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TexStar Oil Corp. (TEXS – OTCQB)

TexStar Has Assembled a Highly Experienced Team and Several Attractive Initial Oil and Gas Projects, both in the North Sea and Sumatra. The Company's Initial Funding Should Allow It "Go Live" With Several of These Projects, Some of Which Include Currently-Producing Gas Fields.

Recent Price (in USD): \$2.50

Investment Highlights

Market Data (closing prices, February 10, 2014)

Market Capitalization (mln, US\$)	81.60
Enterprise Value (mln, US\$)	81.93
Fully Diluted Shares (000s)	32,639
Avg. Volume (90 day, approx.)	303
Insider Ownership (Conv. Preferred)	15.3%
Exchange	OTCQB

Balance Sheet Data (as of September 30, 2013)

Shareholders' Equity (mln)	(329)
Current Assets (000s)	0.2
Net Working Capital (000s)	(329)
Long-Term Debt (000s)	0
Total Debt to Equity Capital	N/A

Company Overview

TexStar Oil Corp. is a development-stage company that upon initial funding will be engaged in the business of oil and gas exploration and production ("E&P"). TexStar intends to focus its efforts on the English North Sea and Indonesian South Sumatra regions. The Company has identified both producing assets and exploration targets in both regions, and is currently pursuing in parallel acquisition of oil and gas assets and the financing their acquisition will ultimately require.

TexStar Oil Corp. trades on the OTCQB under the symbol TEXS.

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TexStar Oil Corp – Company Vision

The company is in the process of seeking financing for its planned oil and gas exploration activities in the North Sea and in Sumatra. Although not yet signed, the Company is in the process of negotiating an interest in exploration targets in the North Sea and both exploration targets and currently-producing assets on the southeastern side of the island of Sumatra (Indonesia). Over time, the Company plans to leverage its access to capital and its professionals' experience in international oil and gas E&P by negotiating and entering into E&P agreements and/or transactions that build cash flows and shareholder value.

Upstream Exploration and Production (E&P)

In the oil and gas industry, upstream companies are responsible for identifying exploration targets, for conducting exploration to establish probable reserves and economics, for drilling for target hydrocarbons, and for extracting oil and gas from the ground (or seafloor). Based on its two current areas of geographic focus, TexStar plans to operate in exploration and, to a limited degree, current oil and gas production (Indonesia).

Solid Leadership Team

The Company is led by Nathan Halsey, a proven leader with a high degree of business experience in Asia, energy experience, and a background in the global capital markets, and by Warren Hairford, a "big oil" industry veteran with over 25 years' experience at ConocoPhillips (COP – NYSE). Pending the capital it is seeking, the Company believes that it has its entire top-level and mid-level management team as well as several candidate projects "ready to go," putting TexStar in an unusually attractive position, given its early stage of development.

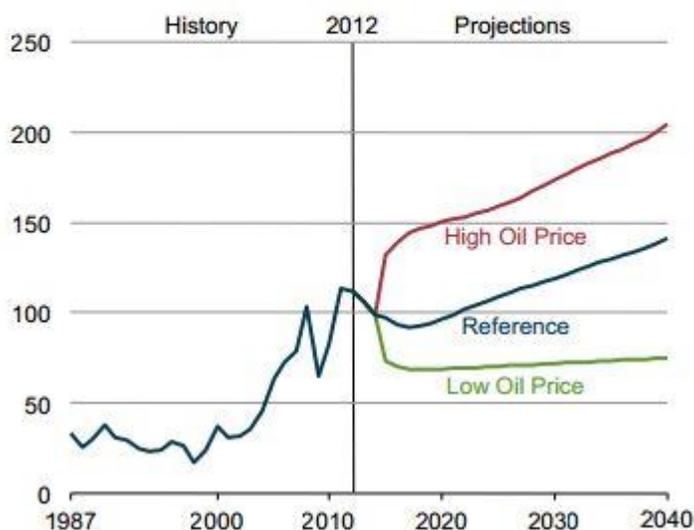


Industry Overview

Energy Pricing, History and Forecasts

Given the industrialization of the second and much of the third world, which has been taking place since at least the 1970s, we believe that long-term demand for energy is likely to continue to increase for the foreseeable future. While disruptive energy technology is possible, we believe that over the short to medium term oil and natural gas prices are likely to remain at or above current levels, except for short-term fluctuations and some small risk of systemic price decline. Evidently the U.S. Department of Energy agrees, more or less.

Figure 6. Average annual Brent spot crude oil prices in three cases, 1987-2040 (2012 dollars per barrel)



U.S. Department of Energy, Early 2014 Long-term Forecast

Based on this energy pricing outlook, and considered in light of the strong and continuing economic development we see worldwide, we believe that the oil and gas exploration and production (E&P) industry will likely be robust for the foreseeable future. A priori, this outlook is positive for TexStar.

