



ABN 24 119 737 772

31 January 2013

ASX release

December 2012 Quarterly Report

Production

Production for the quarter and year to date was:

	Quarter 3 months ended 31 Dec 2012	Year to date 12 months ended 31 Dec 2012
Gross:		
Gas (mmcf)	57.1	397.6
Oil (mbbl)	45.5	219.9
Total (mboe ⁽²⁾)	55.0	286.2
Nett (Texon share): ⁽¹⁾		
Gas (mmcf)	38.4	231.2
Oil (mbbl)	30.5	145.0
Total (mboe ⁽²⁾)	36.9	183.5

Gross average daily production for the December quarter was 621 mcfcpd and 495 bopd (Texon's share⁽¹⁾: 416 mcfcpd and 332 bopd (401 boepd)) from seven (7) producing wells.

The Company's net average daily production in the December quarter of 401 boepd was a decrease on the Company's September quarter average of 563 boepd, mainly attributable to the Peeler #1H due to natural decline and downtime issues associated with a compressor, Wheeler #1 due to natural decline and downtime associated with the pumping unit, and other natural decline. Quarterly production is down from the corresponding period last year which has been impacted by the sale of our Leighton Olmos and Yegua production from 15 producing wells effective 1 February 2012, in addition to natural decline.

The Hoskins EFS #3H and Quintanilla SMEF #1H wells were brought into production in January. January 2013 net average daily production is about 917 boepd (813 bopd and 623 mcfcpd) as to Texon's share⁽¹⁾.

⁽¹⁾ Texon's beneficial NRI share (after Royalties).

⁽²⁾ Gas is converted to boe on the basis that 6mcf of gas are equivalent to 1 boe.

Eagle Ford Project

During the quarter, three (3) Eagle Ford wells were drilled.

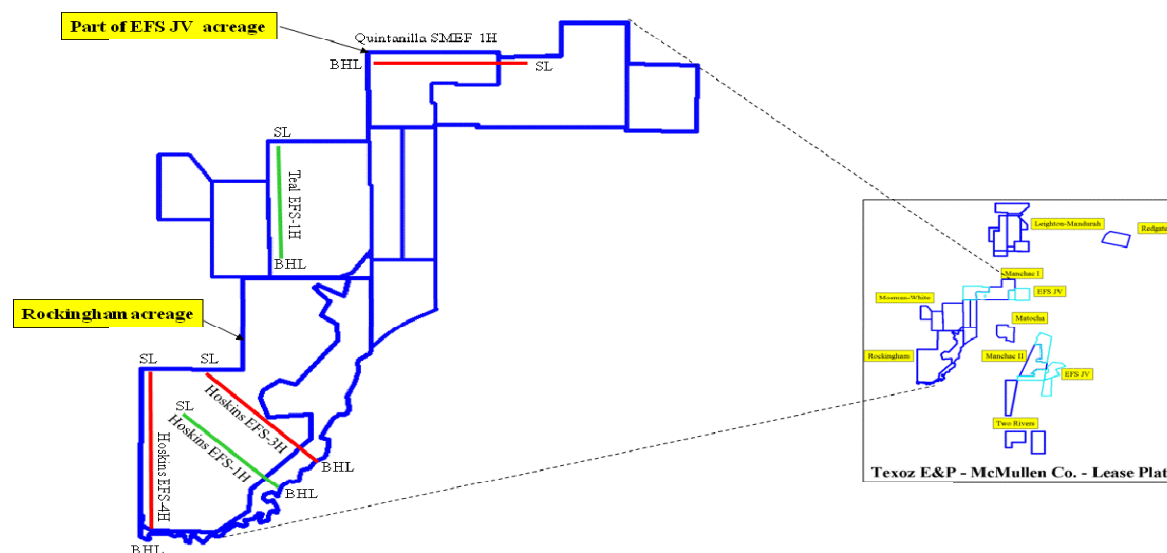
Quintanilla SMEF #1H was spudded on 16 October and drilled to a total depth of 16,458 ft. The pre-drill plan of 18 frac stages was increased to 19 stages and fracing was completed on 9 January. Production commenced in the second half of January. The initial production rate for the well was 1,705 boepd (1,503 bopd and 1,270 mcfpd) with a flowing casing pressure of 2,665 psi on a 22/64" choke. The Quintanilla SMEF #1H is the first joint venture well drilled in a project where Texon joined with offset lease owners to more efficiently develop acreage held by Texon. Texon has a 48% WI in the well.

