



ABN 24 119 737 772

30 July 2010

ASX Release

## June 2010 Quarterly Report

**LEIGHTON OLMOS - SALE OF 20% WI**

A 20% WI in the Leighton Olmos reservoir was sold in July to a US based oil and gas company for A\$7.9 million (US\$6.7million). The sale is over 1,280 acres of the Olmos only and does not include the lower EFS reservoir. The Company retains an average of 59% WI in the Leighton Olmos reservoir after the sale.

**CAPITAL RAISING**

A successful capital raising of A\$14.2m by a placement of 40.6 million shares to sophisticated and institutional investors at 35 cents per share was completed at the end of June. The shares will be issued in two tranches: tranche one of 17.86 million shares was allotted 8 July and tranche two of 22.74 million shares will be allotted subject to shareholder approval at a general meeting on 9 August.

The funds are earmarked for the drilling of two (possibly three) horizontal Eagle Ford wells on the Leighton/Mosman/Rockingham acreage and together with the Leighton sale funds make a total of about A\$22million (US\$18.8million) before costs. These funds will enable the Company to proceed with the drilling programme outlined below.

**PRODUCTION**

Production for the quarter was:

	Gas (mmcf)	Oil (mbbl)	Total (mmcf)
Gross	261.8	27.6	427.7
Nett (Texon share) <sup>(1)</sup>	159.6	14.9	249.1

Year to date (6 months):

	Gas (mmcf)	Oil (mbbl)	Total (mmcf)
Gross	477.9	52.6	793.3
Nett (Texon share) <sup>(1)</sup>	292.3	28.1	460.9

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**Texon Petroleum Ltd**

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[www.texonpetroleum.com.au](http://www.texonpetroleum.com.au)

Gross average daily production for the June quarter was 2,877 mcfcpd and 304 bopd (Texon's share<sup>(1)</sup>: 1,754 mcfcpd and 164 bopd) from 13 producing wells.

As of 15 July 2010, the average daily production for July was Gross: 3,177 mcfcpd and 310 bopd (Texon's share<sup>(1)</sup>: 1,890 mcfcpd and 164 bopd).

<sup>(1)</sup> Texon's beneficial NRI share.

### **GAS PRICES**

For the first four (4) months of 2010, the Henry Hub average spot price was US\$4.87/mmbtu. During the same period, Texon received an average price of US\$6.58/mcf for all its gas and a price of US\$7.77/mcf for its Leighton Olmos gas.

### **EAGLE FORD PROJECT (37mmboe)**

The Company has located a rig to drill two (2) to three (3) Eagle Ford wells in the Leighton/Mosman/Rockingham area. The first well will commence drilling mid September in the Leighton project area. The well will offset the recent Swift Eagle Ford discovery some 200m south of Leighton and its trajectory will take it within 275m of the TR#4 well which penetrated 142ft of EFS. Should the well be successful it can be tied into the existing Leighton production facilities. The Company will have a 70% WI (52.5% NRI) in the well.

The rig will then be released to another operator and on its return the second well is planned to be drilled beginning in December, possibly on the Mosman/Rockingham leases. Depending on the exact location, the Company will have an estimated 95% WI (71.25% NRI) in this well. The well trajectory will pass nearby to the MR#1 well where the EFS reservoir was similar in thickness and quality to the Tyler Ranch #4 in the Leighton field.

The MR lease lies some 2.5km from another Swift Energy EFS discovery which had an initial production rate of 1,100bopd and 1mmcfcpd.

