into Shares on the terms set out in the Explanatory Memorandum."

3.2 Listing Rule 7.1

As noted in the paragraph 2.2 above, Listing Rule 7.1 prevents the Company from issuing more than 15% of its issued Share capital within a 12 month period without Shareholder approval.

Under the terms of the RPB Shares, a holder of RPB Shares may elect to convert some or all of the RPB Shares that it holds into Shares, subject to the Shareholders approving the right of conversion attaching to the RPB Shares.

As the RPB Shares, when issued, were not capable of being converted into Shares, the issue of the RPB Shares fell within an exemption to Listing Rule 7.1, that is, Listing Rule 7.2, exception 10. As such, the RPB Shares are not considered to be equity securities until such time as the relevant Shareholder approval is obtained.

The Company seeks Shareholder approval, for the purposes of Listing Rule 7.1 and for all other purposes, in respect of the ability for the RPB Shares to be convertible into Shares. This approval will allow the Company to issue further equity securities up to the 15% limit

from time to time and as required by the Company. It will also ensure that the Company does not need to call a further general meeting to seek approval for the issue of Shares as a consequence of a holder of RPB Shares exercising its right of conversion.

The Directors believe that it is in the best interests of the Company to maintain the ability to issue up to its full placement capacity so that the Company retains financial flexibility and can take advantage of opportunities that may arise.

3.3 Information provided pursuant to Listing Rule 7.3

Shareholder approval of Resolution 2 is sought for the purposes of Listing Rule 7.1. The following information is provided in accordance with Listing Rule 7.3:

(a) The maximum number of securities the Company is to issue or the formula for calculating the number of securities the Company is to issue

The Company has issued 57,724,011 RPB Shares in total, with 40,000,000 RPB Shares being issued on 21 October 2013 and 17,724,011 RPB Shares being issued on 11 November 2013.

Under the terms of the RPB Shares, the number of Shares that will be issued to holders of RPB Shares on conversion is equivalent to the face value of the RPB Shares plus the amount of any dividends accrued but unpaid in respect of the RPB Shares as at the conversion date divided by the conversion price, being US$0.15 per RPB Share:

$$\frac{\text{Face value plus accumulated dividends outstanding}}{\text{US\$0.15}}$$

Following Shareholder approval of Resolution 2, the holders of the RPB Shares will have the right to convert the RPB Shares into Shares. The face value of the RPB Shares is convertible into 57,724,011 Shares.

In the event there are any accrued but unpaid dividends in respect of the RPB Shares as at the conversion date, the issue of Shares in respect of such amount will be issued pursuant to the Company's then available headroom under Listing Rule 7.1.

(b) The date by which the Company will issue the securities

The Company issued the RPB Shares on 21 October 2013 and 11 November 2013. The holders of RPB Shares will be able to convert their RPB Shares into Shares immediately following Shareholder approval in respect of Resolution 2.

(c) The issue price of the securities

The RPB Shares were issued for US$0.15 per RPB Share. There is no further consideration payable by the holders of RPB Shares as a consequence of the conversion of the RPB Shares.

(d) The names of the persons to whom the Company will issue the securities

The RPB Shares were issued to Ptolemy and Young Capital Partners. Neither Ptolemy nor Young Capital Partners is a related party of the Company.

(e) The terms of the securities

The full terms of the RPB Shares are set out in Annexure B. These terms include the ability of holders to, subject to Shareholder approval, convert the RPB Shares into Shares.

(f) *The intended use of the funds raised*

The funds raised through the issue of the RPB Shares will be used to:

(i) accelerate the pace of development at the Company's Snake River Mississippian Project in Northern Oklahoma;

(ii) meet general working capital requirements; and

(iii) meet obligations to Convertible Noteholders in accordance with the Convertible Note Agreement when due and payable.

The Company, along with the subscribers of the RPB Shares, have agreed to fully reserve 100% of the funds necessary to retire the Convertible Notes currently on issue upon their maturity in June 2014. The ability to reserve such funds alleviates any potential concern about the Company being able to retire the Convertible Notes when they mature.

As noted above, there is no consideration payable by the holders of RPB Shares in respect of the conversion of the RPB Shares. Accordingly, the Company will raise no funds in addition to that raised through the initial issue of the RPB Shares.

3.4 Further information regarding the RPB Shares

The Subscription Agreement and the terms of the RPB Shares (set out in Annexure B) provide that, if the Shareholders do not approve Resolution 2 and Resolution 3 at this Extraordinary General Meeting, the dividend rate for the RPB Shares will increase from 11.75% per annum to 16.00% per annum. Failure to approve Resolution 2 or Resolution 3 will also mean the Company is required to meet its redemption obligation on its RPB Shares in cash. Similarly, failure to approve Resolution 2 or Resolution 3 will also prevent the Company from exercising its call options in respect of the Preference Shares, as set out in the terms of the RPB Shares and the RCPA Shares, and will therefore not prevent the Company being required to pay the 11.75% and 16.0% interest rates on those Preference Shares.

3.5 Recommendation

The Directors unanimously recommend that each Shareholder vote in favour of Resolution 2. Each Director intends to vote in favour of Resolution 2, in respect of Shares they hold in the Company.

4. <u>Resolution 3</u>

4.1 Resolution 3: Approval for Ptolemy to increase relevant interest

"That, for the purposes of item 7, section 611 of the Corporations Act, and for all other purposes, the Shareholders authorise and approve the acquisition by Ptolemy of a relevant interest in the Shares as a consequence of the conversion of the 51,995,234 RCPA Shares and 46,771,433 RPB Shares held by Ptolemy on the terms set out in the Explanatory Memorandum ."

4.2 Section 606 Prohibition

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in a company where, as a consequence of the acquisition, that person's voting power in the Company increases:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%,

(**Section 606 Prohibition**). The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person has a relevant interest in securities if they:

(a) are the holder of the securities;

(b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

(c) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these power, each of them is taken to have that power.

There is a risk that Ptolemy will acquire a relevant interest in excess of 20% of the voting shares in the Company as a consequence of the conversion of the Preference Shares that it holds.

4.3 Item 7 exemption

Item 7 of section 611 of the Corporations Act provides an exemption to the Section 606 Prohibition. This exemption enables Ptolemy to acquire a relevant interest in the Company's issued Share capital in excess of 20% if Shareholders approve the acquisition at a general meeting.

That is, the Company may issue the Shares to Ptolemy on conversion of the Preference Shares where such issue would otherwise cause Ptolemy to acquire a relevant interest in more than 20% of the voting Shares of the Company in breach of the Section 606 Prohibition if, at the Extraordinary General Meeting:

(a) the Shareholders approve Resolution 3;

(b) no votes are cast in favour of Resolution 3 by Ptolemy or its associates; and

(c) Shareholders are given all information known to Ptolemy or its associates, or known to the Company, that is material to the Shareholders' decision on how to vote on Resolution 3. This information is set out further below.

4.4 Independent Expert's Report

The Company has engaged PriceWaterhouseCoopers to prepare an Independent Expert's Report relating to the potential conversion of Preference Shares held by Ptolemy into Shares, and whether, as a consequence, it is fair and reasonable for Shareholders to approve a

potential acquisition of a relevant interest in voting Shares that would otherwise contravene the prohibition under s.606 of the Corporations Act. The Independent Expert's Report is intended to provide Shareholders with the information that is material to their decision on how to vote on Resolution 3.

PriceWaterhouseCoopers' opinion is that the issue of the Preference Shares is not fair but reasonable for the non-associated Shareholders.

A copy of the Independent Expert's Report is set out in Annexure C. The Directors recommend that Shareholders read the Independent Expert's Report in its entirety before deciding how to vote on Resolution 3.

4.5 Information provided pursuant to item 7 of section 611 of the Corporations Act

Shareholder approval of Resolution 3 is sought for the purposes of item 7 of section 611 of the Corporations Act. The following information is provided in relation to the issue of the Preference Shares in accordance with item 7 of section 611 of the Corporations Act:

(a) Identity of the person proposing to make the acquisition and their associates

The Company issued:

(i) 51,995,234 RCPA Shares; and

(ii) 46,771,433 RPB Shares,

to Ptolemy Energy Holdings, LLC. Ptolemy has no associates who are Shareholders.

Ptolemy is the direct energy investment entity for Freestyle Investors, a California based investment firm, and a subsidiary of Ptolemy Capital, LLC. The Company is currently Ptolemy's only investment. Ptolemy is controlled by Michael Stone.

(b) The maximum extent of the increase in that person's voting power in the Company that would result from the acquisition

As at the date of this Notice, Ptolemy has a relevant interest in 46,199,381 Shares, representing an interest of 10.67% in the total number of voting shares in the Company.

The maximum number of Shares that will be issued to Ptolemy (assuming Resolution 3 is passed) is equivalent to the face value of the Preference Shares being converted plus the amount of any dividends accrued but unpaid in respect of the Preference Shares being converted as at the conversion date divided by the conversion price, being US$0.15 per Preference Share:

$$\frac{\text{Face value plus accumulated dividends outstanding}}{\text{US\$0.15}}$$

Given the open-ended nature of the conversion date of the Preference Shares, the Company cannot definitively state the maximum potential increase in Ptolemy's voting power.

For illustrative purposes, various scenarios have been included in sub-paragraph (c) below.

(c) The voting power that person would have as a result of the acquisition

Given the method of calculating the number of Shares that will be issued on conversion of the Preference Shares, the Company does not know and cannot at this stage calculate the number of Shares Ptolemy will actually receive on conversion. Moreover, Ptolemy may purchase more of the Company's Ordinary Shares on market, bringing its total Ordinary Share ownership to 19.9% or such other level of ownership permitted under the Corporations Act, and then seek to convert all of the Preference Shares that it holds. Consequently, the Company cannot indicate the maximum extent of the increase in Ptolemy's voting power in the Company as a result of the proposed issue of Shares on conversion of the Preference Shares.

At a minimum, on conversion of the face value of the Preference Shares, Ptolemy will receive 98,766,667 Shares. This number will increase depending on the amount of accumulated dividends outstanding as at the relevant conversion date.

Notwithstanding the above, the table below demonstrates how Ptolemy's voting power may increase. Please note that these calculations are for advisory purposes only and simply demonstrate how Ptolemy's power *may* increase as a consequence of conversion of some or all of the Preference Shares. The table below assumes:

(i) there are no accrued but unpaid dividends in respect of the Preference Shares as at the conversion date;

(ii) the Company will not issue any securities (other than Shares to Ptolemy on conversion of the Preference Shares) between the date of this Explanatory Memorandum and the conversion date of the Preference Shares, including, for the avoidance of doubt, the issue of any further Preference Shares to Ptolemy in lieu of a cash dividend payment (as permitted by the terms of the RCPA Shares and the RPB Shares);

(iii) Ptolemy does not acquire any Shares between the date of this Explanatory Memorandum and the conversion date of the Preference Shares; and

(iv) no Convertible Noteholder or other holder of any Options exercises any conversion right between the date of this Explanatory Memorandum and the conversion date of the Preference Shares.

Number of Preference Shares converted	Face value (assuming no accrued but unpaid dividends)	Shares issued on conversion	Increase in voting power	Voting power on conversion
Nil	Nil	Nil	Nil	10.67%
20,000,000	US$3,000,000	20,000,000	3.94%	14.62%
40,000,000	US$6,000,000	40,000,000	7.56%	18.23%
60,000,000	US$9,000,000	60,000,000	10.87%	21.54
80,000,000	US$12,000,000	80,000,000	13.93%	24.60%
98,766,667	US$14,815,000.05	98,766,667	16.59%	27.26%

(d) The maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition

Ptolemy has no associates who are Shareholders.

(e) The voting power that each of that person's associates would have as a result of the acquisition

Ptolemy has no associates who are Shareholders.

4.6 ASIC Regulatory Guide 74

The Company is required to give all material information to Shareholders to assist them in determining how to vote on Resolution 3. The following information is given in accordance with ASIC Regulatory Guide (**RG**) 74:

(a) An explanation of the reasons for the proposed acquisition

The Preference Shares were issued to Ptolemy under the terms of the Subscription Agreement. The offering was sized by both the Company and Ptolemy to allow the Company to fully reserve all of the cash required to fund the repayment of its Convertible Notes and to establish a large enough base of cash reserves to develop its acreage at an appropriate rate in advance of the maturity of the Convertible Notes and the then co-incident availability of additional debt financing. Ptolemy views itself as a long term shareholder of the Company and as such was only interested in investing in the Company's equity. At the Company's request, Ptolemy agreed to the RPB Share structure in order to facilitate a single transaction that provided both the Company with sufficient capacity to ensure the Convertible Noteholders would receive their cash at maturity and facilitate an increased rate of drilling.

The RCPA Shares are convertible into Shares. Under the terms of the RPB Shares, a holder of RPB Shares may elect to convert some or all of the RPB Shares that it holds into Shares, subject to the Shareholders approving the right of conversion attaching to the RPB Shares. Approval for this conversion right is being sought pursuant to Resolution 2.

(b) When the proposed acquisition is to occur

The Company issued the Preference Shares to Ptolemy on 21 October 2013 and 11 November 2013.

Subject to the terms of the Preference Shares, Ptolemy may, by giving notice in writing to the Company, elect to convert some or all of its Preference Shares into Shares at is discretion.

(c) The material terms of the proposed acquisition

In accordance with the Subscription Agreement, the Company issued to Ptolemy:

(i) 51,995,234 RCPA Shares; and

(ii) 46,771,433 RPB Shares.

The full terms of the RCPA Shares and RPB Shares are set out in Annexure A and Annexure B, respectively.

(d) Details of the terms of any other relevant agreement between the acquirer and the Company (or any of their associates) that is conditional on Shareholders' approval of the proposed acquisition

There is no other agreement between Ptolemy and the Company that is conditional on Shareholders' approval.

(e) A statement of the acquirer's intentions regarding the future of the Company if Shareholders approve the acquisition

Ptolemy views itself as a long term shareholder of the Company and intends to continue to take a pro-active role with the Company, assisting it with strategic advice, hedging strategy, and operational questions where relevant. Ptolemy also intends to assist the Company in maximizing its value over the long term by focusing on core operational excellence and helping the Company to avail itself of opportunities to expand when they arise. Ptolemy has no current intention of changing the Company's focus away from its primary activity of extracting hydrocarbons from its Kay County acreage.

The Company understands that Ptolemy does not intend to:

(i) make any significant changes to the business or affairs of the Company;

(ii) inject further capital into the Company other than through participation in rights issues or other pro rata equity capital raisings or unless called upon by the Company in its best interest;

(iii) unilaterally make any changes to the current employment arrangements of the Company's employees;

(iv) transfer any property between the Company and Ptolemy or any person associated with them unless called upon by the Company in its best interest;

(v) otherwise redeploy the fixed assets of the Company; or

(vi) change significantly the financial or dividend policies of the Company.

(f) The interests of any Director in the acquisition

No Director has a material personal interest not otherwise disclosed in the issue of the Preference Shares to Ptolemy.

(g) Details of any person who has become a Director as a result of this transaction

Nicholas J. Stone was appointed by the Directors on 19 November 2013 to fill a casual vacancy pursuant to the terms of the Subscription Agreement.

Nick is a partner at California based Freestyle Investors, and through Ptolemy Energy Holdings, LLC is affiliated with the Company's largest shareholder. He has worked as a private investor for over a decade at both TPG Capital and KKR and has been involved in over $2 billion of equity investment over that period of time. Nick began his career as an investment banker at Morgan Stanley. He earned an MBA from Stanford University, where he graduated as an Arjay Miller Scholar, and an undergraduate degree from Harvard University.

While Nick is affiliated with Ptolemy, he does not own more than 20% of the shares in Ptolemy nor does he control Ptolemy.

(h) Shares issued on conversion

The Company is unable to determine the number of Shares Ptolemy will acquire on conversion given that, at any time, accumulated but unpaid dividends as well as the face value of the Preference Shares can be redeemed for Shares. Nevertheless, at a minimum, Ptolemy will receive 98,766,667 Shares, being the face value of the Preference Shares divided by the conversion price of US$0.15 per Preference Share. This number may increase depending on the amount of accumulated dividends

outstanding as at the conversion date. In addition, paragraph 4.5(c) sets out some alternative scenarios.

4.7 Implications of not approving Resolution 3

Absent approval of Resolution 2 or Resolution 3, the Company will not be able to exercise its call option right in respect of the Preference Shares, as set out in the terms of the RCPA Shares and RPB Shares, and will be required to continue to pay the 11.75% annual dividend on the RCPA shares and 16.0% on the RPB Shares.

As stated above, Ptolemy views itself as a long-term shareholder in the Company. The lack of approval of Resolution 3 will increase the probability with which Ptolemy will require its RPB Share investment to be repaid in cash. Uncertain timing of cash demands are challenging to budget and prepare for and subject the Company to a meaningful risk that it might not be able to meet the obligation.

4.8 Recommendation

The Directors unanimously recommend that each Shareholder vote in favour of Resolution 3. Each Director intends to vote in favour of Resolution 3, in respect of Shares they hold in the Company.

GLOSSARY

15% Restriction means the rule in ASX Listing Rule 7.1 prohibiting the Company issuing more than 15% of its issued Share capital within a 12 month period without shareholder approval.

A$ means a dollar in the currency of the Commonwealth of Australia.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange.

Chairman means the chairman of the Meeting;

Company means AusTex Oil Limited ACN 118 585 649.

Convertible Note Agreement means the subscription agreement dated 24 April 2012 between the Company and Iroquois Capital Opportunity Fund LP and certain other subscribers.

Convertible Note means each convertible note issued in accordance with the Convertible Note Agreement.

Convertible Noteholders means each convertible note subscriber under the Convertible Note Agreement.

Corporations Act means the *Corporations Act 2001* (Cth).

Independent Expert's Report means the report prepared by PriceWaterhouseCoopers, as set out in Annexure C.

Listing Rules means the ASX Listing Rules.

Meeting means the Extraordinary General Meeting convened by this Notice.

Notice means this document, including the Explanatory Memorandum.

Option means an option granted over a Share.

Preference Shares means the RCPA Shares and RPB Shares issued pursuant to the Subscription Agreement.

Ptolemy means Ptolemy Energy Holdings, LLC.

RCPA Shares means the redeemable convertible preference "A" shares in the capital of the Company issued pursuant to the Subscription Agreement and having the rights, preferences and privileges set out in Annexure A.

RPB Shares means the redeemable preference "B" shares in the capital of the Company issued pursuant to the Subscription Agreement and having the rights, preferences and privileges set out in Annexure B.

Resolutions means each resolution (whether ordinary or special) proposed to be considered at the Meeting.

Section 606 Prohibition has the meaning given in section 4.2 of the Explanatory Memorandum.

Share means a fully paid ordinary share in the issued share capital of the Company.

Shareholder means a holder of Shares in the capital of the Company.

Subscription Agreement means the subscription agreement dated on 18 October 2013 in relation to the issue of the RCPA Shares and RPB Shares.

US$ means a dollar in the currency of the United States of America.

Young Capital Partners means Young Capital Partners, LP, and being one of the Convertible Noteholders.

ANNEXURE A

RCPA SHARE TERMS

1. Definitions

The meanings of the terms used in this document are set out below.

Associates	has the meaning given in the Corporations Act.
ASX	as the context requires, ASX Limited ABN 98 008 624 691 or the securities market conducted by it.
Business Day	a day on which banks are open for business in Sydney, Australia, other than a Saturday, Sunday or public holiday in that city.
Call Option Notice	has the meaning given in clause 5.2(a).
Call Option Period	any time after the later of: 1 the date that the Shareholder Approval Condition is satisfied; and 2 the date that is 4 years after the Issue Date of the RCPA Shares to which clause 5.2(a) is being applied.
Change of Control Event	a person, either alone or with its Associates, acquires a Relevant Interest in greater than 35% of the Ordinary Shares, where such number of Ordinary Shares includes the number of Ordinary Shares that would be on issue in the capital of the Company if all securities (including any debt, preferred shares, rights, options, warrants or other instruments) which may be converted into or exercisable or exchangeable for Ordinary Shares, other than the RCPA Shares and the RPB Shares, are, at the time of the calculation, taken to have been converted, exercised or exchanged.
Company	AusTex Oil Limited ACN 118 585 649.
Constitution	the Constitution of the Company, as amended from time to time.
Conversion Date	has the meaning given in clause 4.1(b).
Conversion Price	USD$0.15.
Corporations Act	the *Corporations Act 2001* (Cth).
Directors	the directors from time to time of the Company.
Dividend Rate	11.75% per annum.
Dividend Payment Date	31 March, 30 June, 30 September and 31 December.
Dividend Termination Amount	in respect of a RCPA Share, as at a date: 1 the aggregate amount accruing daily at the Dividend Rate of the paid up Face Value of the RCPA Share and

	compounding annually for a period of 4 years; minus 2 all accrued and paid dividends on that RCPA Share as at that date.
Face Value	has the meaning given in clause 2
Government Agency	any government or governmental, administrative, monetary, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.
Increased Dividend Rate	the rate per annum that is 3% above the Dividend Rate.
Issue Date	the date on which a RCPA Share is issued
Key Persons	each of the following persons: 1 Richard Adrey; 2 Dan Lanskey; and 3 Butch Flatt.
Listing Rules	the listing rules of the ASX.
Law	includes any law, statute, regulation, ordinance, authorisation, ruling, judgement and any order or decree of any Government Agency in any jurisdiction.
Ordinary Shares	the ordinary shares in the capital of the Company.
Ordinary Shareholder	a holder of Ordinary Shares.
RPB Share	a redeemable preference “B” share in the capital of the Company.
RCPA Share	a redeemable convertible preference “A” share in the capital of the Company issued on the Terms.
RCPA Shareholder	a holder of RCPA Shares.
Redemption Event	has the meaning given in the Subscription Agreement.
Relevant Interest	has the meaning given in the Corporations Act.
Shares	shares in the Company.
Shareholder	a holder of Shares in the Company.
Shareholder Approval Condition	the approval of the Shareholders of the Company at an extraordinary general meeting of the Company having been obtained in accordance with the Subscription Agreement.
Shareholder Redemption Date	has the meaning given in clause 5.1(b).

Shareholder Redemption Event	has the meaning given in clause 5.1(a)
Shareholder Redemption Notice	has the meaning given in clause 5.1(b).
Subscription Agreement	the subscription agreement dated 18 October 2013 between the Company and each purchaser party thereto.
Termination Amount	in respect of a RCPA Share, as at a date: 1 the Face Value; plus 2 the aggregate amount accruing daily at the Dividend Rate of the paid up Face Value of the RCPA Share and compounding annually for a period of 4 years; minus 3 all accrued and paid dividends on that RCPA Share as at that date, but no less than the Face Value.
Terms	these terms of issue.

2. Face Value

The face value of each RCPA Share is USD$0.15 (**Face Value**).

3. Dividends

3.1 Right to receive dividends

Subject to these Terms, each RCPA Shareholder has a right to receive dividends on each RCPA Share that it holds, in priority to any other Shares and equally with each other RCPA Share, of an amount accruing and calculated daily (but payable in accordance with these Terms) at the Dividend Rate of the paid up Face Value of the RCPA Share and compounding annually.

3.2 Payment of dividends

(a) Subject to clause 3.2(b), the Company must pay any dividends accrued in respect of a RCPA Share in arrears on each Dividend Payment Date.

