



**AUSTEX OIL LIMITED**

**Financial Report**

**for the Nine Months ended 31 December 2011**

**and**

**Directors' Report**

**and**

**Auditor's Report**

**2011**

ACN 118 585 649

**CORPORATE DIRECTORY****DIRECTORS**

Dr P E Power (Chairman)  
K H Hung (Deputy Chairman)  
R A Adrey Executive Director - USA  
D Lanskey Managing Director  
P K Philip (Ms) Non-Executive Director  
L Vierma Non-Executive Director USA

**COMPANY SECRETARY**

J B Clyne

**REGISTERED AND PRINCIPAL OFFICE**

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Website: [www.austexoil.com](http://www.austexoil.com)

**AUDITORS**

Hayes Knight (NSW) Pty Ltd

**SHARE REGISTRY**

Boardroom Limited, Level 7, 207 Kent Street, Sydney NSW 2000

Telephone: 02 9290 9600

**PRINCIPAL BANKERS**

ANZ Banking Group Limited

## DIRECTORS' REPORT

Your Directors present their Report on the consolidated accounts of AusTex Oil Limited and the entities it controlled for the nine months ended 31 December 2011.

### DIRECTORS

The names and details of the Directors of AusTex Oil Limited in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### **Dr Peter Power** **Non-executive Chairman**

Dr Peter Power has nearly 50 years' experience in hydrocarbon exploration worldwide in senior management positions with major international companies including as Exploration Manager, North Sea with Unocal, and Director of Exploration, Europe Middle East and Africa for Union Texas Petroleum. He was previously Managing Director of Ampolex Limited prior to its acquisition by Mobil.

Dr Power was the founding Head of Geology at the Western Australian Institute of Technology (now Curtin University). He was a member of the Bureau of Mineral Resources Review in 1984 and the Australian Geological Survey Organisation Review in 1993, a member of the Advisory Council for the National Centre for Petroleum Geology and Geophysics from 1985 - 90. He has served as President of the Australian Geoscience Council and as a councillor and chairman of the Australian Petroleum Production and Exploration Association, which has awarded him both the Lewis G. Weeks and Reg Sprigg Gold medals and honorary life membership. He has been a consultant since 1997 and was previously non-executive chairman of Elk Petroleum and Metgasco Limited. He was also a non-executive director of Petsec Energy Limited.

#### **Kwang Hou HUNG – Singapore** **Deputy Chairman**

Mr Hung joined the Board of AusTex Oil on 18 April 2011. He qualified as a Chartered Accountant with KPMG, United Kingdom in 1982. He is a member of both the Institute of Chartered Accountants in England & Wales ("ICAEW") and the Malaysian Institute of Accountants.

He has extensive experience in line and corporate management, having served in various senior management and director positions in companies listed on the Bursa Malaysia (formerly called the Kuala Lumpur Stock Exchange). Mr Hung is also a past Chairman of Rocklands Richfield Ltd, an ASX-listed company.

#### **Richard Adrey - USA** **Executive Director**

Mr Richard Adrey was an investment and merchant banker with Andreasen & Co., Kohlmeyer & Co., Mabon Nugent and a private investment company, Coastline Financial Partners for 30 years with specializations in mergers, financings and in turnarounds of distressed assets. He has been involved with numerous private and public companies, such as Piper Aircraft, Cynocom Corp, Medisys, Versatech and VacationBreak.

Mr. Adrey holds a B.S. in finance, has completed continuing education and held Officer and Board seats in several companies as an advisor. He is the President and founder of International Energy Corporation (Oklahoma) International Energy Corporation (Northern Oklahoma) and International Energy Corporation (Kansas), which are wholly owned subsidiaries of AusTex Oil Limited and is employed on a full time basis to oversee all US operations of the Company.

**Daniel Lanskey**  
**Managing Director**

Mr. Lanskey has been involved in senior management positions of Australian companies for over ten (10) years. He has also been involved in a number of companies which have developed international contracts and joint ventures in Asia, Europe and the USA.

He currently is a director of a number of unlisted public and private companies. Mr. Lanskey holds a post-graduate Business Degree. Mr. Lanskey is a director of International Energy Corporation (Oklahoma), International Energy Corporation (Northern Oklahoma) and International Energy Corporation (Kansas) and is associated with AusTex Oil on a day to day basis overseeing operations in Australia.

**Patricia Kay Philip**  
**Non-Executive Director**

Kay Philip is a geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, mining exploration and management. Ms Philip has worked in the securities industry, conducting courses in Australia and South East Asia. She also has experience in the financial markets, involving rights issues and other capital raisings.

She is an Honorary Associate at the School of Physics, University of Sydney, and has been a director of a number of listed and unlisted companies in the financial and oil and gas sectors.

Ms Philip is a director of Proto Resources and Investments Ltd (since 2006) and was a Director of Stirling Resources Ltd (previously Alexanders Securities Ltd) from 1985 to 2009 and Longreach Oil Ltd from 1985 to 2009. Ms Philip was decorated by the French Government in 2005 with the award of Chevalier de l'Ordre National du Mérite, for facilitating collaborations between French and Australian scientists. Ms Philip is a Senior Fellow of the Financial Services Institute of Australia ("FINSIA"), Member of the Australian Institute of Physics ("AIP"), Member Australian Society of Exploration Geophysicists (M.ASEG.), and Secretary of the Australian-French Association for Science and Technology "AFAS").

**Luis Vierma**  
**Non-Executive Director**

Mr Luis Vierma is a partner in Iroquios Capital Opportunity Fund LP (ICO Fund) and was appointed as a Non-Executive Director on 1 September 2011. Mr Vierma holds a Bachelor Degree in Chemistry and a Master's degree in Geology (Geochemistry of Petroleum).

Prior to moving to joining ICO Fund, he was formerly the Deputy Chairman of OPEC Long Term Strategy, Deputy Director of Hydrocarbons at the Energy Ministry of Venezuela, President of CVP, an affiliate of Petr leos de Venezuela S.A. (PDVSA), and Director and Chairman of CITGO. Mr Vierma was also the Vice President of Exploration and Production PDVSA, President of PDVSA Research Centre and Professor of Chemistry at Universidad Central de Venezuela. He has 32 yrs. of global experience in the oil and gas industry.

**Justin B Clyne**  
**Company Secretary**

Justin Clyne was appointed as joint company secretary of the Company on 27 April 2009 and has been the sole company secretary since 28 October 2009. He is a former Barrister and current director and company secretary of a number of listed and unlisted entities and brings a broad range of legal, corporate and regulatory skills to the Company. Justin holds a Master of Laws in International Law from the UNSW and is a qualified chartered company secretary.

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**KEY MANAGEMENT PERSONNEL DISCLOSURES****Directors**

The names of the Directors at any time during the financial period ended 31 December 2011, unless otherwise indicated, were the following:

**Non Executive Directors****Position**

Dr Peter Power

Non executive chairman

Ms Patricia Kay Philip

Non-executive director

Mr Kwang Hou Hung

Non-executive director (appointed 15 April 2011)

Mr Luis F Verma

Non-executive director (appointed 1 August 2011)

**Executive Directors****Position**

Mr Dan Lanskey

Managing Director

Mr Richard Adrey

Executive Director (International Energy Corporation)

**Other Key Management Personnel****Position**

Mr David Clark

Chief Financial Officer

Mr Justin Clyne

Company Secretary

## Remuneration Report

The Board is responsible for determining and reviewing compensation arrangements for the directors and executive management. The Board assesses the appropriateness of the nature and amount of remuneration of key personnel on an annual basis. In determining the amount and nature of officers' packages, the Board takes into consideration the Company's financial and operational performance along with industry and market conditions.

This Remuneration Report outlines the arrangements which were in place during the period ended December 31, 2011 for the Directors and key management personnel.

| Period ended<br>31 Dec 2011            | Short-term benefits |                | Post<br>employment<br>benefits | Share-based<br>payments | Total          |
|--|---------------------|----------------|--------------------------------|-------------------------|----------------|
| Name                                   | Directors Fees      | Contract Fees  | Superannuation                 |                         |                |
| <b>Directors of AusTex Oil Limited</b> |                     |                |                                |                         |                |
| P.E. Power                             | 30,000              | -              | -                              | 24,652                  | 54,652         |
| R.A. Adrey                             | -                   | 260,417        | -                              | 32,306                  | 292,723        |
| D. Lanskey                             | -                   | 225,000        | -                              | 32,306                  | 257,306        |
| K. Philip                              | 22,500              | -              | 2,700                          | -                       | 25,200         |
| K.H. Hung                              | 21,274              | -              | -                              | -                       | 21,274         |
| L. Vierma                              | 12,524              | -              | -                              | -                       | 12,524         |
| T Sykes (resigned<br>December 2010)    | 7,500               | -              | -                              | -                       | 7,500          |
| D.W. Clark                             | -                   | 43,771         | -                              | -                       | 43,771         |
| J.B. Clyne                             | -                   | 33,750         | -                              | -                       | 33,750         |
| <b>TOTAL</b>                           | <b>93,978</b>       | <b>562,938</b> | <b>2,700</b>                   | <b>89,264</b>           | <b>748,700</b> |

## Share based payments (Options) disclosures relating to key management personnel

| Name                                   | Period ended<br>31 Dec 2011 | Balance at the<br>start of the<br>period | Granted<br>during the<br>year as<br>compensation | Exercised<br>during the<br>period | Lapsed during<br>the period | Balance at the<br>end of the year | Vested and<br>exercisable at<br>end of the<br>period |
|--|-----------------------------|--|--|-----------------------------------|-----------------------------|-----------------------------------|--|
| <b>Directors of AusTex Oil Limited</b> |                             |  |  |                                   |                             |                                   |  |
| R.A. Adrey                             |                             | 4,000,000                                | 5,000,000  | -                                 | (500,000)                   | 8,500,000                         | 8,500,000  |
| D. Lanskey                             |                             | 4,000,000                                | 5,000,000  | -                                 | (500,000)                   | 8,500,000                         | 8,500,000  |
| P.E. Power                             |                             | 1,500,000                                | 2,500,000  | -                                 | (500,000)                   | 3,500,000                         | 3,500,000  |
| <b>Other key management personnel</b>  |                             |  |  |                                   |                             |                                   |  |
| D.W. Clark                             |                             | 500,000                                  | -  | -                                 | (500,000)                   | -                                 | -  |
| J.B. Clyne                             |                             | 500,000                                  | -  | -                                 | (500,000)                   | -                                 | -  |

## EXECUTIVE DIRECTORS

A summary of remuneration paid to AusTex Executive Directors is list below:-

### A. Managing Director – Daniel Lanskey

Under an agreement dated 10 July 2010 between AusTex Oil and Etranz.com Pty Ltd, Daniel Lanskey has been appointed as an executive director of AusTex Oil. In addition, Etranz.com Pty Ltd and Daniel Lanskey will assist in promoting, advancing and improving the business of AusTex Oil.

