Annual Report 2011

AusTex Oil Limited

ACN 118 585 649

1. Chairman's Letter

Dear Shareholder

The hottest play in the mid-continent of the US at the moment is in the Mississippi limestone where operators are completing horizontal wells with good initial flow rates and excellent economics.

Recognising this, we suspended development drilling and devoted available funds to leasing in this play. Because of our prescient acquisition of the 907 acre East Tonkawa unit (ETU) in northern Oklahoma last September, AusTex is well placed to participate in the play. The 907 acres has now been increased to over 5,000 and leasing continues.

The company's 65,000 acres held in Kansas also have potential for this play as well as plays now being widely exploited in the U.S.

Our technical capabilities have been greatly strengthened with the recruitment of senior geological and engineering staff, and the retention of two technical consulting groups. These strengths will allow us to develop coherent programmes to exploit these opportunities.

Capital raising during the year has involved the development of significant relationships which will strengthen the company for the future. These, allied with a listing on an exchange in North America, will see your company more realistically valued in the years to come.

Again, on your behalf I wish to thank the staff, most especially your two executive directors, for their continued sustained efforts.

Dr P E Power
Chairman

2. Managing Director’s Review of Operations

Year in Review

Highlights

- **245% Gross Revenue increase from US Mid-Continent oil and gas operations**
- **World Class Development opportunities identified in Oklahoma and Kansas**
- **“Big Oil” companies return to Northern Oklahoma Mississippian Play**
- **AusTex Oil holds strategic acreage positions in both States**
- **Poised for growth through Proven Reservoirs, Modern Technology and Talented People**

AusTex Oil Limited was incorporated in March 2006 and admitted to the official list of the Australian Securities Exchange on 8 January 2008. AusTex is an oil and gas exploration and production company with operations in Kansas and Oklahoma, in the mid-continent of the United States of America.

The Company’s balance date is 31 March and this report covers the year ended 31 March 2011. This year is the third full year of operations since listing on the ASX.

For the 12 months ended 31 March 2011, the net revenue from combined operations was $3,608,700, an increase of 245% year on year. A gross profit of $1,681,471 was recorded which represents an increase of 254% on the Company’s 2010 results.

A Net Loss of $2,201,594 was recorded for 2011 which represented a decrease from the 2010 fiscal year during which a Net Loss of $3,404,288 was recorded.

Figure 1:- Location of AusTex Oil and Gas Leases

2.1. Oklahoma Operations

AusTex Oil Limited owns and operates a number of oil and gas leases in Oklahoma through its wholly owned subsidiary, International Energy Corporation (Oklahoma) (IEC-OK). IEC-OK is an authorised oil and gas operator for the State of Oklahoma, with offices located at 1801 East 71st Street, Tulsa. The total number of employees at the time of this report was 15 which include a geologist and two petroleum engineers.

The Company leases a holding yard and workshop at Sand Springs, west of Tulsa, and operates a workover rig, power swivel unit, earthmoving equipment and associated plant and machinery. As an operator the company also has part time pumpers, who visit leases on a daily basis and report production and any maintenance requirements.