Hoskins EFS #3H was spudded on 21 October and drilled to a total depth of 17,156 ft. It was successfully fraced with 24 stages pumped in the 5,592 ft horizontal lateral. Production facilities for this well and the Quintanilla SMEF #1H have been completed. The initial production rate in January for the Hoskins EFS #3H was 2,007 boepd (1,751 bopd and 1,537 mcfpd) with a flowing casing pressure of 3201 psi on a 22/64" choke. Texon has a 95% WI in the well.

Hoskins EFS #4H, the Company's eighth (8th) Eagle Ford well and a lease obligation well was spudded on 6 December and reached total depth of 18,832 ft with a 7,272 ft horizontal lateral. Plans for fracing and completion are underway with anticipated flow back testing in February–March this year. Texon has a 95% WI in the well.

A Hoskins water well was also drilled during the quarter and is now producing water into the frac pond for use in fracing on the Hoskins lease.

The locations of these wells are indicated on the map below.



Olmos

Texon has leases covering 3,823 net Working Interest acres in the Olmos formation located in McMullen County in Southern Texas. This project currently has one producing well (Wheeler #1) and one well is shut-in awaiting a refrac (Hoskins #1).

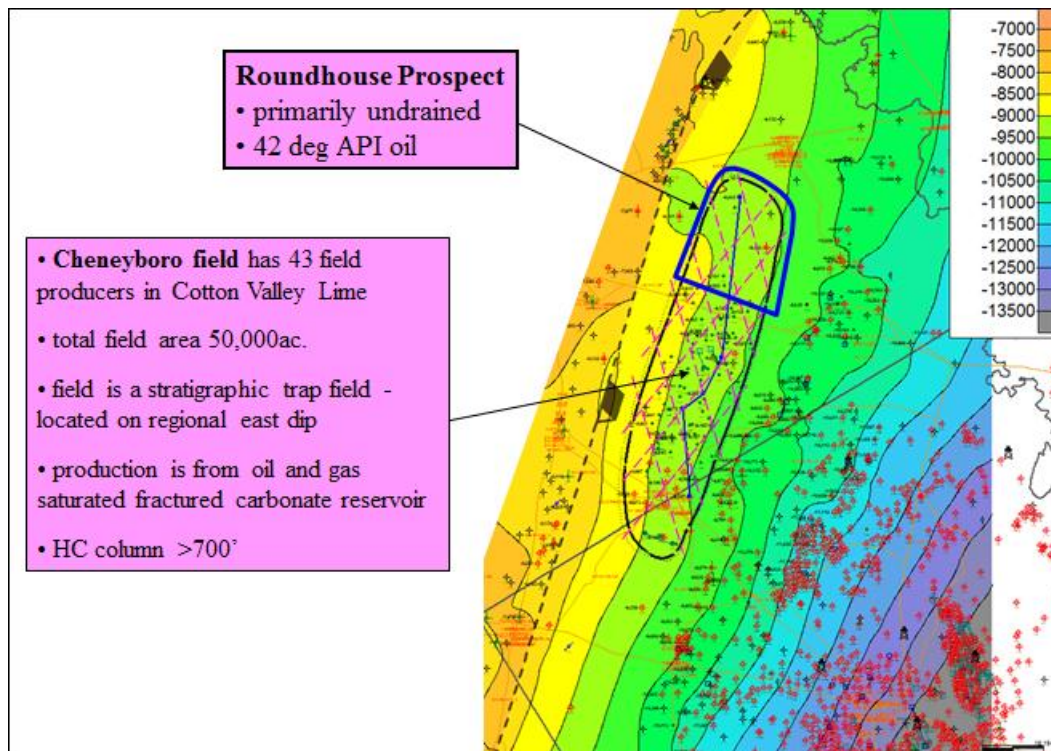
Texon anticipates that approximately 29 wells, each draining a 40 acre area, have the potential to be economically developed in the Olmos reservoir. This prospect is very similar in potential to the Leighton-Olmos field previously discovered and monetised by Texon. Texon is currently reviewing the possibility of a partial sale and farm out of its high Olmos Working Interest which, if successful, could result in an expanded work program in its Olmos project. Should it be implemented, this expanded work program would continue to prove up the total resource potential of 3.0 MMBOE.