Valuation of Energy Companies

Earnings Multiples

In non-resource companies, one traditional method of valuation is based price-to-earnings (P/E) or price-to-sales (P/S) multiples; in many cases we see valuations based on price-to-EBITDA multiples (P/EBITDA). EBITDA stands for earnings before interest, taxes, depreciation, and amortization, and it is commonplace to base price on a multiple of EBITDA, because its use allows the earnings power of a company to be considered versus that of its peer group without the confusion introduced by variance in capital structure, taxation, and other factors.

In the E&P industry, capital invested in exploration activities is accounted for in one of two ways: *successful efforts* and *full cost*. The *successful efforts* method considers all invested exploration capital to be an immediate expense unless the effort is successful, whereas the *full cost* method considers all exploration investment as an asset that must be depreciated over time. Since both of these methods are compliant with U.S. GAAP, making effective peer comparisons based on price-to-EBITDA multiples can be next to impossible. Therefore, specialist valuation firms in the E&P industry prefer price-to-EBITDAX, where the X stands for exploration costs. Price-to-EBITDAX comparisons can be useful in establishing the likely fair value of an enterprise, based on the price-to-EBITDAX multiple of its peers – as long as the company is in the production phase of its life-cycle.

Asset-based Discounted Cash Flow Analysis

Perhaps the most effective way of valuing oil and gas E&P companies is by developing a cash flow projection that assumes all P3 reserves to zero, and models only the companies’ extraction of proven and probable reserves, until extinction. While this underestimates the value of large and/or especially lucrative possible reserves, it provides a conservative and consistent framework for valuing producing assets while ignoring the confounding variables of less-certain future exploration costs. In applying this valuation methodology to oil and gas producers, the most commonly used discount rate is 10%.

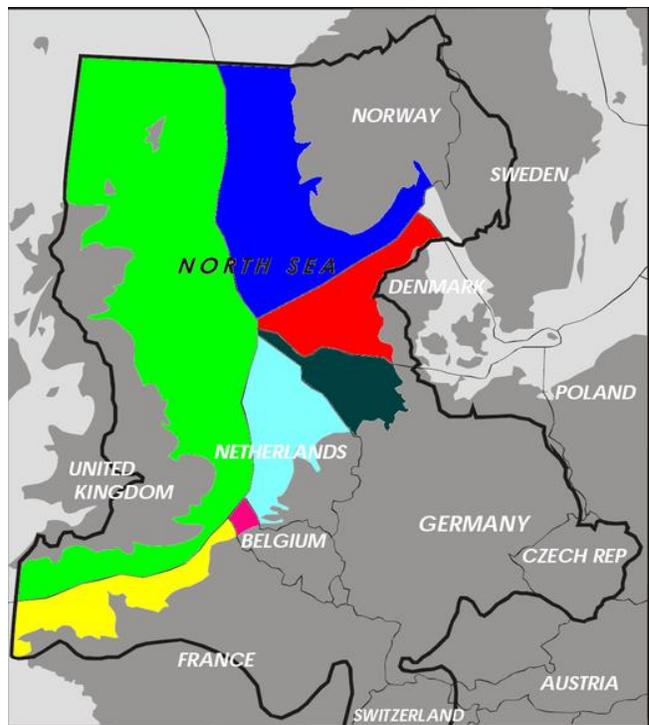
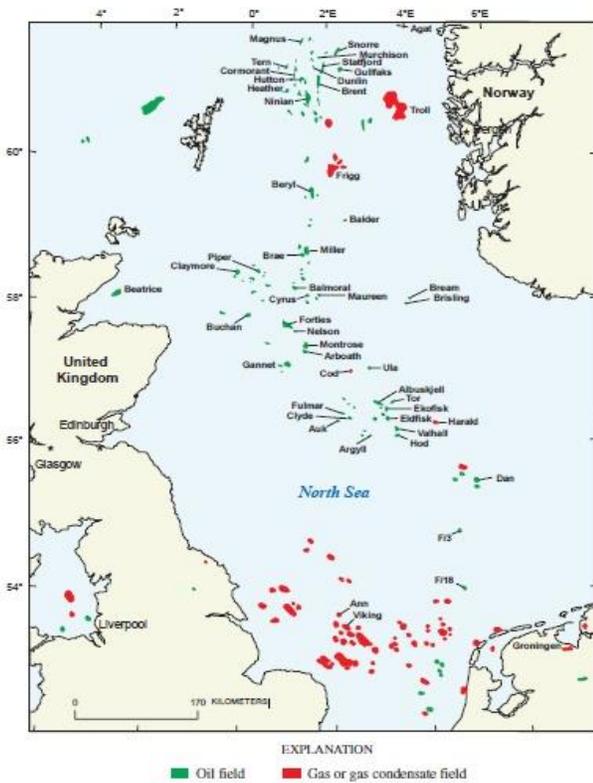
The Energy Industry – Upstream, Midstream, and Downstream

