

**INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED**

**30 JUNE 2012**

CONTENTS	PAGE
Directors' report	2
Lead Auditor's independence declaration	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Condensed notes to the consolidated interim financial statements	12
Directors' declaration	19
Independent auditor's review report	20

**DIRECTORS' REPORT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2012**

The directors present their report together with the consolidated financial report for the six months ended 30 June 2012 and the review report thereon.

**Directors**

The directors of the Company at any time during or since the end of the period are:

<u>Name</u>	<u>Period of directorship</u>
<b>Executive</b>	
Dr John Armstrong (Chairman)	Appointed 17 May 2006
<b>Non-executive</b>	
Mr David Mason	Appointed 17 May 2006
Mr Bernard Rowley	Appointed 31 January 2007

**Production**

Production for the six month period was:

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011
<b>Gross:</b>		
Gas (mmcft)	262.8	671.8
Oil (mbbl)	111.7	126.7
Total (mboe)	155.5	238.6
<b>Nett (Texon share):<sup>(1)</sup></b>		
Gas (mmcft)	143.2	290.2
Oil (mbbl)	72.2	71.9
Total (mboe)	96.1	120.3

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

Nett production (boe) decreased by 20% compared with the half year to 30 June 2011. The major factor in the decrease was the sale of the Leighton Olmos and Yegua properties effective 1 February 2012. These properties contributed about 57 mboe to production in the first half of 2011, however this reduction was partially offset by increased production from the Eagle Ford formation in H1/2012. By volume (boe), oil increased its share of production during the period to 75% (up from 60%). Gas was 25% of production (down from 40%).

At 30 June 2012 the Company had 8 producing wells including 4 Eagle Ford wells. The recently drilled Peeler #1H Eagle Ford well and the Wheeler #1 Olmos well came onstream in July.

**Financial**

The Company recorded a loss of A\$9,103 (2011: profit A\$1,266,635) for the period, with a profit before income tax of A\$874,843 (2011: A\$1,266,635). The result includes a gain on sale of the Leighton Olmos and Yegua properties of A\$2.49 million and a non-cash share-based payment expense of A\$1.53 million.

Revenue for the six month period was A\$7,575,741 (2011: A\$8,363,112), a decrease of A\$787,371 or 9%. Whilst production decreased by 20% due to the sale of the Leighton Olmos and Yegua properties and gas prices fell significantly, increased oil production and marginally higher oil prices received partially offset the reductions. The proportion of revenue derived from oil sales increased from 75% in H1/2011 to 91% in H1/2012.

The West Texas Intermediate crude oil price averaged about US\$98/bbl in both H1/2012 and H1/2011. The Henry Hub spot gas price averaged US\$2.37/mmbtu in H1/2012 compared with US\$4.28/mmbtu in H1/2011. During H1/2012 the Group received an average price of US\$4.83/mcf for its gas (H1/2011: US\$7.50/mcf).

Cash at 30 June 2012 was A\$25.75 million (31 December 2011: A\$13.37 million). Net tangible assets per share at 30 June 2012 was A\$0.28/share (31 December 2011: A\$0.28/share).

## DIRECTORS' REPORT (continued)

**Eagle Ford**

In February this year the Company announced that it had appointed Houston based Albrecht and Associates and Brisbane based RBS Morgans to seek potential buyers for all or part of the Company's Eagle Ford project. The intention of the transaction is either to fully or partially monetize (lease sale, corporate trade, farm out, joint venture) the Company's Eagle Ford to achieve the optimal outcome for shareholders. A target completion date of mid-2012 was indicated.

As discussed in our EGM presentation of 31 August 2012, the Eagle Ford monetization process is taking longer than expected, however the Company is continuing to progress a potential transaction. In parallel, Texon is continuing to enhance the value of the Eagle Ford holding by:

- Entering into a new joint venture, currently being documented, which will add 1,760 gross acres and 200 net WI acres, bringing Texon's WI to about 7,400 acres;
- Planning several new Eagle Ford wells over the next six months; and
- Securing a funding facility for the new well program.

One Eagle Ford well, Peeler #1H (EFS 5), was drilled during the period. The well commenced drilling on 6 May and reached its total depth of 14,795 ft on 28 May after drilling some 4,200 ft of horizontal section. The well was fracked in mid-July with 15 stages and as announced on 23 July the initial production rate was 1,072 bopd and 1.137 mmcfgpd (1,262 boepd).

