

## MARCH 2017 QUARTERLY ACTIVITIES REPORT

### **Highlights:**

#### **MARCH QUARTER**

- **Completes Further Acquisition as part of its Growth Strategy;**
- **Approximately 720 acres in Kay County, Oklahoma near AusTex's Snake River Project;**
- **Acquisition includes infrastructure for saltwater disposal and 3D seismic over 4 square miles to be interpreted;**
- **AusTex is the 100% Owner and Operator;**
- **Quarterly Net Revenue - USD \$(643,647);**
- **Quarterly EBITDA – USD \$530,944**
- **Quarterly Oil and Gas Production – 53,900 BOE;**
- **Quarter Ending Cash Position USD \$18.1M;**
- **Release of Full Year Reserves Report with 10% Increase in NPV from previous year with 1P reserves of US\$32.24M; and**
- **Focus Shifting from Acquisitions to Drilling Opportunities on Existing Acreage;**

#### **SUBSEQUENT TO QUARTER END**

- **Forward Strategy – committed to recommence drilling at Snake River with a minimum of two wells in Snake River;**
- **Focus Shifting to Drilling in Stronger Oil Price Environment;**
- **243 Company Operated wells including 101 shut-ins and with a further 6 non-operated producing wells; and**
- **Appointment of Mark Paton as a Non-Executive Director.**

**ASX: AOK OTCQX: ATXDY**

**1. AusTex’s March 2017 Quarter**

The Board of AusTex Oil Limited (**AusTex** or the **Company**) (**ASX: AOK - OTCQX: ATXDY**) is pleased to provide its Quarterly Activities Report for the quarter ending 31 March 2017.

ASX Announcements During the September Quarter		
<b>1</b>	Quarterly Activities Report	31 January
<b>2</b>	Appendix 4E	28 February
<b>3</b>	Receipt of Shareholder Redemption Notice	14 March
<b>4</b>	AusTex Acquires New Disposal Well and Acreage	21 March
<b>5</b>	Update on Preference Share Dispute	27 March
<b>6</b>	Full Year Reserves Report	29 March
<b>7</b>	Full Year Statutory Accounts	31 March

