Business Description

EnerJex Resources, Inc. is a domestic onshore oil company with producing assets located in Eastern Kansas and South Texas.

The company is focused on the acquisition and development of shallow oil properties with long production lives that offer abundant drilling opportunities with low risk profiles.

As of December 31, 2011, EnerJex had 2.7 million barrels of proved oil reserves, and it has identified more than 1,000 low-risk development drilling locations on its existing acreage.

The company has grown year-over-year production by at least 25% in each of the last five quarters following its transformation at the end of 2010.

Company Information

Stock Symbol	ENRJ
Headquarters	San Antonio, TX
Stock Price	$0.67
Shares Outstanding	69.65 Million
Market Capitalization	$46.66 Million
Book Value	$25.31 Million
Working Capital	$1.75 Million
Insider Ownership	68%

Operating Areas

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EnerJex Resources, Inc.
OTC: ENRJ
DATE: August 24, 2012
PRICE: $0.67
RATING: Strong Buy
PRICE TARGET: $1.25

Q2 EPS of $.00 (excluding $.04 derivative gain) matched our estimate. EPS (excluding derivative loss) was ($.01) in the prior year.

Q2 Sales grew nearly 22% year-over-year (YOY) to $2.0 million and topped our estimate of $1.9 millon. Production grew nearly 29% YOY to 23,464 barrels and exceeded our estimate of 22,800. Excluding the assets sold last December, production increased 86% YOY.

Lifting costs declined YOY from $45.29/barrel to $31.77. The company continues to target $25/barrel in the near term.

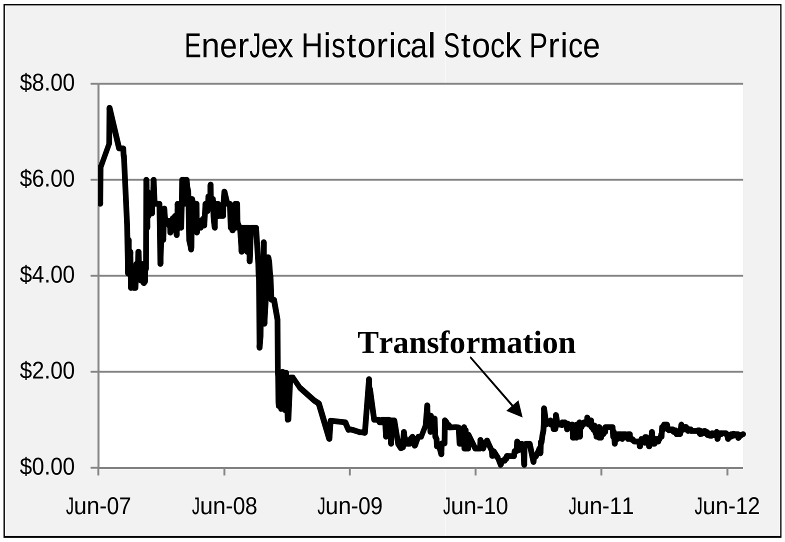
EBITDA grew 252% YOY to $.6 million. The company is now generating positive operating cash flow.

Acreage in EnerJex's Rantoul Project increased by 270% from 1,672 gross acres to 6,200 gross acres.

The company currently trades at a 33% discount to its peer group based on EV/PV-10.

EnerJex is planning to begin operating a 2nd rig in Q3 on its Mississippian acreage to accelerate drilling activities.

We are raising our 12-month price target to $1.25. We reiterate our Strong Buy rating.