The fracture stimulation included perforating and fracturing the Austin Chalk and production will be from both Austin Chalk and Eagle Ford formations as the Austin Chalk directly overlies and is contiguous with the Eagle Ford Shale.

Texon has a 89.24% WI (66.9% NRI) in the well, which is located immediately adjacent to the Company's third Eagle Ford well (Tyler Ranch #2H), our most prolific producing well.

The first five wells are now all on production and contributed 85.4 mboe or 89% of total production during the reporting period.

EFS well	Spudded	Boepd IFR	First 30 days production Boe	First 60 days production Boe	Texon WI %	Texon NRI %
1. Tyler Ranch #1H	September 2010	1,332	19,651	37,930	82	61.6
2. Teal #1H	November 2010	1,228	16,531	23,340	100	75
3. Tyler Ranch #2H	June 2011	1,605	30,400	43,898	82	61.6
4. Hoskins #1H	July 2011	1,562	23,780	41,606	95	71.25
5. Peeler #1H	May 2012	1,262	19,327	N/A	89.2	66.9

The Company now holds about 7,400 net Eagle Ford acres. Based on the success of the five wells the Company has de-risked its holding so that it now has over 90 net Eagle Ford potential well locations.

**Olmos – Mosman Rockingham**

A review of the 3D seismic acquired last year over some 1,560 acres was completed in April. The review indicated that the Olmos in the Mosman Rockingham leases showed similar characteristics to the Olmos in the Leighton field. Based on this review the Company estimates that there are a further potential 30 well locations on 40 acre spacing.

The first Olmos well, Wheeler #1, was drilled in May and in June flowed oil and gas at the rate of 220 boepd which comprised 87% oil. The success of this well could demonstrate a potentially large Olmos oil resource of about 3mmboe to Texon's WI in the Mosman Rockingham area.

The Company plans to refrac the Hoskins #1 well in the fourth quarter of 2012, and follow up with new Olmos wells in 2013.

## DIRECTORS' REPORT (continued)

Wilcox – Mosman Rockingham

The Company's first Wilcox well (Hoskins #2) flowed at an initial rate of 55 bopd in January 2012 and is now on pump. The Wilcox reservoir could cover 1,500-2,000 acres in the Mosman-Rockingham leases where the Company's WI is 95-100% WI. The well is producing an average of 8 bopd and will be monitored to ascertain its commerciality.

Emerging oil projects

A number of multi-well and resource oil projects are being investigated targeting projects which have a potential value to the Company similar to that of our current Eagle Ford holding. The Company has recently located significant open acreage in East Texas that is considered prospective for a shallow oil drilling program. Early leasing is in progress and a "proof of concept" well is planned for Q2 2013.

The Company has agreed terms, currently being documented, to acquire ca. 50% WI in an East Texas oil project amounting to 6,956 gross acres (3,478 WI acres). With the potential for 250-300 mbbls oil per 160 acre well, the overall potential of the project could amount to 11 mmbbls oil gross. The first well is anticipated to be in Q1 2013.

Reserves as at 1 August 2012

As at 1 August 2012 Proved, Probable and Possible reserves attributable to Texon's NRI were 12.58 mmboe.

The total is a 11% increase on the 11.33 mmboe at year end 2011 (after adjusting the year end 2011 reserves of 12.88 mmboe for the sale in March 2012 of the Leighton Olmos and Yegua reserves of 1.55 mmboe).