(b) The first dividend payment in respect of a RCPA Share:

(1) shall reflect payment in arrears for a full year of dividends accrued; and

(2) shall not be due until the first Dividend Payment Date that is more than one year after the Issue Date of that RCPA Share.

(c) Subject to the Subscription Agreement, the Company may elect to pay any dividends accrued in respect of a RCPA Share:

(1) in cash; or

(2) by the issue of such number of additional RCPA Shares that is equal to the cash amount of the dividend accrued on that RCPA Share divided by the Face Value.

3.3 Termination of dividends

(a) Upon satisfaction of the Shareholder Approval Condition, the Company may elect, within 10 Business Days, to terminate each RCPA Shareholders' right to receive any dividend at the rate referred to in clause 3.1 in respect of the RCPA Shares.

(b) If the Company elects to terminate the RCPA Shareholders' right to receive any dividend in respect of the RCPA Shares in accordance with clause 3.3(a), the Company must pay to each RCPA Shareholder an amount equal to the Dividend Termination Amount for each RCPA Share.

(c) Subject to the Subscription Agreement, the Company may elect to pay any amount due to a RCPA Shareholder under clause 3.3(b):

(1) in cash; or

(2) by the issue of such number of additional RCPA Shares that is equal to the amount due divided by the Face Value.

(d) Subject to clause 3.2(b), in the period prior to redemption of a RCPA Share, a dividend will be payable in respect of each RCPA Share.

3.4 Withholding obligations

Except as required by Law, all payments to a RCPA Shareholder in respect of its RCPA Shares shall be made free and clear of, and without withholding or deduction for, any withholding or other tax, duty or levy. If any such withholding or deduction is required by Law, the Company shall pay such additional amount to the RCPA Shareholder as will result in the receipt by the RCPA Shareholder of such amount as would have been received by the RCPA Shareholder if no such withholding or deduction had been required.

4. Conversion

4.1 RCPA Shareholder may convert RCPA Shares

(a) A RCPA Shareholder may, by giving notice in writing to the Company, elect to convert some or all of the RCPA Shares that it holds into Ordinary Shares.

(b) A notice given by a RCPA Shareholder in accordance with clause 4.1(a) above must specify a date on which the relevant RCPA Shares are to be converted (**Conversion Date**), which must be a date at least 5 Business Days after the date of the notice.

4.2 Number of Ordinary Shares issued on conversion

Pursuant to these Terms, if a RCPA Shareholder elects to convert some or all of its RCPA Shares into Ordinary Shares in accordance with clause 4.1, the Company must, on the Conversion Date:

(a) redeem each RCPA Share that the RCPA Shareholder has elected to convert for the Face Value plus the amount of any dividends accrued but unpaid as at the Conversion Date;

(b) apply the proceeds of such redemption towards the issue to the RCPA Shareholder of Ordinary Shares; and

(c) issue to the RCPA Shareholder such number of Ordinary Shares that is equivalent to:

(1) the aggregate sum of the Face Value plus the amount of any dividends accrued but unpaid as at the Conversion Date for each RCPA Share that the RCPA Shareholder has elected to convert; divided by;

(2) the Conversion Price.

4.3 Undertaking regarding conversion

A RCPA Shareholder may not convert a RCPA Share it holds into Ordinary Shares in accordance with clause 4.1 if the conversion would result in the RCPA Shareholder breaching section 606 of the Corporations Act (it being acknowledged that any conversion within the scope of the resolution and associated shareholder explanatory material the subject of the Shareholder Approval Condition will not result in such a breach).

5. Redemption

5.1 Redemption by RCPA Shareholder

(a) As soon as reasonably practicable following the occurrence of any of the following events (each a **Shareholder Redemption Event**):

(1) a Change of Control Event;

(2) a material breach of the Terms by the Company;

(3) except with the RCPA Shareholder's prior written consent, two out of the three Key Persons have ceased to be officers or employees of the Company; or

(4) a Redemption Event,

the Company must promptly notify each RCPA Shareholder in writing of the occurrence of the Shareholder Redemption Event and provide such details of the Shareholder Redemption Event as are reasonably available.

(b) Subject to clause 5.1(c), at any time following the occurrence of a Shareholder Redemption Event, a RCPA Shareholder may, by giving notice in writing to the Company (a **Shareholder Redemption Notice**), require the Company to redeem any or all of the RCPA Shares it holds, each for the Termination Amount, on the date specified in such notice (**Shareholder Redemption Date**), which must be a date at least 5 Business Days after the date of the notice.

(c) Where the Shareholder Redemption Event is a Change of Control Event, the person who (alone or with its Associates) acquired a Relevant Interest in more than 35% of the Ordinary Shares (as set out in the definition of Change of Control Event), and that person's Associates, cannot give a Shareholder Redemption Notice in respect of that Shareholder Redemption Event.

(d) In addition to the rights and remedies under the Subscription Agreement, in the event that the Company does not pay the full Termination Amount in respect of a RCPA

Share being redeemed pursuant to clause 5.1(b) by the Shareholder Redemption Date, the Increased Dividend Rate will be applied in calculating any dividends accrued in respect of that RCPA Share for the period commencing on the Shareholder Redemption Date and ending on the date that the Termination Amount is paid by the Company in full.

5.2 Call option

(a) At any time during the Call Option Period, the Company may, by giving at least 10 Business Days' notice in writing to all the RCPA Shareholders (**Call Option Notice**), redeem each RCPA Share held by all of the RCPA Shareholders on the date specified in the Call Option Notice for the Termination Amount.

(b) The Company's right to redeem each RCPA Share held by the RCPA Shareholders under clause 5.2(a) may only be exercised once during the Call Option Period in respect of all of the RCPA Shares held by all of the RCPA Shareholders.

5.3 Termination Amount

(a) Where a RCPA Shareholder elects to redeem a RCPA Share pursuant to clause 5.1 or the Company elects to redeem a RCPA Share in accordance with clause 5.2, the RCPA Shareholder may choose for the Termination Amount to be paid:

(1) in cash;

(2) by the issue to the RCPA Shareholder of such number of Ordinary Shares that is equivalent to the Termination Amount divided by the Conversion Price; or

(3) a combination of the above.

(b) A RCPA Shareholder must make the election referred to in clause 5.3(a) as follows:

(1) if clause 5.1(b) applies, by specifying the election in the Shareholder Redemption Notice; or

(2) if clause 5.2(a) applies, by giving a notice to the Company specifying the election within 5 Business Days of receipt of the Call Option Notice.

(c) If no election is made by a RCPA Shareholder in accordance with clause 5.3(b), the RCPA Shareholder will be deemed to have elected to receive the Termination Amount in cash.

5.4 When redemption is effective

Any redemption of a RCPA Share in accordance with these Terms results in the cancellation of that RCPA Share on and from the date that the Termination Amount has been paid in full.

6. Ranking of Ordinary Shares issued on conversion or redemption

(a) All Ordinary Shares issued by the Company in accordance with clauses 4.2(c), and 5.3(a) must rank equally with the Ordinary Shares existing prior to the conversion or redemption of any RCPA Shares (as applicable).

(b) The Company must apply to the ASX for the quotation of all Ordinary Shares issued by it in accordance with clauses 4.2(c), and 5.3(a) and do all other things reasonably necessary to ensure that those Ordinary Shares are quoted on the ASX (including, if necessary, issuing a cleansing statement in accordance with the Corporations Act) on the Business Day the Ordinary Shares are issued.

7. Voting and meetings

7.1 Voting rights

(a) Subject to clause 7.1(b), each RCPA Shareholder is, to the maximum extent permitted by Law, not entitled in their capacity as a RCPA Shareholder to vote:

(1) at a general meeting of the Company; or

(2) otherwise on a matter on which an Ordinary Shareholder is entitled to vote.

(b) Each RCPA Shareholder is entitled in their capacity as an RCPA Shareholder to vote in each of the following circumstances:

(1) during a period which a dividend (or part of a dividend), in respect of the RCPA Shares, is in arrears;

(2) on a proposal to reduce the Company's Share capital;

(3) on a resolution to approve the terms of a buy-back agreement;

(4) on a proposal that affects the rights attached to the RCPA Shares;

(5) on a proposal to wind-up the Company;

(6) on a proposal for the disposal of the whole of the Company's property, business and undertaking; and

(7) during the winding up of the Company.

7.2 Number of votes

On a resolution or matter on which a RCPA Shareholder is entitled to vote in respect of its RCPA Shares in accordance with these terms, that RCPA Shareholder is entitled:

(a) on a show of hands, to one vote; and

(b) on a poll, to one vote for each RCPA Share that is held by it.

7.3 Entitlement in relation to meetings

Each RCPA Shareholder will be entitled to the same rights as Ordinary Shareholders in relation to receiving notices, reports and financial statements and attending and participating in discussions at general meetings of the Company.

8. Anti-dilution

(a) In the event that:

(1) the Shares, other than the RCPA Shares, are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities;

(2) there is a bonus issue of Shares or other issue of Shares (including pursuant to a pro rata issue) at a price that is less than 85% of the market price of those Shares (based on the volume weighted average trading price of those Shares on the ASX in the 10 Business Days prior to the issue date);

(3) the Company undertakes a capital reduction or share buy-back or pays a special dividend or in-specie dividend; or

(4) any action is taken by the Company which disproportionately affects the economic value of the RCPA Shares as compared with other Shares,

the terms on which the RCPA Shares are converted or redeemed shall be adjusted by the Directors (acting reasonably) to ensure that the RCPA Shareholders are in an economic position in relation to their RCPA Shares that is as similar as reasonably practicable to the economic position prior to the occurrence of the event that gave rise to the need for the adjustment.

(b) Clause 8(a) does not apply where Shares have been issued as part of an employee or executive share plan, employee or executive incentive plan or executive option plan which has been approved by the board of Directors.

9. Transferability and listing

(a) There are no restrictions on the transfer of a RCPA Share provided that the transfer complies with the provisions of the Constitution and the transferee obtains all necessary authorisations to acquire the relevant RCPA Shares.

(b) The RCPA Shares will not be quoted on any stock exchange.

(c) The Company must maintain a register of holders of the RCPA Shares.

10. Guarantee

The Company must procure that each of its subsidiaries unconditionally and irrevocably guarantees to each RCPA Shareholder, on the terms set out in the Subscription Agreement, on demand, the due and punctual performance of the Company's obligation to pay any amount payable to a RCPA Shareholder in cash in accordance with these Terms.

11. Ranking on winding up, liquidation or return of capital

11.1 Ranking

RCPA Shares rank equally amongst themselves in all respects and senior to the Ordinary Shares and all other classes of Shares whether now existing or hereafter created.

11.2 Capital returns

On a winding up of the Company or other return of share capital of the Company (other than a buy back of Shares), each RCPA Shareholder has a right on each RCPA Share that it holds, in priority to any other Shares and equally with each other RCPA Share, to receive out of the total amount being distributed to Shareholders a cash sum of the amount equal to the aggregate of:

(a) the Face Value; plus

(b) the amount of any dividends accrued but unpaid at the time of the distribution.

11.3 No participation in surplus assets

The RCPA Shares do not confer on the RCPA Shareholders any further right to participate in the surplus profits or assets of the Company in a liquidation or winding up of the Company.

12. Further assurances

The Company and the RCPA Shareholder must do all things reasonably necessary to cancel any RCPA Shares redeemed in accordance with these Terms and register the RCPA Shareholder as the holder of any Ordinary Shares issued in accordance with these Terms (including cancellation of any holding certificates in respect of the RCPA Shares and the issue of a holding statement in respect of the Ordinary Shares).

13. Governing law

These Terms are governed by the laws of New South Wales, Australia.

14. Payments

All payments made under or in accordance with the Terms must be paid in United States Dollars by bank cheque or by electronic funds transfer into a bank account nominated by the RCPA Shareholder.

ANNEXURE B

RPB SHARE TERMS

1. Definitions

The meanings of the terms used in this document are set out below.

Associates	has the meaning given in the Corporations Act.
ASX	as the context requires, ASX Limited ABN 98 008 624 691 or the securities market conducted by it.
Business Day	a day on which banks are open for business in Sydney, Australia, other than a Saturday, Sunday or public holiday in that city.
Call Option Notice	has the meaning given in clause 5.4(a).
Call Option Period	any time after the later of: 1 the date that the Shareholder Approval Condition is satisfied; and 2 the date that is 4 years after the Issue Date of the RPB Shares to which clause 5.4(a) is being applied.
Change of Control Event	a person, either alone or with its Associates, acquires a Relevant Interest in greater than 35% of the Ordinary Shares, where such number of Ordinary Shares includes the number of Ordinary Shares that would be on issue in the capital of the Company if all securities (including any debt, preferred shares, rights, options, warrants or other instruments) which may be converted into or exercisable or exchangeable for Ordinary Shares, other than the RCPA Shares and the RPB Shares, are, at the time of the calculation, taken to have been converted, exercised or exchanged.
Company	AusTex Oil Limited ACN 118 585 649.
Constitution	the Constitution of the Company, as amended from time to time.
Conversion Date	has the meaning given in clause 4.1(b).
Conversion Price	USD$0.15.
Corporations Act	the *Corporations Act 2001* (Cth).
Directors	the directors from time to time of the Company.
Dividend Rate	1 11.75% per annum; or 2 in the event that the Shareholder Approval Condition is not satisfied within 90 days of the First Issue Date, 16.00% per annum.
Dividend Payment Date	31 March, 30 June, 30 September and 31 December.

Dividend Termination Amount	in respect of a RPB Share, as at a date: 1 the aggregate amount accruing daily at the Dividend Rate of the paid up Face Value of the RPB Share and compounding annually for a period of 4 years; minus 2 all accrued and paid dividends on that RPB Share as at that date.
Face Value	has the meaning given in clause 2.
First Issue Date	the date that RPB Shares are first issued by the Company to a RPB Shareholder.
Government Agency	any government or governmental, administrative, monetary, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.
Increased Dividend Rate	the rate per annum that is 3% above the Dividend Rate.
Issue Date	the date on which a RPB Share is issued.
Key Persons	each of the following persons: 1 Richard Adrey; 2 Dan Lanskey; and 3 Butch Flatt.
Law	includes any law, statute, regulation, ordinance, authorisation, ruling, judgement and any order or decree of any Government Agency in any jurisdiction.
Listing Rules	the listing rules of the ASX.
Ordinary Shares	the ordinary shares in the capital of the Company.
Ordinary Shareholder	a holder of Ordinary Shares.
Put Option Notice	has the meaning given in clause 5.2(a).
Put Option Period	in respect of RPB Shares being redeemed by the Company pursuant to clause 5.2(a), any time during the period commencing on the date that is one year after their Issue Date and ending on the date that is 4 years after their Issue Date.
RCPA Share	a redeemable convertible preference “A” share in the capital of the Company.
RPB Share	a redeemable preference “B” share in the capital of the Company issued on the Terms.
RPB Shareholder	a holder of RPB Shares.

Redemption Event	has the meaning given in the Subscription Agreement.
Relevant Interest	has the meaning given in the Corporations Act.
Shares	shares in the Company.
Shareholder	a holder of Shares in the Company.
Shareholder Approval Condition	the approval of the Shareholders of the Company at an extraordinary general meeting of the Company having been obtained in accordance with the Subscription Agreement to permit a right of conversion
Shareholder Redemption Date	has the meaning given in clause 5.1(b).
Shareholder Redemption Event	has the meaning given in clause 5.1(a).
Shareholder Redemption Notice	has the meaning given in clause 5.1(b).
Subscription Agreement	the subscription agreement dated 18 October 2013 between the Company and each purchaser party thereto.
Termination Amount	in respect of a RPB Share, as at a date: 1 the Face Value; plus 2 the aggregate amount accruing daily at the Dividend Rate of the paid up Face Value of the RPB Share and compounding annually for a period of 4 years; minus 3 all accrued and paid dividends on that RPB Share as at that date, but no less than the Face Value.
Term	these terms of issue.

2. Face Value

The face value of each RPB Share is USD$0.15 (**Face Value**).

3. Dividends

3.1 Right to receive dividends

(a) Subject to these Terms, each RPB Shareholder has a right to receive dividends on each RPB Share that it holds, in priority to any other Shares, other than the RCPA Shares, and equally with each other RPB Share, of an amount accruing and calculated daily (but payable in accordance with these Terms) at the Dividend Rate of the paid up Face Value of the RPB Share and compounding annually.

(b) For the purposes of calculating any amount under clause 3.1(a), where the Shareholder Approval Condition has not been satisfied within 90 days of the First Issue Date, a dividend rate of 16.00% shall be applied retrospectively in respect of the period commencing on the First Issue Date and ending on the date that is 90 days after the First Issue Date.

3.2 Payment of dividends

(a) Subject to clause 3.2(b), the Company must pay any dividends accrued in respect of a RPB Share in arrears on each Dividend Payment Date.

(b) The first dividend payment in respect of a RPB Share:

(1) shall reflect payment in arrears for a full year of dividends accrued; and

(2) shall not be due until the first Dividend Payment Date that is more than one year after the Issue Date of that RPB Share.

(c) Subject to the Subscription Agreement, the Company may elect to pay any dividends accrued in respect of a RPB Share:

(1) in cash; or

(2) by the issue of such number of additional RPB Shares that is equal to the cash amount of the dividend accrued on that RPB Share divided by the Face Value.

3.3 Termination of dividends

(a) Upon satisfaction of the Shareholder Approval Condition, the Company may elect, within 10 Business Days, to terminate each RPB Shareholders' right to receive any dividend at the rate referred to in clause 3.1 in respect of the RPB Shares.

(b) If the Company elects to terminate the RPB Shareholders' right to receive any dividend in respect of the RPB Shares in accordance with clause 3.3(a), the Company must pay to each RPB Shareholder an amount equal to the Dividend Termination Amount for each RPB Share.

(c) Subject to the Subscription Agreement, the Company may elect to pay any amount due to a RPB Shareholder under clause 3.3(b):

(1) in cash; or

(2) by the issue of such number of additional RPB Shares that is equal to the amount due divided by the Face Value.

(d) Subject to clause 3.2(b), in the period prior to redemption of a RPB Share, a dividend will be payable in respect of each RPB Share.

3.4 Withholding obligations

Except as required by Law, all payments to a RPB Shareholder in respect of its RPB Shares shall be made free and clear of, and without withholding or deduction for, any withholding or other tax, duty or levy. If any such withholding or deduction is required by Law, the Company shall pay such additional amount to the RPB Shareholder as will result in the

receipt by the RPB Shareholder of such amount as would have been received by the RPB Shareholder if no such withholding or deduction had been required.

4. Conversion

4.1 RPB Shareholder may convert RPB Shares

(a) Subject to the satisfaction of the Shareholder Approval Condition, a RPB Shareholder may, by giving notice in writing to the Company, elect to convert some or all of the RPB Shares that it holds into Ordinary Shares.

(b) A notice given by a RPB Shareholder in accordance with clause 4.1(a) above must specify a date on which the relevant RPB Shares are to be converted (**Conversion Date**), which must be a date at least 5 Business Days after the date of the notice.

(c) For the avoidance of doubt, unless the Shareholder Approval Condition is satisfied, the Company is under no obligation to convert some or all of the RPB Shares into Ordinary Shares.

4.2 Number of Ordinary Shares issued on conversion

Pursuant to these Terms, if a RPB Shareholder elects to convert some or all of its RPB Shares into Ordinary Shares in accordance with clause 4.1, the Company must, on the Conversion Date:

(a) redeem each RPB Share that the RPB Shareholder has elected to convert for the Face Value plus the amount of any dividends accrued but unpaid as at the Conversion Date;

(b) apply the proceeds of such redemption towards the issue to the RPB Shareholder of Ordinary Shares; and

(c) issue to the RPB Shareholder such number of Ordinary Shares that is equivalent to:

(1) the aggregate sum of the Face Value plus the amount of any dividends accrued but unpaid as at the Conversion Date for each RPB Share that the RPB Shareholder has elected to convert; divided by

(2) the Conversion Price.

4.3 Undertaking regarding conversion

A RPB Shareholder may not convert a RPB Share it holds into Ordinary Shares in accordance with clause 4.1 if the conversion would result in the RPB Shareholder breaching section 606 of the Corporations Act (it being acknowledged that any conversion within the scope of the resolution and associated shareholder explanatory material the subject of the Shareholder Approval Condition will not result in such a breach).

5. Redemption

5.1 Redemption by RPB Shareholder following Shareholder Redemption Event

(a) As soon as reasonably practicable following the occurrence of any of the following events (each a **Shareholder Redemption Event**):

(1) a Change of Control Event;

(2) a material breach of the Terms by the Company;

(3) except with the RPB Shareholder's prior written consent, two out of the three Key Persons have ceased to be officers or employees of the Company; or

(4) a Redemption Event,

the Company must promptly notify each RPB Shareholder in writing of the occurrence of the Shareholder Redemption Event and provide such details of the Shareholder Redemption Event as are reasonably available.

(b) Subject to clause 5.1(c), at any time following the occurrence of a Shareholder Redemption Event, a RPB Shareholder may, by giving notice in writing to the Company (a **Shareholder Redemption Notice**), require the Company to redeem any or all of the RPB Shares it holds, each for the Termination Amount, on the date specified in such notice (**Shareholder Redemption Date**), which must be a date at least 5 Business Days after the date of the notice.

(c) Where the Shareholder Redemption Event is a Change of Control Event, the person who (alone or with its Associates) acquired a Relevant Interest in more than 35% of the Ordinary Shares (as set out in the definition of Change of Control Event), and that person's Associates, cannot give a Shareholder Redemption Notice in respect of that Shareholder Redemption Event.

(d) In addition to the rights and remedies under the Subscription Agreement, in the event that the Company does not pay the full Termination Amount in respect of a RPB Share being redeemed in accordance with clause 5.1(b) by the Shareholder Redemption Date, the Increased Dividend Rate will be applied in calculating any dividends accrued in respect of that RPB Share for the period commencing on the Shareholder Redemption Date and ending on the date that the Termination Amount is paid by the Company in full.

5.2 Put option

(a) At any time during the Put Option Period, a RPB Shareholder may, by giving at least 10 Business Days' notice in writing to the Company (**Put Option Notice**), require the Company to redeem each RPB Share held by the RPB Shareholder on the date specified in the Put Option Notice for the amount equal to the Face Value plus the amount of any dividends accrued but unpaid as at that date.

(b) A RPB Shareholder's right to require the Company to redeem its RPB Shares under clause 5.2(a) applies only once in respect of all of the RPB Shares held by the RPB Shareholder.

5.3 Mandatory redemption by Company

Unless the Shareholder Approval Condition has been satisfied, the Company must redeem each RPB Share held by all of the RPB Shareholders on the date that is 4 years after their Issue Date for the Termination Amount.

5.4 Call option

(a) At any time during the Call Option Period, the Company may, by giving at least 10 Business Days' notice in writing to all the RPB Shareholders (**Call Option Notice**),

redeem each RPB Share held by all of the RPB Shareholders on the date specified in the Call Option Notice for the Termination Amount.

(b) The Company's right to redeem each RPB Share held by the RPB Shareholders under clause 5.4(a) may only be exercised once during the Call Option Period in respect of all of the RPB Shares held by all of the RPB Shareholders.