Analysis of Q2 Results

Q2 EPS of $.00 (Excluding $.04 derivative gain) matched our estimate. Record Q2 revenues of $2.0 million topped our estimate of $1.9 million due to greater than expected production. Q2 production grew 28.6% YOY to 23,464 barrels and beat our estimate of 22,800. Excluding the assets sold in December of 2011, production increased 86% YOY. Lifting costs improved from $45.29/barrel in the prior year to $31.77 due to the divestiture of less productive wells, more in-sourcing, and general spreading of fixed costs over increased production. Total operating expenses of $1.8 million were higher than our estimate of $1.5 million primarily due to higher than expected professional fees (legal and investment banking) related to recent transactions. Operating margin was nearly 12% for the quarter vs. negative operating income in the prior year. EBITDA (excluding derivative contracts) was $571,000 for the quarter vs. $162,090 in the prior year. In Q2 the company drilled 4 new development wells in its Mississippian project and 42 new wells in its Rantoul Project, all with 100% success rates. EnerJex ended the quarter with $1.6 million in cash and $4.9 million of debt. Available credit on its revolver is $1.3 million, and presumably this will be increased as a result of the company's significant production growth and improved profitability. EnerJex generated $.6 million of operating cash flow during the past six months vs. a nominal positive amount in the prior year. The company spent $4.5 million on property additions over the past two quarters, including $2 million related to its non-controlling interest sale.

Outlook

EnerJex is planning to begin operation of a 2nd rig at its Mississippian project location in Q3 in order to accelerate drilling. The table below synthesizes the company's operating properties with recently increased oil production figures. The 335 barrels per day forms the basis for our FY13 production estimate of nearly 111,000 barrels, a 20% increase over FY12. The company expects lifting costs to eventually decline to the $25/barrel range within the next several quarters. The Energy Information Administration (EIA) recently forecasted U.S. domestic oil pricing of $94 for 2012 and $90 for 2013. EnerJex's oil sells at roughly a $5 per barrel discount to prevailing NYMEX pricing so we are assuming an average sales price of $85 per barrel.

Project Name	Location	Gross Acres(1)	Gross Barrels of Oil Per Day	Working Interest	Net Barrels of Oil Per Day(2)	Formation Depth (Feet)	Recovery Method(3)
Mississippian Project	Southeast Kansas	4,260	150	90%	135	1,700	Primary/Secondary
Rantoul Project	Eastern Kansas	6,200	210	73%	160	600	Primary/Secondary
El Toro Project(4)	South Texas	4,620	60	46%	25	4,500	Primary
Other	Kansas + Texas	3,050	20	98%	15	600 - 4,200	Primary/Secondary
Total	**Kansas + Texas**	**18,130**	**440**	**76%**	**335**	**600 - 4,500**	**Primary/Secondary**

(1) Mississippian Project includes 1,280 acres that ENRJ has the option to acquire at minimal cost upon achieving certain drilling milestones.
(2) Net to ENRJ's working interest share of gross production, which differs from its average working interest in gross acres leased.
(3) Primary recovery is the process of producing oil that flows naturally to the bottom of a well due to gravity and natural pressure. Secondary recovery, also known as waterflooding, is a process in which water is injected into an oil reservoir through injection wells in order to increase or maintain reservoir pressure and drive oil to the nearby producing wells.
(4) Production from the El Toro Project is expected to increase following workover activities.

The table below depicts the long-term drilling potential of the three operating sites. The asset analysis suggests the potential drilling of an additional 1000+ wells. The company has a publicly stated long-term production goal of exceeding 1,000 barrels of oil per day. This would suggest a trebling of current production levels. Based on this asset portfolio and high drilling success trends, we believe the company has a fairly long runway for continual production growth. Furthermore, we believe current liquidity and cash flow is sufficient to fund operations over the next 12 months. However, if capital expenditure trends maintain their current trajectory, the company may need to utilize additional financing mechanisms longer-term.