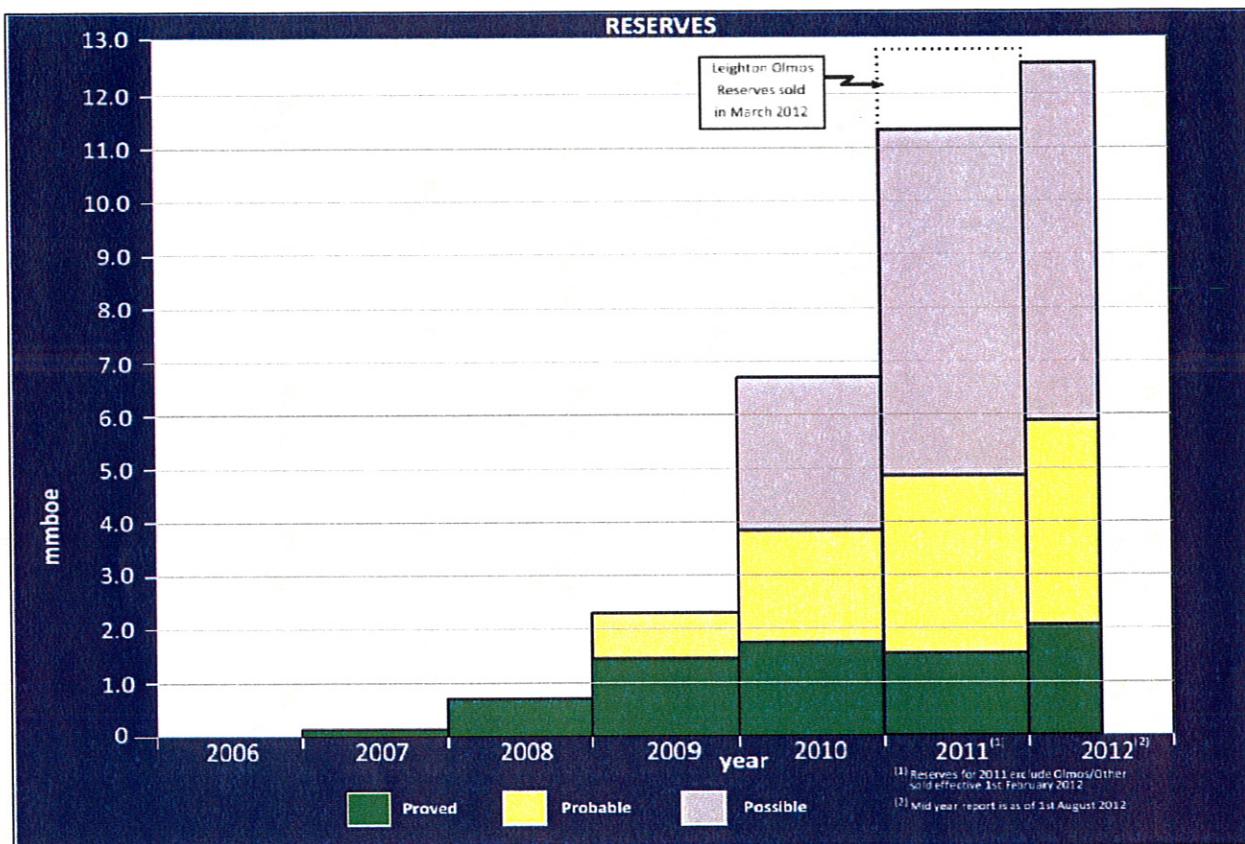
The mid year 2012 Reserves have been assessed by Netherland, Sewell & Associates, Inc.

<b>Oil &amp; Gas Reserves Nett to Texon's NRI</b>		
	<b>MY 2012</b>	<b>YE 2011 *</b>
<b>Proved:</b>		
Oil (mbbl)	1,637	1,653
Natural gas liquids (mbbl)	184	145
Gas (mmcf)	1,478	4,035
Total proved (mboe)	2,067	2,471
<b>Probable:</b>		
Oil (mbbl)	3,009	2,893
Natural gas liquids (mbbl)	350	314
Gas (mmcf)	2,744	4,141
Total probable (mboe)	3,817	3,897
<b>Possible:</b>		
Oil (mbbl)	5,255	5,063
Natural gas liquids (mbbl)	631	625
Gas (mmcf)	4,858	4,977
Total possible (mboe)	6,696	6,517
<b>Totals:</b>		
Oil (mbbl)	9,902	9,609
Natural gas liquids (mbbl)	1,165	1,084
Gas (mmcf)	9,080	13,153
<b>Total proved, probable and possible (mboe) **</b>	<b>12,580</b>	<b>12,885</b>

\* Includes 1.55 mmboe for the Leighton Olmos and Yegua properties sold in March 2012.

\*\* mboe (thousand barrels of oil equivalent) comprises gas converted to oil equivalent on the basis of six (6) mcf to one (1) barrel of oil equivalent.