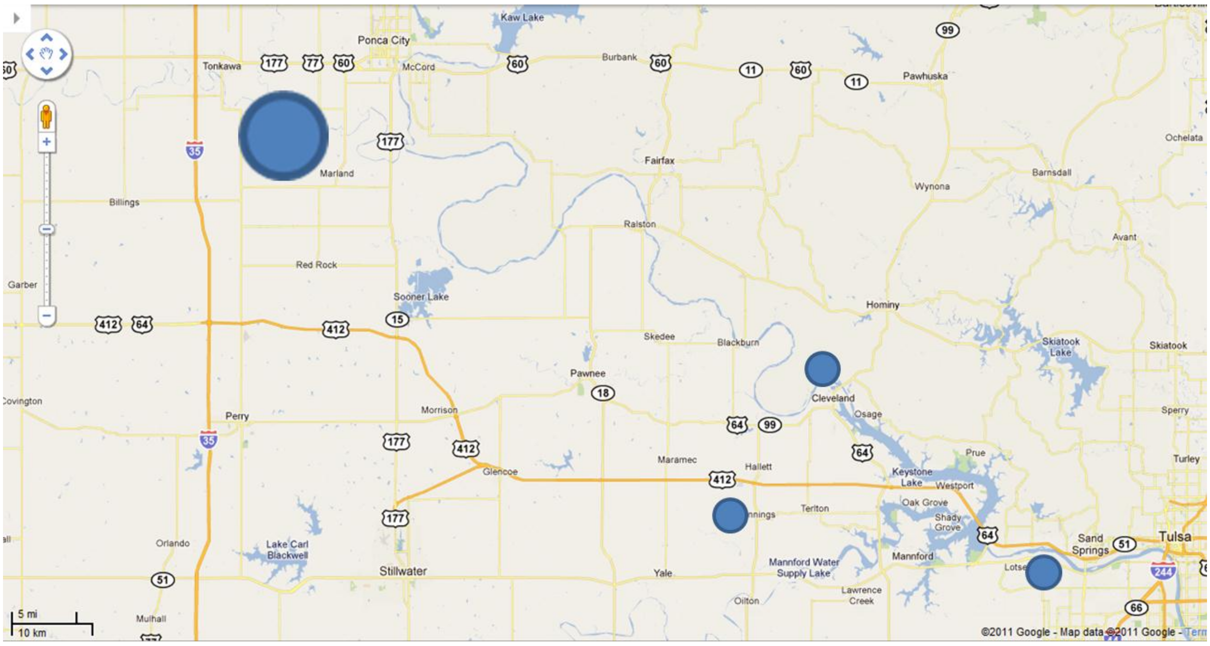


Figure 2:- Location of Oklahoma Oil and Gas Leases

2.1.1. Snake River Project – Kay and Noble County – ~5,000 acres

AOK – 100% Working Interest (WI); ~81% Net Revenue Interest (NRI)

The Snake River Project is located in Kay and Noble County, Oklahoma, south west of Ponca City. Conoco Phillips own and operate an oil refinery in Ponca City, which is the home of the Continental Oil company which merged with Phillips Petroleum. Historically the area has been a prolific oil producing region with the last large scale development being between 1955 and the early 1970's. Known fields in the area include the Three Sands Field and the Ponca City Oil Field.

Big Oil moves back into North East Oklahoma

During Calendar years 2010 and 2011, the region saw the commencement of large scale development by major oil companies including Chesapeake Energy, Range Resources and Sandridge Energy. The area contains multiple, stacked laterally-extensive oil and gas reservoirs at depths of less than 6,000 feet.

With the advancement over recent years in horizontal drilling and multiple stage fracture stimulation techniques robust economic returns are being experienced. Sandridge Energy, Chesapeake Energy and Range Resources are reporting Internal Rate of Return (IRR) of 80% or better with Estimated Ultimate Recovery (EUR) of between 400,000 and 500,000 barrels of oil equivalent with horizontal well costs being reported at up to $US3.3 million. Current development for horizontal wells is spaced at 320 acres with new vertical development underway in many locations at 20 acre spacing. Vertical wells in the Mississippian Formations are reporting EUR of up to 120,000 barrels of oil equivalent at a cost of $600,000.

Horizontal Drilling targets include the Woodford Shale, Mississippi Lime, Mississippi Chat (Chert) and the Tonkawa, Layton and Cleveland Sands. Vertical well completions in the area target the above formations and additional Pennsylvanian Age reservoirs including the Red Fork formation.

International Energy Corporation (Northern Oklahoma)

During the September quarter 2010, AusTex incorporated a new US subsidiary, International Energy Corporation (Northern Oklahoma) to acquire the 907 acre East Tonkawa Unit, which had previously been developed by Sun Oil in the 1950s. Following extensive studies of the emerging play and due diligence, the Board of AOK diverted budgeted drilling funds to acquire a strategic position in the region and has since increased lease interests to approximately 5,000 acres in the world class Mississippian Liquids Rich play. AOK is the operator of the leases through its subsidiary IEC (OK).

Lease acquisitions are continuing in the area with an acquisition target of 15,000 acres in the near term. This scale footprint in the region will deliver manageable development opportunity for AOK for many years into the future based on current horizontal and vertical well spacing. Inquiries by other oil companies to farm in on the project are being regularly received.

East Tonkawa Unit – 907 acres – Kay County
AOK 100% WI ~81% NRI

During the second half of fiscal year 2011, an extensive analysis of reservoir characteristics of the multiple reservoirs located beneath the lease was undertaken. This included the testing of zones in existing well bores including the Cleveland, Endicott and Mississippi Chat. One vertical well on the lease intersected over 300 feet of the Mississippi Lime.