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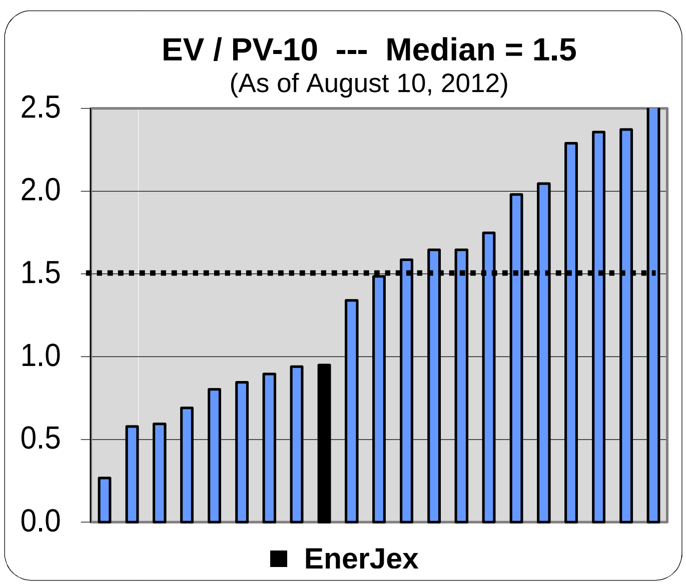
Mississippian Project	Rantoul Project	El Toro Project
More than 1 billion barrels of oil have been produced from the Mississippian formation in Kansas, and it currently accounts for ~40% of the state's 40 million barrels of annual oil production[1]. This project has the potential to produce 1,000 barrels of oil per day.	The Rantoul Project is located in the Paola Rantoul Field, which has produced 30 million barrels of oil and currently produces more than 600 barrels of oil per day[1]. ENRJ has increased its production in this project from 30 to 210 barrels of oil per day.	More than 100 million barrels of oil have been produced from the Olmos formation in the surrounding area[4]. ENRJ has completed 12 oil wells spanning 8 miles with consistent petrophysical results but varying production, possibly due to completion designs.
Upside Potential: ▪ ~500 drilling locations not included in reserve report[2]. ▪ Numerous additional prospective oil zones. ▪ Higher recovery % of oil in place. ▪ 6.7 million barrels of additional net reserve potential[3].	**Upside Potential:** ▪ >500 drilling locations not included in reserve report[2]. ▪ Numerous additional prospective oil zones. ▪ Higher recovery % of oil in place. ▪ 3.4 million barrels of additional net reserve potential[3].	**Upside Potential:** ▪ ~200 drilling locations not included in reserve report[2]. ▪ Prospective for horizontal drilling. ▪ Higher recovery % of oil in place. ▪ 4 million barrels of additional net reserve potential[3].

(1) According to the Kansas Geological Society. (2) Additional potential undeveloped producer wells identified by ENRJ. (3) Based on management estimates. (4) According to Petroleum Information and Drilling Info.

Valuation

Our peer group of 21 oil and gas producing companies has a median market capitalization of $250 million, and it is important to note that Enerjex is the only pure-play oil company in the group. Companies with heavy natural gas exposure have diluted the value of the peer group due to the prevailing low prices of natural gas. Three common valuation metrics utilized within the industry are EV/BOE, EV/EBITDA, and EV/PV-10. The standard deviation for our group for EV/BOE and EV/EBITDA was quite large, so we have employed the EV/PV-10 metric. As the graph below relates, Enerjex is trading at a 33% discount to its peer group median. It is also important to note that Kansas is not an obscure oil geography. Several "major" players such as Shell, Devon Energy, and SandRidge Energy have invested in oil production there. Additionally, the region is on the radar of international players as evidenced by recent asset acquisitions by the Spanish oil company Repsol.



The aforementioned valuation analysis suggests that the stock could be presently worth $1.06. Based on the trend of consistent and significant production increases, we believe there is a high probability that the company's PV-10 assessment will be raised meaningfully in 2013. Its latest BOE assessment increased 17% to 2.7 million. We are assuming a similar type increase in 2013 and are therefore forecasting a price target of $1.25. With 78% upside over the current price, we are reiterating our Strong Buy rating.