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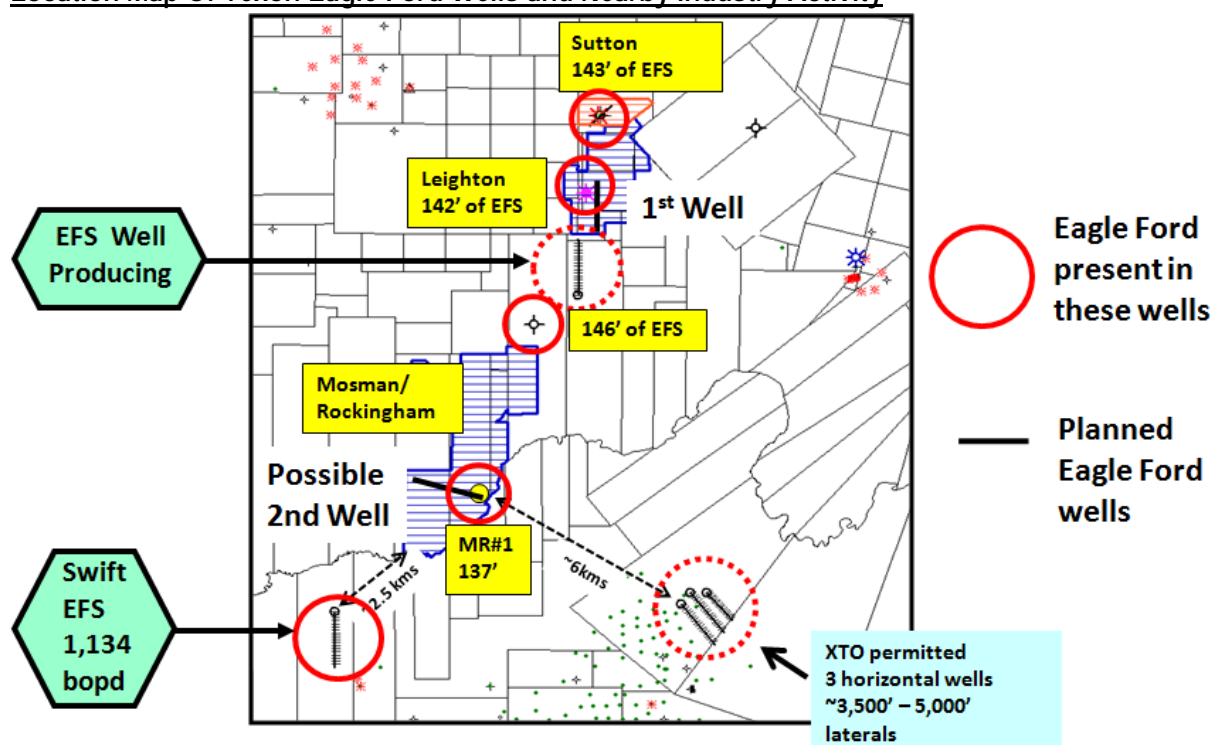
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### Location Map Of Texon Eagle Ford Wells and Nearby Industry Activity



The Company has 60 potential EFS locations assuming 80 acre spacing with an estimated resource potential of 37mmboe. Based on regional analyses the Company's leasehold lies in the condensate/oil rich part of the Eagle Ford, along trend from Adelphi's leases. Adelphi was recently acquired by AWE, valuing Adelphi's EFS leases at about A\$24,000 to A\$30,000 per nett acre.

Texon has 4,500 nett acres.