Etranz.com Pty Ltd will be paid \$300,000 per annum (exclusive of GST), (with a provision for annual review for provision of these services.

Daniel Lanskey will not be under any restraint, after the termination of his employment by the Company, from being employed or otherwise engaged by any other company, but has agreed, along with Etranz.com Pty Ltd, that any confidential information gained for the duration of the agreement will remain confidential.

The agreement is for a period of three years, but may be terminated earlier by AusTex Oil if Etranz.com Pty Ltd or Daniel Lanskey:

- (a) goes into liquidation or makes a composition/ arrangement with creditors;
- (b) is convicted of any major criminal offence;
- (c) commits any serious or persistent breach of any of the provisions in the agreement and the breach is not remedied within a specified time;
- (d) is absent in, or demonstrates incompetence or negligence with regard to the performance of duties;
- (e) is guilty of grave misconduct or wilful neglect in discharge of duties; or
- (f) is of unsound mind.

Etranz.com Pty Ltd may also terminate the agreement by giving three months written notice.

### B. Executive Director – Richard Adrey – President – International Energy Corporation

Under an agreement dated 10 July 2010 between IEC and Richard Adrey and governed by the laws of Texas, U.S.A., IEC has set down further terms of employment for Richard Adrey as executive vice president, chief financial officer and a member of the board of directors of IEC. The term of the agreement is until 31 July 2013, unless terminated earlier.

Richard Adrey is required to perform the duties and exercise the powers consistent with his appointed positions and assigned to him by the board of IEC, and to promote the interests of IEC and any group company. He is required to report directly to the IEC board.

Richard Adrey is to be paid \$300,000 per annum for provision of his services. He will be reimbursed for all reasonable work related out-of-pocket expenses. This salary includes directors' fees. IEC will also provide Richard Adrey with, amongst other things, communication equipment for use at home or out of the office, and membership at the Petroleum Club.

Richard Adrey must keep any information in respect of IEC's business which is not in the public domain secret and confidential and not disclose such information to any third party without obtaining written consent.

Richard Adrey will be under no restraints to conduct business or invest in the same industry as IEC, but will offer any investment opportunities of interest to IEC in priority to himself.

IEC has indemnified Richard Adrey against any liability incurred by him as an employee, officer or director of IEC, and against any loss, cost, damage, expense or liability which he suffers or incurs as a result of any

litigation arising in connection with this agreement, other than something which is a material breach of the agreement or is contrary to express instructions.

The agreement can be terminated by Richard Adrey at any time with six months' notice. Alternatively, the agreement can be terminated by IEC if Richard Adrey is absent for medical reasons for a period longer than six months, is guilty of grave misconduct or wilful neglect, is of unsound mind, or in the event of a takeover or management change of IEC.

### **C. Non-Executive Directors**

Under the Company's Constitution, each Director (other than a Managing Director or an Executive Director) may be paid remuneration for services performed as a Director. The maximum amount of remuneration that may be paid to Non-Executive Directors is set at \$380,000 per annum. This remuneration may be divided amongst the Non-Executive Directors in such fashion as the Board may decide.

Aggregate remuneration, presently, is \$100,000 per annum.

Under the Listing Rules, the maximum fees payable to Directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time in relation to fees as they think appropriate.

In addition, any Director who is called to perform extra services or to make special exertions or to undertake any executive or other work for the Company beyond his ordinary duties or go to reside abroad or otherwise for the purposes of the Company may, subject to the law, be remunerated as determined by the Directors. This sum may be either in addition to or in substitution for their share in their remuneration for ordinary services.



**INTERESTS IN THE COMPANY**

As at the date of this report, the interests of the Directors in the securities of AusTex Oil Limited were:-

| Director            | Shares and Options  |  |
|---------------------|---|--|
|                     | Direct  | Indirect   |
| Dr Peter Power      | Nil   | 12,479,429 Shares<br><br>500,000 options exercisable at \$0.25 on or before 31 March 2012<br><br>1,000,000 options exercisable at \$0.40 on or before 30 June 2013<br><br>2,500,000 Options exercisable at \$0.15 on or before 31 August 2014  |
| Kwang Hou Hung      | 15,000,000  | Nil  |
| Richard Adrey       | 11,018,086 Shares<br><br>1,000,000 options exercisable at \$0.25 on or before 31 March 2012<br><br>1,000,000 options exercisable at \$0.40 on or before 30 June 2013<br><br>5,000,000 options exercisable at \$0.15 on or before 31 August 2014 | Nil  |
| Daniel Lanskey      | Nil   | 3,412,872 Shares<br><br>1,000,000 options exercisable at \$0.25 on or before 31 March 2012<br><br>1,000,000 options exercisable at \$0.40 on or before 30 June 2013<br><br>5,000,000 options exercisable at \$0.15 on or before 31 August 2014 |
| Patricia Kay Philip | 1,079,574 Shares and  | Nil  |
| Luis Vierma         | Nil   | Nil  |

**Notes**

Daniel Lanskey holds 2,872,872 Shares as the sole director of Etranz.com Pty Ltd and 540,000 Shares as a trustee of the Lanskey Family Trust.

Peter Power holds 12,479,429 Shares as a director and shareholder of Phesoj Pty Ltd.

## SHARE OPTIONS

Directors only hold options over the company's securities as particularised in the table above.

Options on issue at the date of this report are:-

| No. of Options | Expiry Date    | Exercise Price |
|----------------|----------------|----------------|
| 2,500,000      | 31 March 2012  | 25 cents       |
| 3,000,000      | 30 June 2013   | 40 cents       |
| 12,500,000     | 31 August 2014 | 15 cents       |

## LOSS PER SHARE

The basic loss per share for AusTex Oil Limited for the period was \$0.0175 cents per share.

## RESULTS OF OPERATIONS AND DIVIDENDS

The Group's net loss after taxation attributable to the members of AusTex Oil Limited for the period to 31 December 2011 was \$4,617,150. The Directors of AusTex Oil have resolved not to recommend a dividend for the financial period ended 31 December 2011.

## CORPORATE STRUCTURE

AusTex Oil Limited is a company limited by shares, which is incorporated and domiciled in Australia. AusTex Oil has prepared a consolidated financial report incorporating the subsidiaries that it controlled during the financial period, being wholly owned International Energy Corporation (Oklahoma), a company incorporated in Oklahoma, United States of America, International Energy Corporation (Northern Oklahoma), a company incorporated in Oklahoma, United States of America, and International Energy Corporation (Kansas) a company incorporated in Kansas, United States of America. Well Enhancement Services (Oklahoma) is a wholly owned subsidiary of International Energy Corporation (Oklahoma).

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial period consisted of the development of oil leases in Kansas and Oklahoma USA.

## EMPLOYEES

The Group employed 15 permanent employees as at 31 December 2011.

## OPERATING AND FINANCIAL REVIEW

AusTex Oil Limited (AOK) holds interests in oil and gas leases located in the States of Oklahoma and Kansas, within the United States of America. The interests are held through three wholly owned subsidiary companies, International Energy Corporation (Oklahoma) and International Energy Corporation (Kansas). In Oklahoma, Well Enhancement Services LLC (Oklahoma), which is wholly owned by International Energy Corporation (Oklahoma), operates a Radial Jet Enhancement Technology rig, which is based in Tulsa.

USA operations are all managed from an office located at 1801 East 71<sup>st</sup> Street, Tulsa. Well Enhancement Services LLC (Oklahoma) operates from a rig barn and holding yard on the outskirts of Tulsa.

A new Reserve Report was commissioned during the period, however, at the time of this report has not been finalised.

For the 9 months ended 31 December 2011, the net revenue from combined operations was \$2,121,099 resulting in a gross profit of \$748,611. A Net Loss of \$4,617,150 was recorded.

As a junior oil and gas exploration and production company, AusTex will need to raise development capital to continue the company's strategy to acquire and develop oil and gas leases in the USA. Since balance date the Company has raised additional capital by way of a placement to professional and sophisticated investors and has announced additional initiatives to fund ongoing operations.

### Oklahoma Operations

International Energy Corporation (Oklahoma) (IEC-OK) holds a 100% working interest and ~80% net revenue interest in six oil and gas leases located near Tulsa and is the operator. Oil and gas is produced and sold to local purchasers.