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Income Statement	Transition 2010	Q1-FY11	Q2-FY11	Q3-FY11	Q4-FY11	FY11	Q1-FY12	Q2-FY12	Q3-FY12E	Q4-FY12E	FY12E	FY13E
Oil revenues	$2,929,103	$1,369,167	$1,685,174	$1,673,857	$1,557,213	$6,285,411	$1,902,892	$2,049,165	$2,179,502	$2,008,453	$8,140,012	$9,406,344
YOY Growth	-15.4%	18.8%	63.5%	86.6%	55.5%	54.0%	39.0%	21.6%	30.2%	29.0%	29.5%	15.6%
Oil Production (barrels)	40,345	14,780	18,246	19,724	18,979	71,729	19,485	23,464	25,641	23,629	92,219	110,663
YOY Growth		3.8%	39.4%	36.6%	48.1%		31.8%	28.6%	30.0%	24.5%	28.6%	20.0%
Avg Barrels per day	149	164	203	219	211	197	217	261	285	263	253	303
Average price per barrel	$72.60	$92.64	$92.36	$84.87	$82.05	$87.63	$97.66	$87.33	$85.00	$85.00	$85.00	$85.00
Expenses:												
Direct Operating Costs	$1,548,128	$847,564	$826,420	$787,994	$978,250	$3,440,228	$609,079	$745,504	$700,000	$550,000	$2,604,583	$2,821,903
% of sales	52.9%	61.9%	49.0%	47.1%	62.8%	54.7%	32.0%	36.4%	32.1%	27.4%	32.0%	30.0%
Average lifting costs per barrel	$38.37	$57.35	$45.29	$39.95	$51.54	$47.96	$31.26	$31.77	$27.30	$23.28	$28.24	$25.50
Depreciation, depletion and amort.	$359,855	$271,965	$328,768	$375,175	$152,804	$1,128,712	$422,603	$407,916	$425,000	$425,000	$1,680,519	$1,800,000
% of sales	12.3%	19.9%	19.5%	22.4%	9.8%	18.0%	22.2%	19.9%	19.5%	21.2%	20.6%	19.1%
Impairment of oil and gas properties												
% of sales												
Average production cost per barrel (includes D&A)		$75.75	$63.31	$58.97	$59.60	$63.70	$52.95	$49.16	$43.87	$41.26	$46.47	$41.77
Professional fees	$748,497	$203,079	$286,853	$255,706	$707,748	$1,453,386	$332,972	$339,757	$250,000	$200,000	$1,122,729	$800,000
% of sales	25.6%	14.8%	17.0%	15.3%	45.4%	23.1%	17.5%	16.6%	11.5%	10.0%	13.8%	8.5%
Salaries	$242,490	$118,648	$164,998	$150,673	$68,605	$502,924	$133,882	$109,498	$125,000	$130,000	$498,380	$600,000
% of sales	8.3%	8.7%	9.8%	9.0%	4.4%	8.0%	7.0%	5.3%	5.7%	6.5%	6.1%	6.4%
Administrative expense	$341,401	$204,354	$256,770	$75,600	$424,020	$960,744	$243,897	$202,029	$200,000	$175,000	$820,926	$800,000
% of sales	11.7%	14.9%	15.2%	4.5%	27.2%	15.3%	12.8%	9.9%	9.2%	8.7%	10.1%	8.5%
Depreciation on other fixed assets	$21,892											
	$3,262,263	$1,645,610	$1,863,809	$1,645,148	$2,331,427	$7,485,994	$1,742,433	$1,804,704	$1,700,000	$1,480,000	$6,727,137	$6,821,903
Operating Income	($333,160)	($276,443)	($178,635)	$28,709	($774,214)	($1,200,583)	$160,459	$244,461	$479,502	$528,453	$1,412,875	$2,584,441
% of sales	NA	NA	NA	1.7%	NA	NA	8.4%	11.9%	22.0%	26.3%	17.4%	27.5%
Add back D&A	$359,855	$271,965	$328,768	$375,175	$152,804	$1,128,712	$422,603	$407,916	$425,000	$425,000	$1,680,519	$1,800,000
EBITDA	$26,695	($4,478)	$150,133	$403,884	($621,410)	($71,871)	$583,062	$652,377	$904,502	$953,453	$3,093,394	$4,384,441
% of sales	0.9%	-0.3%	8.9%	24.1%	NA	NA	30.6%	31.8%	41.5%	47.5%	38.0%	46.6%
Other income (expense)												
Interest expense	($519,748)	($114,324)	($108,181)	($111,472)	($129,044)	($463,021)	($67,660)	($69,947)	($70,000)	($72,000)	($279,607)	($325,000)
Loan interest accretion												
Gain on liquidation of derivative												
Management fee revenue												
Gain on repurchase of debentures												
Unrealized gain (loss) on derivatives	($64,362)	($2,468,225)	$1,196,459	$3,188,277	($2,325,910)	($409,399)	($1,186,939)	$2,877,419			$1,690,480	
Loss on disposal of vehicles												
Other income (loss)	$39,306	$12,086	$11,957	$13,857	$17,841	$55,741	$12,458	$9,793				
Total other income (expense)	($544,804)	($2,570,463)	$1,100,235	$3,090,662	($2,437,113)	($816,679)	($1,242,141)	$2,817,265	($70,000)	($72,000)	$1,410,873	($325,000)
Net Income (loss)	($877,964)	($2,846,906)	$921,600	$3,119,371	($3,211,327)	($2,017,262)	($1,081,682)	$3,061,726	$409,502	$456,453	$2,823,748	$2,259,441
Diluted Outstanding Shares	5,360,920	67,480,811	69,814,489	69,436,529	69,386,639	69,029,617	69,645,279	69,712,039	74,800,000	74,900,000	72,264,330	75,000,000
EPS-Diluted	($0.16)	($0.04)	$0.01	$0.04	($0.05)	($0.03)	($0.02)	$0.04	$0.01	$0.01	$0.04	$0.03