## DIRECTORS' REPORT (continued)

Reserves as at 1 August 2012 (continued)

Netherland, Sewell & Associates, Inc. and Delilah B Hainey are qualified in accordance with ASX Listing Rule 5.11. Netherland, Sewell & Associates, Inc. has consented to the form and context of the reserves shown in this report.

Leighton Olmos and Yegua sale completed

In March the Company received net proceeds of US\$12.5m before tax from the sale of the Leighton Olmos and Yegua assets. The sale proceeds provided a cash injection into the business and improved the Company's cash position.

Prospect Generation Agreement extension

In May 2012 the Company and Wandoo Energy agreed to variations to the agreement which were subject to shareholder approval including a five year extension of the agreement until April 2019 and the enlargement of the area available to the Company from 32,000 square miles to 82,000 square miles so that new higher quality material prospects will be generated for the Company. The focus of the extended area is primarily in the prolific oil producing East Texas Basin. Shareholders approved the variations on 31 August 2012.

Corporate

In June 2012 6,000,000 unlisted incentive options were issued to Dr John Armstrong, Chairman, and 600,000 to Mr Bernard Rowley, Director. The options are exercisable at 70 cents each under certain conditions and were issued following approval of shareholders at the 30 May 2012 Annual General Meeting.

In April 2012 2,500,000 options were exercised at 50 cents each and a further 2,500,000 lapsed in May. The amendments to the Prospect Generation Agreement provided that the Company grant 3,000,000 unlisted options in the Company to Wandoo Energy or its nominee on terms substantially the same as options issued to the CEO, Company Secretary and two Directors in December 2011 and June 2012. The options received shareholder approval in general meeting on 31 August 2012.

Including the Wandoo Energy options, as at 30 June 17,800,000 unlisted options remain outstanding and expire between February 2013 and April 2019.

## DIRECTORS' REPORT (continued)

**Corporate (continued)**

An amendment to the Company's Constitution was also approved by shareholders in May 2012 where the maximum number of Directors was reduced from 10 to five. The amendment follows a change in the Corporations Act in 2011 which meant that Directors would not be entitled to limit the number of Directors who could serve on the Board (subject to the maximum limit in the Constitution not being exceeded). The Company's decision to reduce the maximum number of Directors was based on striking a balance between allowing the Board flexibility to increase its number and limiting the ability of non-recommended candidates from being elected.

**Demerger**

On 31 August 2012 the Company announced its plan to undertake a corporate demerger to recognise and unlock the value embedded in the Company of its non-Eagle Ford holdings and form a new listed company, "Texon II". To this end the Company is undertaking a strategic review of its current corporate structure to evaluate the issues, costs and benefits to Texon's security holders. Once Texon has undertaken its review it will provide an update to the market on the results of that review.

**Dividends**

No dividends have been declared, provided or paid in respect of the period.

**Lead Auditor's independence declaration**

The Lead Auditor's independence declaration is set out on page 7 and forms part of the Directors' Report for the six months ended 30 June 2012.

Signed in accordance with a resolution of the directors.



John D Armstrong  
Chairman  
Brisbane  
11 September 2012

**Glossary**

bbl:	barrel
bcpd:	barrels of condensate per day
boe:	barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
boepd:	barrels of oil equivalent per day (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
bpd:	barrels of oil per day
bpd:	barrels per day
ft:	feet
IFR:	initial flow rate
m:	metres
mbbl:	thousand barrels
mboe:	thousand barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
mcf:	thousand cubic feet
mcfgpd:	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)
mmcfgpd:	million cubic feet of gas per day
NRI:	Net Revenue Interest
PGA:	Prospect Generation Agreement
WI:	Working Interest



**Lead Auditor's Independence Declaration under Section 307C of the *Corporation Act 2001***

To: the directors of Texon Petroleum Ltd.