5.5 Termination Amount

(a) Prior to the satisfaction of the Shareholder Approval Condition, where a RPB Shareholder elects to redeem a RPB Share pursuant to clauses 5.1 or 5.2 or the Company is required to redeem a RPB Share in accordance with clause 5.3, the Company must pay the relevant amount to be paid by the Company to the RPB Shareholder for such redemption in cash.

(b) At any time following the satisfaction of the Shareholder Approval Condition, where a RPB Shareholder elects to redeem a RPB Share pursuant to clauses 5.1 or 5.2 or the Company elects to redeem a RPB Share in accordance with clause 5.4, the RPB Shareholder may choose for the relevant amount to be paid:

(1) in cash;

(2) by the issue to the RPB Shareholder of such number of Ordinary Shares that is equivalent to the relevant amount to be paid divided by the Conversion Price; or

(3) a combination of the above.

(c) A RPB Shareholder must make the election referred to in clause 5.5(a) as follows:

(1) if clause 5.1(b) applies, by specifying the election in the Shareholder Redemption Notice;

(2) if clause 5.2(a) applies, by specifying the election in the Put Option Notice; and

(3) if clause 5.4(a) applies, by giving a notice to the Company specifying the election within 5 Business Days of receipt of the Call Option Notice.

(d) If no election is made by a RPB Shareholder in accordance with clause 5.5(c), the RPB Shareholder will be deemed to have elected to receive the relevant amount to be paid by the Company to the RPB Shareholder for such redemption in cash.

5.6 When redemption is effective

Any redemption of a RPB Share in accordance with these Terms results in the cancellation of that RPB Share on and from the date that the relevant amount to be paid by the Company to the RPB Shareholder for such redemption has been paid in full.

6. Ranking of Ordinary Shares issued on conversion or redemption

(a) All Ordinary Shares issued by the Company in accordance with clauses 4.2(c) and 5.5(a) must rank equally with the Ordinary Shares existing prior to the conversion or redemption of any RPB Shares (as applicable).

(b) The Company must apply to the ASX for the quotation of all Ordinary Shares issued by it in accordance with clauses 4.2(c) and 5.5(a) and do all other things reasonably necessary to ensure that those Ordinary Shares are quoted on the ASX (including, if necessary, issuing a cleansing statement in accordance with the Corporations Act) on the Business Day the Ordinary Shares are issued.

7. Voting and meetings

7.1 Voting rights

(a) Subject to clause 7.1(b), each RPB Shareholder is, to the maximum extent permitted by Law, not entitled in their capacity as a RPB Shareholder to vote:

(1) at a general meeting of the Company; or

(2) otherwise on a matter on which an Ordinary Shareholder is entitled to vote.

(b) Each RPB Shareholder is entitled in their capacity as an RPB Shareholder to vote in each of the following circumstances:

(1) during a period which a dividend (or part of a dividend), in respect of the RPB Shares, is in arrears;

(2) on a proposal to reduce the Company's Share capital;

(3) on a resolution to approve the terms of a buy-back agreement;

(4) on a proposal that affects the rights attached to the RPB Shares;

(5) on a proposal to wind-up the Company;

(6) on a proposal for the disposal of the whole of the Company's property, business and undertaking; and

(7) during the winding up of the Company.

7.2 Number of votes

On a resolution or matter on which a RPB Shareholder is entitled to vote in respect of its RPB Shares in accordance with these terms, that RPB Shareholder is entitled:

(a) on a show of hands, to one vote; and

(b) on a poll, to one vote for each RPB Share that is held by it.

7.3 Entitlement in relation to meetings

Each RPB Shareholder will be entitled to the same rights as Ordinary Shareholders in relation to receiving notices, reports and financial statements and attending and participating in discussions at general meetings of the Company.

8. Anti-dilution

(a) In the event that:

(1) the Shares, other than the RPB Shares, are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities;

(2) there is a bonus issue of Shares or other issue of Shares (including pursuant to a pro rata issue) at a price that is less than 85% of the market price of those Shares (based on the volume weighted average trading price of those Shares on the ASX in the 10 Business Days prior to the issue date);

(3) the Company undertakes a capital reduction or share buy-back or pays a special dividend or in-specie dividend; or

(4) any action is taken by the Company which disproportionately affects the economic value of the RPB Shares as compared with other Shares, the terms on which the RPB Shares are converted or redeemed shall be adjusted by the Directors (acting reasonably) to ensure that the RPB Shareholders are in an economic position in relation to their RPB Shares that is as similar as reasonably practicable to the economic position prior to the occurrence of the event that gave rise to the need for the adjustment.

(b) Clause 8(a) does not apply where Shares have been issued as part of an employee or executive share plan, employee or executive incentive plan or executive option plan which has been approved by the board of Directors.

9. Transferability and listing

(a) There are no restrictions on the transfer of a RPB Share provided that the transfer complies with the provisions of the Constitution and the transferee obtains all necessary authorisations to acquire the relevant RPB Shares.

(b) The RPB Shares will not be quoted on any stock exchange.

(c) The Company must maintain a register of holders of the RPB Shares.

10. Guarantee

The Company must procure that each of its subsidiaries unconditionally and irrevocably guarantees to each RPB Shareholder, on the terms set out in the Subscription Agreement, on demand, the due and punctual performance of the Company's obligation to pay any amount payable to a RPB Shareholder in cash in accordance with these Terms.

11. Ranking on winding up, liquidation or return of capital

11.1 Ranking

RPB Shares rank equally amongst themselves in all respects and senior to the Ordinary Shares and all other classes of Shares, except the RCPA Shares, whether now existing or hereafter created.

11.2 Capital returns

On a winding up of the Company or other return of share capital of the Company (other than a buy back of Shares), each RPB Shareholder has a right on each RPB Share that it holds, in priority to any other Shares except the RCPA Shares, and equally with each other RPB Share, to receive out of the total amount being distributed to Shareholders a cash sum of the amount equal to the aggregate of:

(a) the Face Value; plus

(b) the amount of any dividends accrued but unpaid at the time of the distribution.

11.3 No participation in surplus assets

The RPB Shares do not confer on the RPB Shareholders any further right to participate in the surplus profits or assets of the Company in a liquidation or winding up of the Company.

12. Further assurances

The Company and the RPB Shareholder must do all things reasonably necessary to cancel any RPB Shares redeemed in accordance with these Terms and register the RPB Shareholder as the holder of any Ordinary Shares issued in accordance with these Terms (including cancellation of any holding certificates in respect of the RCB Shares and the issue of a holding statement in respect of the Ordinary Shares).

13. Governing law

These Terms are governed by the laws of New South Wales, Australia.

14. Payments

All payments made under or in accordance with the Terms must be paid in United States Dollars by bank cheque or by electronic funds transfer into a bank account nominated by the RPB Shareholder.

ANNEXURE C

INDEPENDENT EXPERT'S REPORT

Independent Expert's Report in respect of a shareholder vote in relation to a potential future conversion of Preference Shares to ordinary shares in AusTex Oil Limited

AusTex Oil Limited

December 2013

The Directors
AusTex Oil Limited
Level 7, 207 Kent Street,
Sydney, NSW 2000
Australia

20 December 2013

Dear Sirs,

Independent Expert's Report with regard to a shareholders vote in relation to a potential conversion of Preference Shares to ordinary shares in AusTex Oil Limited (AusTex or the Company)

1. On 21 October 2013, AusTex announced that it had entered into a Subscription Agreement to issue up to US$17.5 million of redeemable preference shares in the Company. The redeemable preference shares would be issued in two tranches with the first tranche consisting of 43.3 million Redeemable Convertible Preference Shares (RCPA Shares) and the second tranche comprising 73.3 million Redeemable Preference Shares (RPB Shares). These are jointly referred to as the Preference Shares.

2. The proceeds from the issue of the Preference Shares will be used to:
   - Accelerate the pace of development at the Company's Snake River Mississippi Project in Northern Oklahoma;
   - Meet general working capital requirements; and
   - Meet Convertible Note obligations when due and payable.

3. The Preference Shares issue was oversubscribed with Ptolemy Energy Holdings LLC (Ptolemy) being allotted approximately 85% of the Preference Shares. Ptolemy is currently the largest shareholder in AusTex with a 10.67% shareholding in the Company.

4. Under the terms of the Subscription Agreement, AusTex provided the following undertakings:
   i. AusTex will call a general meeting of its shareholders to authorise the ability of the RPS holders to convert the RPS into ordinary shares in the Company at a conversion price of US$0.15.
   ii. AusTex will call a general meeting of its shareholders to approve the acquisition by Ptolemy of a relevant interest in the Company under s611 (7) (later defined) as a consequence of the conversion of the Preference Shares into ordinary shares.
   iii. Failure by AusTex to diligently pursue obtaining the approval for either (i) and (ii) may be deemed a redemption event by Ptolemy. A redemption event could require AusTex to immediately redeem the Preference Shares.

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5. The Company has called an Extraordinary General Meeting of members of AusTex to be held on 24 January 2014 to, amongst other resolutions, approve Resolution 3 (Future Conversion), which is described below:

   "That, for the purposes of item 7, section 611 of the Corporations Act, and for all other purposes, the Shareholders authorise and approve the acquisition by Ptolemy of a relevant interest in the Shares as a consequence of the conversion of the 51,995,234 RCPA Shares and 46,771,433 RPB Shares held by Ptolemy on the terms set out in the Explanatory Memorandum."

6. PricewaterhouseCoopers Securities Limited (PwC Securities, we, our or us) has been appointed to prepare an Independent Expert's Report (IER) for the shareholders of AusTex who are not excluded from voting (Non-Associated Shareholders) in connection with the Future Conversion. We are not required to offer an opinion on the issuance of the Preference Shares or other aspects of the broader transaction. Our opinion is limited solely to the Future Conversion.

7. The IER is to accompany the Notice of Meeting. PwC Securities have prepared this IER for the purpose of stating, in our opinion, whether or not the Future Conversion is fair and reasonable to the Non-Associated Shareholders of AusTex.

Our Conclusions

The Future Conversion is not fair but reasonable for the Non-Associated Shareholders.

8. Our assessment of the Future Conversion has been undertaken in accordance with the principles of Australian Securities and Investments Commission (ASIC) Regulatory Guide 111, Content of Expert's Reports (RG111) and Regulatory Guide 74, Acquisitions approved by members (RG74).

9. PwC Securities consider the Future Conversion to be not fair but reasonable to the Non-Associated Shareholders of AusTex. The reasons for our opinion are provided below and should be read in conjunction with our detailed IER, attached to this summary letter, which sets out our scope and findings.

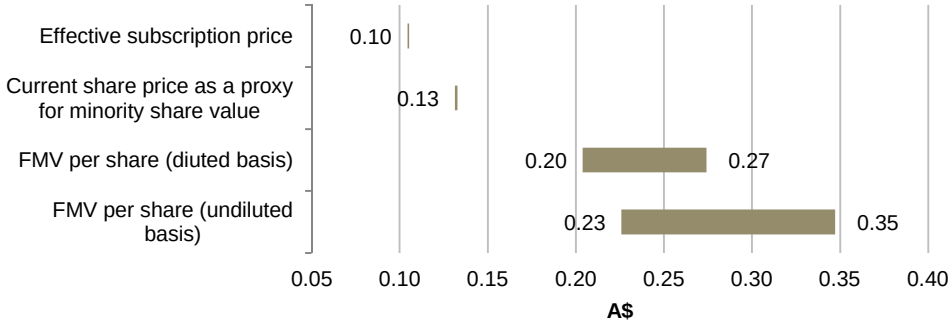
The Future Conversion is not fair.

10. The conversion of the Preference Shares may occur at a future point in time but the value of the conversion is required to be assessed today. In order to do that we have, in our assessment of whether the Future Conversion is fair, compared the per share value of AusTex on an undiluted and fully diluted basis including a premium for control as at 30 November 2013 (the "Valuation Date") to both the minority value of shares held by Non-Associated Shareholders and the effective subscription price of the Preference Shares. The effective subscription price is the conversion price less the preferential dividends expected to be received in the period prior to conversion.

11. We have adopted a sum-of-the parts approach in valuing the Company. In assessing the per share value, we have utilised an income approach to value AusTex's oil and gas assets in Northern Oklahoma and used a combination of the cost and market approach in assessing the value of the Secondary Assets in Oklahoma and Kansas.

12. We have assessed AusTex's per share value on a controlling basis to range between A$0.20 to $A0.27 on a diluted basis and between A$0.23 to A$0.35 on an undiluted basis. As these values are all greater than both the minority value of shares held by Non-Associated Shareholders and the effective subscription price, we consider the Future Conversion to be not fair to the Non-Associated Shareholders under the RG111 test.

Illustration of the fairness test



Source: PwC Securities analysis

The Future Conversion is reasonable.

13. PwC Securities' view is that the overall advantages and disadvantages of the Future Conversion is finely balanced. However, we believe that the risk of a possible curtailment in the Company's exploration activities as a result of Ptolemy redeeming its Preference Shares (unlikely but possible) coupled with the higher dividend payments on the RPB shares tilts the balance towards the Future Conversion being slightly more advantageous to the Non-Associated Shareholders.

The advantages of the Future Conversion marginally outweigh its disadvantages and is therefore reasonable.

14. In assessing the reasonableness of the Future Conversion, PwC Securities considered the advantages and disadvantages set out below.

Advantages	Disadvantages
1) Voting in favour of the Future Conversion would enable the Company to continue to fully fund its exploration activities.	1) The Future Conversion would have a dilutive impact on the Non-Associated Shareholders. Given the option for AusTex to pay the Preference Share dividend in ordinary shares, it is possible that Ptolemy could effectively end up with approximately 32% of voting shares in the Company which would further dilute the Non-Associated Shareholders.
2) Avoid an increase in dividend rate applicable to the RPB Shares if Resolution 3 is not approved.	2) The exercise and conversion price for the options and convertible note acts as a 'cap' on AusTex's share price. Enabling the RCB Shares to convert to ordinary shares places further limits on the share price appreciation.
3) Given Ptolemy will already have significant influence over the Company once its directors are appointed, the Future Conversion is unlikely to accede any additional control over AusTex. In this regard, the Non-Associated Shareholders may as well vote in favour of Resolution 3 to entrench Ptolemy's position as a cornerstone investor. Having more cornerstone investors may give AusTex more access to capital.	
4) The cost associated with raising capital from retail investors is greater than the cost of raising capital from sophisticated investors. In the event Ptolemy redeems its preference shares, the Company may have to raise capital from retail investors.	
5) In the event of a full takeover offer for AusTex, the Non-Associated Shareholders will still be able to share in the control premium subject to the dilution inherent in the Preference Shares.	

Other considerations

15. Pricing of the Preference Shares is broadly in-line with observed market transactions for subordinated debt. Our analysis showed Ptolemy likely to exceed a 20% shareholding upon Future Conversion in only some of the scenarios considered. Therefore, it is debatable whether it would be commercially reasonable for Ptolemy to pay a control premium.

16. Approval of the Future Conversion does not guarantee the future conversion of the Preference Shares so Ptolemy may never breach the 20% threshold as a result of obtaining these rights contemplated in Resolution 3.

Other Matters

17. The decision to vote for or against the Future Conversion is a matter for individual shareholders based on each shareholder's view as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Future Conversion, shareholders should consult their own professional adviser.

18. This IER has been prepared specifically for the Non-Associated Shareholders. Neither PwC Securities, PwC and its employees, officers and agents undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this IER with regard to any errors or omissions howsoever caused.

19. AusTex has indemnified PwC Securities, PwC and its employees, officers and agents against any claim, liability, loss or expense, cost or damage, including legal costs on a solicitor client basis, arising out of reliance on any information or documentation provided by AusTex, which is false and misleading or omits any material particulars or arising from a failure to supply relevant documentation or information.

20. We have relied upon the work undertaken by the technical expert, Pinnacle Energy Services LLC (Pinnacle), in forming our assessment. Our opinion is made at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full IER attached.

Yours faithfully
PricewaterhouseCoopers Securities Limited

Richard Stewart
Authorised Representative

Paul Hennessy
Authorised Representative

Contents

1. Introduction

1.1 Background

On 21 October 2013, AusTex announced that it has entered into a Subscription Agreement to issue up to US$17.5 million of redeemable preference shares in the Company. The redeemable preference shares were issued in two tranches: first tranche consisting of 43.3 million RCPA Shares and the second tranche comprising of 73.3 million RPB Shares.

The proceeds from the issue of the Preference Shares will be used to:

- Accelerate the pace of development at the Company's Snake River Mississippi Project in Northern Oklahoma;
- Meet general working capital requirements; and
- Meet Convertible Note obligations when due and payable.

The Preference Share issue was oversubscribed with Ptolemy being allotted approximately 85% of the Preference Shares. Ptolemy is currently the largest shareholder in AusTex with a 10.67% shareholding in the Company.

Given Ptolemy's current voting interest in the Company, a future conversion of its Preference Shares into ordinary shares of the Company may result in Ptolemy's voting shares breaching the general prohibition level under s606 (later defined). Under the terms of the Subscription Agreement AusTex is required to call a general meeting of its shareholders to approve the acquisition by Ptolemy of a relevant interest in the Company under s611(7) (later defined) as a consequence of the conversion of the Preference Shares into ordinary shares. Failure by AusTex to diligently pursue obtaining the approval for the above may be deemed a redemption event by Ptolemy.

As a result, the Company has called at Extraordinary General Meeting of members of AusTex to be held on 24 January 2014 to, amongst other resolutions, approve Resolution 3, which is described below:

"That, for the purposes of item 7, section 611 of the Corporations Act, and for all other purposes, the Shareholders authorise and approve the acquisition by Ptolemy of a relevant interest in the Shares as a consequence of the conversion of the 51,995,234 RCPA Shares and 46,771,433 RPB Shares held by Ptolemy on the terms set out in the Explanatory Memorandum."

We understand that for the purposes of the resolution, the relevant interests in the shares is limited to Ptolemy's current holding of ordinary shares and the Preference Shares. It does not extend to future on-market acquisition of shares which may increase the relevant interest beyond that contemplated in the resolution. This report does not address this scenario as its beyond the scope of the resolution upon which we are asked to opine.

AusTex has appointed PwC Securities to prepare an Independent Expert's Report (IER) for the Non-Associated Shareholders in relation to the Future Conversion.

2. Scope of the Independent Expert's Report

2.1 Purpose of the Independent Expert's Report

Section 606 of the Corporations Act ("s606") provides a general prohibition to an entity increasing its relevant interest in the issued voting shares of a listed company from 20% or below to more than 20% or from a starting point that is above 20% and below 90%. Ptolemy currently holds approximately 10.67% of the issued share capital of AusTex.

There are various exemptions to this prohibition including those set out in Section 611 of the Corporations Act ("s611"). Under item 7 of s611, an acquisition of the relevant interests in a company's voting shares from 20% or below to more than 20% is allowed if, at a general meeting, a majority of the Non-Associated Shareholders pass an ordinary resolution approving the Future Conversion.

Regulatory Guide 74 ("RG 74") requires that in these circumstances, the Non-Associated Shareholders be provided with a report assessing whether the Future Conversion is fair and reasonable in the context of their interests.

PwC Securities has been appointed to prepare an IER for the shareholders of AusTex who are not excluded from voting in connection with the Future Conversion (Non-Associated Shareholders). The IER is to accompany the Notice of Meeting. PwC Securities have prepared this IER for the purpose of stating, in our opinion, whether or not the Future Conversion is fair and reasonable to the Non-Associated Shareholders of AusTex.

2.2 Regulatory Guidance

Australian Securities and Investments Commission (ASIC) Regulatory Guide 111, Content of Expert's Reports (RG111) sets out the guidelines for IERs prepared for the purposes of item 7 of s611.

RG111.21 states that an approval to issue shares under s611(7) which would otherwise be prohibited under s606 is comparable to a takeover bid. When assessing a control transaction for a takeover bid, RG111.9 to 111.11 states that an assessment of whether a transaction is fair and reasonable requires analysis of each criterion individually. It also outlines the following definitions of 'fair' and 'reasonable':

- *"An offer is 'fair' if the value of the offer price or consideration is equal or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash."*

- *"An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer'*

RG 111.12 sets out certain matters for an Expert to consider when deciding whether a transaction is reasonable. These include:

(a) "the bidder's pre-existing voting power in securities in the target;

(b) other significant security holding blocks in the target;

(c) the liquidity of the market in the target's securities;

(d) taxation losses, cash flow or other benefits through achieving 100% ownership of the target;

(e) any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc;

(f) the likely market price if the offer is unsuccessful; and

(g) the value to an alternative bidder and likelihood of an alternative offer being made."

We have given due consideration to relevant matters in other ASIC guidelines, including RG 112 (Independence of Experts).

Our IER has also been carried out in accordance with Accounting Professional and Ethical Standards Board 225 "Valuation Services".

2.3 Basis of Assessment

Our assessment of the Future Conversion has been undertaken in accordance with the principles of RG111.

PwC Securities is not required to offer an opinion on the issuance of the Preference Shares or other aspects of the broader transaction. Our opinion is limited solely to the Future Conversion.

In our assessment of whether the Future Conversion is 'fair' to the Non-Associated Shareholders, PwC Securities has compared the per share value of AusTex on an undiluted and fully diluted basis including a premium for control to both the minority value of shares held by Non-Associated Shareholders post the transaction and the effective subscription price of the Preference Shares.

In assessing the per share value of AusTex, we have assessed the Company's value based on a sum-of-the parts approach and performed a cross-check of the valuation by reference to observed reserve multiple of comparable companies and the Company's share price.

We have used the following definition of fair market value (FMV) in our valuation:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length"

In our assessment of reasonableness, we have given consideration to the advantages and disadvantages of the Future Conversion to the Non-Associated Shareholders. In particular, we have considered the consequences of not voting in favour of the Future Conversion, specifically the likely course of action which could be taken by Ptolemy and whether this could curtail the progress of AusTex's exploration activities in light of the upcoming maturity of the Convertible Note.

2.4 Reliance on Technical Experts

The Company's focus is on the development of the oil and gas leases in Northern Oklahoma and which currently account for approximately 95% of the Company's oil and gas production. In valuing the oil and gas leases in Northern Oklahoma, we have placed reliance on the reserve report dated 1 August 2013, prepared by Pinnacle Energy Services LLC ("Reserve Report").

The Reserve Report was prepared in accordance with Securities & Exchange Commission ("SEC") reserve standards and New York Mercantile Exchange ("NYMEX") strip pricing as at 1 August 2013. A summary of the Reserve Report was disclosed in AusTex's September 2013 Quarterly Activities and Cash Flow Report.

We understand that the Reserve Report was commissioned for the purpose of a reserve lending facility. Although the Reserve Report was not prepared exclusively for the purposes of the IER, we are satisfied that:

- The Reserve Report was prepared in a manner which is consistent with the standard and requirements of a technical report prepared specifically for an IER;

- Pinnacle has appropriate qualifications, industry experience and competence to conduct its assessments;
- The methodologies used in the Reserve Report are consistent with generally accepted industry practice;
- The Reserve Report contains sufficient information to support the conclusions drawn; and
- Pinnacle is suitably independent of AusTex for the purposes of this assessment.