Cash Flow	Transition 2010	Q1-FY11	Q2-FY11	Q3-FY11	Q4-FY11	FY11	Q1-FY12	Q2-FY12	Q3-FY12E	Q4-FY12E	FY12E	FY13E
Net Income	($877,964)					($2,017,262)					$2,823,748	$2,259,441
D&A	$359,855					$1,128,712					$1,680,519	$1,800,000
Working Capital	$211,350					$140,837					$200,000	$100,000
Cap Ex	$0					($6,564,989)					($9,000,000)	($5,000,000)
Interest Sale											$2,000,000	
Free Cash Flow	($306,759)					($7,312,702)					($2,295,733)	($840,559)

Balance Sheet Metrics	Transition 2010	Q1-FY11	Q2-FY11	Q3-FY11	Q4-FY11	FY11	Q1-FY12	Q2-FY12	Q3-FY12E	Q4-FY12E	FY12E	FY13E
AR	$357,387	$655,689	$801,830	$926,540	$1,454,405	$1,454,405	$1,728,507	$1,246,158				
DSO's	45	43	43	50	84	84	82	55				
AP	$1,109,848	$1,339,787	$1,771,256	$1,125,928	$2,355,692	$2,355,692	$1,067,767	$2,122,169				
DPO's	262	142	193	129	217	217	158	256				

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Balance Sheet	Q2-FY12	Q2-FY11
Assets		
Current assets:		
Cash	$1,569,270	$3,491,194
Accounts receivable	$1,246,158	$801,830
Marketable securities	$1,018,573	$1,543,293
Derivative Gain		
Deposits and prepaid expenses	$261,249	$142,918
Total current assets	$4,095,250	$5,979,235
Fixed assets	$529,568	$500,107
Less: Accumulated depreciation	$269,421	$169,072
Total fixed assets	$260,147	$331,035
Other assets:		
Oil and gas properties using full-cost accounting:		
Properties not subject to amortization	$8,104,824	$15,371,382
Properties subject to amortization	$21,600,483	$11,084,839
Total other assets	$29,705,307	$26,456,221
Total assets	$34,060,704	$32,766,491
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$2,122,169	$1,771,256
Accrued liabilities	$144,743	$535,755
Deferred payments-development		
Derivative liability	$75,411	$869,202
Long-term debt, current		$6,131,000
Convertible note payable		
Total current liabilities	$2,342,323	$9,307,213
Asset retirement obligation	$1,142,648	$1,058,051
Convertible note payable		
Long-term debt	$4,916,000	$13,427
Derivative liability	$349,747	$2,988,433
Total liabilities	$8,750,718	$13,367,124
Stockholders' Equity (Deficit)		
Preferred stock	$4,780	$4,780
Common stock	$73,880	$73,187
Treasury stock	($1,500,000)	($1,500,000)
Subscription receivable		
Equity-based compensation unearned	($192,344)	($269,283)
Paid-in capital	$44,802,888	$41,399,739
Accumulated other comprehensive income	($552,589)	($27,869)
Retained (deficit)	($18,676,742)	($20,281,187)
Total stockholders' equity (deficit)	$23,959,873	$19,399,367
Non controlling interest in subsidiary	$1,350,113	
Total liabilities and stockholders' equity	$34,060,704	$32,766,491

Disclaimers & Disclosures

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