Participants in the energy industry have typically been categorized as upstream, midstream, or downstream players. Midstream players transport or wholesale hydrocarbons, whereas downstream players are involved in the refining and marketing/selling of oil and gas to end users. Upstream players are those involved in all aspects of the industry pre-transportation, namely prospecting for and discovering economically-recoverable hydrocarbons, and actually extracting oil and gas and supplying them to the wholesale market.

The North Sea Region

The North Sea region has been producing hydrocarbons since the mid-1800s, with large-scale production beginning in the mid-1900s. The region has been highly productive in terms of both oil and natural gas, although most estimates show that over 50% of the region’s reserves have been depleted. That is not to say, however, that future exploration work in the region is unlikely to bear fruit; on the contrary, newer imaging, drilling, and extraction technologies are likely to make the North Sea an E&P hotspot for decades to come.

The North Sea Region – Production and Licensing Zones



The British government in particular has been actively seeking new licensees for portions of the southern North Sea that lie on the British continental slope. These licenses are fairly attractive in terms of offering a “promote period” which allows a new licensee some time before actual drilling operations must commence. Many of these licenses either surround or lie adjacent to areas that are highly productive, and third-party seismic surveys indicate that these areas are likely to be highly productive as well.

The Island of Sumatra (Indonesia)

The southern basin of Sumatra has been producing oil and gas since the mid-1980s on a commercial scale, with sporadic small-scale production dating back to the 1940s. The gas in Sumatra tends to be relatively shallow, and found in strata formed in the periods following the Cretaceous (i.e. end of the dinosaurs), in sands and layers that were historically swamps, estuaries, and shallow bays. Although the region has had significant problems with pipeline theft (known as tapping), the area is still considered attractive for oil and gas E&P.

Sumatra’s Oil and Gas Producing Basins



Oil and Gas Economics in Indonesia

Indonesia has a fairly unique system of participating with domestic and foreign operators, which requires a detailed explanation:

1. Some percentage of extracted petroleum is designated as “first tranche” – typically 20%. This petroleum comes “off the top” and is split evenly between the government and the field operator.
2. The remaining 80% of the petroleum is available for “investment credit” which is meant to reimburse the operator for all tangible capital costs, as allocated by operating period. These costs include all operating expenses as well as depreciation of the capital expenditure made to the project.
3. After operator costs have been recouped, the remaining revenues fall to the “Equity Split” line. These profits are split according to the specific agreement in place.
4. After the equity split has been calculated and allocated, the DMO, or domestic market obligation must be calculated. This portion of the split is reallocated from the operator/contractor to the government, less a government-defined “rebate” price per barrel.
5. The operator/contractor now computes net income, and pays the government an income tax, currently set at 38.8%.

The net effect of this system is that operators and contractors are almost assured of breaking even – if the project has sound economics to begin with, of course – but the profits of the project are considerably reduced by the government’s four shares: first-tranche, equity-split, DMO payment, and tax payment. Obviously, this system has differing effects depending on the specific economics of each producing field.

Company Information

Overview – Vision and Operating Plan

TexStar is a rather uniquely positioned development stage company. While it currently has no real operations and only two members of its management team in place at this time, it is much like a racehorse at the starting gate, just waiting for the beginning of the race, which in this case equals the initial funding of its business plan. In terms of its management team, Warren Hairford has pre-recruited a full cast of high-level and mid-level executives from “big oil” who will immediately join the Company upon funding. These executives can immediately take over leadership and management roles at the Company’s oil and gas E&P properties, which themselves are “ready to go” once funding is in place. There are four of these properties total, one in the British North Sea and three in Indonesian Sumatra. Given TexStar’s extremely unusual access to top executive and management talent, and due to the fact that it believes it will have access to the necessary capital to kick-start its business, we see a potentially highly lucrative oil and gas E&P company in the making. One that has the potential to leap forward into production and high-value exploration almost immediately upon closing its first funding; in our experience, this is an unusually positive situation for a company at TexStar’s current stage of development.

TexStar is a development stage company seeking to enter the oil and gas exploration and production (E&P) business. The Company is currently in negotiations to acquire an exploration interest in a lease in the highly-productive British North Sea, and to acquire interests in several fields (some of which are producing) located in South Sumatra, Indonesia. The Company believes that it can finance its entry into the international E&P business through a combination of debt and equity capital. Its long-term plan is to leverage the international experience of its team to further develop the Company’s international E&P interests.