Other Projects

Roundhouse leases

Texon has 3,510 net Working Interest acres (which equates to a 47.4% Working Interest) in the Roundhouse (Cotton Valley Lime reservoir) prospect located in Navarro County, Texas.

The prospect will be tested by applying modern horizontal drilling and completion technology to intersect multiple naturally occurring fractures within the Cotton Valley Lime reservoir. An initial test well is planned for 2013. A depth structure map of the Cotton Valley Lime reservoir is set out below and provides further information on the prospect.



East Texas

The Company has identified three prospects in East Texas considered prospective for a shallow oil drilling program (Redfish, Catfish Creek and East Banks prospects). These prospects have been defined with well data, 2D seismic data and historical production data.

Extensive land research has been performed and has identified that much of these prospects are currently available for leasing. Texon has already leased 2,917 net Working Interest acres and intends to continue to lease additional acreage towards a goal of 20,000 acres.

These prospects are targeting a shallow oil reservoir which previously produced oil and gas from old vertical wells with little or no reservoir stimulation. Based on 80 acre spacing and Texon's current 2,917 net Working Interest acres, there are 36 locations that between them have gross potential of 4.7 MMBOE and, if targeted programs to obtain leases to the 20,000 acre target are successful, there may be up to 250 locations with a gross potential of 33 MMBOE.

Corporate

Texon-Sundance Merger and Talon Demerger

On 13 November both the Company and Sundance Energy Australia Limited (**Sundance**) announced an agreement to merge whereby Sundance would acquire Texon's Eagle Ford assets under a two stage process whereby the Company would demerge its non-EFS assets (**Demerger**) and Sundance would then acquire all the issued shares in the Company for a consideration of one Sundance share for every two Texon shares (**Acquisition**).

Texon shareholders will retain the non-EFS assets in a new listed vehicle – Talon Petroleum Limited.

Both proposals will be subject to Texon shareholder and court approvals. The Acquisition is conditional on the approval of the Demerger but, if approved the Demerger will proceed regardless of whether the Acquisition is approved.

The Demerger and Acquisition will be proposed to shareholders under two separate Court approved Schemes of Arrangement on 25 February. A third shareholder meeting will also be held on 25 February to approve:

- (a) subject to the Demerger Scheme being approved, the reduction of share capital of the Company by \$19,220,000; and
- (b) subject to the Demerger and the Acquisition Schemes being implemented, the issue of 4,480,000 new Talon shares to Wandoo Energy as part of the consideration for the acquisition of the Wandoo Working Interests referred to below.

Scheme Booklets despatched to Texon shareholders	24 January 2013
Texon Scheme Meetings	25 February 2013
Second Court hearing to approve Schemes	27 February 2013
Implementation Dates	7-8 March 2013

These dates are indicative only and subject to change.

Acquisition of Wandoo Working Interest

During the quarter the Company announced that, in conjunction with its proposed merger with Sundance, and subject to all necessary approvals and to the completion of the Demerger, it has contracted to buy from Wandoo Energy, LLC (a company associated with Texon Director David Mason) Wandoo's working interest in jointly owned Eagle Ford shale assets in McMullen County, Texas, as of 1 October 2012. The proposed consideration for the acquisition is:

- US\$1,200,000 cash payable in four equal quarterly installments, the first payable three months after completion of the demerger; and
- 4,480,000 shares in Talon Petroleum Limited.

The consideration is subject to adjustment downwards (to US\$1,000,000 and 4,000,000 shares in Talon Petroleum) if binding agreements with certain landowners are not entered into within 12 months.

This transaction with Wandoo, involving the removal of the Wandoo carried working interest/royalties on Texon's EFS acreage, was a key component of the proposed Merger.

Loan Notes

A senior secured short term funding of \$25 million at an interest rate of 20% pa payable six monthly was finalised in December. The funding, which is for a period of 12 months, was provided by a consortium of lenders who were issued non-convertible loan notes as security by the Company.