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 30 June 2012, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Stephen Board  
Partner

Brisbane  
11 September 2012

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	Note	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011
		\$	\$
Revenue – oil and gas		7,575,741	8,363,112
Cost of oil and gas sold	4	(6,186,779)	(5,172,400)
<b>Gross profit</b>		<u>1,388,962</u>	<u>3,190,712</u>
Other income	4	2,487,222	-
Employee benefits	4	(1,227,640)	(214,251)
Administrative and other expenses	4	(1,723,206)	(925,984)
Exploration and evaluation expenditure	8	(152,491)	(479,226)
<b>Results from operating activities</b>		<u>772,847</u>	<u>1,571,251</u>
Finance income		101,996	122,453
Finance expense	4	-	(427,069)
<b>Net finance income / (expense)</b>		<u>101,996</u>	<u>(304,616)</u>
<b>Profit before income tax</b>		874,843	1,266,635
Income tax expense	5	(883,946)	-
<b>Profit / (loss) for the period</b>		<u>(9,103)</u>	<u>1,266,635</u>
<b>Other comprehensive income</b>			
Foreign exchange translation differences, net of tax		85,440	(2,326,040)
<b>Other comprehensive income / (loss) for the period, net of tax</b>		<u>85,440</u>	<u>(2,326,040)</u>
<b>Total comprehensive income / (loss) attributable to members of the Company</b>		<u>76,337</u>	<u>(1,059,405)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings/(loss) per share		(0.004)	0.606
Diluted earnings/(loss) per share		(0.004)	0.604

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2012**

	Note	30 Jun 2012	31 Dec 2011
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents		25,752,604	13,365,634
Trade and other receivables		1,080,429	5,042,443
Investments		53,229	53,178
Prepayments		205,364	183,407
Assets held for sale	6	-	9,114,878
<b>Total current assets</b>		<u>27,091,626</u>	<u>27,759,540</u>
<b>Non-current assets</b>			
Property, plant and equipment	7	46,099,581	42,498,126
Exploration and evaluation expenditure	8	11,938,590	10,983,859
<b>Total non-current assets</b>		<u>58,038,171</u>	<u>53,481,985</u>
<b>TOTAL ASSETS</b>		<u>85,129,797</u>	<u>81,241,525</u>
<b>Current liabilities</b>			
Trade and other payables		2,788,142	2,756,765
Employee benefits		70,091	34,883
<b>Total current liabilities</b>		<u>2,858,233</u>	<u>2,791,648</u>
<b>Non-current liabilities</b>			
Provisions		453,012	344,721
Deferred tax liabilities	9	1,178,847	321,434
<b>Total non-current liabilities</b>		<u>1,631,859</u>	<u>666,155</u>
<b>TOTAL LIABILITIES</b>		<u>4,490,092</u>	<u>3,457,803</u>
<b>NET ASSETS</b>		<u>80,639,705</u>	<u>77,783,722</u>
<b>Equity</b>			
Share capital	10	85,104,020	83,854,020
Reserves		(282,486)	(1,897,572)
Accumulated losses		(4,181,829)	(4,172,726)
<b>TOTAL EQUITY</b>		<u>80,639,705</u>	<u>77,783,722</u>

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2012**

Six months ended 30 June 2012	Share- capital \$	Share- based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2012	83,854,020	2,338,950	(4,236,522)	(4,172,726)	77,783,722
<b>Total comprehensive income for the period</b>					
Profit / (loss) for the period	-	-	-	(9,103)	(9,103)
<b>Other comprehensive income</b>					
Foreign exchange translation differences	-	-	85,440	-	85,440
Total comprehensive income for the period	-	-	85,440	(9,103)	76,337
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Shares issued	1,250,000	-	-	-	1,250,000
Share-based payments	-	1,529,646	-	-	1,529,646
Balance at 30 June 2012	85,104,020	3,868,596	(4,151,082)	(4,181,829)	80,639,705
 <b>Six months ended 30 June 2011</b>					
Balance at 1 January 2011	42,337,115	234,148	(3,938,009)	(6,167,240)	32,466,014
<b>Total comprehensive income for the period</b>					
Profit / (loss) for the period	-	-	-	1,266,635	1,266,635
<b>Other comprehensive income</b>					
Foreign exchange translation differences	-	-	(2,326,040)	-	(2,326,040)
Total comprehensive income for the period	-	-	(2,326,040)	1,266,635	(1,059,405)
<b>Transactions with owners, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Shares issued	43,350,280	-	-	-	43,350,280
Share issue expenses	(1,833,375)	-	-	-	(1,833,375)
Balance at 30 June 2011	83,854,020	234,148	(6,264,049)	(4,900,605)	72,923,514

Amounts are stated net of tax.