Oil and gas production on the lease has been increasing from recompletions and infrastructure upgrades including the certification of 2 water disposal wells, upgrading of underground gathering systems, oil storage and gas sales infrastructure is reaching completion. Current oil and gas production from the unit is approx. 50 barrels of oil equivalent per day. This is expected to increase with the recompletion underway on another 4 wells.

Drilling of the first two vertical wells on the project is expected in September quarter 2011. The wells will be drilled to approx. 4,650 feet. A suite of electronic logs including Formation Micro-Imaging (FMI) lwill be completed. Additional drilling based on the information gathered is planned for December quarter 2011 and into Calendar year 2012.

Over recent months NYSE listed Range Resources has drilled and completed two horizontal wells on the lease adjoining the East Tonkawa Unit. Both of these wells were drilled laterally to within 660 feet of the lease line held by AOK. Under an exception agreement with Range Resources, detailed data from both wells has been received and reviewed by IEC (OK) management and technical team.

2.1.2. Lancaster Lease Group – Tulsa County – ~1,000 acres

AOK – 100% Working Interest (WI); ~ 81.25% Net Revenue Interest (NRI)

The lease group located near Sand Springs includes the Lancaster, Helen Lancaster, Mayo Moore, Baggett, Ownby and the Cordele leases and covers an area of ~1,000 acres. Following the success of 2010, drilling operations continued with a total of seven new wells drilled during the fiscal year. These included the Lancaster #8 and #9, Mayo Moore #6 and #8, the Baggett #3 and #4 and the Hollie #2 wells which were completed as oil and gas production wells.

Oil and gas is currently produced from the Tenaha, Red Fork and the sand breaks in the top of the Arbuckle formation. Additional formations are currently being tested which could result in at least another 3 producible formations at depths of less than 2,550 feet.

As previously reported, a water flood has commenced in the Red Fork formation with increases in flow rates being recorded after the first 60 days of water injection on the east side of the lease. Down hole reservoir pressure is being monitored to minimise the breakout of dissolved solids in the fluids brought to surface. Oil and gas production is expected to increase in the coming months and is currently approx. 75 barrel of oil equivalent per day.

Further development drilling on the lease is planned.

2.2. Kansas Operations

AusTex Oil Limited holds interests in oil and gas leases located in the State of Kansas through a wholly owned Kansas subsidiary, International Energy Corporation (IEC Kansas). IEC Kansas now holds interests in four projects located in Ness, Sheridan, Jewel, Mitchell and Ellsworth counties.

The Company is the major working interest partner with Castle Resources Inc., a private oil and gas operator based near Hays, Kansas as operator. Castle Resources operates the Radial Jet Enhancement Technology in the States of Kansas and Nebraska under a similar agreement to that IEC Oklahoma has with Well Enhancement Services, Texas.

Oil and gas exploration in the region has moved to an all-time high with development focusing on historically known producing zones and new exploration of possible horizontal targets including lime and shale formations previously not targeted. The chart below highlights production by formation with AOK holding acreage with current production in the Lansing-Kansas City and Arbuckle formations. Other formations are present with future testing required to determine economics.

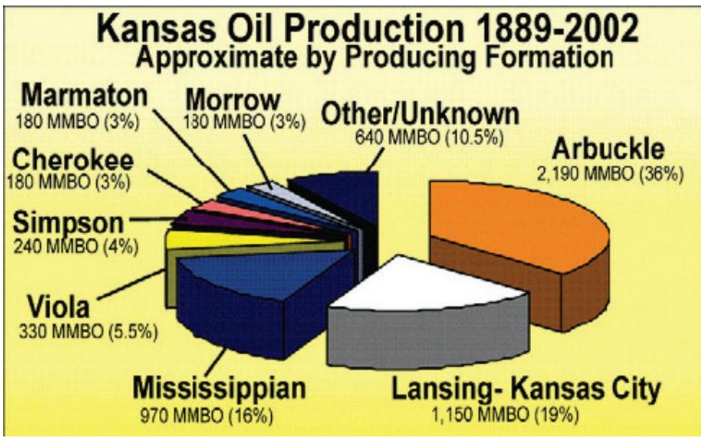


Figure 3 Source Kansas Geological Survey

2.2.1. Cooper Project – Sheridan County

AOK –53% WI; 46% NRI

The Cooper Project in North West Kansas is located near the town of Hoxie. A 40 square mile seismic shoot was conducted in 2008-2009. In early 2010 AOK reported the success of the Clark #1 well wildcat after drilling to test a four-way closure identified by seismic. Initially the well produced at a rate of 200 barrels of oil per day from the Lansing-Kansas City formation. A water disposal well and surface facilities were also completed on the lease group. Following the attempted recompletion in the Toronto and Lansing-Kansas City formations the well produced at a rate of 40 barrels of oil per day.