#### Texon Petroleum Ltd

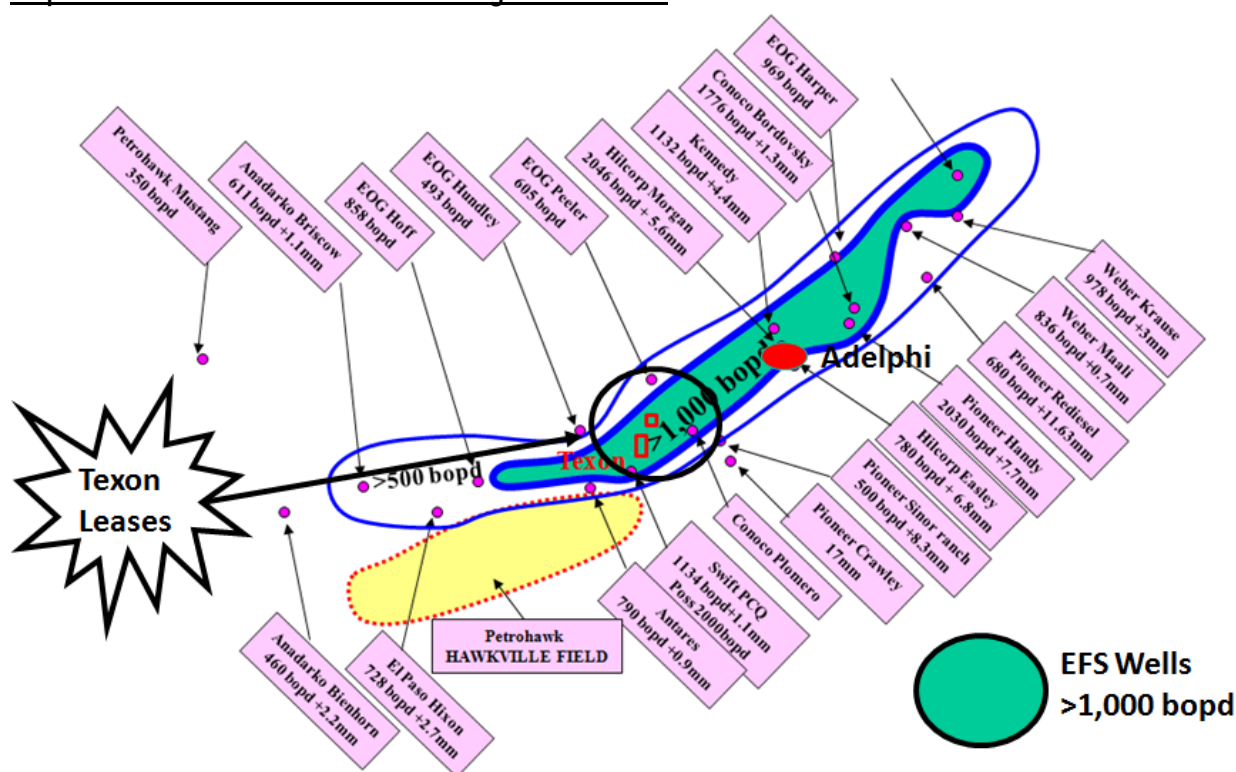
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### Map Of Initial Production Rates For Eagle Ford Wells



### OLMOS PROJECTS

#### LEIGHTON-SUTTON OLMOS OIL AND GAS PROJECT (Average 66% WI, 49.5% NRI)

At the end of April the sixth successful Leighton well, Tyler Ranch #5, flowed oil and gas at the initial rate of 445 boepd, maintaining the Company's 100% success rate in the field. There are now six wells producing from this field where the average July gross production from all six wells through 26 July was 542boepd. The seventh Leighton Olmos well Tyler Ranch #6 will commence drilling in the next three days, and will take about 15 days to reach its target.

There remain 28 potential undrilled locations in the Olmos reservoir at Leighton-Sutton. The Company is considering either self funding from cash flow or other financing options with the Commonwealth Bank to develop these Olmos locations.