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011
	\$	\$
<b>Cash flows from operating activities</b>		
Cash receipts from customers	11,629,722	6,297,575
Cash paid to suppliers and employees	(3,925,153)	(1,889,685)
Interest received	91,331	137,674
Income taxes paid	(34,315)	-
<b>Net cash from operating activities</b>	<b>7,761,585</b>	<b>4,545,564</b>
<b>Cash flows from investing activities</b>		
Exploration, evaluation and development expenditure	(8,919,890)	(25,206,629)
Acquisition of property, plant and equipment	(22,424)	(61,343)
Proceeds from sale of oil and gas properties	12,220,985	-
<b>Net cash from investing activities</b>	<b>3,278,671</b>	<b>(25,267,972)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share issues	1,250,000	43,350,280
Share issue expenses	-	(1,833,375)
<b>Net cash from financing activities</b>	<b>1,250,000</b>	<b>41,516,905</b>
Net increase/(decrease) in cash and cash equivalents	12,290,256	20,794,497
Cash and cash equivalents at 1 January	13,365,634	13,656,881
Effect of exchange rate fluctuations on cash and cash equivalents	96,714	(1,301,985)
<b>Cash and cash equivalents at 30 June</b>	<b>25,752,604</b>	<b>33,149,393</b>

The condensed notes on pages 12 to 18 are an integral part of these consolidated interim financial statements.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Note**

- 1 Reporting entity
- 2 Statement of compliance
- 3 Significant accounting policies
- 4 Income and expenses
- 5 Income tax expense
- 6 Assets held for sale
- 7 Property, plant and equipment
- 8 Exploration and evaluation expenditure
- 9 Tax assets and liabilities
- 10 Share capital
- 11 Share options
- 12 Capital and other commitments
- 13 Contingencies
- 14 Related parties
- 15 Subsequent events

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**1. REPORTING ENTITY**

Texon Petroleum Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 31 December 2011 is available upon request from the Company's registered office at Level 9, 46 Edward Street, Brisbane QLD 4000 or at [www.texonpetroleum.com.au](http://www.texonpetroleum.com.au).

**2. STATEMENT OF COMPLIANCE**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report also complies with IAS 34 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2011.

This consolidated interim financial report was approved by the Board of Directors on 11 September 2012.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2011.

**Estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2011.

**Segment reporting**

The Group determines operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

The Group operates within one business segment (the petroleum exploration and production industry) and one geographical segment (the United States of America).

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

**Geographical information**

The geographical locations of the Group's non-current assets are USA \$58,029,335 and Australia \$8,836 (31 December 2011: USA \$53,471,868 and Australia \$10,117).

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 4. INCOME AND EXPENSES

	Six months ended 30 Jun 12	Six months ended 30 Jun 11
	\$	\$
Cost of oil and gas sold	(6,186,779)	(5,172,400)
Other income	2,487,222	-
Employee benefits	(1,227,640)	(214,251)
Administrative and other expenses	(1,723,206)	(925,984)
Finance expense	-	(427,069)

Cost of oil and gas sold includes depreciation of oil and gas properties of \$3,820,033 (2011: \$3,899,329).

Other income consists of a gain on disposal of the Group's Leighton Olmos and Yegua producing oil and gas properties during the period of \$2,487,222 (2011: \$nil). Net cash proceeds amounted to A\$12.1 million (US\$12.5 million).

Employee benefits include shared-based payment expense of \$864,959 (2011: \$nil) in relation to employee options. Administrative and other expenses include shared-based payment expense of \$664,687 (2011: \$nil) in relation to contractor options. Refer Note 11.

Finance expense consists of a net foreign exchange loss of \$nil (2011: \$427,069). In 2012 a net foreign exchange gain of \$9,822 (2011: \$nil) is included in finance income.

## 5. INCOME TAX EXPENSE

## Numerical reconciliation between tax expense and pre-tax net profit / (loss)

	Six months ended 30 June 2012	Six months ended 30 June 2011
	\$	\$
Profit / (loss) before tax	874,843	1,266,635
Income tax expense/(benefit) using the domestic corporation tax rate of 30%	262,453	379,991
Increase/(decrease) in income tax expense due to:		
Change in unrecognized temporary differences	(98,679)	(740,859)
Non-deductible expenditure	459,866	1,981
Effect of tax rates in foreign jurisdictions	121,311	85,175
Adjustments for prior periods	34,315	-
Tax losses not brought to account	104,680	273,712
Income tax expense/(benefit) on pre-tax net profit/loss	883,946	-

Income tax expense consists of current tax expense of \$34,315 (2011: \$nil) and deferred tax expense of \$849,631 (2011: \$nil). Income tax expense/benefit recognised directly in equity for the Group is \$nil (2011: \$nil).

