TEXON PETROLEUM LTD

# INTERIM FINANCIAL REPORT

# FOR THE SIX MONTHS ENDED

# 30 JUNE 2009

ABN 24 119 737 772

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# DIRECTORS' REPORT
# FOR THE SIX MONTHS ENDED 30 JUNE 2009

The directors present their report together with the consolidated financial report for the six months ended 30 June 2009 and the review report thereon.

## Directors

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

| Name | Period of directorship |
|---|---|
| **Executive** | |
| Dr John Armstrong (Chairman) | Appointed 17 May 2006 |
| Mr David Mason (President & CEO) | Appointed 17 May 2006 |
| **Non-executive** | |
| Mr Peter Dighton | Appointed 17 May 2006 |
| Mr Bernard Rowley | Appointed 31 January 2007 |

## Financial

The Company made a loss of A$2,125,739 (2008: A$1,683,155) for the period, an increase of 26%. The loss resulted in large part from an impairment expense of A$2.03 million mainly attributable to the write-down of the Company's Duranbah well which ceased production in April 2009. Revenue for the six month period before severance tax and lease operating expenses was A$2,375,603 (2008: A$2,059,666), an increase of 15% achieved as a result of increased production of 70%, offset by lower oil and gas prices during the period. Cash held at 30 June was A$3.73 million. Net tangible assets per share at 30 June was A$0.11/share (31 December 2008: A$0.15/share).

Average gas market prices for the June 2009 quarter were US$3.80/mcf which fell from the March quarter average of US$4.70/mcf. July and August gas market prices have averaged about US$3.40/mcf. The low gas prices, which have been falling since about mid 2008, are a product of decreased industrial demand and increased production from previously high drilling activity in the United States resulting in an oversupply of natural gas. New York Mercantile Exchange (NYMEX) gas futures (20 August 2009) predict that gas prices will firm during the first half of 2010 to about US$5.80/mcf and increase to an average of about US$6.40/mcf for the second half of 2010. West Texas Intermediate crude oil prices which averaged US$100/bbl in 2008 are predicted to average around US$60/bbl in 2009 (NYMEX oil futures 20 August 2009). July and August oil prices were about US$60/bbl and US$67/bbl respectively.

## Production

Production for the six month period was:

Gross: 412,887 mcf gas and 20,200 bbl oil (2008: 272,670 mcf gas and 951 bbl oil).

Nett (the Company's share): 280,277 mcf gas and 11,081 bbl oil (2008: 199,813 mcf gas and 695 bbl oil).

The Company's share of oil and gas production increased significantly compared with the previous corresponding six month period.

The Company through its Leighton development has increased its exposure to oil with oil production for the six months representing 19% of total production on a barrel of oil equivalent basis and 29% of revenues as compared with calendar year 2008 when oil represented 7% of production and 8% of revenues. This trend is anticipated to continue to increase as production drilling on Leighton proceeds.

## Activities during the period

Production for the period was from nine wells including the two Leighton field wells, Peeler #1 and Tyler Ranch #1. The standout well was Avoca which produced 41% (115,000 mcf) of the nett gas and 15% (1,700 bbls) of the nett oil production during the period.

Two of the nine wells ceased production during the period. Yamba came off production in January due to the well watering out and Duranbah ceased production in April after watering out and tests of two additional zones proved non-productive. Both wells have been shut-in in preparation for plugging and abandonment.

## DIRECTORS' REPORT (continued)

The first Leighton well, Peeler #1, commenced production on 5 November 2008 but experienced a steady decline in production from an average of 200 boepd to an average of 40 boepd in July 2009. To address this issue a re-fracture stimulation was successfully carried out in early August and resulted in an increase in production to 150 boepd.

The second Leighton well, Tyler Ranch #1, commenced drilling on 26 February 2009 and reached its target depth of 2,743 metres (9,000 feet) on 12 March. The well was tested during April and connected to oil tanks and sales gas pipeline on 14 April 2009. Gas production to 30 June was 20,872 mcf (nett) gas and 5,452 bbl (nett) oil. Oil production from Tyler Ranch #1 represented 49% of total nett oil produced for the period.