The funds provided certainty for the Company's planned drilling program into 2013. The facility is repayable on implementation of the proposed Acquisition.

Options

In December 300,000 options were exercised at 26 cents. Agreements have also been put in place with the holders of the balance of the outstanding options, i.e. 17,500,000 options, which will have the effect that all those options, which have not also been exercised, will be cancelled on 27 February 2013, if the Demerger is approved by shareholders.

– ENDS –

For further information, please contact:

Mr Clifford S. Foss
Chief Executive Officer & President
Houston: +1 281 419 4976 (Houston is 16 hours behind Aust Eastern Standard time)

Glossary:

AGM:	Annual General Meeting
boe:	barrels of oil equivalent
boepd:	barrels of oil equivalent per day (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
bopd:	barrels of oil per day
EGM:	Extraordinary General Meeting
ft:	feet
mbbl:	thousand barrels
mboe:	thousand barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)
mcf:	thousand cubic feet
mmcf:	million cubic feet
mcfcpd:	thousand cubic feet of gas per day
NRI:	Net Revenue Interest
psi:	pounds per square inch
WI:	Working Interest

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

TEXON PETROLEUM LTD

ABN

24 119 737 772

Quarter ended ("current quarter")

31 DECEMBER 2012

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (12 months) \$A'000
1.1	Receipts from product sales and related debtors (<i>Note A</i>)	4,158	18,417
1.2	Payments for (a) exploration and evaluation	(2,254)	(7,055)
	(b) development	(9,717)	(23,054)
	(c) production	(1,519)	(5,376)
	(d) administration	(1,950)	(4,076)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	55	210
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	(34)
1.7	Other	-	-
Net Operating Cash Flows		(11,227)	(20,968)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(2)	(24)
1.9	Proceeds from sale of: (a)prospects and properties	-	11,984
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	(48)
Net investing cash flows		(2)	11,912
1.13	Total operating and investing cash flows (carried forward)	(11,229)	(9,056)

*Note A: Cash proceeds from sales are generally received two months after production/sale takes place.
Estimated cash receipts from sales next quarter are approximately A\$4.5 million.*

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(11,229)	(9,056)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	78	1,328
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	25,000	25,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – payment of borrowing costs	(500)	(500)
	Net financing cash flows	24,578	25,828
	Net increase (decrease) in cash held	13,349	16,772
1.20	Cash at beginning of quarter/year to date	16,860	13,366
1.21	Exchange rate adjustments to item 1.20	149	220
1.22	Cash at end of quarter	30,358	30,358

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	396
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

Non-cash financing and investing activities

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

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

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	25,000	25,000

+ See chapter 19 for defined terms.

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

		\$A'000
4.1	Exploration and evaluation	459
4.2	Development	16,004
4.3	Production	1,752
4.4	Administration	1,704
Total		19,919

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	11,112	10,286
5.2	Deposits at call	19,246	6,574
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		30,358	16,860

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities <i>(description)</i>	None			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	None			
7.3	+Ordinary securities	245,339,848	245,339,848		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	(a) 300,000	(a) 300,000		
7.5	+Convertible debt securities <i>(description)</i>	None			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	None			
7.7	Options <i>(description and conversion factor)</i>	D. 7,000,000 E. 600,000 F. 100,000 G. 100,000 H. 100,000 I. 6,000,000 J. 600,000 K. 3,000,000	nil nil nil nil nil nil nil nil	<i>Exercise price</i> 70 cents 70 cents 58.5cents 49 cents 58.5 cents 70 cents 70 cents 70 cents	<i>Expiry date</i> 30-11-2016 31-12-2015 28-06-2015 29-08-2015 29-08-2015 30-05-2016 30-05-2016 30-04-2019
7.8	Issued during quarter	None			
7.9	Exercised during quarter	300,000	300,000	26 cents	26 cents
7.10	Expired during quarter	None			

+ See chapter 19 for defined terms.

7.11	Debentures <i>(totals only)</i>	None	
7.12	Unsecured notes <i>(totals only)</i>	None	

Compliance statement

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



Sign here:

Company Secretary

Date: 31 January 2013

Print name: Desmond Frederick Olling

Notes

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

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