***Table 1: Summary of ASX Releases during the March 2017 Quarter (above).***

**2. Operations Overview**

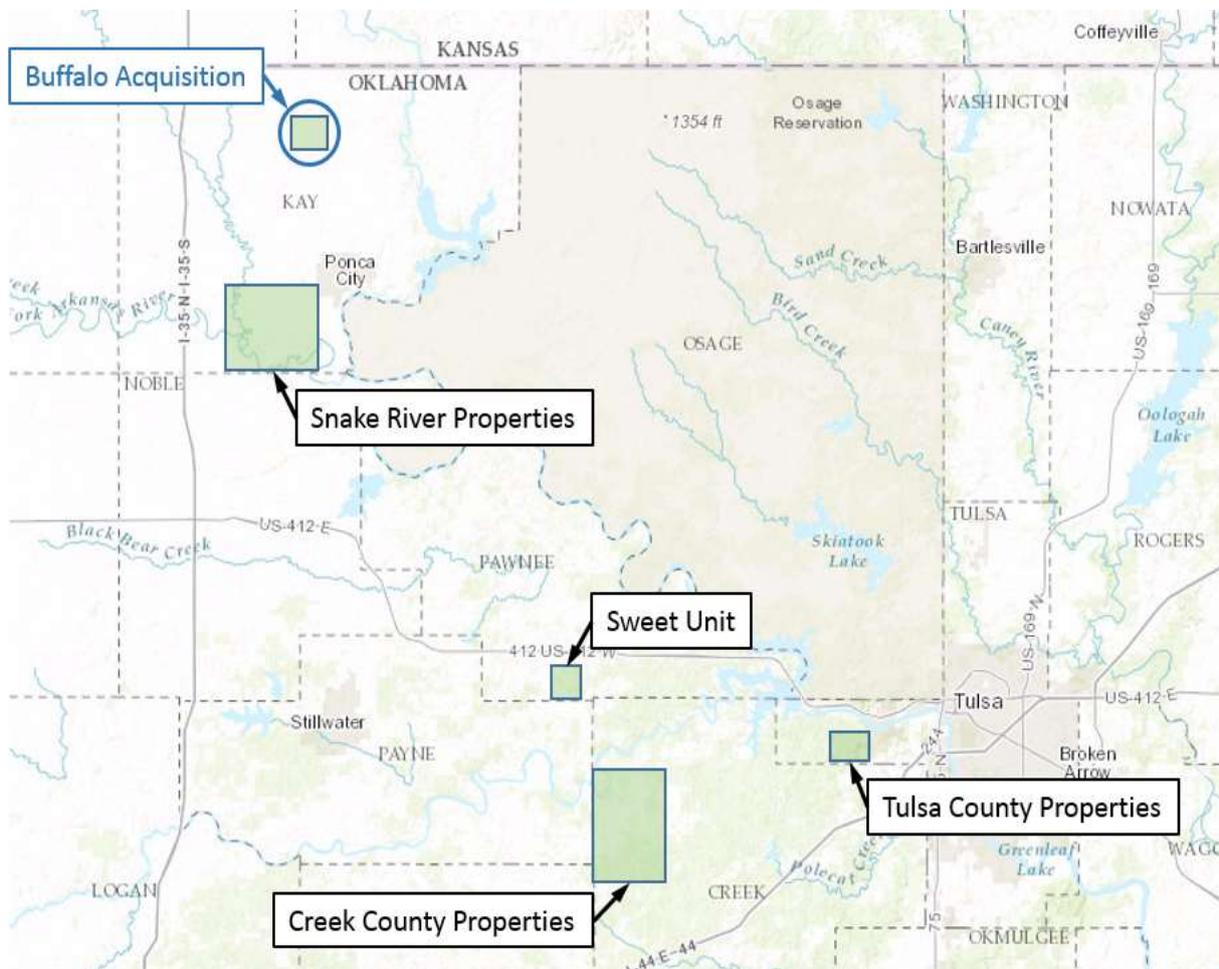
**2.1 Acquisitions:**

During the quarter, the Company completed a further acquisition comprising a 100% working interest in ~720 acres in Kay County, Oklahoma adjacent to the Company’s key Snake River Project. The acreage currently produces around 20 bopd of level gross production from one well but also includes a highly valuable saltwater disposal well. AusTex will be the operator of the wells and will be drilling additional vertical wells in the area off interpretation of 3D seismic data which will be carried out in the near future.

The acreage acquired under this transaction appears to have similar geology to the acreage which comprised the Company’s original drilling program at Snake River on the East Tonkawa Unit with the Mississippian Chat as the primary target. AusTex’s geologist is currently reviewing the 3D seismic and other data acquired as part of the deal with a view to identifying the highest priority drill targets for new vertical wells. AusTex is confident that new wells in the area can be drilled and completed at a cost of circa US\$350k per well all in.

In addition to the acreage, the transaction also includes infrastructure in the form of tanks, pumps and a saltwater disposal well drilled 4 years ago that all appear to have been extremely well-engineered and permitted to dispose up to 15,000 barrels per day, which would accommodate multiple vertical wells.

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**Figure 1:** Map showing the newly acquired Buffalo well in relation to the Snake River Project and AusTex’s other acreage areas.

**2.2 Full Year Reserves Report:**

On 29 March, AusTex released its full year reserves report which shows the Net Reserves (after working interests and royalties are removed but before taxes) and Net Present Value as of December 31, 2016 for the combined prospect areas of the Snake River Project as well as the Sweet, Ceja and Southwest Prospect Areas in Oklahoma and the Company’s acreage in Kansas.

Reserve Class	Number of Properties	Net Reserves		Net Reserves	Net Capital	Net Cashflow	NPV Disc @ 10%
		Oil MBL	Gas MMCF	MBOE (1:6)	M\$	M\$	M\$
Proved Developed Producing (PDP)	118	1,555	8,073	2,901	0	62,826	24,456
Proved Non-producing (PNP)	1	8	53	17	805	(483)	(459)
Proved Undeveloped (PUD)	33	732	3,601	1,332	12,175	22,932	8,243
<b>Total Proved (1P)</b>	<b>152</b>	<b>2,295</b>	<b>11,727</b>	<b>4,250</b>	<b>12,980</b>	<b>85,275</b>	<b>32,240</b>

**Table 2:** Net Reserves for the combined project and prospect areas

There are several positive factors to be taken out of the assessment which gives the Company reason to believe that a robust drilling campaign can continue to prove the underlying worth in the Company's growing asset base. Some of these factors include:

- The Company's recent acquisition of Southwest Petroleum (refer ASX announcement 18 November, 2016) delivered reserves of \$6.617M, more than double the acquisition price of \$3.25M (which also included real estate and capital equipment independently appraised at \$1M to our net ownership);
- A significant increase in drill locations through recent acquisitions not accounted for in the reserves estimates;
- Conservative drilling rates were used in the assessment of 12 new wells at Snake River beginning in June 2017 and 2-6 wells per year at Southwest whereas the board believes a more robust campaign is warranted at current prices and, subject to the success of these wells, should contribute to a higher assessment in the future;
- The fact that only one new well was drilled in 2016 means that there is little new well data that could be used to support a more robust assessment of proved undeveloped reserve locations; and
- No assessment of any 2P reserves due to current oil economics.