Production of the two Leighton wells was adversely affected during late May and most of June when the sour gas processing plant, which lies between the Leighton field and the liquids extraction plant, was shut down for repairs. Although Texon's gas is not sour it must pass through this plant to reach the liquids extraction plant. Following refurbishment the gas plant was re-opened in late June and production from Tyler Ranch #1 and Peeler #1 recommenced on 25 June 2009.

The third Leighton well, Tyler Ranch #2, was recently drilled and reached its target depth of 2,743 metres (9,000 feet) in early September after intersecting oil and gas in the Olmos reservoir. This is the same reservoir from which the first two Leighton wells are producing. Fracture stimulation and testing will be carried out in September and if successful the well will be placed on production.

Due to the reduced drilling activity in the USA drilling costs have reduced by 50% since August 2008 when the first Leighton well, Peeler #1 was drilled. The recently drilled Tyler Ranch #2 estimated final cost to drill, complete and tie into sales is estimated to be US$1.0 million compared with Peeler #1 which cost US$2.1 million.

The success of Peeler #1 and Tyler Ranch #1 has established further Proved Undeveloped well locations ("PUD") contiguous with both wells in the Leighton oil and gas field. In the June 2009 Reserves Report there were 12 PUD well locations in addition to the two producing wells and 6 probable locations in the Leighton oil and gas field compared with the December 2008 year end reserves (which were based on Peeler #1) of 5 PUD well locations and nil probable locations.

Based on the increased number of PUD and probable well locations, proved reserves of 1.1 mmboe and probable reserves of 0.5 mmboe were attributable to the Company at 30 June 2009. Proved reserves have increased 60% from the December 2008 reserves report. The June 2009 reserves report was prepared by Delilah B Hainey of Hainey & Hainey, a reservoir consultant who is qualified in accordance with ASX Listing Rule 5.11 and who consented to the reserves contained in the report being released.

A substantially enlarged area in south east Texas from which new prospects can be brought to the Company under its contract with Wandoo Energy LLC was approved by shareholders at the Company's third AGM held on 27 May. The enlarged area means potentially more prospects can be identified during the 3D seismic survey evaluation process and become potential drillable prospects. The Company has the first right of refusal over all prospects generated in the enlarged area by Wandoo Energy LLC.

The final 28,654,500 unquoted shares were released from Escrow and quoted on 15 May after two years of ASX restriction at the time of the IPO. All issued shares of the Company from the IPO are now quoted.

### <u>Prospects and leasing</u>

During the six months ended 30 June, 11 new prospects were accepted all of which satisfy the Company's increased materiality hurdle as well as increasing the Company's exposure to more oil prone formations.

The Company had 15 prospects (15 last year) which are leased and ready to drill (10 shallow and 5 deep). Three new leases (2 shallow, 1 deep) were signed during the period. The two new shallow prospects, Nambucca and Iluka, expanded the Company's presence around the Avoca discovery capturing two additional look-alike prospects. The new deep prospect was Mosman which is 4km from and is a look-alike to the Company's Leighton discovery. This doubled the Company's exposure to both the oily Leighton reservoir plus the liquids rich Eagle Ford Shale.

## DIRECTORS' REPORT (continued)

### Business Plan

A Business Plan was outlined to shareholders at the AGM setting out the goals of the Company, the learnings from its first two years of operations, the lower risk opportunities to increase production in the coming years, the approach to add value from established projects and lower risk prospects and the potential value of the Company if projects can be brought to a successful conclusion.

The key goals of the Company looking into late 2010 are:

- Funding of Leighton production well programme by equity and debt;
- Acquire leases over Leighton look-alike prospects nearby to Leighton;
- Farmout Texon's lower risk oil and gas prospects; and
- Farmout high upside gas specials.