2.5 Shareholders should seek personal advice

An individual shareholder's decision in relation to the Future Conversion may be influenced by his or her particular circumstances. In undertaking the assessment, we have considered the Future Conversion for shareholders as a whole. We have not considered the effect of the Future Conversion on the particular circumstances of individual shareholders nor have we considered their individual objectives, financial situation or needs. Individual shareholders will have varying financial and tax circumstances and it is not practical or possible to consider the implications of the Future Conversion on individual shareholders as their respective financial circumstances are not known to us. Due to particular circumstances, individual shareholders may place different emphasis on various aspects of the Future Conversion from that adopted in this IER. Accordingly, individual shareholders may reach different conclusions as to whether they should approve or not approve the Future Conversion. Consequently, individual shareholders should seek their own financial advice.

We have prepared a Financial Services Guide (FSG) in accordance with the Corporations Act. The FSG is included as Part B of this report.

2.6 Limitations and reliance on information

This report has been prepared solely for the purpose noted above and is not permitted to be used for any other purpose.

We have not provided an opinion on whether the Future Conversion is fair and reasonable other than in terms of its effect on the Non-Associated Shareholders, and prohibit anyone from relying on this report for any other purposes. Any decision to approve or not approve the Future Conversion rests solely with AusTex's Non-Associated Shareholders and it is up to them to undertake their own enquiries and due diligence, and form their own opinion as to the Future Conversion.

In preparing this report, we have had regard to public and non-public information. A listing of this information is detailed in Appendix E of this report. We have used and relied upon this information and representations made to us by and on behalf of the management of AusTex.

We have conducted such checks, enquiries and analysis on the information provided which we regard as appropriate for the purposes of this report however, such information and representations are not always capable of external verification or validation. Based on this evaluation, we believe that the information used in forming our opinions in this report is reliable, complete and not misleading and we are not aware of any reason to believe that material facts have been withheld. Preparation of this report does not in any way imply that we have audited the financial statements or other records of AusTex. It has been assumed that the accounting information relied upon was prepared in accordance with AASB standards.

Our assessment has been made as at the date of this report. Economic conditions, market factors and performance changes may result in the report becoming outdated. We reserve the right, but are under no obligation to, review our assessments, and, if we consider it necessary, to issue an addendum to this report in the light of any relevant material information which subsequently becomes known to us prior to the general meeting of AusTex shareholders in relation to the Future Conversion.

All value amounts in the report are denominated in United States dollars (US$) unless otherwise stated. All capitalised terms not otherwise defined in our Glossary contained in Appendix F, will take the form as defined in the Notice of Meeting. Financial tables may be subject to rounding.

We provided draft copies of the IER to the Directors, advisors and management of AusTex, for their comments as to factual accuracy, as opposed to opinions, which are our responsibility alone. Changes made to this IER as a result of this review by the Directors, advisors and management of AusTex, has not changed the methodology or conclusions reached by us.

3. *Background*

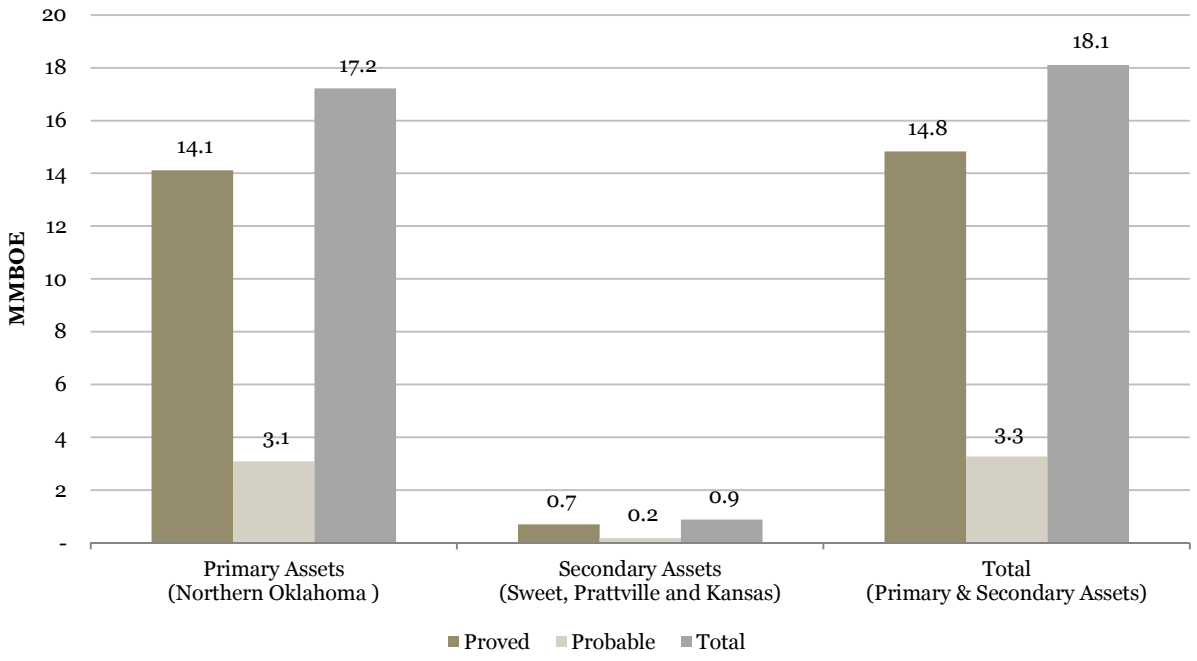
3.1 Overview of the company

AusTex is a public company listed on the Australian Securities Exchange (ASX:AOK), the Toronto Venture Exchange (TSXV:ATO) and the OTC Markets Group New York (OTCQX: ATXDY). The market capitalisation as at 30 November 2013 is A$54.1 million.

AusTex is an oil and gas exploration and production company with operations in Kansas and Oklahoma, USA. The Company has interest in approximately 23,000 net acres of oil and gas leases in the Mississippi Lime Play formation with its main project being the Snake River Project in Northern Oklahoma.

Technical reports prepared have shown that the Company's proven and probable reserve (2P) currently stand at 18.1 million barrels of oil equivalent (BOE) with the majority of these reserves found in Snake River. The chart below shows a breakdown of the Company's reserves.

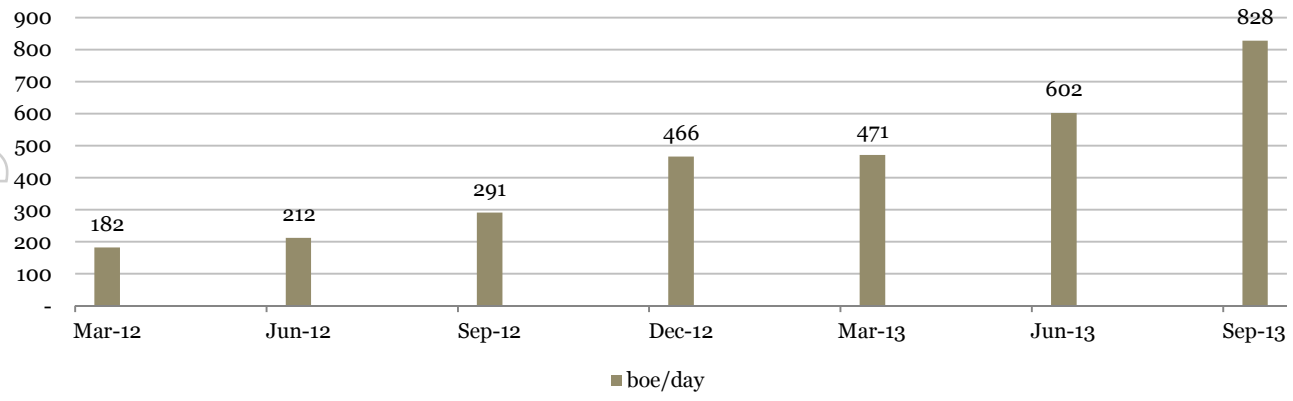
Figure 1: AusTex Net Oil and Gas Reserves



Source: AusTex Investor Presentation September 2013, other internal reserve reports

Based on the latest quarterly report, the Company has average production of 828 BOE per day for the quarter ended 30 September 2013; this is up from 602 BOE per day averaged during the June 2013 quarter. The chart below shows AusTex's production profile from March 2012 to September 2013:

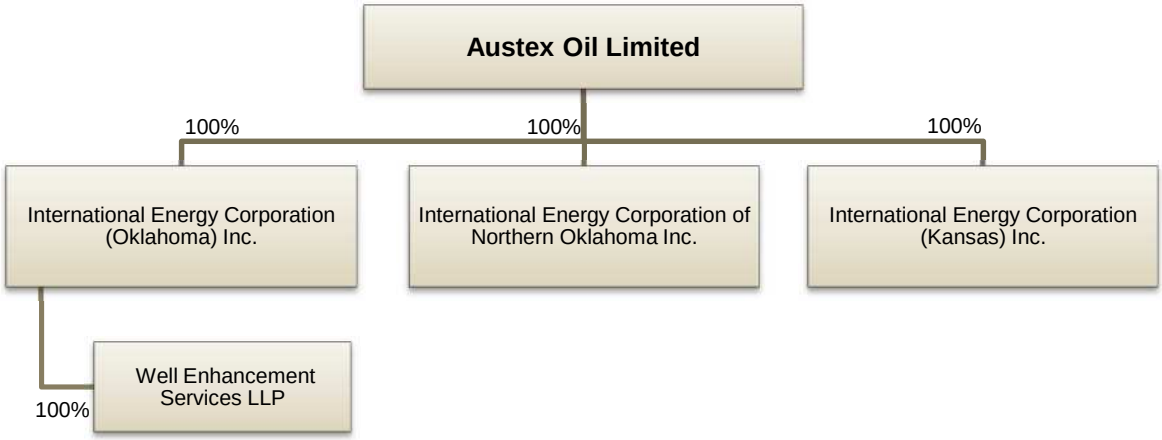
Figure 2: AusTex quarterly average boe/day – March 2012 to September 2013



Source: AusTex Investor Presentation September 2013

The AusTex group structure is provided in the diagram below. Each of the Company's US subsidiaries hold oil and gas leases in different geographical locations. For example, the Snake River Project is held by International Energy Corporation of Northern Oklahoma, Inc.

Figure 3: AusTex group structure



Source: AusTex website

3.1.1 *Summary of key events in AusTex's history*

Listed below are selected highlights of events in the Company's history.

Table 1: Timeline of selected events in AusTex's history

Date	Event
2 Mar 2011	AusTex announces the issue of 22 million shares at $0.08 per share for a consideration of $1.76 million to a Singapore based investment group
17 Jun 2011	AusTex completes a private placement of US$6m lead by Iroquois Capital Opportunity (ICO) Fund, to fund the continued development of its producing oil and gas assets in Oklahoma and Kansas.
1 Aug 2011	AusTex completed the placement of 54.5 million ordinary shares at an issue price of $0.10 per share together with 27.3 million options with an exercise price of $0.15 each expiring on 29 July 2014.
13 Sep 2011	AusTex commences trading on OTCQX International in New York (OTCQX Ticker Code: ATXDY).
6 Jan 2012	AusTex expands Mississippi Lime Play acreage in Kansas and acquires over 8,000 acres of oil and gas leases that is prospective Mississippi Lime Play acreage with 70% working interest and a 58.8% net revenue interest in Kansas.
20 Feb 2012	AusTex announces $3.2 million placement to institutional investors through a share placement of 37.6 million fully paid ordinary shares at $0.085 per share with one free option for every three shares subscribed for (exercise price of $0.15).
19 Mar 2012	AusTex announces funding plans to accelerate drilling programs. Conditional agreement to raise up to US$10 million through convertible note issue to North American institutional investors subject to shareholder approval.
12 Jun 2012	Drilling success on well in Snake River Project Northern Oklahoma and commencement of drilling operations at Cooper Project located in Sheridan County, Kansas.
17 Oct 2012	AusTex Oil undertakes A$12.5 million equity raising to fund development of acreage in Mississippi Lime Play through a placement of approximately 83.3 million new fully paid ordinary shares to sophisticated and professional investors at a price of A$0.12 per share (Issue Price) and a share purchase plan (SPP) of up to A$15,000 per eligible shareholder at the Issue Price to raise up to A$2.5 million. Further, 20 million options were issued to the holders of the secured convertible notes as consideration for their consent to conduct the capital raising at an issue price of less than A$0.15 per share.
4 Dec 2012	AusTex announced that it has agreed to place the shortfall shares from the SPP to institutional and sophisticated investors that have bids in place. Upon settlement, this resulted in the issue of 12.3 million shares at A$0.12 each to raise approximately A$1.5 million.
20 May 2013	AusTex announced that ordinary shares will be listed and posted for trading on the TSX Venture Exchange (TSXV) on 22 May 2013 (TSXV Ticker Code: ATO).
14 Aug 2013	AusTex reports significant production growth with 22,940 boe for month of July which equates to average of 740 BOE/day which was primarily driven by the performance of AusTex's 20 producing vertical wells at the Snake River Project.
11 Nov 2013	AusTex advises that it has completed the US$17.5 million Preference Share Offer through the issue of 54.9 million Redeemable Convertible Preference Shares and 57.7 million Redeemable Preference Shares.

Source: ASX announcement company filings

3.2 Capital Raising Exercises

Over the past two years, AusTex has performed numerous capital raising exercises. A brief description of the key capital raising exercises is provided below.

3.2.1 Issuance of Convertible Notes

In April 2012, the Company raised US$7.5 million through the issuance of convertible notes to US based institutional investors. The convertible note subscribers also received a number of free attaching options which were equivalent to half the number of shares issuable on conversion of the notes into ordinary shares.

Summary of the key terms of the convertible notes is described below.

Table 2: Key terms of the convertible notes issued in 2012

Key Terms	
Principal Amount	US$7.5 million
Interest payable	Interest payable on each note compounds and accrues annually at 10% per annum.
Maturity Date	The notes are payable in full two years from the date the notes are issued.
Note Conversion	The notes are convertible into ordinary shares of the Company at the option of the note holder at any time up to 31 May 2014.
Notes conversion price	The conversion price of each note is in US$ and the equivalent of A$0.15 converted into US$ using the Reserve Bank of Australia published exchange rate on the day the Note is issued.
Conversion Ratio	The number of ordinary shares to be issued on the conversion of each note is determined by dividing the portion of the unpaid principal on the Note and any accrued but unpaid interest to be converted, by the conversion price.
Anti-dilution	The number of shares issued on conversion of each note will be adjusted: • If the Company reclassifies or changes the shares into a different number or class of securities; • If the Company issues shares for a price less than the conversion price, while the notes are outstanding, without the consent of essentially the majority of the note subscribers, then for each subsequent conversion of the notes the conversion price will be the lower price; • If a fundamental transaction occurs, the unpaid principal and the accrued but unpaid interest of each note will be convertible into such number and kind of securities that would have been issuable immediately prior to the reclassification or change; and • If the shares are subdivided, merged or a dividend is paid on the shares, the conversion price will be proportionately reduced or increased as the event requires.
Issuance of Options	The number of options issued will be equivalent to the number of ordinary shares issued upon conversion of the convertible note into shares divided by two.
Options Exercise conditions	Exercise price of A$0.20 and exercisable within three years from date of issue.
Security over assets	The convertible notes are secured over the oil and gas leases held in Oklahoma and Kansas on a first priority basis.

Source: Explanatory Memorandum May 2012

3.2.2 Capital Raising placement and Share Purchase Plan

On 17 October 2012, AusTex announced an equity capital raising for A$12.5 million in order to fund the appraisal and development of the Company's acreage in the Mississippi Lime Play.

The offer comprised of:

- A placement of approximately 83.3 million new fully paid ordinary shares to sophisticated and professional investors at a price of A$0.12 per share which raised A$10.0 million; and
- A share purchase plan (SPP) of up to A$15,000 per eligible shareholder at the issue price to raise up to A$2.5 million.

The retail portion of the capital raising exercise (SPP) was undersubscribed by approximately A$1.5 million. This shortfall was ultimately met by a placement to institutional and sophisticated investors.

Given the issue price of the above offer, the Company was required to issue 20 million options to the holders of the secured convertible notes as consideration for their consent (based on negotiations with the convertible note holder) to conduct the capital raising at an issue price of less than A$0.15 per share.

3.2.3 Preference Share Offer

AusTex completed the US$17.5 million Preference Share Offer in November 2013 (which was announced to the market on 21 October 2013). AusTex has issued 58.9 million RCPA Shares and 57.7 million RPB Shares with each preference share having a face value of US$0.15. The offer was oversubscribed by US based professional investors.

Although the total number of Preference Shares issued was as announced, the proportion of RCPA and RPB Shares differed from the initial announcement. The Company has agreed to fully reserve all the funds necessarily to retire the convertible notes on issue upon their maturity in 31 May 2014. The key terms of the Preference Share Offer are as follows:

Table 3: Key terms of the Preference Share Offer – November 2013

Key Terms	
Face value	The face value of each RCPA and RPB Share is US$0.15.
Dividends	The RCPA and RPB shares carry an 11.75% dividend rate. In the event Resolutions 2 or 3 are not approved, the dividend on the RPB shares will increase from 11.75% to 16.0% p.a. The dividends are either payable in cash or additional preference shares.
RCPA Conversion conditions	RCPA shareholder may elect to convert some or all RCPA shares into ordinary shares. The number of ordinary shares issued upon conversion will be equivalent to the aggregate sum of the face value plus the amount of any dividends accrued but unpaid as at the conversion date for each RCPA share divided by the conversion price of US$0.15.
RPB Conversion conditions	Subject to the approval of Resolution 2, the RPB shares will have the same conversion conditions as the RCPA shares.

Key Terms	
Redemption Event	The RCPA and RPB holders may redeem the preference shares under certain shareholder redemption events which include a failure by the Company to diligently obtain the approval of a shareholder resolution under Section 611 (7) for the preference share holder to breach the 20% ownership threshold under S606 of the Corporations Act. At any time following the occurrence of a Shareholder Redemption Event, a RCPA and RPB Shareholder may require the Company to redeem any or all of the RCPA and RPB shares it holds, each for the termination amount.
Call Option	At any time during the call option period (4 years after the issue date of the RCPA Shares) the Company may redeem each RCPA and RPB Share held by Shareholders for the termination amount.
Anti-dilution	In the event of certain dilutive occurrences including if there is an issue of shares at a price that is less than 85% of the market price of those shares (based on the volume weighted average trading price of those shares on the ASX in the 10 business days prior to the issue date), the terms on which the RPB shares are converted or redeemed shall be adjusted by the directors (acting reasonably) to ensure that the RPB shareholders are in an economic position in relation to their RPB shares that is similar to the economic position prior to the occurrence of the event that gave rise to the need for the adjustment.
Transferability	No restrictions on the transfer of the RCPA and RPB share.

Source: Subscription Agreement October 2013

3.3 Overview of AusTex's key projects

Snake River Project

The Snake River Project is an oil and gas development project located in Kay County, Northern Oklahoma targeting the liquid rich Mississippi Lime Play formation. The center of the project lies 15 miles south west of Ponca City, where ConocoPhillips operates an oil refinery. Mustang Gas Corporation operates an extensive gas gathering facility in the project area with gas sales lines within 1 mile of each production hub operated by AusTex. AusTex is the operator and has 100% working interest (WI) and 81.25% net revenue interest (NRI) in the Snake River Project. The Snake River Project has both vertical and horizontal wells in production and under completion. As at September 2013, there were 20 wells in production, 6 wells under completion or production testing and one new salt water disposal well in operation.

Kansas

AusTex holds non-operating interests in oil and gas leases located in the state of Kansas through a wholly owned subsidiary, International Energy Corporation (Kansas). AusTex has interest in approximately 17,500 net acres across three projects in Kansas with two projects currently in production. As at the September 2013 quarter, the Cooper and Ellsworth Projects had five producing wells contributing 28 barrels of oil per day net production to AusTex. AusTex has announced that it is currently evaluating options to either farm out or further explore its Kansas acreage.

Details of the Kansas projects are presented in the table below:

Table 4: AusTex interest in Kansas - projects

Project in Kansas	Status	Location	Total Acreage	AusTex WI	AusTex NRI
Cooper Project	Development Producing	Sheridan County	11,600	53%	43%
Colby Project	Exploration	Thomas County	15,500	70%	57%
Ellsworth County	Development Producing	Rice County	3,000	50%	38%

Source: AusTex Investor Presentation September 2013

3.4 Company financial overview

3.4.1 Financial performance

The following table summarises Austex's financial performance for the half year ended 30 June 2013 and fiscal years ended 31 December 2012 and 2011.

Table 5: Consolidated Statement of Financial Performance

A$	Half year ended June 2013	Fiscal year ended December 2012	Fiscal year ended December 2011
Sales Revenue	6,448,821	6,662,764	3,169,922
Cost of Sales	(2,001,938)	(2,456,710)	(1,916,474)
Gross Profit	**4,446,883**	**4,206,054**	**1,253,448**
Other Income	62,536	396,086	40,749
Administration costs	(1,213,578)	(1,946,296)	(1,449,169)
Project management expenses	(624,625)	(494,840)	-
Other expenses	(569,914)	(1,015,037)	(878,019)
Professional and consulting expense	(782,554)	(1,598,929)	(1,480,836)
EBITDAX	**1,318,748**	**(452,962)**	**(2,513,827)**
Impairment loss on financial assets			(1,368,036)
Exploration expenses written-off	(1,554,344)	(1,213,672)	(335,614)
Depreciation and amortisation expense	50,817	(1,224,057)	(869,720)
Finance costs	(391,859)	(429,586)	(35,558)
Loss before income tax	**(576,638)**	**(3,320,277)**	**(5,122,755)**
Income tax expense	-	-	-
Loss for the period	**(576,638)**	**(3,320,277)**	**(5,122,755)**

Source: AusTex audited Annual Reports for 31 December 2012, 2011 and unaudited Half Year Report 30 June 2013

A summary of the highlights of the above performance are as follows:

- Revenue consists of the sale of oil and gas production. The growth in annual revenue between FY2012 and FY2011 was driven by an increase in oil and gas production by 270% from the Company's Snake River Project in Oklahoma. Growth has continued in FY2013 and revenue for the first 6 months of the current fiscal year is nearly equivalent to the revenue for the entire 12 months of FY2012.
- Project management expenses refer to legal, professional and compliance costs incurred for the May 2013 listing on the Canadian TSX Venture Exchange.
- Other income includes the profit/(loss) on disposal of non-current assets, interest received, sale of scrap metal, insurance recoveries and guarantee fee.
- The impairment loss in FY2011 was related to a loss from the sale of shares and other securities issued by other junior explorers and developers. These shares were issued by Southern Cross as consideration for the settlement of debt to AusTex that arose from a bank guarantee previously provided by AusTex on behalf of Southern Cross which was subsequently called by the guaranteed party.

3.4.2 *Financial position*

The table below summarises AusTex's financial position as at the half year ended 30 June 2013 and fiscal years ended 31 December 2012 and 31 December 2011.