The Team

The Company is currently led by Nathan Halsey, a proven leader with solid business experience in Asia and expertise in the capital markets, both foreign and domestic. He is initially complemented by Warren Hairford, P.E., MBA, a near 30-year veteran of ConocoPhillips, and by Ibu Suryani, the Company’s Indonesian strategic partner and CEO of PT Wihana Cipta Mega, a large local drilling and oilfield services company.

Executive Bios

Nathan Halsey, *Chairman of the Board & CEO*

Nathan Halsey is Chairman and CEO of TexStar Oil, Ltd, TexStar Oil Indonesia, and TexStar Energy Malaysia, Ltd, as well as an Oil & Gas public speaker throughout China, Southeast Asia, and India.

Following graduation from Texas A&M University with a BBA in Finance, he spent five years as a Strategy Consultant for Ernst & Young. Mr. Halsey then founded NWH Management in 1993, which was a Private Equity firm focused on the energy and real estate sectors, primarily from an upstream development and the acquisition of mineral rights and properties. In 2010 Mr. Halsey began doing public speaking on the Oil & Gas industry in mainland China, primarily speaking in front of investment professionals wanting to learn more about international oil & gas exploration investment opportunities. Between 2010 and 2012, Mr. Halsey presented to over 15,000 people in 37 different cities and 5 countries.

In 2011, Mr. Halsey expanded and rebranded NWH Management into TexStar Oil, Ltd., which is an upstream oil & gas exploration and development company originally focused on exploiting opportunities to acquire discounted mineral rights and leases due to the illiquidity in the financial markets in the United States. The company is currently expanding operations to China, Indonesia, Malaysia, and Abu Dhabi through joint ventures and acquisitions made in those regions.

Mr. Halsey also serves in a consulting capacity to both Public and Private Chinese and Hong Kong companies acquiring mineral rights and current oil and gas production in the United States, ranging in per acquisition size from US \$100 Million to over US \$1 Billion.

Mr. Halsey serves as Chairman of a U.S. public listed company called Bonamour, Inc., which manufactures and distributes luxury skin care in North America and Asia Pacific.

Mr. Halsey lives with his wife, Kristin, in Dallas, Texas USA. They have three boys, Jensen, Hudson, and Preston. Nathan splits his time equally between the USA, China, Southeast Asia, and the Middle East.

Warren J. Hairford, P.E., MBA, *Director, Operations*

Mr. Hairford is a highly seasoned E&P executive with a geographically diverse set of leadership experiences. He is a Petroleum Engineer (P.E.) and holds an MBA from University of Virginia Darden School of Business. During his 29 year

career with Conoco, Inc. (Now ConocoPhillips, COP – NYSE), Mr. Hairford served first as an Operations Manager, then as General Manager and/or President of several extremely large exploration and production projects.

Mr. Hairford’s ConocoPhillips Experience, Jan. 1971 – Dec. 1999

<u>Location</u>	<u>Timeframe</u>	<u>Title</u>	<u>Description of Accomplishments</u>
Caracas, Venezuela	July 1996 – Dec. 1999	General Manager	Responsible for managing the Petrozuata C.A. Joint Venture through all phases of engineering, development, and construction. Project and early operations costs totaled approx. US\$3.4B, and permanent head count exceeded 800. The project exceeded all expectations and was expected to net US\$200M in 2002.
Arkhangelsk, Russia	Nov. 1993 – July 1996	General Director	Responsible for managing all operational aspects of Polar Lights J.V. including exploration, drilling, construction, start-up, and production. During 1994 crude production exceeded 25,000 bbls/day. CapEx of \$141M and employee headcount of 250.
Calgary, Alberta, Canada	June 1990 – October 1993	President and General Manager	Managed over 100 employees; guided ConocoPhillips’ Canadian exploration, production, and marketing in compliance with all governmental regulations.
Aberdeen, Scotland	October 1989 – May 1990	Manager, Operations, Conoco UK, Ltd.	Planned, organized, coordinated and controlled drilling, production, engineering, and construction while maximizing both safety and revenues. Managed over 650 employees.
Mablethorpe, England	June 1989 – Sep. 1989	Manager, Southern Operations Div., Conoco UK, Ltd.	Managed all Southern Operations Division activities to ensure that its contractual gas requirements were met and the economic return from its producing fields was optimized within agreed capital and operating budgets and in compliance with applicable laws, regulations, and Company Policy. 200+ employees
Dubai, United Arab Emirates	Nov. 1986 – May 1989	Manager of Engineering and Construction	Directed all engineering and construction activities to develop, recommend and provide the technical support necessary to implement programs to exploit the petroleum reservoirs within the Dubai Petroleum Company. Production volumes exceeded 100,000 bbls/day; annual CAPEX budget of near \$100 million.
Alaska, Texas, Louisiana	January 1971 – Oct. 1986	Assorted Management Roles	Mr. Hairford held multiple mid-level and top-level operational management roles at Conoco, beginning with his return from active duty as a First Lieutenant in April of 1973. This time spanned his first 15 years at ConocoPhillips.