The Plan is being progressed:

- In July, the Company successfully placed 13.5 million shares, raising A$2.57 million;
- In August, a Share Purchase Plan was announced;
- In August, the first of three new Leighton production wells was drilled with testing scheduled for mid September;
- The Company now has a 100% Working Interest in 1,434 acres of leases over the Mosman prospect (the Leighton look-alike) 4km to the south of Leighton;
- The Company has identified that the Eagle Ford Shale is an important secondary target below the "Olmos" in the Leighton oil and gas field and in the Mosman prospect;
- In line with the materiality test outlined in its AGM Business Plan, the Company is in the process of selling two (2) of its Frio producing wells and six (6) undrilled Frio prospects;
- The Company's Mosman prospect and its lower risk oil and gas prospects have been introduced to a number of potential farminees with the objective of assisting Texon in the funding of these prospects which at the present time are held at 100% Working Interest by the Company.

### Funding

During the period the Company held discussions with senior debt providers with the goal of funding the development of the Leighton field. These discussions are ongoing and will take some time to finalise. In the meantime Directors decided in July to place 13.5 million shares with sophisticated and institutional investors at an issue price of 19 cents to raise new capital of A$2.57 million. These funds were received on 7 August 2009. The new shares were issued on 10 August and brought the total of issued shares to 103,522,425.

The Board also decided to offer shareholders the right to subscribe for new shares through a Share Purchase Plan which is underwritten up to A$2.95 million. Within the limits of the Listing Rules, directors reserved the right to scale back any over-acceptances. The plan was opened on 14 August 2009 and closes on 16 September 2009.

Following the successful share placement, the third Leighton well, Tyler Ranch #2, commenced drilling on 19 August 2009 with a target depth of 2,743 metres (9,000 feet). Tyler Ranch #3 and #4 will follow.

## DIRECTORS' REPORT (continued)

A purchase and sale agreement was executed on 24 August 2009 for the sale of Tallebudgera and Fingal producing wells together with six leased but undrilled Frio prospects for US$860,000. Settlement is scheduled for 11 September 2009 but the buyer has the option to delay settlement until 25 September 2009 for a fee of US$5,000 per week of delay.

### 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 6 and forms part of the Directors' Report for the six months ended 30 June 2009.

Signed in accordance with a resolution of the directors.

David Mason
President & CEO
Houston
10 September 2009

***Glossary***

| | |
|---|---|
| bbl: | barrels |
| boepd: | barrels of oil equiv (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv) |
| IPO: | Initial Public Offering |
| mcf: | thousand cubic feet |
| mmboe: | million barrels of oil equiv (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv) |

**Lead Auditor's Independence Declaration under Section 307C of the Corporations 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 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Robert S Jones

Robert S Jones
*Partner*

Brisbane

10 September 2009

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE SIX MONTHS ENDED 30 JUNE 2009

| | Note | Six months ended 30 Jun 2009 $ | Six months ended 30 Jun 2008 $ |
|---|---|---|---|
| Revenue | | 2,375,603 | 2,059,666 |
| Cost of oil and gas sold | 4 | (1,653,338) | (1,355,510) |
| **Gross profit** | | 722,265 | 704,156 |
| | | | |
| Employee benefits | | (266,808) | (235,726) |
| Administrative and other expenses | | (503,873) | (452,450) |
| Exploration and evaluation expenditure | | (112,893) | (43,193) |
| Impairment expense | 4 | (2,028,571) | (1,446,799) |
| | | | |
| **Results from operating activities** | | (2,189,880) | (1,474,012) |
| | | | |
| Finance income | | 64,939 | 143,432 |
| Finance expense | | (798) | (352,575) |
| **Net finance income / (expense)** | | 64,141 | (209,143) |
| | | | |
| **Loss before income tax** | | (2,125,739) | (1,683,155) |
| | | | |
| Income tax expense | | - | - |
| **Loss for the period** | | (2,125,739) | (1,683,155) |
| | | | |
| **Other comprehensive income** | | | |
| Foreign exchange translation differences, net of tax | | (662,156) | (773,496) |
| **Other comprehensive income for the period, net of tax** | | (662,156) | (773,496) |
| | | | |
| **Total comprehensive income attributable to members of the Company** | | (2,787,895) | (2,456,651) |
| | | **Cents** | **Cents** |
| Basic and diluted loss per share | | (2.36) | (1.87) |