International Energy Corporation (Northern Oklahoma) holds interests in approx. 5,000 acres of oil and gas leases in Kay County, Oklahoma. The project area is located in a region where aggressive development is underway by a number of large US Oil and Gas companies targeting the underlying Mississippi Limestone. The Company currently has two producing wells on the lease group with oil and gas production from the Mississippi Lime interval. Additional development drilling is underway on the project. International Energy Corporation (Oklahoma) is the operator of the leases.

### Kansas Operations

In Kansas, oil and gas interests are held by International Energy Corporation (Kansas) (IEC-KS) in a joint working interest arrangement with Castle Resources LLC, which is the operator of the leases. Castle Resources manages the operation of a Radial Jet Enhancement Technology rig in Kansas.

The Company participated in the drilling of 1 additional well in Kansas during the year.

### Private Placement to US Investors

In June 2011, AOK announced a placement of \$US6 million to US Investors led by New York based Iroquois Capital Opportunity Fund LP (ICO Fund). On July 29 a General Meeting of shareholders approved the placement and AOK has now issued a total of 54,545,453 shares at \$A0.10 and 27,272,726 million options for nil consideration to the sophisticated investors who took part in the placement. The issue of shares also released the company from obligations under convertible notes issued to investors pending the shareholder approval.

**Trading on the OTCQX International**

On 12 September 2011, AusTex commenced trading on the OTCQX under the ticker ATXDY. This platform allows US based investors access to the underlying ASX listed stock by way of an American Depository Receipt (ADR). AOK shares traded at a ratio of 50 shares per 1 ADR.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

During the nine months ended 31 December 2011, \$US6,000,000 was raised by the company resulting in the issue of 54,545,453 shares at \$A0.10. The additional capital was raised to continue the development of oil and gas leases in the USA and general working capital.

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

As announced to the Australian Securities Exchange on 17 January 2012, the Board of AusTex Oil Limited resolved to change the Company's statutory financial year. The statutory financial year which was previously for the 12 month period from 1 April to 31 March was changed to coincide with the calendar year from 1 January to 31 December. As a result, the financial year ending 31 December 2011 will be for a shorter period being from 1 April 2011 to on 31 December 2011. This nine (9) month financial year would occur once only as all financial years after 31 December 2011 would be twelve (12) months commencing on 1 January and end on 31 December coinciding with the calendar year.

As announced to the Australian Securities Exchange on 20 February 2012, arrangements were finalised to raise \$3.2M through a share placement of 37,647,060 fully paid ordinary shares in the capital of the Company at \$0.085 per share with one free option for every three shares subscribed for. The options will have an exercise price of \$0.15 to be exercised within 2 years of the date of issue. The Placement will be conducted in two stages with the first stage to be made to Australian sophisticated and professional investors and international investors, and the second stage, which is subject to shareholder approval, to a Director of the Company.

As announced to the Australian Securities Exchange on 19 March, 2012, the Group has entered into a conditional agreement for additional funding of up to \$10M through the issue of convertible notes that are convertible at 15 cents per share for each fully paid ordinary share. In addition, AOK would issue one free option for each option for each 2 convertible notes with an exercise price of 20 cents per share within 3 years of the date of shareholder approval.

Since the end of the financial year the Directors are not aware of any other matter or circumstance not otherwise dealt with within the financial report that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Company intends to continue with exploration and development activities in the next financial year.

## ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Groups' operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The Group conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The Group is not aware of any breaches in relation to environmental matters.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

AusTex Oil paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of entities in the Group. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## DIRECTORS' MEETINGS

In addition to regular Board discussions, four formal board meetings were held during the financial period. The number of meetings attended by each of the Directors of the Company during the financial period was:

| Director  | No. of meetings eligible to attend | No. of meetings attended |
|-----------|------------------------------------|--------------------------|
| P Power   | 4                                  | 4                        |
| K H Hung  | 3                                  | 4                        |
| R Adrey   | 4                                  | 4                        |
| D Lanskey | 4                                  | 4                        |
| K Philip  | 4                                  | 4                        |
| L Vierma  | 1                                  | 1                        |


## AUDIT COMMITTEE

During the financial period, 1 meeting of the audit committee was held, attended by the members comprising Dr P Power and Ms K Philip.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of AusTex Oil Limited with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is attached to the Directors' Report. There were no non audit services provided by the Company's auditor.

This report is made and signed in accordance with a resolution of the Directors.



D J Lanskey  
Managing Director

Sydney  
28 March 2012



**Hayes Knight**  
Accountants & Business Advisers

Hayes Knight (NSW) Pty Ltd  
ABN: 25 125 243 692

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## **AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

### **To the Directors of Austex Oil Limited**

I declare that, to the best of my knowledge and belief, during the nine month period ended 31 December 2011, there have been:

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

Pran Rathod - Director Audit Services  
Registered Company Auditor

Hayes Knight (NSW) Pty Ltd

Dated at Sydney, this 28 day of March 2012





## **INDEPENDENT AUDIT REPORT TO THE DIRECTORS OF AUSTEX OIL LIMITED**

### **Report on the Financial Report**

We have audited the accompanying financial report of Austex Oil Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the nine month period ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the 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 financial report that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Austex Oil Limited on 27 March 2012, would be in the same terms if given to the directors as at the time of this auditor's report.



## INDEPENDENT AUDIT REPORT TO THE DIRECTORS OF AUSTEX OIL LIMITED

### Auditor's Opinion

In our opinion the financial report of Austex Oil Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:


- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of their performance for the nine month period ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the nine month period ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's Opinion

In our opinion the remuneration report of Austex Oil Limited for the nine month period ended 31 December 2011 complies with s 300A of the *Corporations Act 2001*.

  
Pran Rathod - Director Audit Services  
Registered Company Auditor

  
Hayes Knight (NSW) Pty Ltd

Dated at Sydney, this 28 day of March 2012

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

## CONSOLIDATED INCOME STATEMENT

FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011

|   | Note | Consolidated Group |             |
|---|------|--------------------|-------------|
|   |      | Dec 2011           | Mar 2011    |
|   |      | 9 months           | 12 months   |
|   |      | \$                 | \$          |
| Sales Revenue                                   | 2    | 2,121,099          | 3,608,700   |
| Cost of Sales                                   |      | (1,372,488)        | (1,927,213) |
| Gross Profit                                    |      | 748,611            | 1,681,487   |
| Interest income                                 | 2    | 11,737             | 114,493     |
| Other income                                    | 2    | -                  | 22,796      |
| Administration costs                            |      | (1,130,832)        | (1,263,740) |
| Impairment loss on financial assets             | 3    | (1,368,036)        | -           |
| Exploration expenses written-off                |      | (329,223)          | -           |
| Depreciation and amortisation expense           |      | (409,605)          | (796,602)   |
| Finance costs                                   |      | (14,393)           | (18,342)    |
| Profit/(Loss) on disposal of non current assets | 2    | (1,827)            | 6,141       |
| Professional and consulting expense             |      | (1,377,784)        | (1,345,556) |
| Other expenses                                  |      | (745,798)          | (602,271)   |
| <b>Loss before income tax</b>                   | 3    | (4,617,150)        | (2,201,594) |
| Income tax expense                              | 4    | -                  | -           |
| <b>Loss for the period</b>                      | 3    | (4,617,150)        | (2,201,594) |
| <b>Earnings per share</b>                       |      |                    |             |
| Basic earnings per share (cents)                | 6    | (\$0.0175)         | (\$0.0108)  |
| Diluted earnings per share (cents)              | 6    | N/A                | N/A         |

The consolidated income statement should be read in conjunction with the accompanying notes.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

|   | Note | Consolidated Group   |                       |
|---|------|----------------------|-----------------------|
|   |      | Dec 2011<br>9 months | Mar 2011<br>12 months |
|   |      | \$                   | \$                    |
| <b>Loss for the period</b>  |      | (4,617,150)          | (2,201,594)           |
| <b>Other comprehensive income/(loss):</b>   |      |                      |                       |
| Exchange differences on translating<br>foreign controlled entities                              |      | 221,126              | (2,268,367)           |
| Income tax relating to components of other comprehensive<br>income/(loss):                      |      | -                    | -                     |
| <b>Other comprehensive income (loss) for the period,<br/>net of tax</b>                         |      | <u>221,126</u>       | <u>(2,268,367)</u>    |
| <b>Total comprehensive loss for the period attributable<br/>to members of the parent entity</b> |      | <u>(4,396,024)</u>   | <u>(4,469,961)</u>    |

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011**

|                                      | Note | Consolidated Group |                   |
|--------------------------------------|------|--------------------|-------------------|
|                                      |      | Dec 2011           | Mar 2011          |
|                                      |      | \$                 | \$                |
| <b>ASSETS</b>                        |      |                    |                   |
| <b>CURRENT ASSETS</b>                |      |                    |                   |
| Cash and cash equivalents            | 7    | 649,129            | 2,567,965         |
| Trade and other receivables          | 8    | 333,016            | 380,190           |
| Inventories                          | 9    | 149,763            | 133,908           |
| Other assets                         | 15   | 27,584             | -                 |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>1,159,492</b>   | <b>3,082,063</b>  |
| <b>NON-CURRENT ASSETS</b>            |      |                    |                   |
| Other financial assets               | 10   | 266,750            | 255,000           |
| Property, plant and equipment        | 13   | 1,539,243          | 1,535,079         |
| Exploration and evaluation assets    | 11   | 3,418,719          | 3,591,784         |
| Oil and gas assets                   | 12   | 16,388,528         | 13,541,294        |
| Intangible assets                    | 14   | 42,502             | 44,769            |
| Other assets                         | 15   | 88,248             | 15,986            |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>21,743,990</b>  | <b>18,983,912</b> |
| <b>TOTAL ASSETS</b>                  |      | <b>22,903,482</b>  | <b>22,065,975</b> |
| <b>LIABILITIES</b>                   |      |                    |                   |
| <b>CURRENT LIABILITIES</b>           |      |                    |                   |
| Trade and other payables             | 16   | 627,844            | 690,038           |
| Borrowings                           | 17   | 544,931            | 110,005           |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>1,172,775</b>   | <b>800,043</b>    |
| <b>NON-CURRENT LIABILITIES</b>       |      |                    |                   |
| Borrowings                           | 17   | 10,022             | 540,553           |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>10,022</b>      | <b>540,553</b>    |
| <b>TOTAL LIABILITIES</b>             |      | <b>1,182,797</b>   | <b>1,340,596</b>  |
| <b>NET ASSETS</b>                    |      | <b>21,720,685</b>  | <b>20,725,379</b> |
| <b>EQUITY</b>                        |      |                    |                   |
| Issued capital                       | 19   | 43,883,806         | 38,656,404        |
| Reserves                             | 20   | (4,581,755)        | (4,892,145)       |
| Accumulated losses                   |      | (17,581,366)       | (13,038,880)      |
| <b>TOTAL EQUITY</b>                  |      | <b>21,720,685</b>  | <b>20,725,379</b> |