Strategic Partnership – PT Wihana Cipta Mega (WCM)

TexStar has developed an extremely important local relationship in the Sumatra region with PT Wihana Cipta Mega (WCM), one of the region’s largest drilling and oilfield services companies. According to WCM’s materials, the Company was founded in 1997, and provides an integrated suite of energy-related services to several major customers in the region, including: Pertamina EP, PT Tiara Bumi Petroleum, Medco Energy, Golden Spike Energy Indonesia Ltd., Pertamina EP (Limau), PT Transoil Nusantara. WCM specializes in on-shore rigs and oilfields, and has its own 750 HP, 1000 HP, 1500 HP, and 2000 HP rigs located throughout Indonesia; it also has an operational support partnership with SINOPEC, which CNNMoney listed as China’s largest Energy Company for 2009¹.

Mr. Halsey, TexStar’s CEO, has a direct relationship WCM’s CEO, Ms. Ibu Suryani. This partnership is extremely important to and beneficial for TexStar in all of its Indonesian activities, largely because of the peculiarities of dealing in the Islamic nation of Indonesia. This would be a very difficult region in which to operate, if TexStar and its executives did not have the advantage of this strategic partnership.

¹ http://money.cnn.com/galleries/2009/fortune/0910/gallery.china_top_companies.fortune/

The North Sea (British) Prospect

TexStar is in discussions pertaining to a large region in the English North Sea. While the Company is not at liberty to name the counter-parties to this discussion at this time, the Company has provided us with some guidance as to what the relevant gas reserves are. The prospect itself consists of five prospects; these five prospects have solid seismic work complete. As explained to us by the Company, the total reserves for this area include 158bcf of gas, which is roughly equivalent to 13.17 million barrels of oil (BOE), based on a ratio of 6000 feet³ of gas to 1 barrel of oil. If we assume that these reserves will be worth roughly 50% of their estimated current BOE value once production is established, that gets us to an estimated value of US\$470.7 million. This rough estimate does not take exploration risk nor drilling costs into account, and is simply meant to convey an idea of magnitude in terms of what this prospect could represent. The Company believes this is a very large and highly significant opportunity for TexStar.

The Company informs us that they believe a first well can be sunk for approximately US\$17M, and assuming that the gas is found according to the current reserve estimates, this should allow them to resell their interest for something in the range of US\$200M to US\$300M. While this analysis is based on speculative factors at this time, it highlights the upside potential that TEXS could represent in the future.

Sumatra (Indonesian) Prospects

TexStar has already identified three potential projects for its initial operations in the Sumatra region of Indonesia. In the future it expects to develop additional prospective projects, and plan to allocate the equity and debt capital available for the Company’s maximum short-term and long-term projects.

BIMA SAKTI area – Exploration Project

Preliminary Seismic on this region suggests the presence of several layers hydrocarbon traps dating from the mid-to-late Tertiary, making them relatively young deposits. The Seismic that has been conducted suggests three specific formations as drilling targets: Baturaja Fm, Talang Akar Fm, Lahat Fm, plus the Basement formation below which oil and gas may also exist. Total Gas in place is estimated (P50) at 258.7 bcf, and for oil P50 is 78.2 million bbls. This is considered to carry high geological risk, as drilling has not yet verified the veracity of these reserve estimates. However, by assigning a P50 rather than a P10 to these reserves, the engineering firm is making a statement that their existence is “probable” rather than just possible.