Table 6: Consolidated Statement of Financial Position

A$	Half year ended June 2013	Fiscal year ended December 2012	Fiscal year ended December 2011
Assets			
Current Assets			
Cash and cash equivalents	6,108,340	11,923,978	649,129
Trade and other receivables	1,421,771	1,031,087	333,016
Other current assets	471,294	474,592	177,347
Total Current Assets	8,001,405	13,429,657	1,159,492
Non-Current Assets			
Other financial assets			266,750
Property, plant & equipment (PPE)	3,486,288	2,548,503	1,539,243
Exploration and evaluation assets	2,865,547	3,307,254	3,418,719
Oil and gas assets	33,356,237	22,773,867	16,388,528
Intangible assets	41,093	37,861	42,502
Other assets	134,601	103,838	88,248
Total Non-Current Assets	39,883,766	28,771,323	21,743,990
Total Assets	**47,885,171**	**42,200,980**	**22,903,482**
Liabilities			
Current Liabilities			
Trade and other payables	1,464,593	887,953	627,844
Borrowings	4,618,114	4,613,119	544,931
Total Current Liabilities	6,082,707	5,501,072	1,172,775
Non-Current Liabilities			
Borrowings	302,892	115,222	10,022

A$	Half year ended June 2013	Fiscal year ended December 2012	Fiscal year ended December 2011
Total Non-Current Liabilities	302,892	115,222	10,022
Total Liabilities	**6,385,599**	**5,616,294**	**1,182,797**
Net Assets	**41,499,572**	**36,584,686**	**21,720,685**

Source: AusTex audited Annual Reports for 31 December 2012, 2011 and unaudited Half Year Report 30 June 2013

In relation to AusTex's financial position set out above, we note that:

- The Company's net asset position in FY2012 has increased by approximately A$15 million from FY2011 mainly due to an increase in cash and cash equivalents. The increase in cash is from the various capital raising exercises performed during the fiscal year.
- Trade receivables and payables have all witnessed significant increases from FY2011 to HY2013. This increase is attributable to an increase in oil and gas production over the period.
- PPE has also increased significantly between FY2011 to HY2013. The acquisition of PPE has driven the increase in oil and gas production over the period.
- Oil and gas assets represents the capitalised cost of oil and gas assets which include the cost directly attributable to the acquisition or construction of the assets as well as past and exploration and evaluation costs.
- Borrowing of A$4.6 million is primarily related to the issuance of convertible note in April 2012.

3.4.3 *Cash flows*

The table below summarises Austex's consolidated statement of cash flows for the half year ended 30 June 2013 and fiscal years ended 31 December 2012 and 31 December 2011.

Table 7: Consolidated Statement of Cash Flows

A$	Half year ended June 2013	Fiscal year ended December 2012	Fiscal year ended December 2011
Net cash provided by/(used in) operating activities	1,408,483	(1,131,359)	(2,797,068)
Net cash provided by /(used in) investing activities	(8,129,502)	(10,307,918)	(4,353,797)
Net cash provided by/ (used in) financing activities	87,265	22,865,935	5,209,982
Net increase/(decrease) in cash and cash equivalents	(6,633,754)	11,426,658	(1,940,883)

Source: AusTex audited Annual Reports for 31 December 2012, 2011 and unaudited Half Year Report 30 June 2013

In relation to AusTex's cash flows set out above, we note that:

- The increase in net cash provided by operating activities between FY2011 and HY2013 is due to an increase in customer receipts driven by increased oil and gas production.
- Net cash used in investing activities primarily consists of the payment for exploration, evaluation and development expenditures and acquisition of new PPE.
- The overall increase in net cash provided by financing activities is attributable to the various capital raising exercises in FY2012.

3.5 Capital structure

3.5.1 Top 5 shareholders of the Company

As at 13 November 2013, the issued capital of Austex comprised of 432,951,041 ordinary shares. The top 5 shareholders comprised of approximately 34% of these ordinary shares. We note that shareholding of various US institutional investors are held by nominees.

Table 8: Top 5 shareholders of the Company

Rank	Name	Number of securities	Percentage of issued capital
1	Citicorp Nominees Pty Limited	71,645,136	16.55%
2	Kwang Hou Hung	31,470,590	7.27%
3	Canadian Register	20,313,850	4.69%
4	HSBC Custody Nominees	14,436,196	3.33%
5	National Nominees Limited	8,410,599	1.94%
		146,276,371	***33.8%***

Source: Company shareholder's registry as at13 November 2013

The company also issued options, convertible notes and preference shares at various exercise prices and expiry dates as illustrated in the table below.

Table 9: AusTex securities on issue as at 13 November 2013

	Number of securities
Fully Paid Ordinary Shares	*432,951,041*
Unlisted Options Expiring 2014 ($0.15)	*82,193,590*
Unlisted Options Expiring 2015 ($0.20)	35,257,627
Unlisted Options Expiring 2016 ($0.25)	10,000,000
Unlisted Options Expiring 2017 ($0.15)	20,000,000
Convertible Note (assumed conversion into ordinary shares)	50,515,256
Redeemable Convertible Preference Shares	58,942,656
Redeemable Preference Shares	57,724,011
	747,584,181

Source: Company shareholder's registry

3.5.2 Profile of Ptolemy

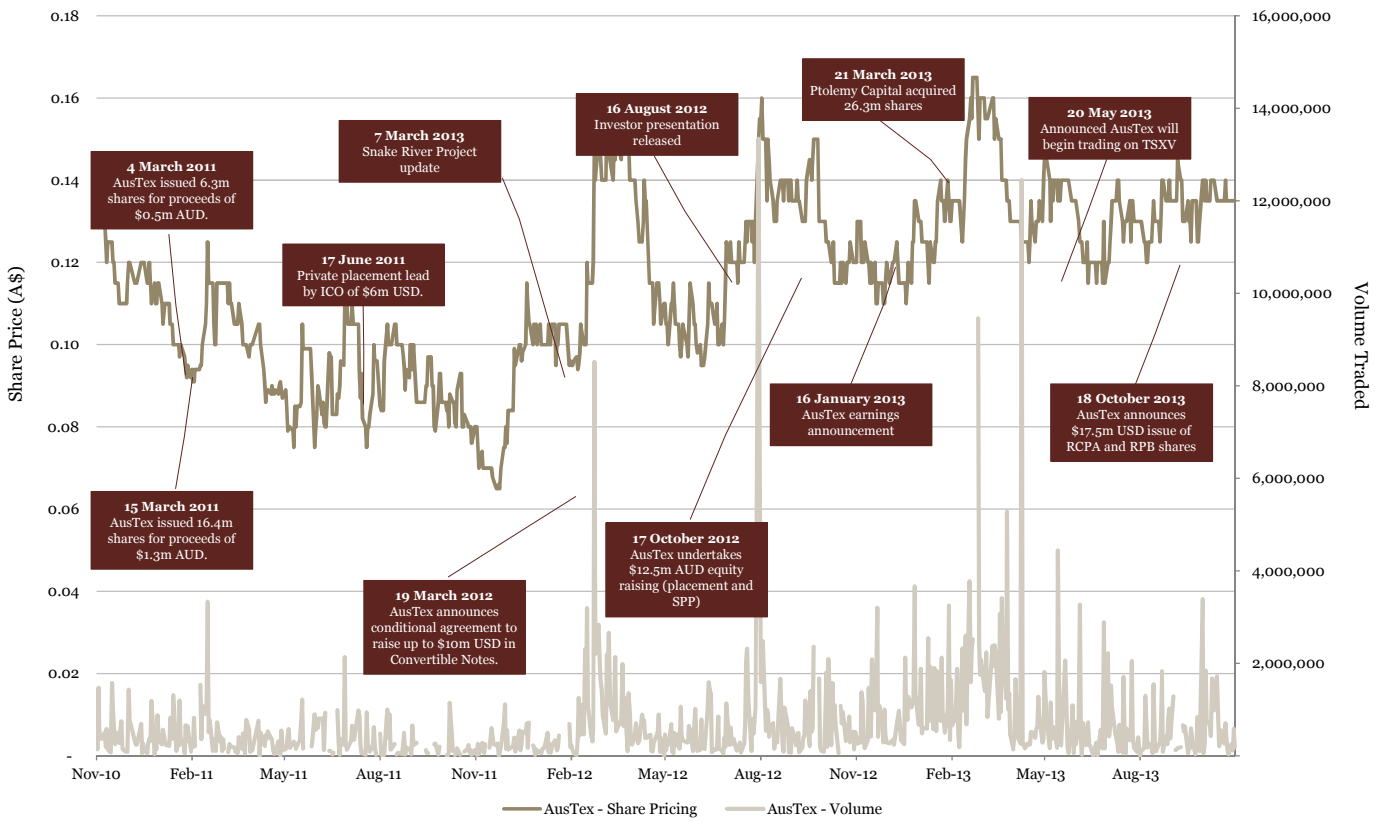
Ptolemy

Ptolemy Energy Holdings, LLC (Ptolemy) is the direct energy investment entity for Freestyle Investors, a Californian based investment firm, and a subsidiary of Ptolemy Capital LLC. AusTex is currently Ptolemy's only investment.

3.6 Share price performance

The following graph depicts the trading volume and price of shares for the period November 2010 to November 2013. We have analysed Austex's share price performance and trading volumes.

Figure 4: AusTex daily closing price and volume of shares traded on the ASX



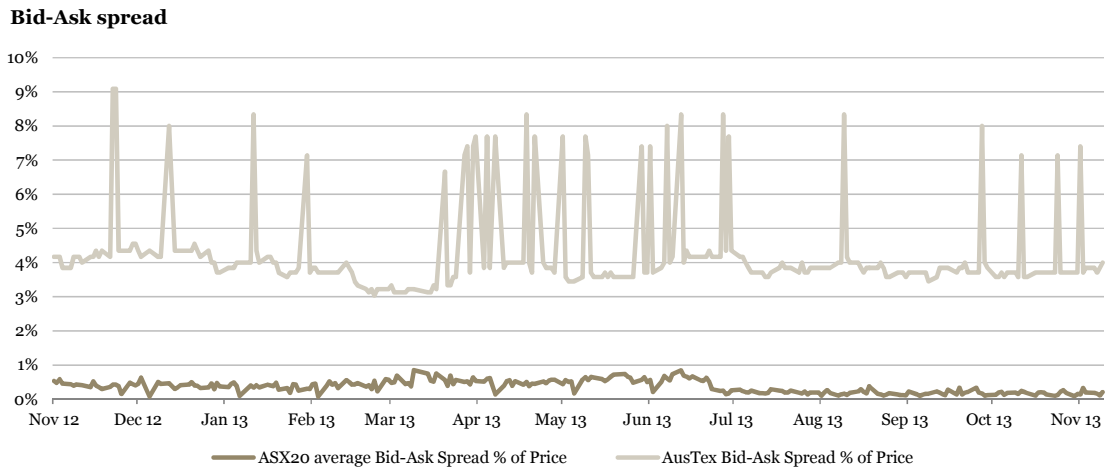
Source: ASX Company announcements, CapitalIQ

As illustrated in the graph above, AusTex's closing share price reached a peak of A$0.17 on the 13 March 2013 but generally trended downwards closing at A$0.125 on 30 November 2013.

3.7 Liquidity analysis

In assessing the market liquidity of AusTex's shares, we have compared AusTex's bid-ask spread to the bid-ask spread of companies in the ASX 20 index. We have also analysed the volume of shares traded on a monthly basis as a proportion to the total outstanding shares. The Figure below shows AusTex's bid-ask spread as a percentage of the share price. This is compared to the average bid-ask spread as a percentage of the share price of the ASX 20 companies.

Figure 5: AusTex and S&P/ASX20 Bid-Ask spread as a % of share price



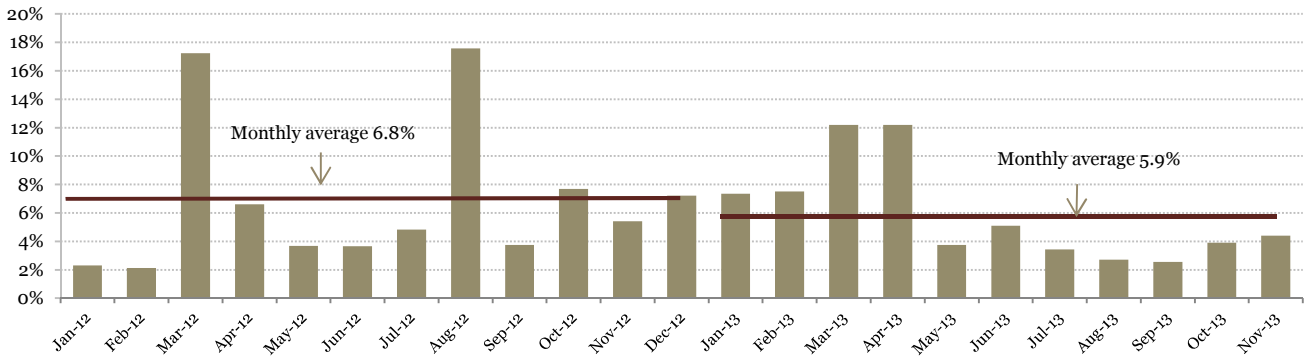
Source: CapitalIQ, PwC analysis

AusTex has traded consistently at a higher bid-ask spread than the constituents of the S&P/ASX 20 index, indicating a greater disparity between buyers and sellers and a less liquid market. The range of bid-ask spread as a percentage of share price for the ASX20 has been between 0.071% to 0.8% over the past year, compared to 3.03% to 8.3% for AusTex.

We have also analysed the monthly volumes of shares traded as a percentage of the annual average shares outstanding, depicted in the graph below. In the 12 months leading up and including November 2013, the average monthly volume of shares traded as a percentage of weighted average shares outstanding was approximately 5.9% and the monthly average for FY2011 was 6.8%.

Although these averages are low, theoretically speaking, these averages have actually been slightly overstated due to our data provider, CapitalIQ including the issuance of new shares into the calculation of the daily trading of shares. Therefore, the low average monthly turnover of shares is further evidence that the trading of AusTex's shares is relatively illiquid.

Figure 6: Monthly volumes of shares traded as a percentage of the annual average shares outstanding



Source: CaptialIQ, PwC analysis

Trading liquidity is an indicator of the level of price discovery in the market and higher levels of liquidity are associated with share prices which are better reflective of fair market value. With these low levels of liquidity in mind, we consider that a fundamental value analysis is necessary to opine on the fairness of the Future Conversion.

4. *Industry Overview*

4.1 Global oil consumption and production

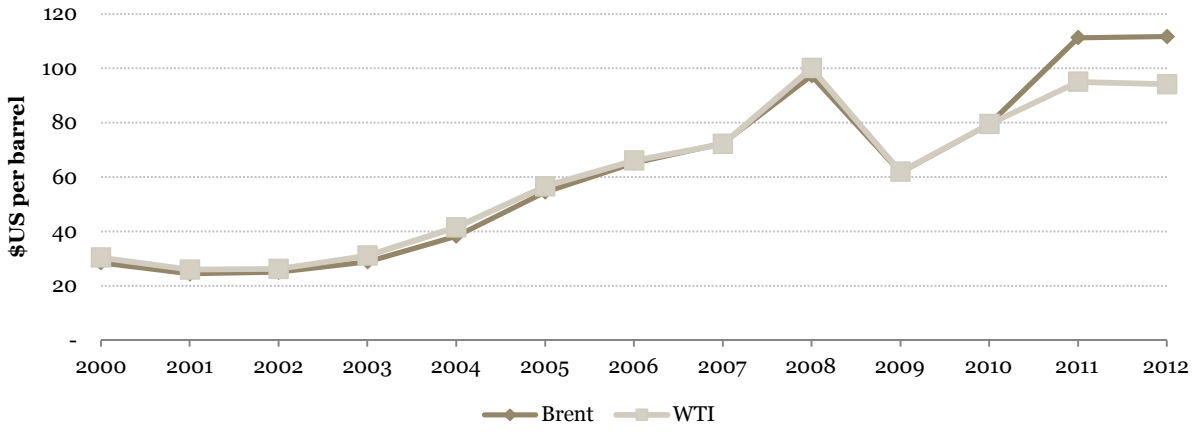
The demand for energy continues to grow globally primarily driven through the growth in emerging market economies. To satisfy this demand the oil and gas industry is turning towards unconventional oil (e.g. shale oil, tight oil) and conventional oil extraction from challenging areas, such as deep water and artic regions. These have been made possible through technological advancements as well as the high price of crude oil (shown in the graph below) which has made the high production costs associated with these extraction methods economically viable.

Global oil and gas consumption (tonnes) has grown at approximately 1.3% and 2.8% respectively over the period from 2002 to 2012 whilst global oil and gas production (tonnes) has grown at a CAGR of approximately 1.4% and 2.9% respectively over the period same period. North American oil consumption has decreased by approximately1.7% per year over the period 2007 to 2012 whilst gas consumption has increased by approximately 2% per year over the same period.

The key highlight for the industry over the last five years with respect to production has been the development of unconventional oil and gas such as shale gas and tight oil in the USA. The USA has achieved a CAGR over the period from 2007 to 2012 in oil and gas production of approximately 5.3% and 4.4% respectively.

Brent is the leading global price benchmark for Atlantic basin crude oils. It is used to price approximately two thirds of the world's internationally traded crude oil supplies. West Texas Intermediate (WTI) is another crude oil price benchmark that is more representative of the price that US oil producers receive whilst Brent is more representative of the prices received internationally. The two crudes are of broadly similar quality as both are light sweet crude oils with WTI generally being lighter and sweeter than Brent. Prices for WTI and Brent have historically traded close to each other as seen in the graph below. However, in recent times the surge in production in the United States has resulted in a build-up of inventories at Cushing, Oklahoma where WTI is priced and this imbalance in supply/demand has led to WTI trading lower than Brent since 2010.

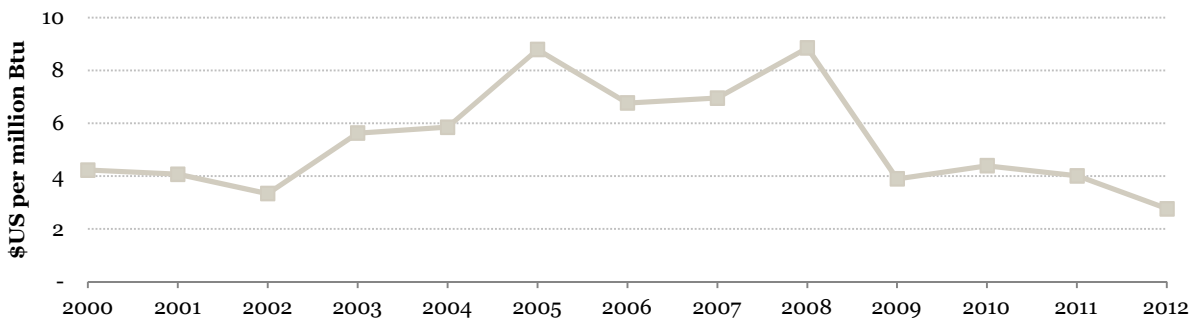
Figure 7: WTI and Brent crude oil prices



Source: BP statistical review of world energy - June 2013

The Henry Hub uses the average of the natural gas prices from 13 interconnected pipelines and is generally viewed as the primary price set for the North American natural gas market. The surge in gas supply in recent years in North America has caused downward pressure on prices.

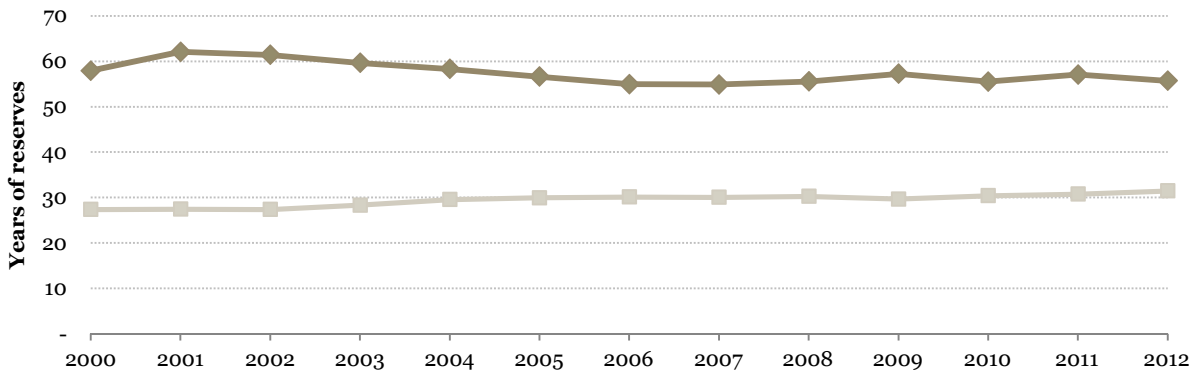
Figure 8: Natural gas prices – US Henry Hub



Source: BP Statistical review of world energy – June 2013

The Reserves to Production (R/P) ratio is a key indicator used in the oil and gas industry and is expressed in years. The R/P ratio as at 2012 for oil and gas was 31 and 55 years respectively as at 2012.

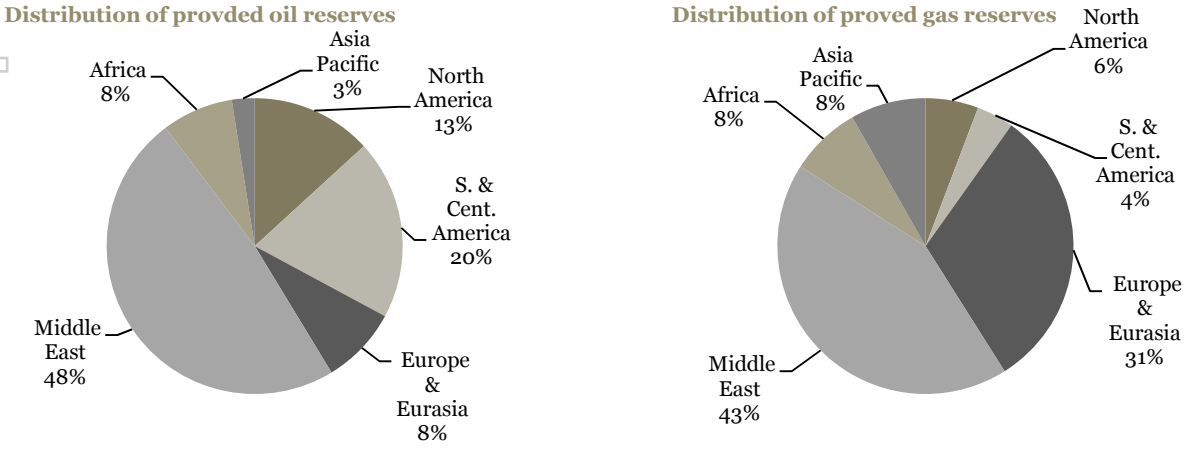
Figure 9: Global historical R/P ratios



Source: World Bank commodity markets outlook – July 2013

According to estimates as at 2012, more than 81% of the world's proven oil reserves are located in OPEC member countries. The Middle East accounts for approximately 50% of the world's proven reserves and approximately 66% of the OPEC total. The chart below provides a summary of the distribution of proved oil reserves globally.

Figure 10: Distribution of proved oil and gas reserves



Source: BP Statistical review of world energy – June 2013

4.2 Current trends

The World Bank in their commodity markets outlook report (October 2013) have estimated oil prices (Brent Crude) to average $US105/barrel over 2013. Whilst oil prices are forecast to increase to USS106/barrel in 2014, it is expected to moderate from current levels with prices falling in real terms over the longer term.