The statement of financial position should be read in conjunction with the accompanying notes.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

|   | Share Capital     | Foreign<br>Currency<br>Translation<br>Reserve | Options<br>Reserve | Accumulated<br>Losses | Total              |
|---|-------------------|---|--------------------|-----------------------|--------------------|
|   | \$                | \$  | \$                 | \$                    | \$                 |
| Consolidated group  |                   |   |                    |                       |                    |
| Balance at 1 April 2010   | 31,972,106        | (2,623,778)                                   | -                  | (10,837,286)          | 18,511,042         |
| Comprehensive income  |                   |   |                    |                       |                    |
| Loss for the year   | -                 | -   | -                  | (2,201,594)           | (2,201,594)        |
| Other comprehensive loss  | -                 | (2,268,367)                                   | -                  | -                     | (2,268,367)        |
| Total comprehensive income for the year                           | -                 | (2,268,367)                                   | -                  | (2,201,594)           | (4,469,961)        |
| Transactions with owners in their capacity as owners              |                   |   |                    |                       |                    |
| Issue of shares   | 7,231,600         | -   | -                  | -                     | 7,231,600          |
| Share issue costs   | (547,302)         | -   | -                  | -                     | (547,302)          |
| Total transactions with owners in their capacity as owners        | 6,684,298         | -   | -                  | -                     | 6,684,298          |
| Balance at 31 March 2011  | 38,656,404        | (4,892,145)                                   | -                  | (13,038,880)          | 20,725,379         |
| <b>Balance at 1 April 2011</b>                                    | <b>38,656,404</b> | <b>(4,892,145)</b>                            | <b>-</b>           | <b>(12,964,216)</b>   | <b>20,800,043</b>  |
| <b>Comprehensive income</b>                                       |                   |   |                    |                       |                    |
| Loss for the period   | -                 | -   | -                  | (4,617,150)           | (4,617,150)        |
| Other comprehensive income  | -                 | 221,126                                       | -                  | -                     | 221,126            |
| <b>Total comprehensive income for the period</b>                  | <b>-</b>          | <b>221,126</b>                                | <b>-</b>           | <b>(4,617,150)</b>    | <b>(4,396,024)</b> |
| <b>Transactions with owners in their capacity as owners</b>       |                   |   |                    |                       |                    |
| Issue of shares   | 5,535,371         | -   | -                  | -                     | 5,535,371          |
| Share issue costs   | (307,969)         | -   | -                  | -                     | (307,969)          |
| Options expense   | -                 | -   | 89,264             | -                     | 89,264             |
| <b>Total transactions with owners in their capacity as owners</b> | <b>5,227,402</b>  | <b>-</b>                                      | <b>89,264</b>      | <b>-</b>              | <b>5,316,666</b>   |
| <b>Balance at 31 December 2011</b>                                | <b>43,883,806</b> | <b>(4,671,019)</b>                            | <b>89,264</b>      | <b>(17,581,366)</b>   | <b>21,720,685</b>  |

The statement of changes in equity should be read in conjunction with the accompanying notes.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**
**STATEMENT OF CASHFLOWS**
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

|  | Note | Consolidated Group |                    |
|--|------|--------------------|--------------------|
|  |      | Dec 2011           | Mar 2011           |
|  |      | 9 months           | 12 months          |
|  |      | \$                 | \$                 |
| Receipts from customers  |      | 1,501,724          | 2,965,462          |
| Interest received  |      | 11,673             | 114,493            |
| Payments to suppliers and employees  |      | (4,296,473)        | (3,908,405)        |
| Finance costs  |      | (13,992)           | (18,342)           |
| <b>Net cash used in operating activities</b>                                 | 28   | <b>(2,797,068)</b> | <b>(846,792)</b>   |
| Payments for property, plant and equipment                                   |      | (290,916)          | (1,315,168)        |
| Proceeds from sale of plant and equipment                                    |      | -                  | 14,545             |
| Payments for acquisition of prospects  |      | (919,868)          | (1,439,516)        |
| Payments for exploration, evaluation and development expenditures            |      | (1,993,838)        | (3,231,667)        |
| Payment for shares in listed company in place of deposit guarantee forfeited |      | (1,069,844)        | -                  |
| Payments for security deposits   |      | (79,331)           | -                  |
| <b>Net cash used in investing activities</b>                                 |      | <b>(4,353,797)</b> | <b>(5,971,806)</b> |
| Proceeds from issue of shares  |      | 5,619,319          | 7,231,600          |
| Payments for costs of share issues   |      | (307,968)          | (547,302)          |
| Proceeds from borrowings   |      | -                  | 724,319            |
| Repayment of borrowings  |      | (101,369)          | -                  |
| <b>Net cash provided by financing activities</b>                             |      | <b>5,209,982</b>   | <b>7,408,617</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                  |      | <b>(1,940,883)</b> | <b>590,019</b>     |
| Cash and cash equivalents at beginning of financial period                   | 7    | 2,567,965          | 2,015,416          |
| Effect of exchange rates on cash holdings in foreign currencies              |      | 22,047             | (37,470)           |
| Cash and cash equivalents at end of financial period                         | 7    | <b>649,129</b>     | <b>2,567,965</b>   |

The statement of cashflows should be read in conjunction with the accompanying notes.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities****NOTES TO THE FINANCIAL STATEMENTS****FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011****TABLE OF CONTENTS**

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**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities****NOTES TO THE FINANCIAL STATEMENTS****FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

This financial report includes the consolidated financial statements and notes of AusTex Oil Limited and controlled entities ('Consolidated Group' or 'Group'). These financial statements were authorised for issue on 28 March 2012.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**a. Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by AusTex Oil Limited at the end of the reporting period. A controlled entity is any entity over which AusTex Oil Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 18 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation.

**b. Income Tax**

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No



deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**c. Inventories**

Stocks of petroleum products are measured at net realisable value.

**d. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including capitalised lease assets is depreciated using the reducing balance method over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

---

| <b>Class of Fixed Asset</b> | <b>Depreciation Rate</b> |
|-----------------------------|--------------------------|
| Leasehold improvements      | 20%–32%                  |
| Plant and equipment         | 10%–25%                  |
| Leased plant and equipment  | 10%–25%                  |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

**Oil and Gas Assets – Assets in development**

The cost of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation costs.

In addition, costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When an oil and gas asset commences production, costs carried forward will be amortised on a units of production basis over the life of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

**e. Exploration and Development Expenditure**

Exploration and evaluation expenditure including costs of acquiring mineral interests are accumulated in respect of each separate area of interest. Exploration costs including personnel costs, geological, geophysical, seismic and drilling costs are capitalised and carried forward provided that rights to tenure of the areas of interest are current and either there is a reasonable probability of recoupment through successful development and exploitation or sale, or where exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant exploration operations are continuing. When an area of interest is approved for development the accumulated expenditure is transferred to oil and gas assets.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**f. Rehabilitation and Restoration**

Provisions made for environmental rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g. Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period.

(i) *Short term obligations*

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

(ii) *Other long term employee benefit obligations*

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(iii) *Share based payments*

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**h. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i. **Financial Instruments**

**Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*Trade and other payables*

Creditors and other payables, including accruals for goods received but not yet billed, are recognised when AusTex becomes obliged to make future payments principally as a result of the purchase of goods and services.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

*Bank overdraft and borrowings*

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with AusTex accounting policy for borrowing costs.

Borrowings are classified as current unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

v. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**Financial guarantees**

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

**De-recognition**

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.



**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j. Impairment of Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that an asset may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss which is recognised in the Income Statement unless the relevant asset was a revalued asset in which case the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed if the reversal can be related to an event occurring after the impairment loss was recognised. A reversal of an impairment loss is recognised in the Income Statement, unless the relevant loss was carried at fair value in which case the reversal is treated as a revaluation increase.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

**k. Intangibles**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at the end of each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense (if any) on intangible assets with indefinite lives is recognised in profit and loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i. Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

**m. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**n. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, bank deposits and other highly liquid investments.

**Available for sale financial assets**

Available-for-sale financial assets comprising marketable equity securities are recognised at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in equity in the Fair Value Reserve. The fair values of quoted investments are based on current market prices.

Considerations such as significant or prolonged decline in the fair value of investments below their cost are used in determining whether the investments are impaired. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

**Trade and other receivables**

Trade and other receivables are measured at amortised cost, less provision for impairment. The amount of the impairment loss is recognised in the statement of comprehensive income.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**o. Revenue and Other Income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that it can be reliably measured.