At the time of the release of the report, the Board stated that it believes that this is a conservative estimate of the Company's reserves position. The Company's recent acquisitions have delivered several drill ready locations not factored into the reserves assessments.

### **2.3 Development:**

As noted in the December quarterly report, the Company believes that we are moving into an oil price environment where in-field well drilling will make better sense and produce favourable economics to justify the recommencement of drilling. Given that the majority of the Company's attractive acreage is held by production already, the Company will initially drill selective wells that are required to hold highly prospective acreage, to increase our knowledge of the geology in the area and to test the productive potential of new areas of interest. During the quarter, the Company drilled no new wells, however, there was a busy workover schedule on wells associated with the acquisitions.

### **2.4 Forward Work Program:**

With recent stability in oil prices and potentially a more favourable outlook going forward, the Board believes now is the time to recommence an active drilling campaign. The Company has planned the following forward work program for the current quarter:

- Drill the first test well in our new acreage using our acquired 3D seismic;
- Recomplete a non-performing horizontal well in the new area to attempt to reduce water production;
- Recomplete wells in Creek County to re-establish shut-in production on acquired fields; and
- Drill a test well to the Wilcox in S30-25N-2E of the Snake River project.

### 3. Production and Revenue

During the quarter, the Company's production was roughly matched with the Company's hedging book. At the end of the quarter a total of 101 wells were shut in as being non-economic or newly acquired, up from the prior quarter, and are under geologic or engineering review for recompletion or workover. With the recent increase in the oil price, management is now more likely to adjust upwards the number of wells in active production according to their economic contribution.

As of March 31, there was a decrease of US\$767k in the Company's cash position from the previous quarter principally due to the cost of the Oklahoma Acquisitions. The quarter's production saw a decline on the previous quarter due to wells being temporarily shut in to minimize noneconomic operation and the natural declines associated with reservoir mechanics along with reworking the disposal and injection wells acquired. Production numbers by month for 2017 are shown in *Table 3* and by quarter in *Table 4*.

**Table 3: Monthly Production and Cumulative Annual Total for 2017 to date (below).**

Month	Monthly Production (BOE)	Average Daily Production (BOE)	Change from Previous Month	Cumulative Calendar Year Production (BOE)
January	18,286	590	-	18,286
February	16,804	600	-1,482	35,089
March	18,802	607	1,998	53,892

**Table 4: Quarterly Production and Cumulative Annual Total for 2017 (below).**

Quarter Ending	Total Production ('000BOE)	Change from Previous Quarter	Cumulative Calendar Year Production ('000BOE)
31 March	53,892	-	-

A summary of the Company's producing and pre-production wells for all its properties at the end of the March quarter is shown in *Table 5* below.

**Table 5: Wells by stage of production process (below).**

Well Count as of:	31 March 2017
Pumping – Non Operated	6
Pumping – Operated	141
Flowing / Testing	0
Drilled / Fracked	0

Current Shut-In	101
Total Wells	248

Gross profit from operations for the December quarter was USD \$1.5M. Capital investment made during the quarter for development was USD\$50k. Cash and cash equivalents on hand at the end of the quarter was USD \$18.87M.

## 4. Oklahoma

### 4.1 Snake River Project, Kay County, Northern Oklahoma – ~9,900 acres AusTex 100% Working Interest (WI) ~81% Net Revenue Interest (NRI)

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

As part of AusTex's focus on capital allocation, the Company has allowed some of its leases to expire, in the Snake River project, as some of that acreage is not compelling given market conditions. In other circumstances, it is more cost effective to allow the lease to expire and release than to pay the extension bonus. Leasing in the area now occurs at ~ \$150 per acre versus 2014 levels of \$300 - \$400.

### 4.2 Drumright Dome Project, Creek and Lincoln counties Oklahoma ~3,900 net acres, AusTex 50% WI, 42% NRI

During the quarter, the Company continued to bring wells acquired from Southwest Petroleum into production while attending to deferred maintenance increasing production from this field by 30%. The first quarter of the year usually suffers from the most weather-related problems but company team was able to better control issues and look forward to production growth through new drilling, workovers and recompletions. The Company will continue to seek out add on acquisitions for this field that will further enhance value to the shareholders.

