

Maintaining the strategic position in the TMS

Australis Oil & Gas (ASX:ATS) is an oil and gas producer/developer, with a strategic and controlling position in the emerging Tuscaloosa Marine Shale (TMS) oil play, onshore US. The TMS is an Eagle Ford-equivalent but early-stage oil play with recoverable oil potential of around 7bn barrels – this is the next big thing. Australis represents a highly leveraged and attractive exposure to the transformational potential of the TMS oil play. The US onshore plays are progressing through a changing operating model, with the focus on improving productivity through long-horizontal completions. Whilst production returns have improved, in-ground investment is falling. We see this as an exercise in producing out the NPV of the assets and operators will need to look to new plays for higher-margin growth and earnings. Operating data continues to underscore the quality of the TMS, with production tracking according to the model type curve which is considered to be as good as if not better than more highly developed plays in the Bakken, Eagle Ford, Powder River and DJ Basin. The macro environment supports the contention of ‘next big thing’ although corporate activity is taking a while to manifest. Industry news points to potential consolidation at scale, which at some stage translates to a squeeze on mid-cap operators and an increasing focus on plays like the TMS – proven, underdeveloped, with a relatively inexpensive entry position. The company continues to pursue partnering opportunities.

Business model

Australis Oil & Gas (ATS) is a development and production company, focused on progressing its strategic position in the emerging Tuscaloosa Marine Shale (TMS) oil play, onshore US. The company holds some 73,300 net acres within the TMS Core which compares favourably with more established and mature provinces like the Bakken, Permian and Eagle Ford. As an emerging play, the operating model is evolving with type curves and well recoveries becoming better defined. The oil-prone nature and relatively low production costs suggest material upside can be delivered through continuing activity and learning curve optimisation.

Activity remains capital-constrained

The TMS is an under-drilled and under-developed play in a relative and absolute sense, however, the data to date demonstrates production and earnings characteristics on a par with the more intensively developed areas. The quarterly data continues to confirm the type curve model and utility increasing with material improvements in uptime and decline rates in-line with the model. Activity remains capital-constrained with most of the focus in the quarter being related to lease management activity with some 53% of its portfolio held by production. Operations remain profitable at modest oil prices which have substantially improved through the current quarter to date. Delivering a material growth outlook is dependent on financing, however, the next 12-24 months could deliver a major re-rating of the play and the company.

A downgrade to NAV on weaker oil prices to \$276m (\$0.22/sh)

We have downgraded our NAV \$276m or \$0.22/share (previously \$0.25/share) on weaker forward curve commodity price assumptions. We note oil prices are currently trading above our forecast deck. Valuing pre-development is a subjective exercise, particularly considering financing and timing uncertainties, but well performance data continues to de-risk the economics of the TMS play, increasing confidence in the commercial potential. The resource opportunity remains massive based on consistent geology and the next 12 months could deliver further material re-rating outcomes – particularly related to financing (partnering) options. We value the reserves and resources against the WTI forward curve (as of 10-Jul) with a premium for LLS and overlay a discretionary RaaS risk generating a low-high NAV range. We set a mid-point valuation of \$276mn (\$0.22ps) with an upside case to \$356mn (\$0.29ps). This is against a reference share price of \$0.027ps, suggesting the market is risk weighting the developed producing reserves alone at around 65% of our ascribed value. Partnering success could unlock material reserves value and deliver valuation upside well in excess of our base case...such is the nature and attraction of oil plays in the US onshore.

Energy

10 August 2023

Share details

ASX code	ATS
Share price (9-Aug)	\$0.027
Market capitalisation	\$34M
Shares on issue	1,243M
Net debt (as at 30-Jun)	~\$6.3M
Free float	~47%

Share Performance (12 months)



Upside Case

- Securing a partner to underpin funding for an expanded drilling programme to drive production and earnings growth
- Oil price upside - the company is a highly leveraged exposure to oil price
- Continuing positive look-through from third-party activity further de-risking the operating model as an analogue to already developed plays

Downside Case

- Finance constrained with risk to lease holdings
- Oil price downside – forward curves point to weaker outcomes over the next 12 months
- Weaker and slower outcomes from third-party drilling and continuing higher perceived risks to the play

Board of Directors

Ian Lusted	Managing Director/CEO
Jon Stewart	Non-Executive Chairman
Graham Dowland	Executive Director/CFO
Alan Watson	Non-Executive Director
Stephen Scudamore	Non-Executive Director

Company Contacts

Ian Lusted	+61 8 9220 8700
contact@australisoil.com	

RaaS Contacts

Andrew Williams	+61 417 880 680
andrew.williams@raasgroup.com	
Finola Burke	+61 414 354 712
finola.burke@raasgroup.com	

Oil Price Outlook Capping Progress

A quarterly result largely in-line with expectations, with production decline and lower commodity prices offset by lower operating costs and reduced capex. We remain encouraged by the reported well productivity which continues to support the development opportunity.

Partnering discussions are continuing and we await material progress on this financing option.