Following the above success, the Clark #3, Clark #5 and Pratt #1 well were drilled. However, each of these wells was deemed to be non-commercial by the operator.

Currently a review of seismic data collected on the project is being undertaken by a consulting geophysical company incorporating interval velocities from the sonic logs completed on wells.

In addition, a geological review is planned once the re-interpretation of seismic is completed. Once these steps are completed further development of the project will be scheduled.

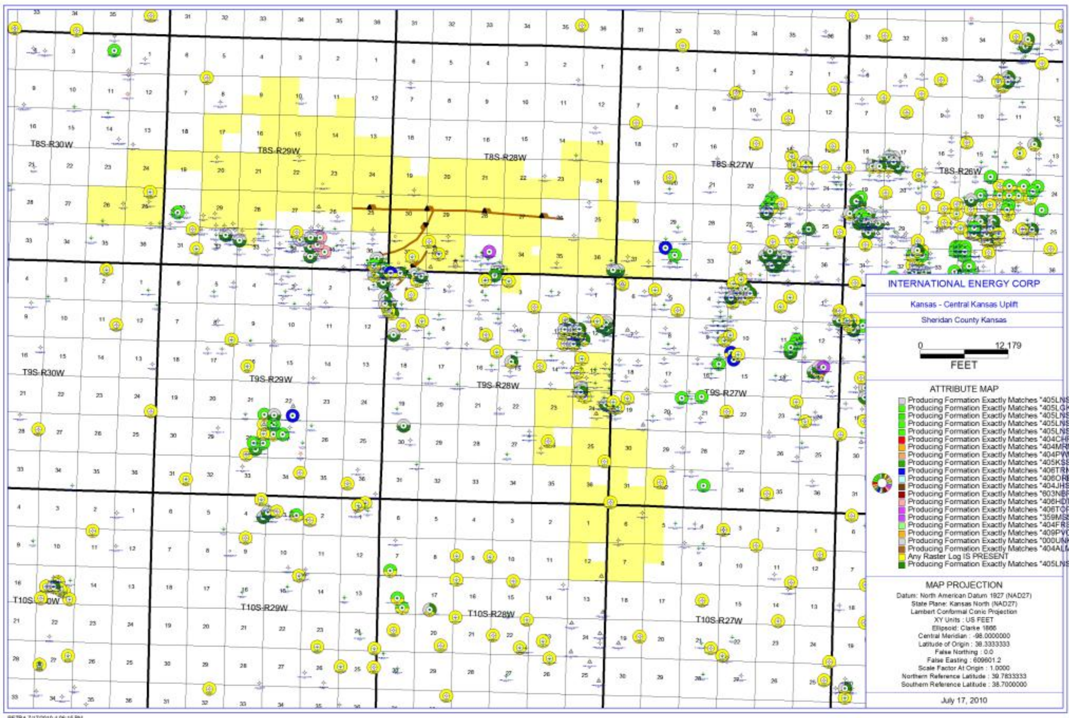


Figure 4 Cooper Project near Hoxie, Kansas, showing other producing fields in region

Ellsworth Project – Ellsworth County – 3,000 Acres

AOK 53% WI 39% NRI

In January 2010, AOK acquired a 53% working interest in this project located in Ellsworth County, Kansas. The project lies within a prolific oil producing area. Renewed development of the area is targeting deeper porosity breaks in the Arbuckle Formation.

The Rolf #1 well was drilled during October 2010 to a Total Depth of 3,470 feet to test for additional producing zones. Logs confirmed the presence of hydrocarbons in the targeted Lansing-Kansas City and Arbuckle Formations.

A second porosity streak in the Arbuckle Formation was identified and horizontal laterals were jetted into the formation using a truck mounted Radial Jetting Rig. A special polymer treatment developed by Polymer Services Inc., a Kansas based service company, was applied to reduce water flow and the well was shut in for 4 weeks to allow the chemicals to set.

The operator reported that during the initial 7 day test period the well was produced at a rate of 43 barrels of fluid a day and produced 39 barrels of oil per day. The well declined over the initial 12 months and is currently producing 4 bopd.

Additional wells are to be developed in the project with the next well scheduled during September quarter 2011.