## 6. ASSETS HELD FOR SALE

The Group's Leighton Olmos and Yegua producing oil and gas properties were presented as assets held for sale as at 31 December 2011 following the appointment of an oil and gas divestment adviser to seek buyers of the assets. A purchase and sale agreement closed on 6 March 2012.

	30 Jun 2012	31 Dec 2011
	\$	\$
Property, plant and equipment	-	9,335,618
Provisions	-	(220,740)
		9,114,878

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 7. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 Jun 12	Twelve months ended 31 Dec 11
	\$	\$
<b>Oil and gas properties</b>		
<b>Cost</b>		
Balance at 1 January	51,066,767	26,845,237
Transferred from exploration and evaluation expenditure	492,028	2,555,172
Additions	7,566,656	35,893,608
Transferred to assets held for sale	(704,820)	(14,100,564)
Foreign exchange translation	114,502	(126,686)
Balance at end of period	58,535,133	51,066,767
 <i>Accumulated depreciation and impairment</i>		
Balance at 1 January	8,673,203	3,864,609
Depreciation expense (refer Note 4)	3,820,033	9,769,515
Transferred to assets held for sale	-	(4,954,185)
Foreign exchange translation	42,044	(6,736)
Balance at end of period	12,535,280	8,673,203
 <i>Carrying amounts</i>		
At 1 January	42,393,564	22,980,628
At end of period	45,999,853	42,393,564
 <b>Plant, equipment, furniture and fixtures</b>		
<b>Cost</b>		
Balance at 1 January	246,732	127,004
Additions	22,424	120,521
Foreign exchange translation	174	(793)
Balance at end of period	269,330	246,732
 <i>Accumulated depreciation</i>		
Balance at 1 January	142,170	114,415
Depreciation expense	27,137	28,339
Foreign exchange translation	295	(584)
Balance at end of period	169,602	142,170
 <i>Carrying amounts</i>		
At 1 January	104,562	12,589
At end of period	99,728	104,562
 <b>Total carrying amounts</b>		
At 1 January	42,498,126	22,993,217
At end of period	46,099,581	42,498,126

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 8. EXPLORATION AND EVALUATION EXPENDITURE

	Six months ended	Twelve months ended
	30 Jun 12	31 Dec 11
	\$	\$
Balance at 1 January	10,983,859	1,545,851
Additions	1,580,299	13,014,954
Transferred to oil and gas properties	(492,028)	(2,555,172)
Expenditure written-off	(152,491)	(1,084,486)
Foreign exchange translation	18,951	62,712
Balance at end of period	11,938,590	10,983,859

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

## 9. TAX ASSETS AND LIABILITIES

## Recognised deferred tax assets and liabilities

Deferred tax assets and (liabilities) are attributable to the following:

	30 June 2012	31 Dec 2011
	\$	\$
Exploration and development expenditure	(14,170,275)	(13,411,106)
Other items	1,158,714	904,128
Tax losses	11,832,714	12,185,544
Net tax liabilities	(1,178,847)	(321,434)

## Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	30 June 2012	31 Dec 2011
	\$	\$
Temporary differences	591,209	667,765
Tax losses	1,150,186	1,067,878

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 10. SHARE CAPITAL

Movements in shares on issue during the period were as follows:

	Six months ended 30 Jun 12	Twelve months ended 31 Dec 11
	Ordinary shares (number)	Ordinary shares (number)
On issue at 1 January	242,539,848	175,177,879
Issue of ordinary shares 1 March 2011	-	24,166,681
Issue of ordinary shares 15 April 2011	-	36,545,288
Exercise of share options	2,500,000	6,650,000
On issue at end of period – fully paid	<hr/> 245,039,848	<hr/> 242,539,848

## Issuance of ordinary shares

During the period the Company issued 2,500,000 ordinary shares at an exercise price of \$0.50 per share upon the exercise of options (refer Note 11).

All issued shares are fully paid.