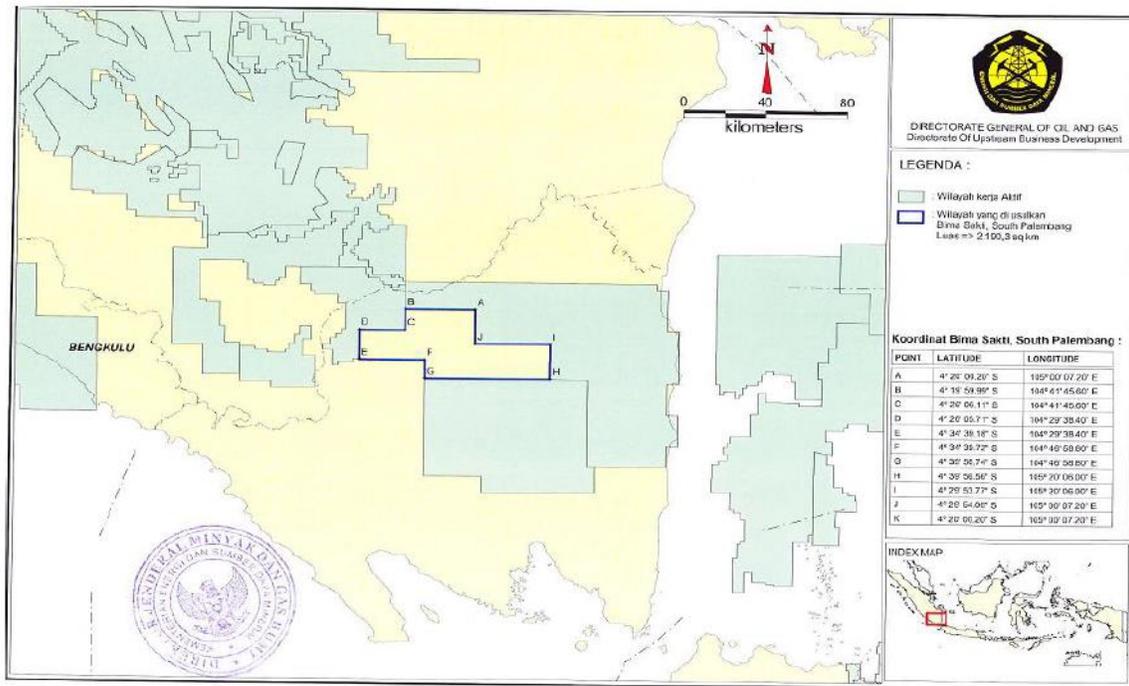


Figure 1.1. Proposed Bima Sakti Area, Central of South Sumatra province, Indonesia

To further develop this prospect, the developer will need to conduct some additional seismic studies before drilling for the buried hydrocarbons. Given the likely development and extraction costs, this study guesstimates that the oil alone in this

deposit has an economic value of over \$20,000,000 USD, whereas the gas (43.1 million BOE) could add another \$10M - \$15M of value to the project, bring its total value to somewhere between \$30,000,000 and \$35,000,000 USD.

THE TUNGAL BLOCK – MENGOEPEH FIELDS

The Company is in talks with the requisite individuals at this producing field, and feels that with initial capital it may be able to either acquire some or all of the working interest in this property. According to Company records, it is producing approximately 750 bbls/day, and still offers some exciting new development prospects. Our materials indicate that as of 2011 the cost pool totaled \$37,000,000 USD, presumably meaning that those costs would need to be recouped by others under the previously explained Indonesian oil revenue distribution system. This complexity makes it somewhat difficult to even guess at what revenues and profits TexStar might derive from its participation in this field, although they would certainly be substantial.

PSC HISTORY

Tungkal Block	KEY INFORMATION
Contract Area	South Sumatra Onshore
Contract Type	PSC
Date Signed	26 August 1992 Awarded To Asamera
Partnership	Mont D'Or Oil Tungkal Limited 70% Operator Fuel-X Limited 30%
Contract Period	30 Years
Acreage	Originally 9155 sq km. 2,285.06 sq. km. After Relinquishments and current.
Producing Asset	Mengoepoh Field Discovered in 1996 by Gulf Resources
Current Cost Pool Dec 2011	Approx. US\$37 million

Mengoepoh	KEY INFORMATION
Multiple Reservoirs	Stacked Oil & Gas, Clastics, Complex distribution
Crude	API approx. 30-36, Pour Point 95° F requires blending.
Wells	27 wells and 4 side tracks drilled in the field
Current Production	Approx. 750 BOPD from 15 wells
2010 Production	328,874 BBLs from 16 wells
Cumulative Production	Approx. 2.4 MMBBLS Note Low recovery rate.

Mengoepoh	ORIGINAL OIL IN PLACE 100%
2011 June Third Party	Low 23 MMBBLS Mid 30 MMBBLS High 37MMBBLS
2011 Dec MOTL	Low 35 MMBBLS Mid 49 MMBBLS High 64MMBBLS

Mengoepoh	RESOURCE 100% MMBBLS
2008 Pearl POD	1P 22 MMBBLS 2P 50MMBBLS
2009 Dec Pearl	1P 0.26 MMBBLS
2011 June Third Party	1P 0.7 MMBBLS 2P 1.9 MMBBLS 3P 2.7 MMBBLS
2011 Dec MOTL	1P 7.1 MMBBLS 2P 14.6 MMBBLS 3P 25.7 MMBBLS

BENAKAT BARAT PROJECT

This field was discovered during the Dutch occupation of the region in 1932; it is characterized by three distinct producing regions: the #1 and #2 shallow sands and the “B” deeper sands. In total, 307 wells have been drilled on the field, and 97 of them are producing, currently at a rate of 1,950 bbls/day. This field has significant remaining recoverable reserves present, and is an excellent candidate for production improvement and acceleration. This type of acceleration can be accomplished by pumping water and/or CO₂ at the margin of each wells “reach,” thus flushing the oil through the sands and into the well more rapidly and effectively.