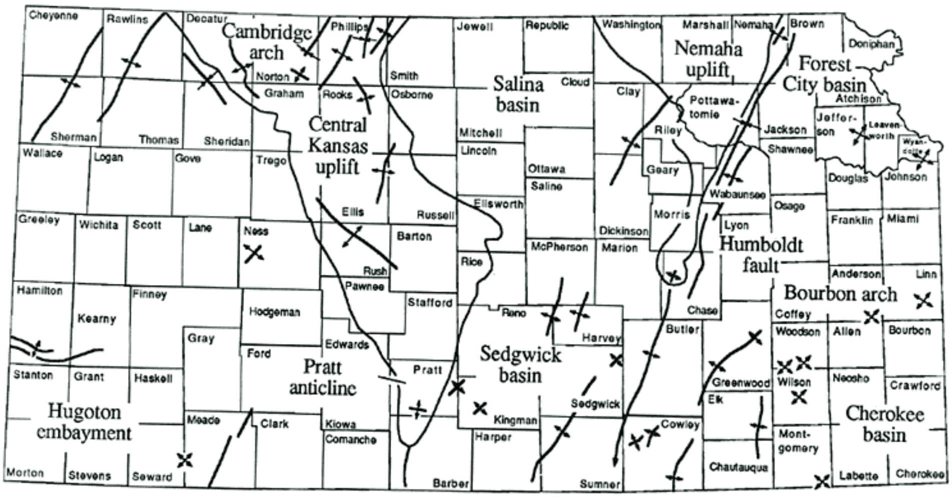


Figure 5 Geological Provinces of Kansas - Source KGS

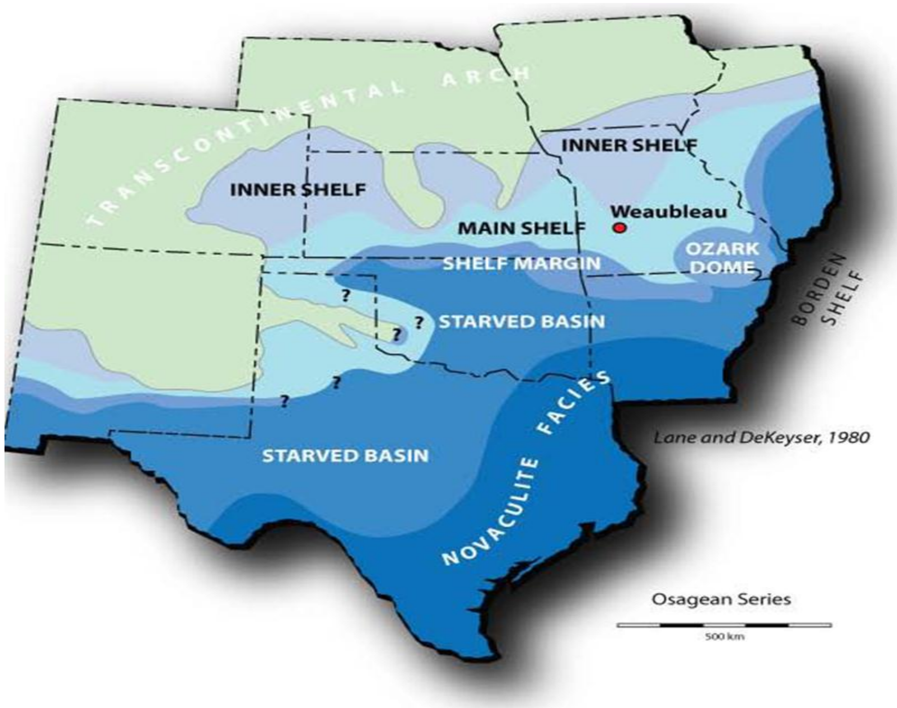
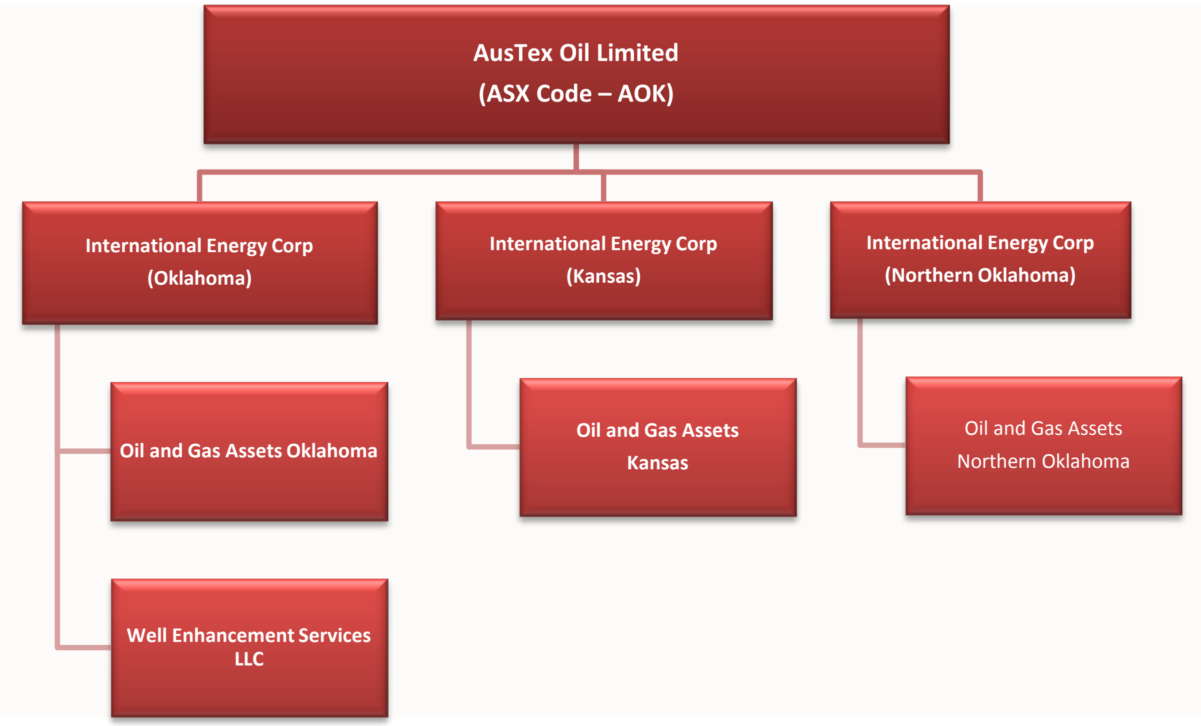