Revenue from the sale of hydrocarbons is recognised in the financial period during which hydrocarbons are produced, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers. Sales revenue represents amounts invoiced, excluding applicable taxation.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST)

**p. Trade and Other Payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

**q. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**r. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cashflows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**s. Corporations Act amendment**

During the year the Company adopted the recent changes to the Corporations Act opting not to disclose parent company financial statements.

**t. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**u. Change in statutory financial year**

The statutory financial year which was previously for the 12 months period from 1 April to 31 March was changed to coincide with the calendar year from 1 January to 31 December. As a result, the statutory financial year ending 31 December 2011 will be for a shorter period from 1 April 2011 to on 31 December 2011 (2011 Year). This nine (9) month financial year would occur once only as all financial years after 31 December 2011 would be twelve (12) months commencing on 1 January and end on 31 December each year, coinciding with the calendar year.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

v. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key estimates**

(i) *Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**Key judgments**

(i) *Exploration and Evaluation Expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$3,756,565.

(ii) *Reserves*

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business, the effect of such revisions will be limited. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recorded in income in that period.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**w. New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.



**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 2: REVENUE AND OTHER INCOME**

|   | Note | Consolidated Group |                  |
|---|------|--------------------|------------------|
|   |      | Dec 2011<br>\$     | Mar 2011<br>\$   |
| <b>Revenue from Continuing Operations</b>   |      |                    |                  |
| Sales revenue   |      |                    |                  |
| —   |      | 2,111,507          | 3,204,681        |
| —   |      | 9,592              | 404,019          |
|   |      | <u>2,121,099</u>   | <u>3,608,700</u> |
| Other revenue   |      |                    |                  |
| —   |      | 11,737             | 114,493          |
| —   |      | (1,827)            | 6,141            |
|   |      | <u>2,131,009</u>   | <u>3,729,334</u> |
| <b>Total Revenue from Continuing Operations</b>   |      |                    |                  |
| <b>Other Income</b>   |      |                    |                  |
| —   |      | -                  | 20,000           |
| —   |      | -                  | 1,077            |
| —   |      | -                  | 1,719            |
|   |      | <u>-</u>           | <u>22,796</u>    |
| <b>Total other Income</b>   |      |                    |                  |
| <b>Total revenue and other income from continuing operations attributable to members of parent entity</b> |      |                    |                  |
|   |      | <u>2,131,009</u>   | <u>3,752,130</u> |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 3: LOSS FOR THE YEAR**

|   | Note | Consolidated Group |          |
|---|------|--------------------|----------|
|   |      | Dec 2011           | Mar 2011 |
|   |      | \$                 | \$       |
| Loss before income tax includes the following expenses:                                       |      |                    |          |
| Bad and doubtful debts (written back)/expensed  |      | (38,380)           | 38,552   |
| Rental expense on operating leases  |      | 92,586             | 159,981  |
| <b>a. Significant Expenses</b>  |      |                    |          |
| The following significant expense items are relevant in explaining the financial performance: |      |                    |          |
| Impairment loss on financial assets   |      | (1,386,036)        | -        |

**NOTE 4: INCOME TAX EXPENSE**

|  | Note | Consolidated Group |             |
|--|------|--------------------|-------------|
|  |      | Dec 2011           | Mar 2011    |
|  |      | \$                 | \$          |
| <b>a. Income Tax Expense</b>   |      |                    |             |
| The prima facie income tax (expense)/benefit on the pre-tax accounting (loss) reconciles to the income tax expense in the accounts as follows: |      |                    |             |
| (Loss) before income tax   |      | (4,617,150)        | (2,201,594) |
| Income tax expense/(benefit) at 30%  |      | (1,385,145)        | (660,478)   |
| Expenses not deductible  |      | 1,053,174          | 401,302     |
| Future tax benefits not brought to account   |      | 331,971            | 259,176     |
| Income Tax Expense   |      | -                  | -           |
| <b>b. Unrecognised tax losses</b>  |      |                    |             |
| Unused tax losses for which no deferred tax asset has been recognised.   |      | 6,114,185          | 4,837,552   |
| Potential tax benefit @ 30% (Mar 2011 – 30%)   |      | 1,834,256          | 1,451,266   |

All unused tax losses were incurred by the Australian parent entity.

The benefit for tax losses will only be obtained if:

- (i) The Australian parent entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses and temporary differences to be realised;
- (ii) The Australian parent entity complies with the conditions for deductibility imposed by the tax legislation;
- (iii) No changes in tax legislation adversely affect the Australian parent entity in realising the benefit from deductions for the losses and temporary differences; and

**NOTE 4: INCOME TAX EXPENSE**

- (iv) The availability of certain tax losses is subject to the Australian parent entity successfully establishing deductibility with regard to the continuity of ownership test and the same business test.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 5: AUDITORS' REMUNERATION**

|   | <b>Consolidated Group</b> |                 |
|---|---------------------------|-----------------|
|   | <b>Dec 2011</b>           | <b>Mar 2011</b> |
|   | <b>\$</b>                 | <b>\$</b>       |
| Remuneration of the auditor of the Group for: |                           |                 |
| Audit of the parent entity                    |                           |                 |
| — Audit and review of financial report        | 9,000                     | 23,063          |
| Audit of controlled entities                  | -                         | -               |
| — Audit and review of financial report        | 20,000                    | 30,000          |
|   | 29,000                    | 53,063          |

**NOTE 6: LOSS PER SHARE**

|  | <b>Consolidated Group</b> |                 |
|--|---------------------------|-----------------|
|  | <b>Dec 2011</b>           | <b>Mar 2011</b> |
|  | <b>\$</b>                 | <b>\$</b>       |
| <b>a. Basic Loss per share</b>   |                           |                 |
| i Basic Loss per share   | (0.0175)                  | (0.0108)        |
| ii. Net loss used to calculate basic loss per share  | (4,617,150)               | (2,201,594)     |
| Weighted average number of ordinary shares outstanding   |                           |                 |
| iii. during the year used in calculating basic loss per share  | 264,492,656               | 203,468,943     |
| <b>b. Diluted loss per share</b>   |                           |                 |
| The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share. | -                         | -               |

**NOTE 7: CASH AND CASH EQUIVALENTS**

|                          | <b>Note</b> | <b>Consolidated Group</b> |                 |
|--------------------------|-------------|---------------------------|-----------------|
|                          |             | <b>Dec 2011</b>           | <b>Mar 2011</b> |
|                          |             | <b>\$</b>                 | <b>\$</b>       |
| Cash at bank and on hand |             | 218,478                   | 326,001         |
| Promissory notes         |             | -                         | 541,605         |
| Bank deposits            |             | 430,651                   | 1,700,359       |
|                          | 27          | 649,129                   | 2,567,965       |

|   | Note | Consolidated Group |                  |
|---|------|--------------------|------------------|
|   |      | Dec 2011           | Mar 2011         |
|   |      | \$                 | \$               |
| <b>Reconciliation of cash</b>   |      |                    |                  |
| Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows: |      |                    |                  |
| Cash and cash equivalents   |      | 649,129            | 2,567,965        |
|   |      | <u>649,129</u>     | <u>2,567,965</u> |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 8: TRADE AND OTHER RECEIVABLES**

|   | Note | Consolidated Group |                |
|---|------|--------------------|----------------|
|   |      | Dec 2011<br>\$     | Mar 2011<br>\$ |
| <b>CURRENT</b>                            |      |                    |                |
| Trade receivables                         |      | 276,529            | 244,012        |
| Notes receivables                         |      | -                  | 87,091         |
| Provision for impairment                  |      | -                  | (38,707)       |
|   |      | -                  | 48,384         |
| Other receivables                         |      | 56,487             | 87,794         |
| Total current trade and other receivables |      | 333,016            | 380,190        |

**Provision for impairment**

Movement in the provision for impairment of receivables is as follows:

|                   | Opening Balance<br>1-Apr-2010<br>\$ | Charge for the Year<br>\$ | Amounts Written-Off<br>\$ | Closing Balance<br>31-Mar-2011<br>\$ |
|-------------------|-------------------------------------|---------------------------|---------------------------|--------------------------------------|
| Notes receivables | 38,707                              | -                         | -                         | 38,707                               |
|                   | 38,707                              | -                         | -                         | 38,707                               |

|                   | Opening Balance<br>1-Apr-2011<br>\$ | Charge for the Year<br>\$ | Amounts Written-back<br>\$ | Closing Balance<br>31-Dec-2011<br>\$ |
|-------------------|-------------------------------------|---------------------------|----------------------------|--------------------------------------|
| Notes receivables | 38,707                              | -                         | (38,707)                   | -                                    |
|                   | 38,707                              | -                         | (38,707)                   | -                                    |

**NOTE 9: INVENTORIES**

| Note                                 | Consolidated Group |          |
|--------------------------------------|--------------------|----------|
|                                      | Dec 2011           | Mar 2011 |
|                                      | \$                 | \$       |
| <b>CURRENT</b>                       |                    |          |
| At net realisable value              |                    |          |
| Oil and gas stored in tank batteries | 149,763            | 133,908  |
|                                      | 149,763            | 133,908  |



**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 10: OTHER FINANCIAL ASSETS**

|  | Note   | Consolidated Group |                |
|--|--------|--------------------|----------------|
|  |        | Dec 2011<br>\$     | Mar 2011<br>\$ |
| <b>NON-CURRENT</b>                                       |        |                    |                |
| Available for sale financial assets                      | 10 (a) | 266,750            | -              |
| Other investment   | 10 (b) | -                  | 255,000        |
| Total Non-current Assets                                 |        | 266,750            | 255,000        |
| <b>(a) Available-for-sale financial assets comprise:</b> |        |                    |                |
| Listed investments, at fair value                        |        |                    |                |
| — shares in listed corporations                          |        | 266,750            | -              |
| <b>(b) Other investments comprise:</b>                   |        |                    |                |
| Unlisted investments, at cost                            |        |                    |                |
| — shares in unlisted corporations                        |        | -                  | 255,000        |