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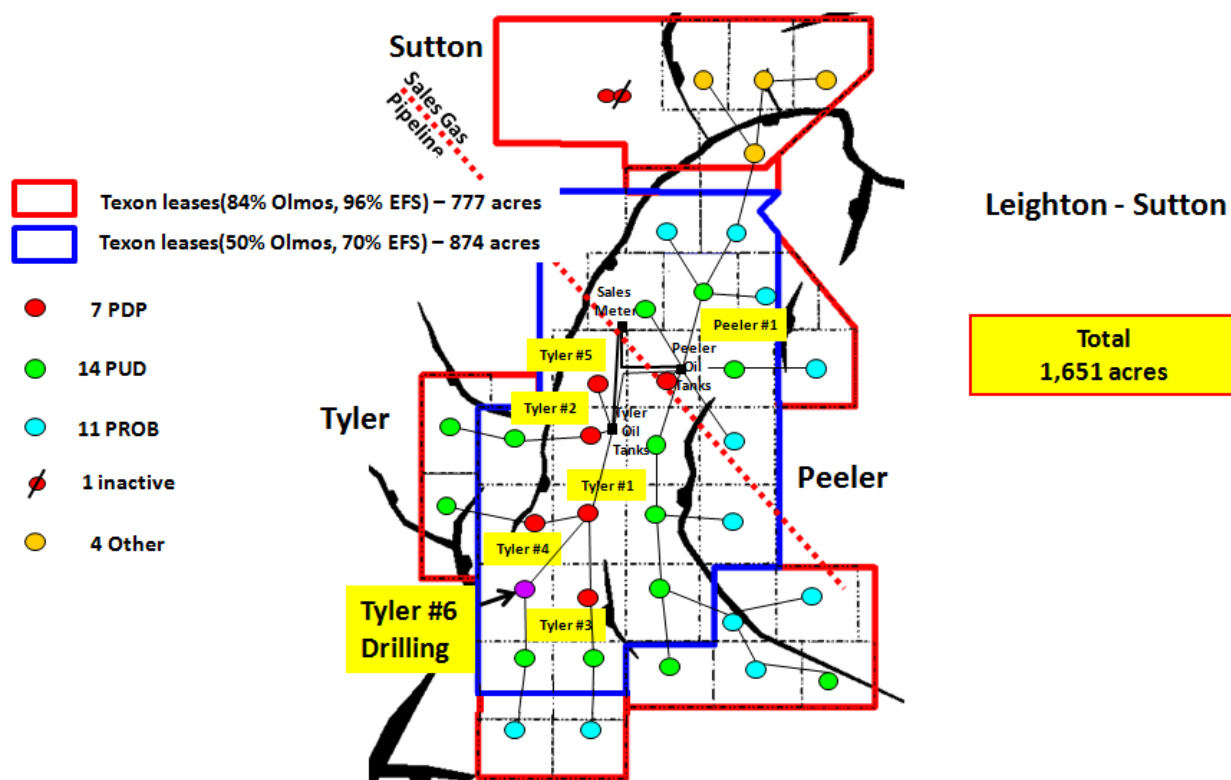
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## Leighton-Sutton Olmos Field Development Plan



## MOSMAN-ROCKINGHAM OLMOS PROJECT (Average 96.6% WI, 72.4% NRI)

MR #1 encountered 157 feet of oil and gas shows across the Olmos and Eagle Ford (EFS) reservoirs. The Olmos reservoir thickness was similar to the Leighton field.

The initial flow rate was 111 boepd and the well was connected for Olmos oil and gas production in early May. It has now been placed on pump and the flow rate at 26 July was 23bopd.

Olmos production from MR #1 and electric log pay in five nearby wells indicates a strong probability of the presence of the Olmos reservoir in the Mosman-Rockingham field which could potentially be larger in size than the Olmos in the Leighton field.

## ADDITIONAL PIPELINE CAPACITY (LEIGHTON, MOSMAN, ROCKINGHAM)

The Company is in the process of negotiating for an additional pipeline to be laid connecting Leighton and Mosman/Rockingham to a major gas trunk line to the south. This will provide additional capacity for the expected increase in Olmos and Eagle Ford gas and natural gas liquids production from these areas as a result of drilling two (2), possibly three (3), EFS wells and further Olmos wells in the coming months.

## YEGUA PROJECT

The Company will participate in the drilling of the Lennox and Nambucca prospects which are along trend from the Company's Avoca Yegua discovery, currently producing about 900mcf/gpd and 5bopd. US independent Bright and Co. entered into a drilling joint venture for the two prospects in April and assumed operatorship. In accordance with the terms of the joint venture Bright may exercise an option to drill a third well. Drilling is expected to commence in August. Texon will have minimal cost exposure for the cost of drilling these wells.

Each of the three prospects has a potential of 1-1.5Bcf of gas and 2,000 to 10,000 bbls of oil.

Texon has a 32.4% WI (24.3% NRI) in this project.