Figure 6: Mississippian Osagean - Source KGS

2.3 Company Structure



2.4 Corporate and Financing Activities

In March 2010, the Company announced a fully underwritten non-renounceable rights issue to existing shareholders. The offer closed in May 2010 raising an additional $5,421,599 before expenses associated with the offer. 33,884,998 shares were issued at a price of 16 cents per share with one free option for each 2 new shares being issued with an exercise price of 25 cents expiring 1 December 2011.

During March 2011, the Company placed 22 million shares with sophisticated and professional investors from Singapore and Australia raising a total of $2.2 million before costs.

In June 2011, the Company entered into formal agreements with US Investors to place up to 60 million shares at AUD $0.10 cents per share along with up to 30 million free options with an exercise price of $A0.15 with a 3 year expiry date from issue to raise $US6m to fund the development of oil and gas assets. The placement of shares is subject to shareholders approval at an Extraordinary General Meeting to be held in Sydney on 29 July 2011.

Proposed North American Listing and Independent Reserve Report

Preparations for the proposed listing on a North American exchange continue with the engagement of legal and investor relations groups in the USA. Presentations and discussions with interested parties in North America continue with a goal to attract additional investors. A delay in the preparation of reserve report information has been experienced due to staff changes as a result of illness. A new geologist was appointed in May 2011 who is handling the preparation of the necessary information for the reserve report for the independent expert and at this time the independent reserve report is scheduled to be completed during September quarter 2011.

2.5 The Future

AusTex Oil holds interests in oil and gas leases in two states with proven reservoirs and is operating alongside some of the largest E&P companies in the USA. The Company has expanded its technical expertise in recent months through staff additions and consulting agreements. AusTex has put in place a broader and robust methodical process and personnel with world class training and demonstrated expertise.

In Oklahoma, IEC-OK has appointed an additional Senior Production Engineer, a petroleum engineer who previously held positions at Petrohawk (NYSE), Chevron-Texaco and Samson Resources. He commenced duties in April 2011. A new Senior Geologist was appointed in May 2011. He previously held positions with Newfield Exploration (NYSE) and Samson Resources and is a Professional Geoscientist with a Master's degree in Geology with 15 years' experience, both offshore and onshore.