We have modeled this particular project out fairly well, under the assumption that TEXS would issue an additional 30,000,000 shares to fund its obligations as the “partner” in this project. As shown in our model, in just Year 1 this could mean almost \$7.5M in net project profits to TEXS, or approximately \$0.12 per share, given our model’s assumptions.

Daily production model, (bbls oil) - Key Model Assumptions		
Beginning oil production, bbls		1,950
Baseline (no partner participation)		150
Incremental oil production (bbls)		1,800
Cost recovery (bbls)*		947
Remaining equity split (bbls)		853
Partner contractor share of equity bbls		430
DMO fee (bbls)		107
Remaining partner bbls, net of DMO		322
Oil sales, partner (\$US)	\$	30,632
DMO fees from Govt.	\$	2,687
Total Partner Pre-tax Profits	\$	33,319
Taxes paid to government	\$	12,928
Total Partner Net Profit (Per day)	\$	20,391
Total Partner Cost Recovery	\$	90,000
Total Parter Cash Flow	\$	110,391

Year 1 Model, Quarterly	Q1, Y1	Q2, Y1	Q3, Y1	Q4, Y1	Total Y1
Beginning oil production, bbls	175,500	177,450	179,400	179,400	711,750
Baseline (no partner participation)	13,500	13,650	13,800	13,800	54,750
Incremental oil production (bbls)	162,000	163,800	165,600	165,600	657,000
Cost recovery (bbls)*	85,263	86,211	87,158	87,158	345,789
Remaining equity split (bbls)	76,737	77,589	78,442	78,442	311,211
Partner contractor share of equity bbls	38,693	39,123	39,552	39,552	156,920
DMO fee (bbls)	9,673	9,781	9,888	9,888	39,230
Remaining partner bbls, net of DMO	29,019	29,342	29,664	29,664	117,690
Oil sales, partner (\$US)	2,756,850	2,787,482	2,818,114	2,818,114	\$ 11,180,559
DMO fees from Govt.	241,829	244,516	247,203	247,203	\$ 980,751
Total Partner Pre-tax Profits	\$ 2,998,679	\$ 3,031,998	\$ 3,065,316	\$ 3,065,316	\$ 12,161,310
Taxes paid to government	1,163,488	1,176,415	1,189,343	1,189,343	\$ 4,718,588
Total Partner Net Profit	\$ 1,835,192	\$ 1,855,583	\$ 1,875,974	\$ 1,875,974	\$ 7,442,722
Total Partner Cost Recovery	8,100,000	8,190,000	8,280,000	8,280,000	\$ 32,850,000
Total Parter Cash Flow	9,935,192	10,045,583	10,155,974	10,155,974	\$ 40,292,722
TEXS EPS	\$ 0.029	\$ 0.030	\$ 0.030	\$ 0.030	\$ 0.119
Shares outstanding assumption (000s)	62,639	62,639	62,639	62,639	62,639