The US Energy Information Administration (EIA) in their short term energy outlook have estimated WTI to average US$97/barrel and US$95/barrel over 2013 and 2014 respectively. The WTI discount to Brent is expected to average approximately US$10/barrel and US$8/ barrel in 2013 and 2014 respectively. The EIA have forecasted the Henry Hub gas price to increase from US$2.75 per MMBtu to US$3.68 and US$3.84 per MMBtu in 2013 and 2014 respectively.

4.3 Global long term outlook

The OPEC World Oil Outlook (2012) has forecast growth in oil demand to increase by an additional 20 million barrels/day (mb/d) by 2035. This demand is expected to be driven mostly from non-OECD countries particularly from the transport sector.

Global oil supply has been greatly impacted by the application of new exploration and production technologies such as directional and multilateral drilling, hydraulic fracturing, enhanced oil recovery and CO2 injection which have increased recovery factors and the ability to exploit new reservoirs. These new technologies have made it possible to explore frontier basins and operate in harsher environments, increase exploration success ratio (the number of dry wells has fallen by more than 30% over the last decade), achieve higher recovery rates through a greater reservoir knowledge and management, and drill and produce more economically and efficiently. As a result, the increased production in Brazil, the Caspian Sea, West Africa and North America is expected to more than offset declines in mature oil producing regions.

Growth in non-OPEC supply over the period 2011 to 2016 is forecast to increase by over 4 mb/d, largely through shale oil in the US, Canadian oil sands and crude oil from the Caspian and Brazil. The increase in non-conventional oil developments have been largely sustained by the high prices which have made these production methods economically viable. For example, the cost of developing oil capacity from Canadian oil sands is currently estimated by the industry to be approximately US$80 per barrel in constant 2013 dollars.

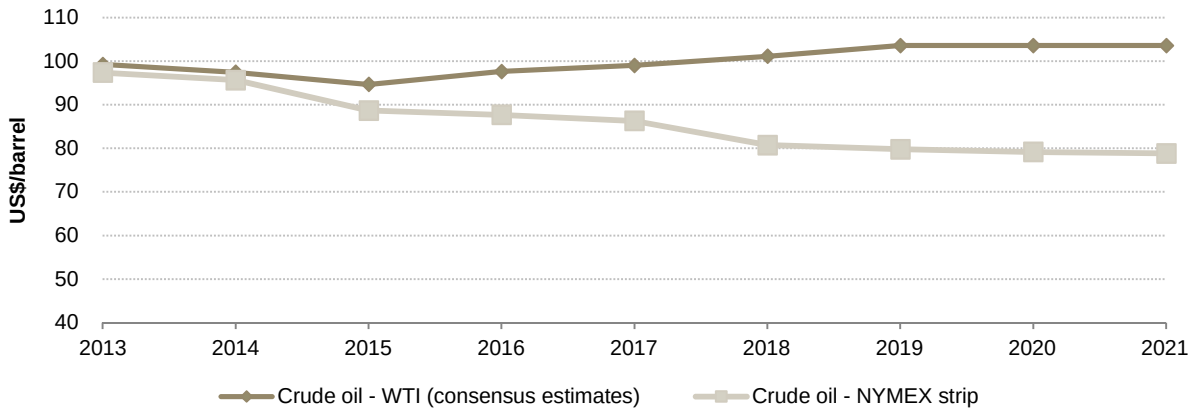
Resource development is also moving rapidly in the USA and shale oil production is expected to reach approximately 3mb/d by 2035. Natural gas production in the US reached an all time high of 24 trillion cubic feet (tcf) in 2012 and is forecast to reach approximately 33 tcf by 2040. As a result, the International Energy Agency (IEA) predicts that, within four years, the United States will become the world's largest oil producer due to shale oil, and is predicted to be placed ahead of Saudi Arabia and Russia.

The key risks to oil prices over the long term include:

- Weakened demand for oil arising from a deterioration in growth prospects for the emerging markets which is driving most of the current growth in oil consumption;
- Greater substitution away from oil towards gas as well as renewable energy sources;
- Pressure to reduce emissions due to environmental concerns;
- Growing supplies of conventional and unconventional oil; and
- Efficiency gains in extraction and production.

The graph below shows crude oil price analyst consensus forecasts for WTI prices and NYMEX strip prices over the next eight years to 2021. This shows that the analysts are more bullish in their future price forecast than compared to market participants trading on the futures market.

Figure 11: Crude oil – NYMEX strip and WTI (consensus estimates)



Source: Bloomberg and Consensus Economics (October 2013)

Natural gas is forecast to be the world's fastest growing major energy source through 2040. Global demand is projected to rise by close to 65 percent from 2010 to 2040 and account for about 40 percent of the growth in global energy needs. By roughly 2025, natural gas is expected to overtake coal as the second-largest energy source, behind oil.

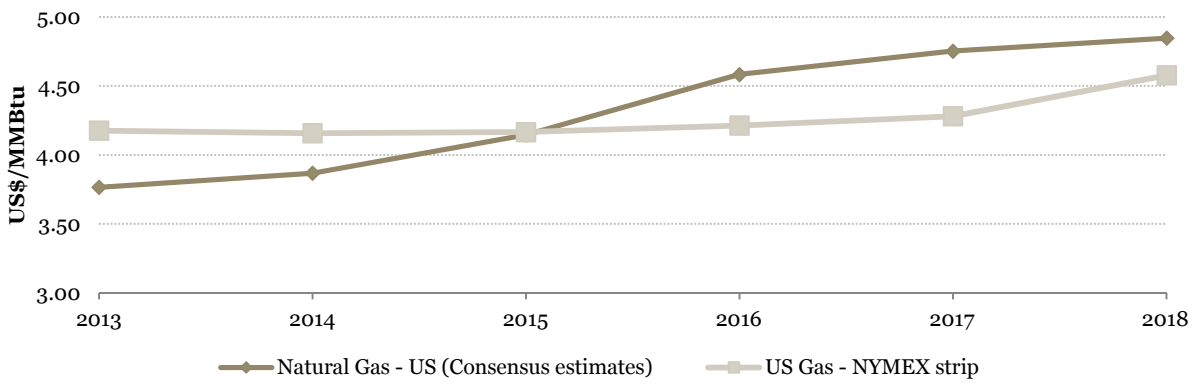
Unconventional gas including shale gas, tight gas and coal bed methane accounts for about 40 percent of the world's remaining recoverable gas resources, according to IEA estimates. Unconventional development is expected to play an increasing role in the global gas supply.

The World Bank forecasts US natural gas prices to remain low relative to crude oil in the medium term. The prices are expected to converge over the long term however the time frame over which this is expected to take place is dependent on the following:

- The development of unconventional oil supplies outside of the U.S.;
- The construction of LNG facilities and gas pipelines;
- Relocation of energy intensive industries;
- Substitution by coal; and
- Environmental policies.

The graph below provides the NYMEX strip gas prices and analyst consensus forecasts for U.S. natural gas prices over the next five years to 2028. The analyst forecasts shows prices to increase from just under US$4 MMBtu in 2013 to US$5 MMBtu by 2018.

Figure 12: Natural Gas (US) – NYMEX strip and consensus estimates



Source: Bloomberg and Consensus Economics (October 2013)

5. *Evaluation of fairness*

5.1 Basis of Assessment

The Future Conversion may take place some years in the future. The exact consequences to the Non-Associated Shareholders of that Future Conversion will be known at that time. However, in order to assess the fairness of the Future Conversion, we have had regard to both the minority value of the Non-Associated Shareholders interests and the effective subscription value of the Preference Shares issued to Ptolemy assuming conversion is agreed to by the Non-Associated Shareholders compared to the current value of the Company on a controlling basis.

The per share value of AusTex on a controlling basis has been assessed based on a sum-of-the parts valuation approach. We have performed two cross-checks being the share price adjusted for a control premium and comparing the implied reserve multiple to reserve multiples of comparable companies.

5.2 Minority value of non-associated shares

After the conclusion of the transaction, Non-Associated Shareholders will continue to hold minority interests (which are relatively illiquid) in the company. Under the RG111 interpretation of a control transaction, this is equivalent to the consideration offered to the Non-Associated Shareholders.

We note that in this particular circumstance or other similar acquisitions of a relevant interest, the selection of this benchmark and a comparison to a control value as envisaged in RG111 will almost automatically result in a "not fair" conclusion. This is because it would be highly unlikely to be commercially sensible for an acquirer of a relevant interest in shares to inject capital at a price to generate a control premium above the pre-existing share price for Non-Associated Shareholders, particularly when those Non-Associated Shareholders can participate in future 100% control transactions.

We consider that the current share price reflects the circumstances that Non-Associated Shareholders will be in post transaction due to the fine balance of considerations around the Future Conversion. Accordingly, we have used the current share price as a proxy for the minority value of Non-Associated Shareholders.

5.3 Effective subscription price of the Preference Shares

The Preference Shares issued to Ptolemy are a complex compound investment, including debt and equity-like features. The simplest way to look at the subscription value of the Preference Shares is to consider the Preference Shares as a purchase of ordinary shares for US$0.15 with a stream of preferred dividends until potential future conversion. Using this simple framework, we estimate the subscription value of the Preference Shares to be equivalent to A$0.10 as shown in the table below.

Table 10: Effective subscription price of Preference Shares

US$	
Conversion price	0.150
Dividends of 11.75% discounted at our estimated midpoint cost of capital for AusTex[1]	0.054
Effective subscription price (US$)	0.095
Effective subscription price (A$)[2]	0.104

Notes:
1. Calculated assuming conversion at maturity.
2. Effective subscription price converted to A$ as at the Valuation Date.

5.4 Approach 1 – Sum-of-the parts valuation approach

For Approach 1 we have undertaken a sum-of-the parts valuation analysis. This approach involves aggregating the value of the Company's assets to arrive at the total enterprise value and then deducting net debt and adjusting for other non-operating assets or liabilities to arrive at equity value (i.e. per share value) of the Company. In applying this approach we have performed the following:

a) Assessed the value of the Company's Northern Oklahoma asset using the DCF methodology. For the purposes of this analysis we have relied upon Reserve Report which valued the Oklahoma assets at approximately US$309 million based on SEC reserve standards.

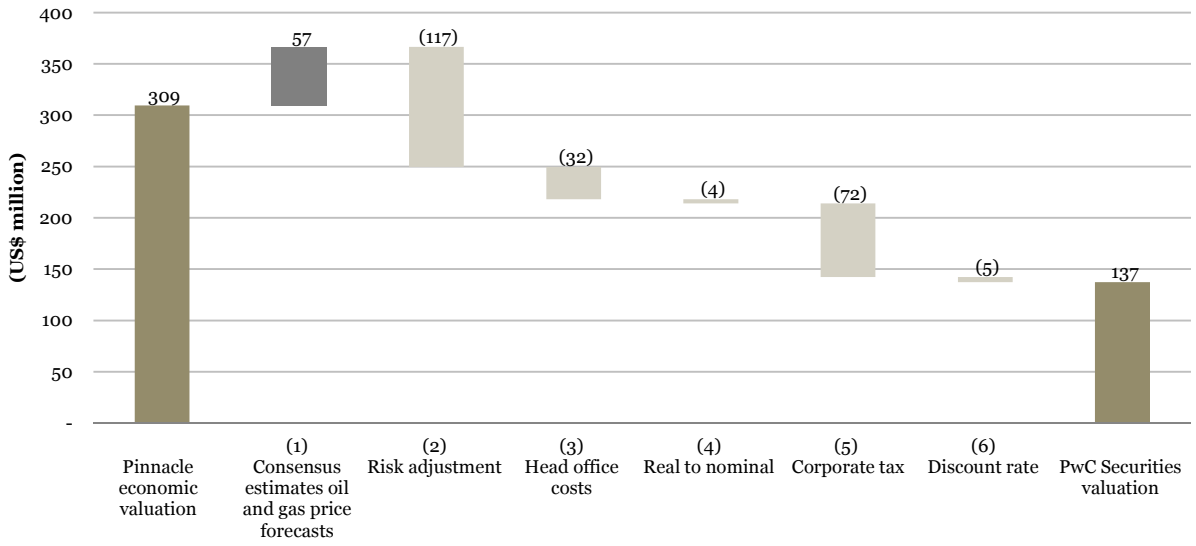
b) Assessed the FMV of the remaining assets of AusTex (i.e. Kansas assets, Sweet and Pratville) through a combination of a cost and market approach as detailed herein.

Adjustments to Pinnacle's technical valuation

The value presented in the Reserve Report is a technical value for the Company's Northern Oklahoma project which is based on SEC reserve guidelines, NYMEX strip pricing as at 1 August 2013 and a discount rate of 10%. Given some of the assumptions in the Reserve Report do not fully reflect market expectations, we have made some adjustments to the underlying assumptions in assessing the fair market value of the Company as at the Valuation Date.

A summary of our adjustments (for the high case) is described in the value reconciliation graph shown below:

Figure 13: Summary of adjustments to Pinnacle economic valuation



Source: PwC Securities analysis

1. Oil and gas price forecasts

The oil and gas price forecasts used in Pinnacle's Report was based on the NYMEX strip pricing for oil and gas as of August 1, 2013. A differential of -2%/bbl for oil and +44%/mcf for gas was applied to the NYMEX strip prices based on actual oil and gas prices received by AusTex over the period from January 2013 to May 2013.

The value of oil and gas assets is largely driven by two key factors, namely oil and gas prices and the level of certainty associated with the reserves (i.e. proved, probable or possible). As oil and gas prices are a key driver of value we have adopted the following two sources of oil and gas price forecasts as shown in the Industry Section above in our valuation to estimate the potential value range for AusTex:

- The NYMEX strip pricing for oil and gas as at 30 November 2013. A differential of -2%/bbl for oil and +44% mcf for gas) has been applied to these prices as per the assumptions in Pinnacles's Report. Based on discussions with Pinnacle, we understand that the differential of 44% for gas is primarily due to the presence of natural gas liquids (NGL), which fetch premium prices.

- The current consensus analyst forecasts for oil (WTI) and gas (Natural Gas – US) over the period 2013 to 2023.

2. Risk adjustment

Proved reserves also known as 1P reserves, are considered to have a reasonable certainty or a high degree of confidence of being economically recovered. These reserves are typically defined as having a better than 90% chance of being produced over the life of the field. Proved and probable reserves also known as 2P reserves are typically estimated to have a 50% chance of being technically and economically recovered.

The Reserve Report being a technical evaluation does not factor in any risk adjustments for the probability of recovery for any reserve class (i.e. PDP, BHP, PNP, PUD and PROB). For the purposes of our fair market valuation we have risk adjusted the NPV value of each reserve class broadly based on reserve adjustment factors typically applied to similar categories of oil and gas reserves. The range of reserve adjustment factors applied to each category of reserves are as follows:

Table 11: Reserve adjustment factors

	Valuation range	
Reserve Category	Low	High
Proven Developing Producing (PDP)	Nil	Nil
Proved Behind Pipe (BHP)	10%	5%
Proved Non-Producing (PNP)	15%	10%
Proved Undeveloped (PUD)	40%	30%
Probable Undeveloped (PROB)	70%	60%

3. Head office costs

The Reserve Report does not take into account AusTex's head office costs (e.g. staff costs, public company expenses and general administration costs). For the purposes of our valuation we have included an annual head office cost of approximately US$3 million (FY2014) estimated based on discussions with Management.

4. Real to nominal revenues and expenses

The cash flows in the Reserve Report have been estimated on a on a real basis. For the purposes of our valuation we have applied a 2.0% inflation rate based on the Federal Reserve's long term outlook on inflation to convert the oil and gas prices, expenses, and capital expenditure over the forecast period to a nominal basis.

5. Corporate Tax

Whilst the Reserve Report valuation includes estimates of state taxes that are levied against oil and gas producers being ad valorem and severance taxes it excludes corporate tax and depreciation tax shields. For the purposes of our valuation we have reflected the impact of the following:

- The US federal corporate tax rate of 35%.
- Depreciation of the book value of the existing asset base as well as depreciation for the capital investment estimated by Pinnacle over the forecast period.

The tax cash flows have been probability weighted in a manner consistent with the risk adjustment factors shown in the table above.

6. Discount rate

The SEC requires oil and gas producers to provide a standardised measure of discounted future net cash flows known as the SEC PV10 (i.e. 10% discount rate). The Reserve Report has been performed on this basis. For the purposes of our fair market valuation we have discounted the cash flows forecasts to their present value using a US based post tax nominal weighted average cost of capital (WACC) for AusTex of between 10.5% and 11.5%. This discount rate has been based on our assessment of comparable companies with onshore US oil and gas production assets as at the Valuation Date and having regard to the fact that risk factors have been applied to the reserves.

Our assessment of AusTex's cost of capital is set out in Appendix B.

5.4.1 *Fair market value of the Secondary Assets*

The Secondary Assets consists of oil and gas leases in Oklahoma (Sweet and Pratville) and Kansas. Given that these Secondary Assets are early stage exploration assets with limited certainty of the resources, the potential range of values for these assets are wide. In this regard, we have used a combination of the market approach and a cost approach in valuing these assets.

In assessing the value of the Secondary Assets, we also had regard to the following:

- Our review of AusTex's internal documents indicate that the current oil production from the Secondary Asset generate approximately 5% of AusTex's total oil production. Given the low levels of production and lack of exploration success evidenced by the low levels of proven reserves, the value of these assets would likely form a fraction of the value of the Company;
- In FY2012, AusTex wrote-off capitalised exploration expenses of A$1.2 million associated with the Kansas assets; and
- AusTex recently announced that are undergoing a strategic review of the Kansas assets with an option to potentially farm-out the some of the leases.

Cost Approach

The cost approach was based on the underlying carrying value of the assets as at 30 June 2013. The carrying value of the Secondary Assets at this period was $1.4 million and reflects the original acreage cost paid for the leases.

Market Approach

For the market approach, we have applied a commonly used valuation benchmark in the oil and gas industry; the reserve multiple (BOE multiple). We have used the average BOE multiple observed in our analysis of the comparable companies (see Appendix C).

Table 12: Valuation of secondary assets – market approach

Market approach – MMBOE multiple	
Median BOE multiple based on comparable company analysis	11.5
Proven and probable reserves (MMBOE)	0.88
Fair market value (US$ million)	10.12

Source: PwC Securities analysis

The two approaches adopted result in a valuation range between US$1.4 million to US$10.12 million. We have adopted the average value of US$5.7 million from this range for the purposes of our analysis.

Whilst we have had regard to a previously published technical report in relation to these assets (published in summary form on the ASX on 3 July 2012), we consider that the high level analysis above provides a sufficiently accurate assessment for the purposes of estimating the value of the secondary assets in the context of AusTex's value as a whole.

5.4.2 Valuation Summary

We have valued the enterprise value of AusTex based on the sum-of-the parts approach to be in the range of US$95.1 million to US$143.0 million. This value does not take into account any future exploration success from uncovering any currently unknown oil and gas reserves. As enterprise value is based on an income based approach which reflects the value of the underlying cash flows of the business, it represents a controlling value.

We have also assessed AusTex's equity value per share on a diluted and fully diluted basis based on the following assumptions:

1) For the valuation per share on an undiluted basis, we have classified the preference shares and convertible notes as debt.

2) For the valuation per share on a fully diluted basis, we have assumed full conversion of the convertible note, Preference Shares and all outstanding options with an exercise price lower than our assessed fair market value per share as at the Valuation Date.

Table 13: Valuation summary

	Undiluted basis		Diluted basis	
US$ ('000)	(Low case)	(High case)	(Low case)	(High case)
Primary Assets valuation	89,306	137,276	89,306	137,276
Secondary Assets valuation	5,763	5,763	5,763	5,763
Enterprise Valuation	95,069	143,038	95,069	143,038
Cash				
Bank balance	18,995	18,995	18,995	18,995
Proceeds from conversion of options			24,881	24,881
Debt				
Convertible notes	7,500	7,500		
Preferred shares	17,500	17,500		
Total Debt	25,000	25,000		
Net debt	(6,005)	(6,005)	43,876	43,876
Surplus assets/(liabilities)	159	159	159	159
Equity Value	89,223	137,193	139,104	187,074
AUD/USD FX rate	1.10	1.10	1.10	1.10
Equity value (AUD)	97,766	150,329	152,423	204,986
Shares outstanding ('000)	432,951	432,951	747,584	747,584
Per share value (A$)	0.23	0.35	0.20	0.27

Source: PwC Securities analysis

Note: In the event that the Future Conversion is not approved the impact of the higher interest rates on the RPB shares would be to some extent offset by the reduced number of outstanding shares resulting in a per share value between the undiluted and diluted scenarios shown above.

We note that the above valuations make no allowance for any overhang associated with funding requirements and anti-dilution clauses in respect of the Convertible Notes. It is likely in any transaction scenario that some allowance would be made in this situation, however the effect is difficult to quantify.

5.4.3 Valuation cross-check 1

We have performed a cross-check of our valuation to the range of observed reserve multiples (BOE multiples) as indicated in our analysis of the comparable companies (see Appendix C for details). We note that whilst the range of observed reserve multiples is wide; mainly due to the differences in geology, extraction cost and potential to further prove-up more resources, we have used these multiples as a high level cross-check.

The table below compares the implied multiples from our valuation to the median observed reserve multiple for the comparable companies. Whist we note that our implied reserve multiple is lower than the average observed reserve multiple, it is still within the range of the observed reserve multiples.

Table 14: Valuation cross-check: implied multiples

	Low	High
Assessed EV (US$ million)	95.1	143.0
Reserves (MMBOE)	18.1	18.1
Implied Reserve Multiple	5.3	7.9
Observed Reserve Multiple	3.3	30.9

Source: PwC Securities analysis

5.4.4 Valuation cross-check 2

We have performed a cross-check of our per share value (controlling basis) assessed using the sum of the parts approach to AusTex's share price with an adjustment for a premium for control.

The prices at which a company's shares trade on securities markets typically traded at a discount to the fair market value of the company as a whole. This is because an acquirer of a business will typically pay minority shareholders a control premium in order to persuade them to sell their shares, so that they can gain control of the business and cash flow. This difference is commonly referred to as the "premium for control".

In assessing the value under Approach 2, we have performed the following:

a) Analysed the volume weighted average price (VWAP) for the Company's shares trading on the ASX over the 5 day, 20 day, 30 day and 60 day period prior to the date the Preference Shares were issued.

b) Analysed recent transactions in the oil and gas sector from various sources to identify the average premium for control.

The 5, 20, 30 and 60 day VWAP for AusTex shares is shown in the table below.

Table 15: AusTex share price VWAP analysis

	Total traded volume	Volume x Price	VWAP (A$ per share) – minority basis
5 day VWAP	2.128	0.287	0.135
20 day VWAP	16.883	2.377	0.136
30 day VWAP	20.143	2.730	0.135
60 day VWAP	33.404	4.482	0.134

Source: CapitalIQ and PwC Securities analysis

The range of share prices indicated by the above VWAP analysis is between A$0.134 and A$0.137.

Our review of recent transactions in the oil and gas sector sourced from public and proprietary data sources (e.g. mergerstat) indicate control premiums of 30% to 40%. Applying these premiums to the trading price VWAPs above provides a range of A$0.17 to A$0.19 which is slightly below the low end of our assessed value range. We consider that this is supportive of our assessment when allowing for the low liquidity in the trading of AusTex's shares as well as the anti-dilution clauses, security rights and capital structure uncertainty associated with the convertible notes.