## PROPOSED FUTURE DRILLING SCHEDULE

The proposed drilling program up to the first quarter of 2011 is outlined in the following schedule, details of which have been described above.

	2010		2011
	Q3	Q4	Q1
1st EFS	★		
2nd EFS		★	
Optional 3rd EFS			★
Leighton Olmos	★		★
Yegua	★ ★		

## LEASING

The Company continues to pursue additional leases in the oil/condensate rich part of the Eagle Ford trend and on newly identified 3D prospects.

## CORPORATE

The Company held its Annual General Meeting on 26 May where the two resolutions, the re-election of Chairman Dr John Armstrong and the adoption of the Remuneration Report were passed unanimously. A presentation updating the Company's position and objectives was shown and discussed. Please refer to the Company's website [www.texonpetroleum.com.au](http://www.texonpetroleum.com.au)

-ENDS-

**For further information, please contact:**

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Chairman  
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or

Mr David Mason,  
Chief Executive Officer & President  
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Houston: +1 281 419 4976 (Houston is 15 hours behind Aust Eastern Standard time)

**Glossary:**

Bbl:	barrel
boepd:	barrels of oil equivalent per day (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
bopd:	barrels of oil per day
ft:	feet
m:	metres
mbbl:	thousand barrels
mcf:	thousand cubic feet
mcfcpd:	thousand cubic feet of gas per day
mmbtu:	million British thermal units
mmboe:	million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6mcf to 1 barrel of oil equivalent)
mmcf:	million cubic feet of gas
mmcfe:	million cubic feet of gas equivalent (including oil converted to gas equivalent cubic feet on basis of 1 barrel to 6mcf of gas equivalent)
mmcfcpd:	million cubic feet of gas per day
NRI:	Net Revenue Interest
WI:	Working Interest

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

TEXON PETROLEUM LTD

ABN

24 119 737 772

Quarter ended ("current quarter")

30 JUNE 2010

### Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	2,182	4,142
1.2	Payments for (a) exploration and evaluation	(1,309)	(3,693)
	(b) development	(1,000)	(1,428)
	(c) production	(410)	(832)
	(d) administration	(326)	(687)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	28	68
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other	-	-
<b>Net Operating Cash Flows</b>		<b>(835)</b>	<b>(2,430)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(2)	(3)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>(2)</b>	<b>(3)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(837)</b>	<b>(2,433)</b>

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(837)	(2,433)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – payment of share issue costs	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(837)	(2,433)
1.20	Cash at beginning of quarter/year to date	4,958	6,629
1.21	Exchange rate adjustments to item 1.20	165	90
1.22	<b>Cash at end of quarter</b>	4,286	4,286

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	285
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 – Payment of salaries and fees to directors and related parties under approved agreements

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	N/a

+ See chapter 19 for defined terms.

3.2	Credit standby arrangements	Nil	N/a
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### Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	1,250
4.2	Development	3,300
4.3	Production	443
4.4	Administration	432
<b>Total</b>		<b>5,425</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	957	937
5.2 Deposits at call	3,329	4,021
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>4,286</b>	<b>4,958</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)	None			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	None			
7.3	<b>+Ordinary securities</b>	134,577,879	134,577,879		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	None			
7.5	<b>+Convertible debt securities</b> (description)	None			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	None			
7.7	<b>Options</b> (description and conversion factor)	B. 2,770,000 C. 3,000,000 D. 5,780,000 E. 2,500,000 F. 2,500,000 G. 2,700,000	nil nil nil nil nil nil	Exercise price 50 cents 75 cents 100 cents 50 cents 100 cents 75 cents	Expiry date 08-05-2011 08-05-2011 08-05-2011 08-05-2012 08-05-2012 08-05-2010
7.8	Issued during quarter	300,000	300,000	26 cents	14-02-2013
7.9	Exercised during quarter	None			
7.10	Expired during quarter	2,700,000	nil	50 cents	08-05-2011
7.11	<b>Debentures</b> (totals only)	None			

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	None	
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Company secretary

Date: 30 July 2010

Print name: Desmond Frederick Olling

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.