The condensed notes on pages 11 to 15 are an integral part of these consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2009

| | Note | 30 Jun 2009 | 31 Dec 2008 |
|---|---|---|---|
| | | $ | $ |
| **Current assets** | | | |
| Cash and cash equivalents | | 3,730,985 | 4,832,893 |
| Trade and other receivables | | 710,620 | 1,086,105 |
| Investments | | 114,320 | 133,511 |
| Prepayments | | 17,973 | 74,825 |
| Assets held for sale | 5 | 1,095,454 | - |
| **Total current assets** | | 5,669,352 | 6,127,334 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 3,124,949 | 6,400,845 |
| Exploration and evaluation expenditure | 7 | 2,443,127 | 2,446,460 |
| **Total non-current assets** | | 5,568,076 | 8,847,305 |
| **TOTAL ASSETS** | | 11,237,428 | 14,974,639 |
| **Current liabilities** | | | |
| Trade and other payables | | 747,198 | 1,042,624 |
| Employee benefits | | 17,787 | 11,274 |
| **Total current liabilities** | | 764,985 | 1,053,898 |
| **Non-current liabilities** | | | |
| Provisions | | 142,503 | 170,043 |
| Deferred tax liabilities | | - | 666,043 |
| **Total non-current liabilities** | | 142,503 | 836,086 |
| **TOTAL LIABILITIES** | | 907,488 | 1,889,984 |
| **NET ASSETS** | | 10,329,940 | 13,084,655 |
| **Equity** | | | |
| Share capital | | 20,948,241 | 20,948,241 |
| Reserves | | 1,275,787 | 1,937,943 |
| Accumulated losses | | (11,894,088) | (9,801,529) |
| **TOTAL EQUITY** | | 10,329,940 | 13,084,655 |

The condensed notes on pages 11 to 15 are an integral part of these consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE SIX MONTHS ENDED 30 JUNE 2009

| Six months ended 30 June 2009 | Share capital $ | Foreign currency translation reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 January 2009 | 20,948,241 | 1,937,943 | (9,801,529) | 13,084,655 |
| **Total comprehensive income for the period** | | | | |
| Loss for the period | - | - | (2,125,739) | (2,125,739) |
| **Other comprehensive income** | | | | |
| Foreign exchange translation differences | - | (662,156) | - | (662,156) |
| Total comprehensive income for the period | - | (662,156) | (2,125,739) | (2,787,895) |
| **Transactions with owners, recorded directly in equity** | | | | |
| **Contributions by and distributions to owners** | | | | |
| Share-based payments | - | - | 33,180 | 33,180 |
| Balance at 30 June 2009 | 20,948,241 | 1,275,787 | (11,894,088) | 10,329,940 |

| Six months ended 30 June 2008 | Share capital $ | Foreign currency translation reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 January 2008 | 20,948,241 | 32,842 | (4,390,824) | 16,590,259 |
| **Total comprehensive income for the period** | | | | |
| Loss for the period | - | - | (1,683,155) | (1,683,155) |
| **Other comprehensive income** | | | | |
| Foreign exchange translation differences | - | (773,496) | - | (773,496) |
| Total comprehensive income for the period | - | (773,496) | (1,683,155) | (2,456,651) |
| **Transactions with owners, recorded directly in equity** | | | | |
| **Contributions by and distributions to owners** | | | | |
| Share-based payments | - | - | 47,549 | 47,549 |
| Balance at 30 June 2008 | 20,948,241 | (740,654) | (6,026,430) | 14,181,157 |

Amounts are stated net of tax.