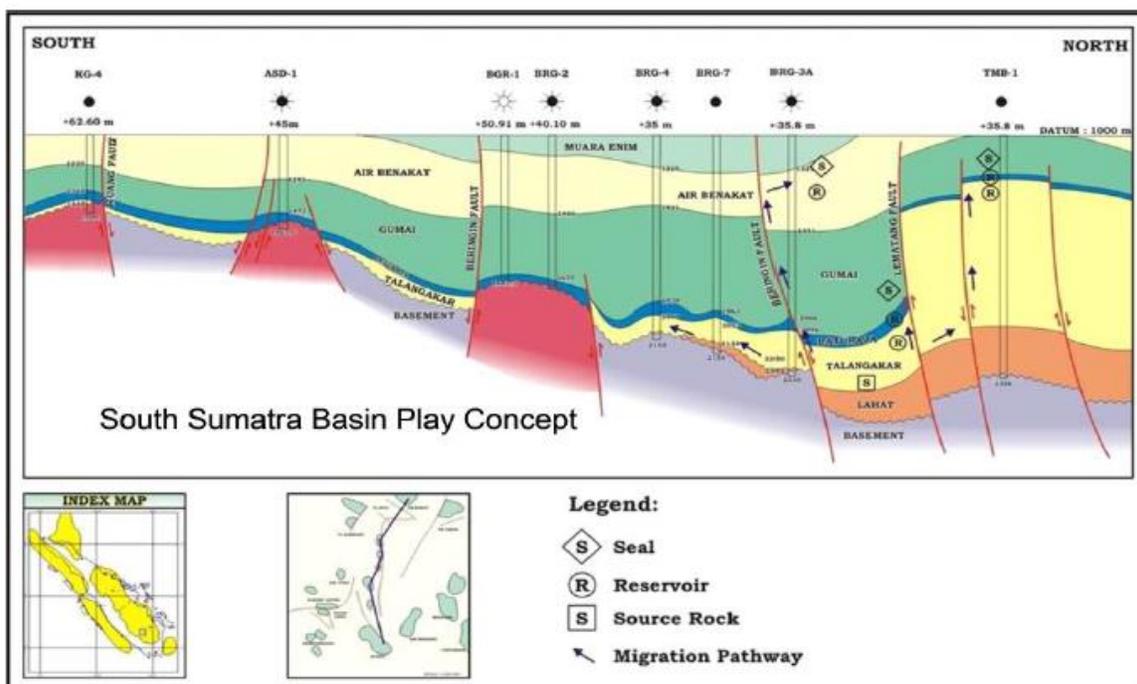


Figure 3.3. Regional Petroleum System of South Sumatra Basin

Valuation Scenario Analysis

TexStar currently has approximately 27.64 million shares of common stock issued and outstanding, and another 5 million shares of convertible preferred (1:1 conversion), bringing the total fully-diluted share count to approximately 32,639,000 shares. However, the Company plans to issue additional shares to fund its business plan. What we cannot know at this stage is, how many new shares will the Company issue, at what price, and what projects will be it able to gain control over given this funding? The answer to these question will be determined to some degree by the availability of debt as well as equity capital, on a project by project basis, as well as by the terms of any agreements into which TexStar enters.

As a scenario analysis, we have modeled out two of the Company’s four current potential projects. The Benekat Barat Project in Indonesia, which we’ve assumed will require \$30M in additional capital, and the North Sea exploration project, which will require approximately \$17M in initial drilling capital. Under the Benekat-only scenario, the Company’s shares could be worth 20x to 30x earnings, creating a per-share price range of \$2.38 to \$3.57. Under the North Sea-only scenario, the shares could be worth \$4.00 to \$6.00, if our funding/dilution assumption proves correct and if the gas reserve is proven up as expected and valued as we have speculated it could be. If both of these projects occur successfully and according to plan, in terms of funding, dilution, reserves, production, and valuation, then TEXS shares could exceed as much as \$5.00 or \$6.00.

Risks

Like any company in the development phase, TexStar faces considerable operating, financing, and resource discovery risks. First of all, while the Company believes it will have access to the funding it needs, since that funding is the “last piece of the puzzle” to generate success, it is possible that this funding may be unavailable to the Company, or available but only under unacceptable terms. Either of these eventualities would have extremely negative effects on the Company and its shareholders. Another significant risk pertains to the natural resources themselves; even if the Company is successful in garnering the funding it seeks, and even if its leadership and management team joins the Company as a result, it still may underperform in terms of its exploration and production goals. Such a shortfall could be due (especially in Indonesia) to geopolitical risk events, or it could be due to disappointing exploration results, or due to a lack of viable purchases or contractual arrangements. Needless to say, a severe exploration shortfall could have negative effects on the Company and its share price as well. This is clearly a risky, yet high potential play on the oil and gas E&P opportunities of the North Sea and Sumatra.

Conclusion

In summary, TexStar is in an excellent position to succeed, in that it has the target properties and the team to execute already lined up, and believes it needs only its initial funding to succeed. If it is successful in raising the initial capital that it believes it will, it has several high-value targets that it plans to execute on. The largest potential target (in the North Sea) could single-handedly propel the value of the Company to \$4.00 to \$6.00 per share, depending on actual financing-related dilution and actual drilling costs and resource value, and its Benekat candidate project has the potential to add well over \$2.00 in per share value, again depending on financing-related dilution and actual production and exploration results. TexStar certainly has a strong initial management team, and according to the Company this team will grow and strengthen much more through the addition of several other big oil industry veterans, once initial funding is completed. The presence of this team in combination with the current candidate projects and adequate capital could make TexStar very attractive indeed.



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Our Team

Brian R. Connell, CFA

Senior Managing Director

Mr. Connell has over 20 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused hedge fund.

Mr. Connell founded Harbinger Research in 2004 with the purpose of providing high quality research coverage to deserving smaller companies. Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.

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