**NOTE 11: EXPLORATION AND EVALUATION ASSETS**

|  | Note | Consolidated Group |                |
|--|------|--------------------|----------------|
|  |      | Dec 2011<br>\$     | Mar 2011<br>\$ |
| <b>Exploration and Evaluation Assets</b> |      |                    |                |
| Balance at beginning of year             |      | 3,591,784          | 3,667,811      |
| Additions                                |      | 158,722            | 632,851        |
| Impairment                               |      | (329,223)          | -              |
| Exchange difference                      |      | 290,523            | (486,753)      |
| Accumulated Depreciation                 |      | (293,087)          | (232,126)      |
| Balance at end of year                   |      | 3,418,719          | 3,591,784      |

**NOTE 12: OIL AND GAS ASSETS**

|                              | Note | Consolidated Group |             |
|------------------------------|------|--------------------|-------------|
|                              |      | Dec 2011           | Mar 2011    |
|                              |      | \$                 | \$          |
| <b>Oil and Gas Assets</b>    |      |                    |             |
| Balance at beginning of year |      | 13,541,294         | 11,484,193  |
| Additions                    |      | 2,890,263          | 3,834,931   |
| Exchange difference          |      | 68,195             | (1,700,493) |
| Accumulated depreciation     |      | (111,224)          | (77,337)    |
| Balance at end of year       |      | 16,388,528         | 13,541,294  |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT**

|  | Note | Consolidated Group |                |
|--|------|--------------------|----------------|
|  |      | Dec 2011<br>\$     | Mar 2011<br>\$ |
| <b>Property, Plant &amp; Equipment</b> |      |                    |                |
| At cost                                |      | 3,202,309          | 2,897,374      |
| Exchange difference                    |      | (503,058)          | (557,276)      |
| Accumulated depreciation               |      | (1,160,008)        | (805,019)      |
| Balance at end of year                 |      | 1,539,243          | 1,535,079      |
| <b>Movement</b>                        |      |                    |                |
| Balance at beginning of year           |      | 2,340,098          | 1,579,040      |
| Additions                              |      | 304,933            | 1,061,524      |
| Exchange difference                    |      | 54,218             | (300,466)      |
| Balance at end of year                 |      | 2,699,249          | 2,340,098      |
| <b>Accumulated Depreciation</b>        |      |                    |                |
| Balance at beginning of year           |      | 805,019            | 603,312        |
| Depreciation charge                    |      | 354,987            | 201,707        |
| Balance at end of year                 |      | 1,160,006          | 805,019        |

**NOTE 14: INTANGIBLE ASSETS**

|                          | Note | Consolidated Group |                |
|--------------------------|------|--------------------|----------------|
|                          |      | Dec 2011<br>\$     | Mar 2011<br>\$ |
| <b>Patents</b>           |      |                    |                |
| At cost                  |      | 108,090            | 108,090        |
| Exchange difference      |      | (10,611)           | (12,289)       |
| Accumulated amortisation |      | (54,977)           | (51,032)       |
| Net carrying value       |      | 42,502             | 44,769         |

Patents have finite useful lives. The current amortisation charges for such intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 15: OTHER ASSETS**

|                          | Note | Consolidated Group |          |
|--------------------------|------|--------------------|----------|
|                          |      | Dec 2011           | Mar 2011 |
|                          |      | \$                 | \$       |
| <b>CURRENT</b>           |      |                    |          |
| Prepayments              |      | 27,584             | -        |
| Total Current Assets     |      | 27,584             | -        |
| <b>NON-CURRENT</b>       |      |                    |          |
| Lease bond deposit       |      | 88,248             | 15,986   |
| Total Non-current Assets |      | 88,248             | 15,986   |

**NOTE 16: TRADE AND OTHER PAYABLES**

|                                      | Note | Consolidated Group |          |
|--------------------------------------|------|--------------------|----------|
|                                      |      | Dec 2011           | Mar 2011 |
|                                      |      | \$                 | \$       |
| <b>CURRENT</b>                       |      |                    |          |
| Trade payables                       |      | 589,385            | 624,159  |
| Sundry payables and accrued expenses |      | 38,459             | 65,879   |
|                                      |      | 627,844            | 690,038  |

**NOTE 17: BORROWINGS**

|                            | Note | Consolidated Group |          |
|----------------------------|------|--------------------|----------|
|                            |      | Dec 2011           | Mar 2011 |
|                            |      | \$                 | \$       |
| <b>CURRENT</b>             |      |                    |          |
| Promissory notes (secured) |      | 525,784            | 90,256   |
| Lease liability (secured)  |      | 19,146             | 19,749   |
| Total current              |      | 544,930            | 110,005  |
| <b>NON-CURRENT</b>         |      |                    |          |
| Promissory notes           |      | -                  | 517,304  |
| Lease liability (secured)  |      | 10,022             | 23,249   |
| Total non current          |      | 10,022             | 540,553  |

a. **Lease liability**

Lease liabilities are secured by the underlying leased assets.

b. **Promissory notes**

Promissory notes have been drawn as a source of long-term finance and were issued for a 3 year term. They bear a fixed interest at 6% payable monthly in arrears. The promissory note holder has the right at each anniversary date to redeem the promissory note by receiving shares in AusTex Oil Ltd on the basis of 25 cents per share for the balance of the promissory note payable. In the event the promissory note holder does not elect to exchange the promissory note for shares in AusTex Oil Ltd at any anniversary date, then at the end of the 3 year term of the promissory note, the entire principal balance is due and payable.

The promissory note is secured by a purchase money mortgage, covering the subject oil and gas leasehold estates and oil and gas leases and personal property thereon.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
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**NOTE 18: CONTROLLED ENTITIES**

a. **Controlled Entities Consolidated**

|   | Country of Incorporation | Percentage Owned (%)* |          |
|---|--------------------------|-----------------------|----------|
|   |                          | Dec 2011              | Mar 2011 |
| Subsidiaries of AusTex Oil Limited:                         |                          |                       |          |
| International Energy Corporation (Oklahoma), Inc.           | Oklahoma, USA            | 100                   | 100      |
| International Energy Corporation of Northern Oklahoma, Inc. | Oklahoma, USA            | 100                   | 100      |
| International Energy Corporation (Kansas), Inc.             | Kansas, USA              | 100                   | 100      |
| Well Enhancement Services, LLC                              | Oklahoma, USA            | 100                   | 100      |

\* Percentage of voting power is in proportion to ownership

**NOTE 19: ISSUED CAPITAL**

|  | Consolidated Group |            |
|--|--------------------|------------|
|  | Dec 2011           | Mar 2011   |
|  | \$                 | \$         |
| 280,480,451 (Mar 2011: 225,934,998) fully paid ordinary shares | 43,883,806         | 38,656,404 |

|                                      | 31 December 2011 |            | 31 March 2011 |            |
|--------------------------------------|------------------|------------|---------------|------------|
|                                      | No. of shares    | \$         | No. of shares | \$         |
| a. <b>Ordinary Shares</b>            |                  |            |               |            |
| At the beginning of reporting period | 225,934,998      | 38,656,404 | 169,424,998   | 31,972,106 |
| Shares issued during the year        |                  |            |               |            |
| — Non renounceable 1:5 rights issue  | —                | -          | 33,885,000    | 5,421,600  |
| — Share placements                   | 54,545,453       | 5,535,370  | 22,625,000    | 1,810,000  |
| — Share issue costs                  | —                | (307,968)  | -             | (547,302)  |
| At the end of the reporting period   | 280,480,451      | 43,883,806 | 225,934,998   | 38,656,404 |

During the nine month period to 31 December 2011, as announced to the Australian Securities Exchange on 17 June 2011, 54,545,453 fully paid shares were issued at ten (10) cents each to a group of sophisticated and professional investors lead by the Iroquois Capital Opportunity Fund, a private equity fund specialising in investments within the oil and gas industry. Shareholder approval for the placement was obtained at the Extraordinary General Meeting held on 29 July 2011.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**b. Options**

- i. For information relating to the AusTex Oil Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 26: Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 26: Share-based Payments.

**c. Capital Management**

Management controls the capital of the Group in order to maintain a good debt to equity ratio and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

**NOTE 20: RESERVES**

**a. Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

**b. Options Reserve**

The Options Reserve records the value of options issued by the Group.

|  | Note | Consolidated Group |                    |
|--|------|--------------------|--------------------|
|  |      | Dec 2011           | Mar 2011           |
|  |      | \$                 | \$                 |
| <b>Reserves</b>  |      |                    |                    |
| Foreign Currency Translation                                 |      | (4,671,019)        | (4,892,145)        |
| Options expense  |      | 89,264             | -                  |
|  |      | <u>(4,581,755)</u> | <u>(4,892,145)</u> |
| <b>Movement in Reserves</b>                                  |      |                    |                    |
| Foreign Currency Translation                                 |      |                    |                    |
| Balance at beginning of year                                 |      | (4,892,145)        | (2,623,778)        |
| Net difference on translation of foreign controlled entities |      | 221,126            | (2,268,367)        |
| Balance at end of year                                       |      | <u>(4,671,019)</u> | <u>(4,892,145)</u> |

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**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