To complement the expanded team, Plaster and Wald, Consulting Engineers, based in Tulsa, have been retained to design drilling and completion of horizontal wells. Plaster and Wald have worldwide experience and have been retained by many large companies including NYSE listed Range Resources.

The Company has also signed a one year agreement with Iromad LLC, a specialized oil and gas consultancy to provide the Company with ongoing technical and operational expertise. Iromad has been working with AOK to optimise production from existing wells and infrastructure as well as providing input into the upcoming work program.

AusTex is focused on increasing production from existing leases by drilling further development wells in Oklahoma and continuing the exploration projects in Kansas. The company is also examining opportunities to increase its interest in oil and gas leases on commercially attractive terms.

With the application of modern drilling and completion techniques in combination with the experienced team of people involved the Company is poised for significant growth over the coming years.

Daniel Lanskey
Managing Director
27 July 2011

3. Current Operating Lease Schedule

Lease Name	Acreage	WI	NRI	County, State
Snake River	~5,000	100%	~81%	Kay County, OK
Lancaster and surrounds	~1,000	100%	~81%	Tulsa, OK
Sweet	400	100%	84%	Pawnee, OK
Crisler	80	100%	84.375%	Creek, OK
Gypsy/Walker Project	80	100%	81.25%	Creek, OK
BlueHawk Project	160	50%	42.5%	Osage, OK
Cleveland Project	160	100%	~82.5%	Creek, OK
Cooper Project	26,500	53%	43.5%	Sheridan, KS
Jewel Project	35,000	30%	21.3%	Jewel and Mitchell, KS
McCracken Project	3,200	50%	42.25%	Rush and Ness, KS
Beltz Project	160	40%	33.8%	Ellis, KS
Ellsworth Project	3,000	50%	38%	Ellsworth, KS

4. Directors Report and Remuneration Report

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

DIRECTORS

The names and details of the Directors of AusTex Oil Limited in office during the financial year 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) 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) 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").

Trevor Sykes
Non-Executive Director

Trevor Sykes was one of Australia's leading finance journalists until his retirement at the end of 2005. He has been Editor of The Bulletin, Editor-in-Chief of Australian Business magazine, assistant editor of the Australian Financial Review and Melbourne Bureau Chief of the Australian Financial Review.

He is currently a director of Mitchell Corporation, the largest trucking company in WA, specialising in logistics services for the resource industry and was a director of Copper Range Ltd from 2006 to 2007. He is a member of the SA Mining & Petroleum Expert Group which promotes resource development in that state. He is also Patron of the Sydney Mining Club. Mr Sykes resigned in December 2010.

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.

KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of Key Management Personnel

Director

D. Lanskey	Managing Director
R. Adrey	Executive Director

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 year ended March 31, 2011 for the Directors and key management personnel.

Year ended 31 March 2011	Directors Fees $	Base Salary /fee $	Equity Options $	Total $
P. Power	40,000		nil	40,000
D. Lanskey	nil	300,000	nil	300,000
R. Adrey	nil	264,583	nil	264,583
K. Philip	22,500	Nil	Nil	22,500
T. Sykes	22,500	Nil	Nil	22,500
Total	75,000	564,583	Nil	649,583

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 either directly or through their related entities were:-

Director	**Shares and Options**	
	Direct	**Indirect**
Dr Peter Power	Nil	12,479,429 Shares 1,000,000 options exercisable at $0.25 on or before 31 August 2011 482,788 options exercisable at $0.25 each expiring 1 December 2011 500,000 options exercisable at $0.19 on or before 30 September 2011 500,000 options exercisable at $0.25 on or before 31 March 2012 1,000,000 options exercisable at $0.40 on or before 30 June 2013
Kwang Hou Hung	15,000,000	Nil
Richard Adrey	10,618,086 Shares 500,000 options exercisable at $0.19 on or before 30 September 2011 1,000,000 options exercisable at $0.25 on or before 31 March 2012 1,000,000 options exercisable at $0.40 on or before 30 June 2013	Nil
Daniel Lanskey	Nil	3,362,872 Shares 500,000 options exercisable at $0.19 on or before 30 September 2011 162,500 options exercisable at $0.25 each expiring 1 December 2011 1,000,000 options exercisable at $0.25 on or before 31 March 2012 1,000,000 options exercisable at $0.40 on or before 30 June 2013
Patricia Kay Philip	1,144,574 Shares and 35,000 options at $0.25 expiring 1 December 2011	Nil

Notes

Daniel Lanskey holds 2,872,872 Shares as the sole director of Etranz.com Pty Ltd and 490,000 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.