Exhibit 1: June quarter highlights and comments (financials in US\$)

Production and financials		Q3 22	Q4 22	Q1 23	Q2 23	ΔQoQ %
Lower sales volumes through natural decline somewhat offset by higher utility on less workover activity in the period...	Production volumes (kb)*	87.6	84.3	75.4	73.3	(3)
...translating to marginally lower revenue compounded by weaker oil prices. Netback improved on lower costs (less workover activity).	Sales volumes (kb)	89.6	83.3	76.2	73.0	(4)
	Net sales revenue (\$mn)	5.7	5.3	4.4	4.2	(5)
	Field netback (\$mn)	3.5	2.8	1.7	2.4	
	Netback (pre/post hedging) (\$/bn)	39 / 48	33 / 42	22 / 27	33 / \$1	
	EBITDA (\$mn)	1.8	1.1	0.1	0.8	
	Cash (\$mn)	8.3	7.8	5.4	3.7	
Well productivity remains in-line with the modelled type curve.	Debt (\$mn)	13.0	12.0	11.0	10.0	
	Capex (\$mn)	(1.9)	(0.7)	(0.9)	(0.9)	
<u>Consensus forecasts suggest stronger crude oil pricing through H2.</u>	Realised oil price (US\$/bn)	95	85	\$77	\$74	(4)
	(after hedging)	83	80	73	72	(1)
Corporate						
ATS continues to manage its lease position within the financial constraints of the company.	TMS Core holdings (acres)	81,900	79,600	77,200	73,300	(5)
There are ~12,600 acres subject to expiry through the remainder of 2023.	Held by production %	47	49	50	53	
	Net drilling locations		300	280	280	
	Net oil resource [2P + 2C] (Mb)	153	153	120	120	
Third-party discussions with a number of potential partners continued through the period and are ongoing.	<p><i>The company continues to pursue its stated corporate strategy – the securing of its low-cost entry into a proven but underdeveloped shale play, capitalising on management’s expertise and record of success; then leveraging that position by securing financing through partnering to accelerate and optimise production growth.</i></p> <p><i>Whilst there has been no material announcement with respect to ongoing discussions, the macro elements continue to remain supportive of the play potential, particularly in terms of its nominal appeal to other shale play operators.</i></p> <p><i>We note recent (Q2) sector commentary highlighting recent rising services costs, oil price volatility, and the scaling back of oil and gas drilling. Whilst the oil price is forecast to rise through H223 on a strengthening global economic outlook, the sustainability of higher prices is speculative and we see the risks to operating margins as narrowing.</i></p> <p><i>We also note companies continuing to commit to direct shareholder returns over capital spending.</i></p> <p><i>Recent company outlook statements are strongly mixed providing no clear consensus, with a number of operators citing improved well productivity and production upgrades from very long-reach horizontal completions, offset by market expectations that this won’t translate to increasing reserves – steady state at best, but inevitably lower. Ultimately that simply represents a case a producing out the NPV faster – perhaps accelerating abandonment liabilities.</i></p> <p><i>We cannot say with certainty and the company does not assert that it will secure a partner by end-2023. We can only highlight that we believe the operating environment remains strongly conducive to increasing interest in undeveloped areas where economies of scale and improvements from rising up the knowledge curve can deliver growth with high margins.</i></p> <p><i>We note well productivity data continues to support the premise that TMS wells are as productive, if not better than, equivalents in the Eagleford, Permian, Powder River and DJ Basin plays.</i></p>					
Hedging remains in place as follows with the portfolio continuing to transfer the weighting towards zero-cost collars.	Period	Q3 23	Q4 23	2023*	2024	2025
	Volumes (kb)	11	11	22	24	12
	Swap price (\$/bn)	66	65	66	67	65
	Volumes	26	17	43	53	23
	Low collar price (\$/bn)	51	63	56	54	49
	High collar price (\$/bn)	77	87	81	84	81
Cash and debt position	<p>The cash balance as at 30-Jun is \$3.7mn / Outstanding debt balance is \$10mn.</p> <p>Capex for the period totalled \$0.35mn covering a small land management programme.</p>					