## 5. Other Projects

### 5.1 Tulsa and Surrounds

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

## 5.2 Kansas

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

## 6. Lease Operating Schedule

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

Lease Name	Net Acreage	Wi	NRI	Status	County, State
Snake River	~9,900	100%	~81%	Development Producing	Kay County, OK
Drumright Dome	~3,900	50%	~42%	Development Producing	Creek & Lincoln, OK
Tulsa and surrounds	~600	100%	81%	Producing	Tulsa, OK
Ellsworth	~500	50%	38%	Producing	Ellsworth, KS

**Table 6: AusTex Oil's Lease Operating Schedule as at 31 March 2017.**

## 7. Corporate Update

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

### 7.1 Receipt of Shareholder Redemption Notice:

On 14 March the Company announced that it had received a Shareholder Redemption Notice from one of the Company's minority preference shareholders, Weider Health and Fitness (Weider), alleging the Company is in breach of the terms of the Subscription Agreement approved by shareholders at the Extraordinary General Meeting on 24 January 2014. Subsequently, on 28 March, the Company announced that it had received a 'Summons in a Civil Action' (Summons) filed in the United States District Court for the Southern District Of New York by Weider Health and Fitness and Bruce Forman as Plaintiffs and AusTex Oil and its subsidiaries as Defendants. The Summons alleges, inter alia, that the Company is in breach of the terms of the Subscription Agreement approved by shareholders at the Extraordinary General Meeting on 24 January 2014.

The Company reiterates its previous advice to the market that it disputes that there has been a breach of the Subscription Agreement and has engaged lawyers in the state of New York in this respect. The Company will provide further updates on this issue as soon as they become available.

## 7.2 Current Hedge Position:

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

Oil Hedging	Volume (bbl)	Wtd Avg Price	Gas Hedging	Volume (mcf)	Wtd Avg Price
April 2017	4,000	51.50	April 2017	15,000	3.05
May 2017	4,000	51.50	May 2017	15,500	3.05
September 2017	4,000	51.50	September 2017	15,000	3.05
July 2017	4,000	51.50	July 2017	15,500	3.05
August 2017	4,000	51.50	August 2017	15,500	3.05
September 2017	4,000	51.50	September 2017	15,000	3.05
			October 2017	15,500	3.05
			November 2017	15,000	3.05
			December 2017	15,000	3.05

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

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

## 7.3 Events Subsequent to the Quarter:

### 7.3.1 Board Changes:

On 6 April, the Company advised that the Company's Chairman, Michael Stone, has resigned as a director of AusTex with effect from 5 April 2017 for personal reasons.

Also, on 20 April, Justin Clyne resigned from the Board as previously announced in the December 2016 quarterly. At the time Justin advised that he made this decision to focus on other opportunities that have grown in recent times and are now forcing time constraints upon him. Justin has remained with the Company for the last few months to ensure continuity in the Company's annual reporting and to ensure a smooth handover to a new director.

On 20 April, Mr Mark Paton joined the Board as a Non-Executive Director with Mr Russell Krause assuming the role of Non-Executive Chairman. Mark has 36 years' experience in the oil and gas industry, both in the services, and exploration and production sectors and began his career with BP Exploration in 1980, as a Production and Commissioning Engineer before taking on other roles managing advanced production technology research projects, leading field development activities and assisting in the development of BP's corporate plans and strategy.

In 1989, Mark joined BHP Petroleum and held positions including Well Services Supervisor, Production Manager and thereafter, as General Manager for BHP Petroleum's Northern Australia

Operations. His responsibilities included drilling, well completion, overseeing production from three Floating Production, Storage and Offloading (FPSO) production facilities and the management of the Darwin office and logistics base.

In 1997, Mark founded an oil and gas service company, Upstream Petroleum, with a colleague from BHP Petroleum. Upstream Petroleum became the dominant provider of operations, maintenance services and marginal field development solutions to the Australian oil and gas industry. The company grew rapidly to employ over 400 employees with offices in Darwin, Perth, Melbourne and Brisbane and an oil and gas service and logistics centre in Darwin.

In 2007, subsequent to the trade sale of Upstream Petroleum to the AGR Group ASA of Norway, the AGR Group sought Mark's assistance to establish the company's office in Kuala Lumpur, a first step by the company into the South-East Asia region. Mark served as AGR's Managing Director in Asia Pacific for two years before returning to Australia as an independent consultant in 2009. After two years of independent consultancy work, in February 2011, Mark joined ASX-listed Cue Energy Resource Ltd as Chief Executive Officer.

In 2013 Mark joined Hibiscus Petroleum based in Kuala Lumpur, Malaysia as Chief Business Development Officer. In this role, as part of the executive leadership team, he assisted in the growth of this newly listed oil and gas company through the identification and acquisition of oil and gas assets for the company.

For and on behalf of AusTex Oil Limited

**Richard Adrey**

Co-Managing Director

28 April 2017