5.5 Conclusion on fairness

We have assessed AusTex's per share value on a controlling basis to range between A$0.20 to $A0.27 on a diluted basis and between A$0.23 to A$0.35 on an undiluted basis. As these values are greater than both the minority value of shares held by Non-Associated Shareholders and the effective subscription price, we consider the Future Conversion to be not fair to the Non-Associated Shareholders under the RG111 test.

6. *Reasonableness considerations*

Pursuant to RG111, the Future Conversion is considered to be "reasonable" if it is fair. However, it may also be "reasonable" if, despite not being fair there are sufficient reasons for Non-Associated shareholders to approve the resolution for the Future Conversion.

In assessing whether the Non-Associated shareholders are likely to be better off if the resolution for the Future Conversion is approved than if it is not, we have considered the impact of Future Conversion as well as the various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholder as set out below.

Scenarios indicating Ptolemy's potential shareholding assuming conversion of the Preference Shares into ordinary shares

Ptolemy currently has approximately 46.2 million fully paid ordinary shares on issue. This represents approximately 10.67% of the total number of outstanding ordinary shares as at the date of this report.

As at 21 October 2013 there were approximately 147.5 million unlisted options.

Based on the terms of the RCPA Shares and RPB Shares, Ptolemy's shareholding in AusTex could potentially increase from 10.67% to between approximately 14% and 33% assuming the following:

a) resolution 2, which allows for the conversion of RPB shares into ordinary shares, is approved by Non-Associated shareholders;

b) resolution 3 with respect to the approval for Ptolemy to acquire a relevant increase in more than 20% of ordinary shares as a consequence of the conversion of the RCPA and RPB shares is approved by Non-Associated shareholders;

c) AusTex not issuing any other securities between the date of this report and the conversion date of the Preference Shares;

d) Ptolemy not acquiring any additional shares or options; and

e) Ptolemy elects to exercise its conversion of Preference Shares.

For the purposes of estimating the impact of dilution on Non-Associated shareholders as a block arising from the conversion of the preference shares, convertible notes and outstanding options, eight potential scenarios have been considered. The assumptions underlying each scenario have been summarised in the table below:

Table 16: Summary of assumptions underlying each scenario

	Dilution impacts considered				
	Conversion of RPCA shares	Conversion of RPB shares	Conversion of options	Conversion of convertible notes	Conversion of Preference shares with dividend paid in shares
Scenario 1	✓	✓	✓	✓	
Scenario 2	✓		✓	✓	
Scenario 3	✓	✓			
Scenario 4	✓				
Scenario 5	✓	✓	✓	✓	✓
Scenario 6	✓		✓	✓	✓
Scenario 7	✓	✓			✓
Scenario 8	✓				✓

Ptolemy's estimated shareholding under the scenarios detailed above are summarised in the matrix shown below. Scenarios under which Ptolemy would have a shareholding in AusTex in excess of 20% under a fully diluted and undiluted basis are highlighted in the table below.

Table 17: Ptolemy's future potential shareholding

	Fully diluted basis		Undiluted basis	
	RCPA and RPB Shares convertible	RCPA Shares only convertible	RCPA and RPB Shares convertible	RCPA Shares only convertible
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Shareholding assuming dividends on Preference Shares are paid in cash	19.4%	14.0%	26.4%	19.6%
	Scenario 5	Scenario 6	Scenario 7	Scenario 8
Shareholding assuming dividends on Preference Shares are paid in shares	24.7%	17.2%	32.7%	23.7%

Source: PwC Securities analysis

Although, in half of the scenarios Ptolemy would exceed 20% shareholding in the Company, in reality the chances of this occurring are much lower. Given that the majority of the outstanding options and convertible notes have a similar exercise price (assuming an exchange rate of US$1:A$1) in a different currency as the Preference Shares, it is unlikely that the holders of these instruments would not convert their instruments into ordinary shares upon conversion by Ptolemy.

The calculation for Ptolemy's future possible shareholding is shown in Appendix D of this report.

6.1 Advantages and Disadvantages of Future Conversion to Non-Associated Shareholders

6.1.1 Advantages

1) Approval will prevent early redemption of the Preference Shares and enable AusTex to continue to fully fund its exploration activities

Under the terms of the Preference Shares Subscription Agreement, failure by AusTex to obtain approval from the Non-Associated Shareholders for the Future Conversion within 90 days following the subscription closing date will be deemed to be a Redemption Event giving Ptolemy the right to redeem all of its Preference Shares. Upon redemption AusTex would be required to pay the principal value of Ptolemy's share of the Preference Shares (US$13.3 million) and any unpaid interest accrued on these shares during the intervening period.

As at 25 November 2013 AusTex had approximately US$19 million in cash and cash equivalents. Early redemption by Ptolemy prior to the maturity of the convertible notes could lead one or more of the following scenarios eventuating:

- Curtailing the Company's exploration activities and conserving cash generated from operations for the redemption of the convertible note.
- Distressed sale of assets which are not covered under the terms of the agreement for the convertible notes.

Whilst we note that it is unlikely that Ptolemy would choose to a course of action that is likely to have a negative impact on the value of its existing interest in the Company, we believe it is more prudent for the Non-Associated Shareholders to vote in favour of the Future Conversion.

Voting in favour of the Future Conversion, would reduce the possibility of Ptolemy being able to redeem all of its Preference Shares prior to the maturity date of the Convertible Note, and negating a possible curtailment of the exploration activities.

2) Avoid an increase in dividend rate applicable to the RPB Shares if Resolution 3 is not approved.

The NOM states that in the event Resolution 3 is not approved by the Non-Associated Shareholders, the dividend rate on the RPB Shares would increase from 11.75% to 16%; which represents a 4.25% increase. Therefore, voting in favour of Resolution 3 would enable the Company to pay a lower dividend on the RPB Shares.

3) Maintaining and entrenching Ptolemy as a cornerstone investor

Ptolemy is currently the largest shareholder in Austex with a shareholding of 10.67%. In our view, maintaining Ptolemy as a cornerstone investor in AusTex may have the following positive impacts:

- Under the terms of the Preference Shares Ptolemy will be given the right to appoint three people to an expanded AusTex board of seven directors. In this regard, Ptolemy will have a significant influence over the Company once the directors are appointed regardless of any of the above shareholding scenarios transpiring giving Ptolemy a shareholding in excess of 20%. Therefore the Future Conversion is unlikely to cede any additional control to Ptolemy over AusTex.
- Approval of the Future Conversion may potentially lead to Ptolemy increasing its existing shareholding in AusTex which would provide positive signals to the market and improve investor confidence in general.

- As a cornerstone investor Ptolemy would be more incentivised to act in the long term interests of the company and therefore potentially minimise short term focused behaviour. This would ultimately enhance the stability of the company and potentially lead to improved and cheaper access to capital.

In this regard, voting in favour of Resolution 3 would entrench Ptolemy's position as a cornerstone investor.

4) Raising capital from retail investors involves greater cost with the outcome being less predictable

In the event Ptolemy redeems all or some of its Preference Shares, AusTex may have to raise capital from the retail market. Raising capital from retail investors is far more costly due to the requirements for a prospectus.

Past retail offers have proved to be challenging for AusTex, the SPP of A$12.5 million announced in 17 October 2012 was not subscribed fully by the retail investors and the Company ended up having to place the shortfall to institutional and sophisticated investors.

In addition, the terms of the convertible notes include the anti-dilutive terms which under certain scenarios, would have an additional dilutive impact on existing shareholders:

- right of first refusal to participate in 25% of any certain future offers by Austex of shares, other equity securities and equity linked debt securities offered to retail and/or institutional investors.

- lowering of the conversion price of the convertible notes under the agreement to the price at which any shares are issued by AusTex if it is less than the conversion price of the notes itself.

5) The Non-Associated Shareholders will still be able to share in the control premium subject to the dilution inherent in the Preference Shares

Voting in favour of Resolution 3 will not exclude the Non-Associated Shareholders from a share of the control premium if a takeover offer was made. The Non-Associated Shareholder's share of the control premium will likely be subject to the dilution from the conversion of the Preference Shares.

6.1.2 Disadvantages

1) Dilutive impact of Future Conversion on Non-Associated Shareholders

The cost to the Non-Associated Shareholders from conversion of the Preference Shares into ordinary shares arises from the dilution. As discussed earlier, we have considered several potential scenarios in relation to Ptolemy's future shareholding with and without approval for Future Conversion. Our analysis shows that if Future Conversion is approved Ptolemy could potentially end up with:

- a 19.4% (Scenario 1) to 26.4% (Scenario 3) shareholding on a diluted and undiluted basis respectively if the dividends on the Preference Shares are paid in cash.

- a 24.7% (Scenario 5) to 32.7% (Scenario 7) shareholding on a diluted and undiluted basis respectively if the dividends on the Preference Shares are paid in Preference Shares.

Conversely, if the Future Conversion is not approved and Ptolemy does not proceed with early redemption they could potentially end up with:

- a 14.0% (Scenario 2) to 19.6% (Scenario 4) shareholding on a diluted and undiluted basis respectively if the dividends on the Preference Shares are paid in cash.

- a 17.2% (Scenario 6) to 23.7% (Scenario 8) shareholding on a diluted and undiluted basis respectively, if the dividends on the Preference Shares are paid in Preference Shares.

The analysis shows that dilution to Non-Associated Shareholders is greatest under the scenario where Future Conversion is approved and Preference Share dividends are paid in ordinary shares. Under the scenario where the Preference Shares dividend is paid in ordinary shares, there is a possibility of Ptolemy's interest increasing to approximately 33%.

2) Conversion price acts as "cap" on AusTex share price

The exercise price of approximately A$0.15 for the majority of the options and convertible notes act as a cap on the Company's share price. Financial instruments such as options and convertible notes have limited downside but share in any upside. Therefore, as the Company's share price rises above the price level of A$0.15, there would be a flood of options and convertible note holders exercising their instruments, increasing the share base and having a dampening effect on further share price appreciation.

Whilst we note that the conversion price is denominated in US$, assuming exchange rate parity, voting in favour of Resolution 3 will reinforce the existing A$0.15 'cap' on the share price.

Other considerations

The Preference Shares dividend rate is comparable to market rates for subordinated debt

For the reason set out in under Section 6 of this report, it is debatable whether Ptolemy would commercially pay a control premium given the various scenarios that might unfold at Future Conversion. We consider the pricing of the Preference Shares at a coupon of 11.75% assuming Future Conversion is approved plus a conversion offer of US$0.15 compared to market benchmarks for subordinated debt transactions not involving any potential equity conversions.

In order to perform this high level analysis we adjusted the value of the conversion price of the Preference Shares for the option embedded in the Preference Shares as shown in the table below.

Table 18: Estimation of effective borrowing rate

US$	Low	High
Conversion price (A)	0.150	0.150
Less: Convertibility option[1]	0.0279	0.0496
Effective Loan amount (B)	0.1221	0.1004
Interest charge (A x 11.75%)	0.0176	0.0176
Effective rate (B / A)	14.5%	17.6%

Source: PwC Securities analysis

Notes:

1. Option calculated using Black-Scholes model and using the following assumptions volatility inputs (40% - 70%), risk free rate (2.97%), share price (A$0.135), dividend yield (0%), term (2 years).

Therefore, if the Preference Shares did not include a conversion option, the high level analysis indicates an effective interest rate of between 14.5% and 17.6%. These rates are broadly in-line with subordinated debt transactions observed for junior exploration companies which publicly available sources quote as in the range of 15% to 18%.

Approval of the Future Conversion does not guarantee the future conversion of the Preference Shares

Even if approved by shareholders, the Future Conversion of the Preference Shares by AusTex is by no means certain as this remains at the election of Ptolemy. In the event Ptolemy elects not to convert the Preference Shares, AusTex will be required to repay the principal amount drawn down plus any capitalised interest at the maturity date.

The Preference Shares are transferrable

Under the terms of the Subscription Agreement the Preference Shares are freely transferrable by Ptolemy and any subsequent holder. Accordingly, it is not possible to identify with absolute certainty the final identity of the party to which the shares would be issued on conversion. However, we note that Non-Associated Shareholders will continue to be protected by the operation of s606.

Conclusions

PwC Securities view is that the advantages and disadvantages of the Future Conversion are finely balanced. However, we believe that the risk of a possible curtailment in the Company's exploration activities as a result of Ptolemy redeeming its Preference Shares (unlikely but possible) coupled with the higher dividend payments on the RPB shares tilts the balance towards the Future Conversion being slightly more advantageous to the Non-Associated Shareholders and therefore reasonable.

Appendix A: Statement of qualifications and declarations

Qualifications

PwC Securities, which is wholly owned by PricewaterhouseCoopers (PwC), holds the appropriate Australian Financial Services License. PwC Securities has had extensive experience in providing corporate financial advice and in the preparation of IERs. PwC Securities is a licensed dealer under the Corporations Act. The individuals responsible for the preparation of this report are Mr Richard Stewart and Mr Paul Hennessy.

Mr Richard Stewart is a Fellow of the Financial Services Institute of Australasia (Senior), the Institute of Chartered Accountants and the Society of Certified Practising Accountants in Australia as well as a member of the Australian Institute of Company Directors. He is also an adjunct professor in Business Valuation at the University of Technology, Sydney. He holds a Bachelor of Economics and a Masters of Business Administration. Richard has 28 years' experience with PwC, is a partner in PwC and an authorised representative of PwC Securities.

Mr Paul Hennessy is a partner in PwC and an authorised representative of PwCS. Paul is a graduate of the University of Limerick, a Fellow of the Institute of Actuaries and an Affiliate Member of the Institute of Chartered Accountants in Australia. Paul has extensive experience in the preparation of corporate valuations, independent expert's reports and the provision of corporate financial advisory services to corporations involved in takeovers, capital raisings and mergers and acquisitions, particularly for clients in the oil and gas sector.

Declarations

Prior to accepting this engagement, we considered our independence with respect to AusTex with reference to ASIC Regulatory Guide 112 *Independence of Experts*. In our opinion, we are independent of AusTex and the outcome of the Future Conversion.

Neither PwC Securities nor PwC has any interest in the outcome of the Future Conversion. PwC Securities is entitled to receive a fee for the preparation of this IER based on time spent at our normal hourly rates for this type of work and will be reimbursed for out of pocket expenses incurred. The fee payable to us is payable regardless of the outcome of the Future Conversion. In addition, we have been indemnified by AusTex in relation to any claim arising from or in connection with its reliance on information provided by AusTex. None of PwC Securities, PwC, Mr Stewart or Mr Hennessy holds securities in AusTex and has not held any such beneficial interest in the previous two years.

Purpose of report

This IER has been prepared at the request of the Directors of AusTex and should not be used for any other purpose. In particular, it is not intended that this IER should serve any purpose other than an expression of our opinion on whether the Future Conversion is fair and reasonable to the Non-Associated Shareholders. This IER has been prepared solely for the benefit of the Directors of AusTex and for the benefit of the Non-Associated Shareholders of AusTex. Neither the whole nor any part of this IER nor any reference to it may be included in or attached to any document, circular, resolution, letter or statement without our prior written consent to the form and context in which it appears.

Special note regarding forward-looking statements and forecast financial information

Certain statements in this IER may constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of AusTex, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following:

- General economic conditions
- The future movements in interest rates and taxes
- The impact of terrorism and other related acts on broader economic conditions
- Changes in laws, regulations or governmental policies or the interpretation of those laws or regulations to AusTex in particular
- Other factors referenced in this IER.

Disclaimer and consents

In preparing this IER, AusTex has indemnified PwC Securities, PwC and its employees, officers and agents against any claim, liability, loss or expense, cost or damage, including legal costs on a solicitor client basis, arising out of reliance on any information or documentation provided by AusTex which is false and misleading or omits any material particulars or arising from a failure to supply relevant documentation or information.

In addition, AusTex has agreed that if it makes any claim against PwC or PwC Securities for loss as a result of a breach of our contract, and that loss is contributed to by its own actions, then liability for its loss will be apportioned and is appropriate having regard to the respective responsibility for the loss, and the amount AusTex may recover from PwC Securities will be reduced by the extent of its contribution to that loss.

APES 225 "Valuation Services"

This independent expert's report has been prepared in accordance with APES 225 "Valuation Services".

Appendix B: Discount rate analysis

Overview

The discount rate applicable for fair market valuation purposes represents the required market rate of return for capital invested in the company or asset being valued. The cost of capital for a company reflects the opportunity cost of the funds employed. This means that a company must obtain sufficient return on its assets to cover the required return to equity and debt holders as reflected by the capital markets.

The expected rate of return for invested capital is conventionally derived using the Weighted Average Cost of Capital ("WACC") approach after considering available market evidence for the company being examined. The cost of capital comprises a required rate of return on equity plus the current tax-effected rate of return on debt, weighted by the relative proportions of equity and debt comprising the financial structure.

For equity investors, the cost of equity capital has two components; an explicit opportunity cost such as dividend payments and an implicit opportunity cost in the form of an expected cash equivalent gain in share price. The expected return to debt investors (the cost of debt) represents the interest payments and the amortisation of any difference between the market value of debt and its face value.

Significant judgement is inherent in the selection of discount rates. Discount rates can be derived using a framework which is theoretically sound, however when determining required future rates of return, there is inherently a substantial degree of subjectivity involved in estimating variables, which by definition are unable to be observed.

The formulation of the WACC using modern finance theory and commonly accepted practice is derived in the first instance on a post-tax, nominal basis as the parameters comprising WACC are observable in the market on this basis.

The determinants of the WACC calculation are derived from observable market data for the select company (if listed) or a peer group, which is consistent with the definition of fair market value. The peer group companies are selected primarily on the basis of the industry and geographic region in which they operate. Considerations of size, asset quality, growth prospects and revenue sources are also taken into account.

Although AusTex's primary listing is on the Australian Securities Exchange, the Company's operations are located in the USA and all of it's cash flows are denominated in US$. Given this fact, we have adopted US specific inputs in our assessment of the WACC.

Cost of equity

The cost of equity is typically considered to be an estimate of an equity investor's required rate of return for a given risk level associated with an investment. The most commonly used tool to estimate the required rate of return on equity for a given level of risk is the Capital Asset Pricing Model ("CAPM") framework. Under CAPM, the expected return on equity is measured as the return on a risk free investment plus a premium for the non-diversifiable risk associated with the relevant asset or company.

The CAPM model states that:

$Ke = Rf + \beta e * (EMRP)$

where:

Ke = expected (or required) return on equity for investment

Rf = risk free rate

Be = equity beta for investment

EMRP = the equity market risk premium which is the expected return on a broad portfolio of stocks in the market less the risk free rate

Each of the above elements is described below.

Risk free rate

The risk free rate (Rf) used in the expression of CAPM for the US market is based on 20 year US Treasury bonds (Government Bonds). We have used the 20 year US Treasury spot rate in our valuation of AusTex.

Equity market risk premium

EMRP is a measure of the long term excess return earned on a diversified portfolio of equities inferred from comparison of long term equity returns and the returns available on risk free investments represented by Government Bonds. Inevitably this measure will be extremely volatile over short and medium term periods and hence estimates of EMRP typically refer to excess returns over very long periods.

The EMRP varies over time and economic cycles. In selecting the EMRP, we have been mindful that the rate adopted should reflect the prospective estimate of EMRP over the timeframe of the cash flows modelled. This will include not just the current economic circumstances, but periods of both positive and negative returns experienced during various stages of future market cycles. The long term historical average EMRP is generally adopted as the most appropriate measure for this and PwC Securities has adopted 6.0% as the EMRP.

Beta

Beta is a measure of systematic risk reflecting the sensitivity of a company's share price to the movements of the stock market as a whole. Whilst expected betas cannot be observed, conventional practice is to estimate an appropriate beta with reference to the historical betas for a company over a finite period. It is also appropriate to consider betas for comparable companies and sector averages as a proxy, particularly for companies with relatively low levels of liquidity. Observed betas in the market place, known as equity betas, are affected by the gearing of the individual company. The beta for equity reflects the non–diversifiable or systematic risk of a company. Equity betas incorporate the operational risk of the underlying company assets and other financial risk associated with the financial structure of the company (i.e. the combination of debt and equity employed to finance the company assets), whereas asset betas reflect only the operational risk.

The beta of an investment represents relative risk, not a measure of the total risk of a particular investment. Under the CAPM framework, the greater a security's beta, the greater the required return. This is indicated by a beta greater than one, which implies that firms with higher volatility of returns (as measured by standard deviation) will have higher required returns due to greater risk, other things being equal.

As mentioned above, determination of a beta can be undertaken with reference to analysis of comparable companies. It is generally necessary to make adjustments to the observed equity betas in the market place to remove the impact of the different capital structures and levels of gearing in the companies examined. This process, known as de-levering, involves removing the gearing of the subject company to arrive at the asset beta and subsequently re-levering in line with the target level of gearing.

PwC Securities adopted the Harris Pringle formula to de-lever and re-lever the beta as follows:

Asset beta (un-geared) = Equity beta (geared) / [1 + (D/E)]

Equity beta (re-geared) = Asset beta (un-geared) x [1 + (D/E)]

where:

E =market value of equity

D=market value of debt

D/E = company's debt to equity ratio

In determining an appropriate beta range to adopt PwC Securities has considered the observed beta for listed comparable companies to AusTex over a five year period. The companies within the peer group all operate within the oil and gas industry. For AusTex, we have placed emphasis on similar sized companies with an oil focus operating in the US and Canada.

We have adopted an asset beta range for AusTex of between 1.15 and 1.30. In forming this opinion we have had given particular consideration to the mean and median asset beta of our narrow set of the comparable companies.