## 11. SHARE OPTIONS

Movements in the number of share options during the period were as follows:

	Number of options 6 months ended	Number of options 12 months ended
	30 June 2012	31 Dec 2011
Outstanding at 1 January	19,800,000	18,880,000
Granted during the period	3,000,000 <sup>(1)</sup>	14,500,000 <sup>(2)</sup>
Exercised during the period	(2,500,000)	(6,650,000)
Expired during the period	(2,500,000)	(6,930,000)
Outstanding at end of period	<hr/> 17,800,000	<hr/> 19,800,000
Exercisable at end of period	<hr/> 300,000	<hr/> 5,300,000

<sup>(1)</sup> 3,000,000 options were approved by the Board in May 2012 but were subject to shareholder approval at a general meeting. The options were approved by shareholders at a general meeting on 31 August 2012.

<sup>(2)</sup> 6,600,000 options were approved by the Board in 2011 but were subject to shareholder approval at a general meeting. The options were approved by shareholders at a general meeting on 30 May 2012.

During the period 2,500,000 options were exercised at an exercise price of \$0.50 per share.

During the period 2,500,000 options expired with an exercise price of \$1.00 per share.

In May 2012 the Board approved the issue of 3,000,000 options to Wandoo Energy LLC (a related party of director Mr D Mason), subject to shareholder approval at a general meeting. The terms of the options are substantially the same as the Tranche 2 options recently issued to the chief executive officer, Mr C Foss, and the options issued to directors Dr J Armstrong and Mr B Rowley.

The options outstanding at 30 June 2012 consist of 300,000 options with an exercise price of \$0.26 which expire in February 2013, 300,000 options with an exercise price of \$0.49-0.585 which expire in the period June to August 2015, 14,200,000 options with an exercise price of \$0.70 which expire in the period December 2015 to November 2016, and 3,000,000 options subject to shareholder approval with an exercise price of \$0.70 which expire in April 2019.

Further information with respect to options is set out in the 31 December 2011 annual financial report.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)**

**12. CAPITAL AND OTHER COMMITMENTS**

Information with respect to continuing commitments is set out in the 31 December 2011 annual financial report. There have been no significant changes during the six months ended 30 June 2012.

**13. CONTINGENCIES**

Information with respect to contingencies is set out in the 31 December 2011 annual financial report. There have been no significant changes to contingencies during the six months ended 30 June 2012 apart from the matter set out below.

In January 2012 an accident at the Peeler #4 well site in McMullen County, Texas resulted in the death of an employee of an independent third party contractor engaged by the contract operator of record. Subsequent to year end, the family of the deceased have filed legal proceedings in a Texas court claiming damages against the Group, the contract operator and a number of other parties connected with the accident which are unrelated to the Group. The Group denies any liability in connection with the accident. It is not currently practicable to estimate the potential financial effect on the Group of the claim, if any.

**14. RELATED PARTIES**

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 31 December 2011 annual financial report. Significant changes during the period are set out below.

In May 2012 the Company and Wandoo Energy LLC (a related party of director Mr D Mason) agreed to variations to the prospect generation agreement including a five year extension of the agreement until April 2019 and the enlargement of the area available to the Company from 32,000 square miles to 82,000 square miles so that new higher quality material prospects will be generated for the Company. The focus of the extended area is primarily in the prolific oil producing East Texas Basin.

3,000,000 options issued to Wandoo Energy LLC (a related party of Mr D Mason in which he has a 75% interest) were approved by the Board in May 2012 and were approved by shareholders at a general meeting on 31 August 2012.

**15. SUBSEQUENT EVENTS**

There have been no events subsequent to balance date, other than as set out in Note 13, which would have a material effect on the Group's financial statements at 30 June 2012.

**DIRECTORS' DECLARATION**

In the opinion of the directors of Texon Petroleum Ltd ("the Company"):

- (a) the financial statements and notes set out on pages 8 to 18 are in accordance with the *Corporations Act 2001* including:
- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the six month period ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



John D Armstrong  
Chairman  
Brisbane  
11 September 2012



## **Independent auditor's review report to the members of Texon Petroleum Limited**

We have reviewed the accompanying interim financial report of Texon Petroleum Limited, which comprises the consolidated statement of financial position as at 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

### *Directors' responsibility for the interim financial report*

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Texon Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Texon Petroleum Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG



Stephen Board  
Partner

Brisbane  
11 September 2012