Source: Company data; Analyst commentary; * remaining 2023 hedging

Exhibit 2: Financial Summary

AUSTRALIS Oil & GAS LTD		ATS				
YEAR END		Dec				
NAV	A\$m	\$0.22				
SHARE PRICE	A\$cps	\$0.027 priced as of close trading				
MARKET CAP	A\$m	34				
ORDINARY SHARES	M	1,243				
OPTIONS	M					
		nm not meaningful				
		na not applicable				
COMMODITY ASSUMPTIONS		2021	2022	2023E	2024E	2025E
Realised oil price	US\$/b	68.99	96.62	75.40	72.70	69.01
Realised oil price after hedging	US\$/b	55.89	81.78	74.44	72.17	68.80
Exchange Rate	A\$:US\$	0.7514	0.6946	0.6819	0.6873	0.6829
NET PRODUCTION		2021	2022	2023E	2024E	2025E
Crude Oil	kb	410	347	286	258	231
Nat Gas	mmcf					
TOTAL	kboe					
RATIO ANALYSIS		2021	2022	2023E	2024E	2025E
Shares Outstanding	M	1,238	1,243	1,243	1,243	1,243
EPS (pre sig items)	US\$cps	(0.2)	0.2	(0.0)	0.0	0.0
EPS	A\$cps	(0.3)	0.2	(0.0)	0.0	0.1
PER	x			nm	nm	nm
OCFPS	A\$cps	0.3	0.8	0.2	0.3	0.3
CFR	x			14.2x	9.1x	8.6x
DPS	A\$cps					
Dividend Yield	%					
BVPS	A\$cps			8.5	8.2	8.3
Price/Book	x			0.3x	0.3x	0.3x
ROE	%			nm	nm	nm
ROA	%			nm	nm	nm
(Trailing) Debt/Cash	x					
Interest Cover	x					
Gross Profit/share	A\$cps	0.3	0.5	0.2	0.1	0.1
EBITDAX	A\$m	3.7	8.8	4.5	5.3	4.5
EBITDAX Ratio	%					
EARNINGS		2021	2022	2023E	2024E	2025E
Revenue	US\$000s	22,909	28,378	21,301	18,646	15,872
Cost of sales		(17,341)	(19,097)	(17,853)	(16,325)	(14,075)
Gross Profit		5,568	9,281	3,449	2,320	1,797
Other revenue						
Other income		769	841	250	250	250
Exploration written off						
Finance costs		(1,906)	(1,113)	(1,047)	(1,009)	(544)
Impairment						
Other expenses		(6,839)	(7,042)	(3,062)	(1,190)	(1,012)
EBIT		(502)	3,080	637	1,380	1,034
Profit before tax		(2,408)	1,967	(411)	371	490
Taxes						
NPAT Reported		(2,408)	1,967	(411)	371	490
Underlying Adjustments						
NPAT Underlying		(2,408)	1,967	(411)	371	490
CASHFLOW		2021	2022	2023E	2024E	2025E
Operational Cash Flow	US\$000s	4,304	7,750	2,014	2,413	1,840
Net Interest		(1,199)	(1,217)	(1,397)	(880)	(432)
Taxes Paid						
Other		43	144	1,000	1,000	1,250
Net Operating Cashflow		3,148	6,677	1,618	2,533	2,658
Exploration		(571)	0	(500)	(500)	(500)
PP&E		(80)	(374)	(100)	(100)	(100)
Petroleum Assets		(1,066)	(2,264)	(1,000)	(1,000)	(500)
Net Asset Sales/other		505	0	0	0	0
Net Investing Cashflow		(1,212)	(2,638)	(1,600)	(1,600)	(1,100)
Dividends Paid						
Net Debt Drawdown		(4,505)	(5,239)	(4,000)	(4,000)	(4,000)
Equity Issues/(Buyback)		7,898				
Other						1,000
Net Financing Cashflow		2,980	(5,243)	(4,500)	(4,500)	(3,500)
Net Change in Cash		4,916	(1,204)	(4,482)	(3,567)	(1,942)
BALANCE SHEET		2021	2022	2023E	2024E	2025E
Cash & Equivalents		9,253	7,848	3,366	(201)	(2,144)
O&G Properties		55,522	57,016	57,016	57,016	57,016
Exploration & Evaluation		13,379	13,238	13,238	13,238	13,238
Total Assets		90,828	90,383	84,463	79,163	75,694
Debt		16,697	11,870	8,000	4,000	
Total Liabilities		28,991	24,344	12,671	8,999	5,157
Total Net Assets/Equity		61,837	66,039	71,792	70,165	70,537
Net Cash/(Debt)		(7,444)	(4,022)	(4,634)	(4,201)	(2,144)
Gearing dn/(dn+e)						
RESOURCES and RESERVES		kb unless otherwise stated				
		Reserves			Contingent Resources	
		1P	2P	3P	1C	2C
Proved Developed	Producing	2,475				
	Non-Producing	29				
Probable Developed	Producing	631				
	Non-Producing					
Possible Developed	Producing			812		
	Non-Producing					
Oil	kb				21,070	117,058
Gas	Bcf				9	66
TOTAL	kboe	2,504	3,135	3,947	21,072	117,069
EQUITY VALUATION		Risked Range			Low	Mid
		High			per share	
A\$m		Low	Mid	High	\$0.05	\$0.07
Reserves		\$68	\$85	\$107	\$0.06	\$0.16
Contingent Resources		\$71	\$202	\$260	\$0.06	\$0.16
		\$139	\$287	\$367	\$0.11	\$0.23
Net Cash/(debt)				(\$6)		
Corporate costs				(\$5)		
TOTAL		\$128	\$276	\$356	\$0.10	\$0.22

Source: RaaS Advisory, Company data, priced close of trading (8-Aug)



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Australis Oil & Gas Ltd prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2023 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.