Options reserve

Balance at beginning of year

- -

Options expense

89,264 -

Balance at end of year

89,264 -



**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 21: CAPITAL AND LEASING COMMITMENTS**

|                                     | Note | Consolidated Group |          |
|-------------------------------------|------|--------------------|----------|
|                                     |      | Dec 2011           | Mar 2011 |
|                                     |      | \$                 | \$       |
| <b>a. Finance Lease Commitments</b> |      |                    |          |
| Payable — minimum lease payments    |      | 29,168             | 44,434   |
| — not later than 12 months          |      | 19,146             | 19,749   |
| — between 1 and 3 years             |      | 10,022             | 24,685   |
| — Greater than 3 years              |      | -                  | -        |
| Minimum lease payments              |      | 29,168             | 44,434   |
| Less future finance charges         |      | -                  | -        |

**NOTE 22: EXPENDITURE COMMITMENTS**

|                                  | Consolidated Group |          |
|----------------------------------|--------------------|----------|
|                                  | Dec 2011           | Mar 2011 |
|                                  | \$                 | \$       |
| Operating (rental) lease payable |                    |          |
| — not later than 12 months       | 80,000             | 75,000   |
| — between 1 and 5 years          | 300,000            | 300,000  |
| — Greater than 5 years           | -                  | -        |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 23: EVENTS AFTER THE REPORTING PERIOD**

As announced to the Australian Securities Exchange on 17 January 2012, the Board of AusTex Oil Limited resolved to change the Company's statutory financial year. The statutory financial year which was previously for the 12 month period from 1 April to 31 March was changed to coincide with the calendar year from 1 January to 31 December. As a result, the financial year ending 31 December 2011 will be for a shorter period being from 1 April 2011 to on 31 December 2011. This nine (9) month financial year would occur once only as all financial years after 31 December 2011 would be twelve (12) months commencing on 1 January and end on 31 December coinciding with the calendar year.

As announced to the Australian Securities Exchange on 20 February 2012, arrangements were finalised to raise \$3.2M through a share placement of 37,647,060 fully paid ordinary shares in the capital of the Company at \$0.085 per share with one free option for every three shares subscribed for. The options will have an exercise price of \$0.15 to be exercised within 2 years of the date of issue. The Placement will be conducted in two stages with the first stage to be made to Australian sophisticated and professional investors and international investors, and the second stage, which is subject to shareholder approval, to a Director of the Company.

As announced to the Australian Securities Exchange on 19 March, 2012, the Group has entered into a conditional agreement for additional funding of up to \$10M through the issue of convertible notes that are convertible at 15 cents per share for each fully paid ordinary share. In addition, AOK would issue one free option for each option for each 2 convertible notes with an exercise price of 20 cents per share within 3 years of the date of shareholder approval.

Since the end of the financial year the Directors are not aware of any other matter or circumstance not otherwise dealt with within the financial report that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

**NOTE 24: SIGNIFICANT EVENTS DURING THE YEAR**

The Company provided a guarantee for \$1 million to the Australia and New Zealand Bank on behalf of Southern Cross Exploration NL of which Boris Ganke (a former non executive director) is Chairman. The Company has also loaned \$250,000 to Chapmans Ltd of which Boris Ganke is Chairman. The loans were promissory notes and bore an interest rate of 10% per annum. In May, 2011, the ANZ Bank exercised its right to call on the bank guarantee in full. Southern Cross Exploration NL issued 5,000,000 shares at five (5) cents each and 30,000,000 shares at four (4) cents each representing total consideration of \$1,450,000 in satisfaction of the debt owed to the Company from the exercise of the guarantee by the ANZ Bank. 10,750,000 shares in SXX were sold on-market during the year to provided working capital for the Company. The remaining 24,250,000 SXX shares were sold off-market in February 2012 at 1.1 cents per share for a consideration of \$266,750. An impairment expense of \$842,644 was raised in the Statement of Comprehensive Income for the nine months to 31 December 2011 from the initial issue and subsequent sale of the SXX shares.

**NOTE 25: PARENT ENTITY**

|   | Dec 2011<br>\$     | Mar 2011<br>\$     |
|---|--------------------|--------------------|
| Financial information in relation to:             |                    |                    |
| <b>i. Statement of Comprehensive Income</b>       |                    |                    |
| Loss before income tax                            | (2,507,206)        | (1,060,037)        |
| Income tax expense                                | -                  | -                  |
| Loss after income tax                             | <u>(2,507,206)</u> | <u>(1,060,037)</u> |
| Loss attributable to members of the parent entity | <u>(2,507,206)</u> | <u>(1,060,037)</u> |
| <b>ii. Accumulated Losses</b>                     |                    |                    |
| Accumulated losses at the beginning of the year   | (3,647,597)        | (2,587,560)        |
| Loss after income tax                             | <u>(2,507,206)</u> | <u>(1,060,037)</u> |
| Accumulated losses at the end of the year         | <u>(6,154,803)</u> | <u>(3,647,597)</u> |
| <b>iii. Statement of Financial Position</b>       |                    |                    |
| <b>CURRENT ASSETS</b>                             |                    |                    |
| Cash and cash equivalents                         | 65,019             | 2,278,302          |
| Trade and other receivables                       | 18,762             | 62,432             |
| <b>TOTAL CURRENT ASSETS</b>                       | <u>83,781</u>      | <u>2,340,734</u>   |
| <b>NON-CURRENT ASSETS</b>                         |                    |                    |
| Property, plant and equipment                     | 3,008              | 3,647              |
| Investments in controlled entities                | 4,501,136          | 4,501,136          |
| Loans to controlled entities                      | 33,014,264         | 27,957,890         |
| Other financial assets                            | 266,750            | 255,000            |
| <b>TOTAL NON-CURRENT ASSETS</b>                   | <u>37,785,158</u>  | <u>32,717,673</u>  |
| <b>TOTAL ASSETS</b>                               | <u>37,868,939</u>  | <u>35,058,407</u>  |
| <b>CURRENT LIABILITIES</b>                        |                    |                    |
| Trade and other payables                          | 50,672             | 49,600             |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <u>50,672</u>      | <u>49,600</u>      |
| <b>TOTAL LIABILITIES</b>                          | <u>50,672</u>      | <u>49,600</u>      |
| <b>NET ASSETS</b>                                 | <u>37,818,267</u>  | <u>35,008,807</u>  |
| <b>EQUITY</b>                                     |                    |                    |
| Issued capital                                    | 43,883,806         | 38,656,404         |
| Reserves  | 89,264             |                    |
| Accumulated losses                                | <u>(6,154,803)</u> | <u>(3,647,597)</u> |
| <b>TOTAL EQUITY</b>                               | <u>37,818,267</u>  | <u>35,008,807</u>  |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 26: OPERATING SEGMENTS**

**Segment Information**

**Identification of reportable segments**

The group operates predominantly in one business segment, being the exploration, development and production of hydrocarbons in the USA. The consolidated entity's revenues and assets and liabilities according to geographical segments are shown below.

|                               | December 2011    |              |                  | March 2011       |                |                  |
|-------------------------------|------------------|--------------|------------------|------------------|----------------|------------------|
|                               | Total            | Australia    | USA              | Total            | Australia      | USA              |
|                               | \$               | \$           | \$               | \$               | \$             | \$               |
| <b>REVENUE</b>                |                  |              |                  |                  |                |                  |
| Sales revenue                 | 2,121,099        | -            | 2,121,099        | 3,608,700        | -              | 3,608,700        |
| Interest revenue              | 11,737           | 9,436        | 2,301            | 114,493          | 114,490        | 3                |
| Other revenue                 | (1,827)          | (1,827)      | -                | 22,796           | 20,000         | 2,796            |
| <b>Total segment revenue</b>  | <b>2,131,009</b> | <b>7,609</b> | <b>2,123,400</b> | <b>3,745,989</b> | <b>134,490</b> | <b>3,611,499</b> |
| <b>RESULTS</b>                |                  |              |                  |                  |                |                  |
| Net loss before income tax    | (4,617,150)      | (2,507,206)  | (2,109,944)      | (2,201,594)      | (1,060,037)    | (1,141,557)      |
| Income tax                    | -                | -            | -                | -                | -              | -                |
| Net loss                      | (4,617,150)      | (2,507,206)  | (2,109,944)      | (2,201,594)      | (1,060,037)    | (1,141,557)      |
| <b>ASSETS AND LIABILITIES</b> |                  |              |                  |                  |                |                  |
| Assets                        | 22,903,482       | 353,539      | 22,549,943       | 22,065,975       | 2,599,380      | 19,466,595       |
| Liabilities                   | 1,182,797        | 50,672       | 1,132,125        | 1,340,596        | 49,600         | 1,290,996        |

**NOTE 27: SHARE-BASED PAYMENTS**

- i. On 13 February 2012, 2,482,000 share options were granted to employees, key management personnel and consultants under the AusTex Oil Limited Employee Option Plan to take up ordinary shares at an exercise price of \$0.15 each. The options are exercisable on or before 11 January 2014. The options hold no voting or dividends rights and are not transferable.
- ii. Options granted to key management personnel are as follows:

| Grant Date       | Expiry Date     | Exercise price | Number    | Date exercisable from |
|------------------|-----------------|----------------|-----------|-----------------------|
| 13 February 2012 | 11 January 2014 | \$0.15         | 2,482,000 | 13 February 2012      |

The options hold no voting or dividend rights and have not been listed.

- iii. The company established the AusTex Oil Limited Employee Option Scheme on 3 August 2009 as a long-term incentive scheme to recognise talent and motivate executives to strive for group performance. Employees are granted options which vest over two (2) to five (5) years. The options are issued for no consideration and carry no entitlements to voting rights or dividends of the Group. The number available to be granted is determined by the Board and is based on performance measures including growth in shareholder return, return on equity, cash earnings, and group EPS growth.

Options are forfeited thirty (30) days after the holder ceases to be employed by the Group, unless the Board determines otherwise (this is usually only in the case of retirement, redundancy, death or disablement).