The condensed notes on pages 11 to 15 are an integral part of these consolidated interim financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE SIX MONTHS ENDED 30 JUNE 2009

| | Note | Six months ended 30 Jun 2009 $ | Six months ended 30 Jun 2008 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 2,722,309 | 1,950,569 |
| Cash paid to suppliers and employees | | (1,307,579) | (1,467,690) |
| Interest received | | 16,912 | 183,529 |
| **Net cash from operating activities** | | 1,431,642 | 666,408 |
| | | | |
| **Cash flows from investing activities** | | | |
| Exploration, evaluation and development expenditure | | (2,347,961) | (5,911,098) |
| Acquisition of property, plant and equipment | | - | (24,613) |
| Cash outflow from investing activities | | - | (41,602) |
| Proceeds from investments | | - | 27,734 |
| **Net cash outflow from investing activities** | | (2,347,961) | (5,949,579) |
| | | | |
| Net decrease in cash and cash equivalents | | (916,319) | (5,283,171) |
| Cash and cash equivalents at 1 January | | 4,832,893 | 12,133,494 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (185,589) | (727,562) |
| **Cash and cash equivalents at 30 June** | | 3,730,985 | 6,122,761 |

The condensed notes on pages 11 to 15 are an integral part of these consolidated interim financial statements.

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Note**

## 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 2009 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 2008 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.

### 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 2008.

This consolidated interim financial report was approved by the Board of Directors on 10 September 2009.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, 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 2008.

Certain accounting standards and amendments have been issued and are available for early adoption at reporting date. However, they have not been early adopted as they are not applicable to the Group and have no impact on its financial results.

**(a) Change in accounting policy**

**(i) Segment reporting**

As of 1 January 2009 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. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined in accordance with AASB 114 *Segment Reporting*.

Since the Group continues to operate within one business segment (the petroleum exploration and production industry) and one geographical segment (the United States of America), there is no impact on presentation and disclosure in the financial statements. There is also no impact on earnings per share.

**(ii) Presentation of financial statements**

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these interim financial statements as of and for the six months ended on 30 June 2009.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**(b) 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 2008.

### 4. INCOME AND EXPENSES

| | Six months ended 30 Jun 09 $ | Six months ended 30 Jun 08 $ |
|---|---|---|
| Cost of oil and gas sold | 1,653,338 | 1,355,510 |
| Impairment expense | 2,028,571 | 1,446,799 |

Cost of oil and gas sold includes depreciation of oil and gas properties of $970,826 (2008: $993,037). The impairment expense represents the write-down of oil and gas properties to their recoverable amount which was determined based on value in use using cashflows discounted at a pre-tax rate of 10%.

### 5. ASSETS HELD FOR SALE

Two of the Group's producing oil and gas properties and six leased prospects are presented as assets held for sale following the finalisation of a purchase and sale agreement. The effective date of the sale is 1 August 2009 with settlement due on 11 September 2009. Further details are set out in Note 12. As at 30 June 2009 the assets consisted of:

| | 30 Jun 09 $ | 31 Dec 08 $ |
|---|---|---|
| Property, plant and equipment | 474,636 | - |
| Exploration and evaluation expenditure | 620,818 | - |
| | 1,095,454 | - |