Beta observations

Company	Equity beta	No. of monthly observations	R-Squared	Standard error	Market capitalisation (AUD million)	5 year average debt / equity[4]	5 year average debt / EV[4]	Asset beta
AusTex Oil Limited	0.92	61	0.04	0.58	56.3	n/m	n/m	0.92
Arcan Resources Ltd.	2.70	61	0.24	0.84	32.9	87.8%	46.8%	1.44
Red Fork Energy Limited	1.75	61	0.13	0.71	167.3	2.1%	2.1%	1.71
Callon Petroleum Company	1.95	61	0.22	0.59	298.0	114.8%	53.4%	0.91
Petroamerica Oil Corp.	1.60	50	0.07	1.01	195.8	0.6%	0.6%	1.59
Dune Energy Inc.	1.26	61	0.04	0.89	91.1	394.3%	79.8%	0.26
Lynden Energy Corp.	1.37	61	0.07	0.76	105.6	7.4%	6.9%	1.28
PostRock Energy Corporation	2.17	45	0.33	0.60	43.6	629.6%	86.3%	0.30
PrimeEnergy Corp.	1.02	61	0.11	0.39	128.3	93.0%	48.2%	0.53
Red Mountain Resources, Inc.	-	30	0.00	0.55	85.4	14.5%	12.6%	-
Saratoga Resources Inc.	2.17	61	0.07	1.28	45.2	154.5%	60.7%	0.85
EnerJex Resources, Inc.	1.09	35	0.04	0.93	60.1	17.3%	14.8%	0.93
Antares Energy Ltd.	0.98	61	0.01	1.35	131.3	28.5%	22.2%	0.76
Sundance Energy Australia Limited	1.94	61	0.15	0.76	467.2	n/m	n/m	1.94
Abraxas Petroleum Corp.	1.30	61	0.11	0.55	373.1	81.5%	44.9%	0.72
Median - narrow set					**232.7**	**87.8%**	**46.8%**	**1.17**
Mean - narrow set					**244.5**	**75.8%**	**39.1%**	**1.21**

Narrow set

Notes:

1. Equity betas derived from share price (monthly, 5 year where available, against local index, bayesian adjusted)
2. Market Capitalisation as at 02 Dec 2013 from Capital IQ
3. Equity betas have been unlevered using the formula discussed in Brealey and Myers "Principles of Corporate Finance", 5th Edition, Ch 9
4. Formula for unlevering equity betas: equity beta / (1+ debt / equity), gearing derived from balance sheet (annual, 5 year where available)
5. Comparators chosen on basis of industry sector and statistically sufficient number of beta observations

Capital structure

In order to calculate an appropriate post-tax cost of capital, it is necessary to determine the optimal or target level of debt funding (or debt and equity mix) for the subject company. Optimal capital structures are not readily observable. In practice, the existing capital structures of comparable companies are used as a guide to estimate the likely optimal capital structure for the company being valued, taking into consideration the specific financial circumstances of that company. Typically, the gearing changes over time and differs between comparable companies. In order to remove the impact of the fluctuations in the level of gearing over time, the five year average level of gearing of the comparable company set was considered in selecting an appropriate target debt and equity mix. This is consistent with the period over which betas have been observed and removes the effect of current market events such as depressed equity markets and lack of debt financing possibilities.

In determining the appropriate level of gearing, PwC Securities have had regard for AusTex's position as a junior oil and gas producer, it's financial position and the past history of raising debt, we have assumed a 100% equity funded capital structure. We note that the comparable set includes companies with significant levels of debt, however for companies that are in a similar stage of development, the debt available normally has stringent security and/ or equity like features.

WACC

The cost of equity and the cost of debt are combined to arrive at the WACC using the following formula:

WACC = [Ke * E/(D+E)] + [Kd * (1-Tc) * D/(D+E)]

The key inputs are defined as follows:

Ke = the cost of equity

E = the market value of equity

Kd = the cost of debt

Tc = the marginal effective tax rate

D = the market value of debt (net of surplus cash)

E = the market value of equity

WACC	Low	High
Risk free rate	3.60%	3.6%
EMRP	6.00%	6.00%
Asset beta	1.15	1.30
Cost of equity	10.50%	11.50%
WACC (no debt, rounded)	10.50%	11.50%

Appendix C: Multiples

The following table provides analysis of the reserve multiples of oil and gas companies with comparable activities to those of AusTex.

		EV	Gas reserves 2P	Oil reserves 2P	MMBOE equivalent (Oil and Gas 2P basis)	BOE multiple
Company		US$ million	Bcf	MMbbls	MMBOE	EV/MM BOE
Arcan Resources Ltd.	TSXV:ARN	323	15	34	37	8.83
Red Fork Energy Limited	ASX: RFE	173	-	19	19	9.32
Callon Petroleum Company	NYSE: CPE	393	20	11	14	27.90
Petroamerica Oil Corp.	TSXV:PTA	147	-	5	5	28.99
Dune Energy Inc.	OTCBB:DUNR	173	66	8	19	8.98
Lynden Energy Corp.	TSXV:LVL	123	18	5	8	15.31
PostRock Energy Corporation	NasdaqGM:PSTR	210	94	3	19	11.20
PrimeEnergy Corp.	NasdaqCM:PNRG	232	40	13	20	11.72
Red Mountain Resources, Inc.	OTCPK:RDMP	109	7	2	4	30.73
Saratoga Resources Inc.	AMEX: SARA	185	98	14	31	6.04
EnerJex Resources, Inc.	OTCPK: ENRJ	90	-	3	3	30.86
Antares Energy Ltd.	ASX:AZZ	163	77	36	49	3.32
Sundance Energy Australia Limited	ASX:SEA	331	-	20	20	16.54
Abraxas Petroleum Corp.	NASDAQ:AXAS	439	120	32	52	8.39
Max						**30.86**
Mean						**15.58**
Median						**11.46**
Min						**3.32**

Source: CaptialIQ, PwC Securities analysis

Notes:

1. Enterprise value as at 30 November 2013
2. Total reserves (oil and gas) consist of Proved and Probable Reserves
3. Gas reserves (Bcf) to MMBOE conversion ratio 6:1

A brief overview of each of the comparable companies is provided below:

Arcan Resources Ltd

Arcan Resources Ltd. engages in the exploration, development, and production of petroleum and natural gas in western Canada. It primarily holds interests in Swan Hills property located in north central Alberta; Hamburg property located in northwest Alberta; and McLeod property located in west central Alberta. The company was incorporated in 2003 and is headquartered in Calgary, Canada.

Red Fork Energy Limited

Red Fork Energy Limited is engaged in the exploration, appraisal, development, and production of oil and gas properties in the mid-continent region of the United States. It explores for oil, liquids rich gas, and shale gas. The company holds interests in the Big River project covering an area of approximately 75,000 acres; the East Oklahoma project with an area of approximately 70,000 acres; and the West Tulsa and Osage projects located in Oklahoma. Red Fork Energy Limited was founded in 2004 and is headquartered in Tulsa, Oklahoma.

Callon Petroleum Company

Callon Petroleum Company engages in the acquisition, exploration, development, and production of crude oil and natural gas properties. The company's properties are located in the Permian Basin in West Texas; the Haynesville Shale in Louisiana; and the Gulf of Mexico. As of December 31, 2012, its estimated net proved reserves totalled 14.1 million barrel of oil equivalent, including 10.8 million barrels of oil and 19.8 billion cubic feet of natural gas. The company was founded in 1950 and is headquartered in Natchez, Mississippi.

Petroamerica Oil Corp.

Petroamerica Oil Corp., a junior oil and gas exploration company, through its subsidiaries, engages in the acquisition, exploration, and production of oil and gas properties in Colombia. The company holds interests in the Los Ocarros, CPO-1, LLA-10, El Eden, El Porton, and Balay blocks located in the Llanos Basin. Its properties cover approximately 287,000 net acres of land. The company was formerly known as Cantrell Capital Corp. and changed its name to Petroamerica Oil Corp. in October 2009. Petroamerica Oil Corp. was incorporated in 1986 and is headquartered in Calgary, Canada.

Dune Energy Inc.

Dune Energy, Inc., an independent energy company, engages in the acquisition, exploration, exploitation, and development of crude oil and natural gas properties. The company's properties cover approximately 82,000 gross acres across 19 producing oil and natural gas fields along the Texas and Louisiana Gulf Coast. As of December 31, 2012, its total proved reserves were 90.1 billion cubic feet of natural gas equivalent consisting of 50.6 billion cubic feet of natural gas and 6.6 million barrels of crude oil or other liquid hydrocarbons. The company sells its oil and gas products primarily to domestic pipelines and refineries. Dune Energy, Inc. was founded in 1998 and is headquartered in Houston, Texas.

Lynden Energy Corp.

Lynden Energy Corp. is engaged in the acquisition, exploration, and development of petroleum and natural gas properties in the United States. It has working interests in the Wolfberry and Mitchell Ranch projects located in the Permian Basin in West Texas; and the Paradox Basin project located in Utah. The company is headquartered in Vancouver, Canada.

PostRock Energy Corporation

PostRock Energy Corporation, an independent oil and gas company, engages in the acquisition, exploration, development, production, and gathering of crude oil and natural gas. It primarily focuses on the production of conventional oil and coal bed methane gas from its properties located in the Cherokee basin, a region in South Eastern Kansas and North Eastern Oklahoma. The company also has oil producing properties in Oklahoma;

and minor gas producing properties in the Appalachian basin. Its estimated proved reserves include 69.7 billion cubic feet of natural gas and 2.7 million barrels of oil. As of December 31, 2012, the company had approximately 2,597 net wells on approximately 342,449 net acres located in the Cherokee basin; 20 net wells on approximately 1,315 net acres located in Oklahoma; and 376 net wells on approximately 8,851 net acres located in the Appalachian basin. PostRock Energy Corporation was founded in 1982 and is headquartered in Oklahoma City, Oklahoma.

PrimeEnergy Corp.

PrimeEnergy Corporation, through its subsidiaries, engages in the acquisition, exploration, development, and production of oil and natural gas in the United States. The company also acquires producing oil and gas properties through joint ventures with industry partners; and provides well-servicing support operations, site-preparation, and construction services for oil and gas drilling and reworking operations. It operates approximately 1,600 wells and owns non-operating interests in approximately 800 additional wells located primarily in Texas, Oklahoma, West Virginia, the Gulf of Mexico, New Mexico, Colorado, and Louisiana. As of December 31, 2012, the company had proved reserves of 25,612 thousand barrels of oil equivalent. PrimeEnergy Corporation was founded in 1973 and is based in Houston, Texas.

Red Mountain Resources, Inc.

Red Mountain Resources, Inc. is engaged in the acquisition, development, and exploration of oil and natural gas properties in the United States. As of May 31, 2013, the company owned interests in 305,845 net mineral and lease acres in New Mexico, Texas, and Kansas, which included 31,011 net acres in the Permian Basin of West Texas; 1,405 net acres in the onshore Gulf Coast of Texas; 268,170 net mineral acres in Hidalgo, Grant, Sierra, and Socorro Counties, New Mexico; and 5,215 net acres in Central Kansas. It had 92.4 net producing wells in the Permian Basin and 13.0 net wells in the onshore Gulf Coast; and proved reserves of approximately 3.5 million barrels of oil equivalent. The company is based in Dallas, Texas.

Saratoga Resources Inc.

Saratoga Resources, Inc., an independent oil and natural gas company, engages in the acquisition, exploitation, production, and development of crude oil and natural gas properties in the United States. The company's properties cover approximately 32,027 gross/net acres in shallow waters on parish and state leases in south Louisiana. As of December 31, 2012, it had total proved reserves of 17.2 million barrels of crude oil equivalent consisting of 8.4 million barrels of oil and 52.9 billion cubic feet of natural gas; and probable reserves of 13.3 million barrels of crude oil equivalent comprising 5.9 million barrels of oil and 45.0 billion cubic feet of natural gas. Saratoga Resources, Inc. was founded in 1990 and is based in Houston, Texas.

EnerJex Resources, Inc.

EnerJex Resources, Inc., an independent energy company, engages in the acquisition, exploitation, development, and production of crude oil properties in the United States. It owns a 90% interest in the Mississippian project covering 2,840 gross acres located in Woodson and Greenwood counties in Southeast Kansas; an 85% interest in the Cherokee project comprising 10,293 gross acres located in Miami and Franklin counties in Eastern Kansas; and a 97% interest in 904 gross acres located in Allen, Anderson, and Linn counties in Eastern Kansas. The company also owns a 46% interest in El Toro project covering 3,433 gross acres located in Atascosa and Frio counties in South Texas; and a 100% interest in the Lonesome Dove project comprising 1,581 acres located in Lee County in South Texas. As of December 31, 2012, it had 2.9 million barrels of proved oil reserves. The company is headquartered in San Antonio, Texas.

Antares Energy Ltd.

Antares Energy Limited engages in the exploration and production of oil and gas properties in Permian Basin of west Texas, the United States. Its principal properties include the Northern Star project covering an area of 12,100 net acres located in southern Dawson County; the Big Star project that covers an area of 15,500 net acres located in southern Dawson County; and the Southern Star project covering an area of 4,697 net acres in

northwest Howard County. As of May 08, 2013, the company had proved and probable reserves of 53,201 Mboe. Antares Energy Limited is based in West Perth, Australia.

Sundance Energy Australia Limited

Sundance Energy Australia Limited, through its subsidiary, Sundance Energy, Inc., engages in the exploration, development, and production of oil and natural gas in the United States. It primarily holds interests in various prospects in the Williston Basin of North Dakota, and the Denver-Julesburg Basin in Colorado and Wyoming covering an area of approximately 110,000 net acres. The company is based in Norwood, South Australia.

Abraxas Petroleum Corp.

Abraxas Petroleum Corporation, an independent energy company, engages in the acquisition, exploitation, development, and production of oil and gas in the United States and Canada. The company operates oil and gas assets in the Rocky Mountain, Mid-Continent, Permian Basin, and onshore Gulf Coast regions of the United States, as well as in the province of Alberta, Canada. As of December 31, 2012, its estimated net proved reserves were 30.1 million barrels of oil equivalent. The company was founded in 1977 and is based in San Antonio, Texas.

Appendix D: Ptolemy's possible future shareholding scenarios

Ptolemy currently has approximately 46.2 million fully paid ordinary shares on issue. This represents approximately 10.67% of the total number of outstanding ordinary shares as at the date of this report.

As at 21 October 2013 there were approximately 147.5 million unlisted options.

Ptolemy's future potential shareholding will be impacted by the following:

- Conversion of RCPA Shares
- Conversion of RPB shares if Future Conversion is approved
- Conversion of all outstanding options
- Conversion of the convertible notes
- The payment of the Preference Share dividends with Preference Shares and the subsequent conversion of these additional shares.

To estimate Ptolemy's future potential shareholding on an undiluted and diluted basis we have set out eight scenarios as summarised below.

- Scenarios 1 to 4 estimate Ptolemy's future shareholding on a diluted and undiluted basis assuming the dividends on the Preference Shares are paid in cash.
- Scenarios 5 to 8 estimate Ptolemy's future shareholding on a diluted and undiluted basis assuming the dividends on the Preference Shares are paid in Preference Shares

The conversion assumptions under each scenario and the resultant Ptolemy shareholdings are summarised in the tables below.

	Dilution impacts considered				
	Conversion of RPCA shares	Conversion of RPB shares	Conversion of options	Conversion of convertible notes	Conversion of Preference shares with dividend paid in shares
Scenario 1	✓	✓	✓	✓	
Scenario 2	✓		✓	✓	
Scenario 3	✓	✓			
Scenario 4	✓				
Scenario 5	✓	✓	✓	✓	✓
Scenario 6	✓		✓	✓	✓
Scenario 7	✓	✓			✓
Scenario 8	✓				✓

	Current shares on issue	Shareholding pre conversion	New shares on conversions		Dividends paid in Preference Shares		Total shares	Shareholding post conversion
			RCPA	RPB	RCPA	RPB		
Scenario 1 (fully diluted basis) - Future conversion approved								
Ptolemy	46,199,381	7%	50,101,258	49,065,409			145,366,048	19.4%
Non-associated shareholders	386,751,660	61%	8,841,398	8,658,602			404,251,660	54.1%
Options	147,451,217	23%					147,451,217	19.7%
Conversion of notes	50,515,256	8%					50,515,256	6.8%
Total	**630,917,514**	**100%**	**58,942,656**	**57,724,011**			**747,584,181**	**100.0%**
Scenario 2 (fully diluted basis) - Future conversion not approved								
Ptolemy	46,199,381	7%	50,101,258				96,300,639	14.0%
Non-associated shareholders	386,751,660	61%	8,841,398				395,593,058	57.3%
Options	147,451,217	23%					147,451,217	21.4%
Conversion of notes	50,515,256	8%					50,515,256	7.3%
Total	**630,917,514**	**100%**	**58,942,656**				**689,860,170**	**100%**
Scneario 3 (undiluted basis) - Future conversion approved								
Ptolemy	46,199,381	10.7%	50,101,258	49,065,409			145,366,048	26.4%
Non-associated shareholders	386,751,660	89%	8,841,398	8,658,602			404,251,660	73.6%
Total	**432,951,041**	**100%**	**58,942,656**	**57,724,011**			**549,617,708**	**100.0%**
Scneario 4 (undiluted basis) - Future conversion not approved								
Ptolemy	46,199,381	11%	50,101,258				96,300,639	19.6%
Non-associated shareholders	386,751,660	89%	8,841,398				395,593,058	80.4%
Total	**432,951,041**	**100%**	**58,942,656**				**491,893,697**	**100.0%**

	Current shares on issue	Shareholding pre conversion	New shares on conversions		Dividends paid in Preference Shares		Total shares	Shareholding post conversion
			RCPA	RPB	RCPA	RPB		
Scenario 5 (fully diluted basis) - Future conversion approved								
Ptolemy	46,199,381	7%	50,101,258	49,065,409	28,032,508	27,452,933	200,851,489	24.7%
Non-associated shareholders	386,751,660	61%	8,841,398	8,658,602	4,946,913	4,844,635	414,043,208	50.9%
Options	147,451,217	23%					147,451,217	18.1%
Conversion of notes	50,515,256	8%					50,515,256	6.2%
Total	**630,917,514**	**100%**	**58,942,656**	**57,724,011**	**32,979,421**	**32,297,568**	**812,861,170**	**100.0%**
Scenario 6 (fully diluted basis) - Future conversion not approved								
Ptolemy	46,199,381	7%	50,101,258		28,032,508		124,333,146	17.2%
Non-associated shareholders	386,751,660	61%	8,841,398		4,946,913		400,539,972	55.4%
Options	147,451,217	23%					147,451,217	20.4%
Conversion of notes	50,515,256	8%					50,515,256	7.0%
Total	**630,917,514**	**100%**	**58,942,656**		**32,979,421**		**722,839,591**	**100.0%**
Scneario 7 (undiluted basis) - Future conversion approved								
Ptolemy	46,199,381	11%	50,101,258	49,065,409	28,032,508	27,452,933	200,851,489	32.7%
Non-associated shareholders	386,751,660	89%	8,841,398	8,658,602	4,946,913	4,844,635	414,043,208	67.3%
Total	**432,951,041**	**100%**	**58,942,656**	**57,724,011**	**32,979,421**	**32,297,568**	**614,894,697**	**100.0%**
Scneario 8 (undiluted basis) - Future conversion not approved								
Ptolemy	46,199,381	11%	50,101,258		28,032,508		124,333,146	23.7%
Non-associated shareholders	386,751,660	89%	8,841,398		4,946,913		400,539,972	76.3%
Total	**432,951,041**	**100%**	**58,942,656**		**32,979,421**		**524,873,118**	**100.0%**

Source: PwC Securities analysis

Appendix E: Sources of information

In preparing this IER, we have had access to and relied upon the following major sources of information:

- Various ASX announcements
- AusTex annual report as at 31 December 2012 and half year report as at 30 June 2013
- Cash flow budgets/ projections provided by management
- Notice of Extraordinary General Meeting
- Subscription Agreements for the Preference Shares
- AusTex's shareholder registrar as at 13 November 2013
- AusTex various Investor Presentations
- Pinnacle Energy's Reserve Report dated 1 August 2013
- IPT's Oil Reserve and Resource Evaluation report dated 29 June 2012
- Correspondences with AusTex management
- Various broker reports
- IBISWorld Industry Reports
- CapitalIQ and Bloomberg

We have not performed an audit, review or any other verification of the information presented to us. Accordingly, we express no opinion on the reliability of the information supplied to us.

In forming our opinion it has been assumed that:

- Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- The information set out in the Notice of Meeting Booklet sent by AusTex to its shareholders is complete, accurate and fairly presented in all material aspects;
- The publicly available information relied on by PwC Securities in its analysis was accurate and not misleading;

PwC Securities assumes no responsibility and offers no legal opinion or interpretation on any issue in respect of legal issues relating to assets, properties, or business interests or issues regarding compliance with applicable laws, regulations and policies.

Appendix F: Glossary

Term	Description
2P	Proven and Probable reserves
A$	Australian dollars
ASIC	Australian Securities and Investments Commission
AusTex or the Company	Austex Oil Limited
BHP	Proven behind pipe
BOE	Barrels of oil equivalent
Capex	Capital expenditure
EIA	US Energy Information Administration
EV	Enterprise value
FMV	Fair market value
Future Conversion	Potential future conversion of the Preference Shares as described in Resolution 3
FY	Financial year ended
HY	Half year ended
IEA	International Energy Agency
IER	Independent Expert's Report
MMBOE	Millions of barrels of oil equivalent
NGL	Natural gas liquids
Non-Associated Shareholders	Shareholders of AusTex who are not excluded from voting in connection with the Future Conversion
NRI	Net revenue interest
NYMEX	New York Mercantile Exchange
P1 reserves	Proved reserve category
P50 reserves	Probable reserve category
PDP	Proven developing producing
Pinnacle	Pinnacle Energy Services LLC
PNP	Proved non-producing
PPE	Property, plant and equipment
Preference Shares	RCPA and RPB Shares
PROB	Probably undeveloped
Ptolemy	Ptolemy Energy Holdings LLC
PUD	Proved undeveloped
PwC Securities, we or us	PricewaterhouseCoopers Securities Limited
R/P Ratio	Reserves to production ratio
RCPA Shares	Redeemable Convertible Preference Shares

Term	Description
Reserve Report	Reserve report prepared by Pinnacle dated 1 August 2013
RG111	ASIC's Regulatory Guide 111
RG74	ASIC's Regulatory Guide 74
RPB Shares	Redeemable Preference Shares
s606	Section 606 of the Corporations Act 2001
s611(7)	Item 7 of Section 611 of the Corporations Act 2001
SEC	Securities & Exchange Commission
SPP	Share purchase plan
Subscription Agreement	Agreement between AusTex and the subscribers of the Preference Shares
US$	United States dollars
USA	United States of America
Valuation Date	30 November 2013
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WI	Working interest
WTI	West Texas Intermediate

Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD
FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 21 December 2012

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (PwC Securities) has been engaged by AusTex Oil Limited to provide a report in the form of an IER in relation to the Future Conversion for inclusion in the notice of meeting.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (Guide) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This Guide contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, government debentures, stocks or bonds, and deposit products.

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our estimated fee is $100,000 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (FOS), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Richard Stewart
PricewaterhouseCoopers Securities Ltd
Darling Park Tower 2,
201 Sussex Street,
GPO BOX 2650,
SYDNEY NSW 117

All Correspondence to:

By Mail Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

Level 7, 207 Kent Street,
Sydney NSW 2000 Australia

By Fax: +61 2 9290 9655

Online: www.boardroomlimited.com.au

By Phone: (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:30am (AEDT) on Wednesday 22 January 2014.**

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:30am (AEDT) on Wednesday, 22 January 2014.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

By Fax + 61 2 9290 9655

By Mail Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

In Person Level 7, 207 Kent Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

AusTex Oil Limited
ACN 118 585 649

☐ **Your Address**
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. Please note, you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of AusTex Oil Limited and entitled to attend and vote hereby appoint

☐ Appoint the Chairman of the Meeting (mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting as my/our proxy at the Extraordinary General Meeting of the Company to be held at the Sofitel Sydney Wentworth, Adelaide Room, 61-101 Phillip Street, Sydney NSW 2000 on Friday, 24 January 2014 at 10:30am (AEDT) and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	Approve the issue of 51,995,234 RCPA Shares to Ptolemy and 6,947,422 RCPA Shares to Young Capital Partners	☐	☐	☐
Resolution 2	Approve the conversion right in respect of the RPB Shares	☐	☐	☐
Resolution 3	Approval for Ptolemy to increase relevant interest	☐	☐	☐

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

Contact Name…….... Contact Daytime Telephone……..... Date / /