- iv. Equity Instrument disclosures relating to key management personnel

| <b>Period ended<br/>31 Dec 2011</b>    | <b>Balance at the<br/>start of the<br/>period</b> | <b>Granted<br/>during the<br/>year as<br/>compensation</b> | <b>Exercised<br/>during the<br/>period</b> | <b>Lapsed during<br/>the period</b> | <b>Balance at the<br/>end of the<br/>year</b> | <b>Vested and<br/>exercisable at<br/>end of the<br/>period</b> |
|--|---|--|--|-------------------------------------|---|--|
| <b>Name</b>                            |   |  |  |                                     |   |  |
| <b>Directors of AusTex Oil Limited</b> |   |  |  |                                     |   |  |
| R.A. Adrey                             | 4,000,000   | 5,000,000  | -  | (500,000)                           | 8,500,000                                     | 8,500,000  |
| D. Lanskey                             | 4,000,000   | 5,000,000  | -  | (500,000)                           | 8,500,000                                     | 8,500,000  |
| P.E. Power                             | 1,500,000   | 2,500,000  | -  | (500,000)                           | 3,500,000                                     | 3,500,000  |
| <b>Other key management personnel</b>  |   |  |  |                                     |   |  |
| D.W. Clark                             | 500,000   | -  | -  | (500,000)                           | -   | -  |
| J.B. Clyne                             | 500,000   | -  | -  | (500,000)                           | -   | -  |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 28: CASH FLOW INFORMATION**

|  | Consolidated Group |             |
|--|--------------------|-------------|
|  | Dec 2011           | Mar 2011    |
|  | \$                 | \$          |
| <b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b> |                    |             |
| Loss after income tax  | (4,617,150)        | (2,201,594) |
| <b>Non-cash flows in loss</b>  |                    |             |
| Depreciation and amortisation  | 409,605            | 796,602     |
| Assets impairments expense   | 1,386,036          | -           |
| Exploration expenses written-off   | 329,223            |             |
| Options expense  | 89,264             |             |
| (Profit)/Loss on disposal of non current assets                                    | 1,827              | (6,141)     |
| Promissory note written-off  | (270,392)          | -           |
| Other non cash flows items   | (67,022)           | 127,223     |
| <b>Changes in assets and liabilities</b>   |                    |             |
| (Increase)/decrease in trade and other receivables                                 | 47,174             | 209,148     |
| (Increase)/decrease in inventories   | (15,855)           | (73,180)    |
| (Increase)/decrease in other financial assets                                      | (27,584)           | 40,000      |
| Increase/(decrease) in trade and other payables                                    | (62,194)           | 261,150     |
| Cash flows from operations   | (2,797,068)        | (846,792)   |

**NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES**

**Directors**

The names of the Directors at any time during the financial period ended 31 December 2011, unless otherwise indicated, were the following:

**Non Executive Directors**

**Position**

|                        |  |
|------------------------|--|
| Dr Peter Power         | Non executive chairman                           |
| Ms Patricia Kay Philip | Non-executive director                           |
| Mr Kwang Hou Hung      | Non-executive director (appointed 15 April 2011) |
| Mr Luis F Verma        | Non-executive director (appointed 1 August 2011) |

**Executive Directors**

**Position**

|                  |   |
|------------------|---|
| Mr Dan Lanskey   | Managing Director                                     |
| Mr Richard Adrey | Executive Director (International Energy Corporation) |

**Other Key Management Personnel**

**Position**

|                 |                         |
|-----------------|-------------------------|
| Mr David Clark  | Chief Financial Officer |
| Mr Justin Clyne | Company Secretary       |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**(ii) Key Management Personnel Compensation**

|  | <b>Consolidated Group</b> |                 |
|--|---------------------------|-----------------|
|  | <b>Dec 2011</b>           | <b>Mar 2011</b> |
|  | <b>\$</b>                 | <b>\$</b>       |
| Key Management personnel commitments under Contracts payable within one year | 595,392                   | 564,583         |
| Directors' Fees  | 96,498                    | 75,000          |

The Company has taken advantage of the relief provided by ASIC Class Order 06/05 and has transferred the detailed remuneration disclosures to the Remuneration Report contained within the Directors' Report. Apart from the details disclosed in this Note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at the year end.

**(iii) Related party transactions with the Company or its Controlled Entities**

The parent company provides unsecured interest free loans to its controlled entities with no fixed date for repayment.

**(iv) Shareholdings of Key Management Personnel**

At the date of this report, Directors held the following relevant interests in the company:

|             |                     | <b>Balance at</b>        | <b>Changes</b>    | <b>Balance at</b>  |
|-------------|---------------------|--------------------------|-------------------|--------------------|
|             |                     | <b>Beginning of year</b> | <b>during the</b> | <b>End of year</b> |
|             |                     |                          | <b>period</b>     |                    |
| R.A. Adrey  | Indirect            | 10,618,086               | 400,000           | 11,018,086         |
| D. Lanskey  | Direct and Indirect | 3,262,872                | 150,000           | 3,412,872          |
| P.K. Philip | Direct and Indirect | 1,079,574                | 145,000           | 1,224,574          |
| P.E. Power  | Indirect            | 11,268,447               | 1,210,982         | 12,479,429         |
| K.H. Hung   | Direct              | 15,000,000               | -                 | 15,000,000         |
| L.F. Verma  | Direct and Indirect | Nil                      | -                 | Nil                |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 30: FINANCIAL RISK MANAGEMENT**

The Group's financial instruments consist mainly of deposits with banks, promissory notes, investments, accounts receivable and payable, loans to and from subsidiaries and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

|   | Note | Consolidated Group |                  |
|---|------|--------------------|------------------|
|   |      | Dec 2011<br>\$     | Mar 2011<br>\$   |
| <b>Financial Assets</b>                 |      |                    |                  |
| Cash and cash equivalents               | 7    | 649,129            | 2,567,965        |
| Trade and other receivables             | 8    | 333,016            | 380,189          |
| Available-for-sale financial assets:    |      |                    |                  |
| — Listed investments at fair value      | 10   | 266,750            | -                |
| Other financial assets                  |      |                    |                  |
| — Cash for lease bond                   | 15   | 88,248             | 270,986          |
| <b>Total Financial Assets</b>           |      | <b>1,337,143</b>   | <b>3,219,140</b> |
| <b>Financial Liabilities</b>            |      |                    |                  |
| Financial liabilities at amortised cost |      |                    |                  |
| — Trade and other payables              | 16   | 627,844            | 690,038          |
| — Borrowings                            | 17   | 554,953            | 650,558          |
| <b>Total Financial Liabilities</b>      |      | <b>1,182,797</b>   | <b>1,340,596</b> |

**Financial Risk Management Policies**

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk. The minutes of the RAC are reviewed by the Board.

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of credit risk policies and future cash flow requirements.



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**NOTE 30: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Specific Financial Risk Exposures and Management**

At balance date the group has no significant credit risks nor any significant business risks other than those which apply to the inherently risky oil and gas operations and to the price risk in respect of the equity investments which are classified as available-for-sale financial assets and to foreign currency risk in respect of the exchange rates of the United States dollar.

**a. Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the FRMC has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

*Credit Risk Exposures*

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 8.

Credit risk related to balances with banks and other financial institutions is managed by the RAC in accordance with approved Board policy.

**b. Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2011**

**NOTE 30: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**c. Market Risk**

***Foreign exchange risk***

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rate of the United States Dollar.

With instruments being held by overseas operations, fluctuations in the US Dollar Sterling may impact on the Group's financial results unless those exposures are appropriately managed.

The Group's exposure to foreign currency risk at the end of the reporting period expressed in Australian dollars was as follows:

**December 2011**

| <b>Consolidated Group</b>                | <b>Net Financial Assets/(Liabilities) in AUD \$</b> |
|--|---|
| Functional currency of entity            |   |
| US dollars                               | (145,512)   |
| Statement of Financial Position Exposure | <u>(145,512)</u>                                    |

**March 2011**

| <b>Consolidated Group</b>                | <b>Net Financial Assets/(Liabilities) in AUD \$</b> |
|--|---|
| Functional currency of entity            |   |
| US dollars                               | (568,496)   |
| Statement of Financial Position Exposure | <u>(568,496)</u>                                    |

***Price risk***

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for oil and gas.

***Sensitivity Analysis***

The following table illustrates sensitivities to the Group's exposures to changes in exchange rates and commodity prices. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

|                                 | <b>Consolidated Group</b> |               |
|---------------------------------|---------------------------|---------------|
|                                 | <b>Profit</b>             | <b>Equity</b> |
|                                 | <b>\$</b>                 | <b>\$</b>     |
| <b>Year ended 31 Dec 2011</b>   |                           |               |
| +/-5% in \$A/\$US               | 375,000                   | 400,000       |
| +/-5\$/barrel of oil            | 150,000                   | 150,000       |
| <b>Year ended 31 March 2011</b> |                           |               |
| +/-5% in \$A/\$US               | 300,000                   | 400,000       |
| +/-5\$/barrel of oil            | 75,000                    | 50,000        |

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
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**NOTE 31: CONTINGENT LIABILITIES**

Indeterminate obligations with regard to the restoration of well leasehold in accordance with the well lease agreement.

**NOTE 32: COMPANY DETAILS**

The registered office of the company is:

56<sup>th</sup> Floor, MLC Centre  
19 Martin Place  
Sydney NSW 2000

The principal places of business is:

Level 9  
25 Bligh Street  
Sydney NSW 2000

**AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 15 to 72 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards and International Financial Reporting Standards; and
  - b. give a true and fair view of the financial position as at 31 December 2011 and of the performance for the period ended on that date of the consolidated group;
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial period have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial period comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial period give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board of Directors.



Daniel Lanskey  
Managing Director

Dated at Sydney, this 28 March 2012