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

### 6. PROPERTY, PLANT AND EQUIPMENT

| | Six months ended 30 Jun 09 $ | Twelve months ended 31 Dec 08 $ |
|---|---|---|
| **Oil and gas properties** | | |
| ***Cost*** | | |
| Balance at 1 January | 14,207,269 | 2,376,260 |
| Transferred from exploration and evaluation expenditure | 851,752 | 8,933,760 |
| Additions | 38,569 | 111,802 |
| Transferred to assets held for sale (refer Note 5) | (1,599,945) | - |
| Exchange adjustment | (2,145,890) | 2,785,447 |
| Balance at end of period | 11,351,755 | 14,207,269 |
| ***Accumulated depreciation and impairment*** | | |
| Balance at 1 January | 7,879,444 | 135,775 |
| Depreciation (refer Note 4) | 970,826 | 2,254,063 |
| Impairment (refer Note 4) | 2,028,571 | 3,974,780 |
| Transferred to assets held for sale (refer Note 5) | (1,100,526) | - |
| Exchange adjustment | (1,510,054) | 1,514,826 |
| Balance at end of period | 8,268,261 | 7,879,444 |
| ***Carrying amounts*** | | |
| At 1 January | 6,327,825 | 2,240,485 |
| At end of period | 3,083,494 | 6,327,825 |
| **Plant, equipment, furniture and fixtures** | | |
| ***Cost*** | | |
| Balance at 1 January | 140,557 | 89,835 |
| Additions | - | 34,599 |
| Exchange adjustment | (12,683) | 16,123 |
| Balance at end of period | 127,874 | 140,557 |
| ***Accumulated depreciation*** | | |
| Balance at 1 January | 67,537 | 16,333 |
| Depreciation | 26,292 | 43,852 |
| Exchange adjustment | (7,410) | 7,352 |
| Balance at end of period | 86,419 | 67,537 |
| ***Carrying amounts*** | | |
| At 1 January | 73,020 | 73,502 |
| At end of period | 41,455 | 73,020 |
| **Total carrying amounts** | | |
| At 1 January | 6,400,845 | 2,313,987 |
| At end of period | 3,124,949 | 6,400,845 |

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

### 7. EXPLORATION AND EVALUATION EXPENDITURE

| | Six months ended 30 Jun 09 $ | Twelve months ended 31 Dec 08 $ |
|---|---|---|
| Balance at 1 January | 2,446,460 | 2,943,964 |
| Additions | 2,061,564 | 10,883,181 |
| Transferred to oil and gas properties | (851,752) | (8,933,760) |
| Transferred to assets held for sale (refer Note 5) | (620,818) | - |
| Expenditure written-off | (112,893) | (2,990,906) |
| Exchange adjustment | (479,434) | 543,981 |
| Balance at end of period | 2,443,127 | 2,446,460 |

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.

### 8. SHARE OPTIONS

There were no grants or exercises of share options during the period. 9,980,500 listed options expired in May 2009. Information with respect to the remaining number of options outstanding as at balance date is set out in the 31 December 2008 annual financial report.

### 9. CAPITAL AND OTHER COMMITMENTS

Information with respect to continuing commitments is set out in the 31 December 2008 annual financial report.

### 10. CONTINGENCIES

There have been no changes to contingencies since the last annual reporting date 31 December 2008.

### 11. RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 31 December 2008 annual financial report.

### 12. SUBSEQUENT EVENTS

Subsequent to the end of the interim reporting period:

- In August 2009 the Company completed a placement of 13.5 million shares at an issue price of $0.19 per share raising $2.57 million.

- On 14 August 2009 the Company launched a share purchase plan (SPP) for eligible shareholders in Australia and New Zealand to subscribe for shares up to a value of $15,000 at an issue price of $0.19 per share. The offer closes on 16 September 2009. ABN AMRO Morgans is the lead manager for the SPP and is underwriting the offer up to $2.95 million.

- The Group finalised a purchase and sale agreement on 24 August 2009 for the sale of two wells (Tallebudgera and Fingal) and six leased prospects. The effective date of the sale is 1 August 2009 with settlement due on 11 September 2009. Net proceeds are approximately US$860,000 and the Group will retain a 9.5%-10% working interest (7.1%-7.5% beneficial interest) in each of the six wells with no drilling, casing, completion or connection costs when the prospects are drilled.

## DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 7 to 15 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 2009 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.

**D Mason**
President & CEO
Houston
10 September 2009

KPMG

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

### Report on the financial report

We have reviewed the accompanying interim financial report of Texon Petroleum Ltd, which comprises the consolidated statement of financial position as at 30 June 2009, consolidated income statement, 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, a description of accounting policies and other explanatory notes 1 to 12 and the directors' declaration set out on page 16 of the Group comprising the company and the entities it controlled at the half-year'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 and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 Interim and Other Financial Reports 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 2009 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 Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an 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*.

KPMG

*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 Ltd 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 2009 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

KPMG

Robert S Jones

Robert S Jones
*Partner*

Brisbane

10 September 2009