Kay Philip holds 65,000 shares in Kay Philip <The Philip Superannuation Fund>

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
4,400,000	30 September 2011	19 cents
26,942,510*	1 December 2011	25 cents
2,500,000	31 March 2012	25 cents
3,000,000	30 June 2013	40 cents

* 21,942,510 of these options are listed under the code AOKO.

LOSS PER SHARE

The basic loss per share for AusTex Oil Limited for the year was $0.0108 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 year to 31 March 2011 was $2,201,594. The Directors of AusTex Oil have resolved not to recommend a dividend for the year ended 31 March 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 year, 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 year consisted of the development of oil leases in Kansas and Oklahoma USA.

EMPLOYEES

The Group employed 15 permanent employees as at 31 March 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 71st 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 year, however, at the time of this report has not been finalised.

For the 12 months ended 31 March 2011, the net revenue from combined operations was $3,608,700 resulting in a gross profit of $1,681,487. A Net Loss of $2,201,594 was recorded.

Oklahoma Operations

International Energy Corporation (Oklahoma) (IEC-OK) holds as 100% working interest and ~80% Net Revenue interest in six oil and gas leases located near Tulsa and is the operator. During the year, the Company participated in the drilling of 7 new wells on the Lancaster Lease group, Tulsa County.

In September 2010, International Energy Corporation (Northern Oklahoma) acquired a 907 acre operating unit near Tonkawa, Oklahoma. The unit is located in a region where new development is underway targeting a number of reservoirs using horizontal drilling. Target zones include the Layton, Tonkawa and Mississippi formations. Since October 2010, the Company has increased its lease interests to include a 100% Working Interest and ~80% Net Revenue Interest in approximately 5,000 acres. 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 an additional 3 wells in Kansas during the year. A 50% working interest in the 3,000 acre Ellsworth Project was acquired during October 2010.

Rights Issue

During March 2010, the Company announced a fully underwritten non-renounceable rights issue to Shareholders. The offer was completed in May 2010 with the allotment of 33,884,998 new shares at 16 cents and 16,942,510 new options exercisable at 25 cents expiring 1 December 2011. The offer raised $5,421,599 before costs.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the consolidated entry.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company has provided a guarantee for $1 million to the Australia and New Zealand (ANZ) Bank on behalf of Southern Cross Exploration NL. In April, 2011, the ANZ Bank exercised its right to call on the bank guarantee in full. Southern Cross Exploration NL has agreed to issue 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.

On June 16, 2011, the Company entered into an agreement with a group of Sophisticated and Professional Investors based in the USA, in relation to a proposed placement, subject to shareholder approval, of up to 60,000,000 million fully paid ordinary shares at $0.10 per share and up to 30,000,000 million free options with an exercise price of $0.15 each exercisable within 3 yrs of being issued.

In the interim, an amount of $US2.2million has been advanced to the company by way of promissory notes, which will convert to shares and options upon shareholder approval.

An Extraordinary General Meeting of shareholders is proposed to be held on or about 29 July 2011.

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 OFFICES

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, eight formal board meetings were held during the financial year. The number of meetings attended by each of the Directors of the Company during the financial year was:

Director	No. of meetings eligible to attend	No. of meetings attended
P Power	7	7
R Adrey	7	5
D Lanskey	7	7
K Philip	7	6
T Sykes	6	5

AUDIT COMMITTEE

During the financial year, 1 meeting of the audit committee was held, attended by the members comprising T Sykes (Chairman), 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 full-year 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 Lanskey
Managing Director

Sydney
28 June 2011

5. Auditors Independence Declaration

To the Directors of AusTex Oil Limited

As auditor for the audit review of AusTex Oil Limited for the year ended 31 March 2011, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

COLQUHOUNS
Chartered Accountants

Neil Colquhoun
Principal

28 June 2011
Sydney

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 MARCH 2011

The Directors declare that in their opinion:

(a) the financial statements and the notes set out on pages 17 to 57 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards (including the Australian Accounting Interpretations and the Corporations Regulations 2001; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2011 and their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) The Directors have been given the declarations required by Section 295A of the Corporations Act, 2001.

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

On behalf of the Board of Directors

Daniel Lanskey
Managing Director

Tulsa
28 June 2011

6. Independent Auditor's Report

To the Members of AusTex Oil Limited

I have audited the financial report of AusTex Oil Limited ("the company") for the financial year ended 31 March 2011 ("the financial year"). The financial report comprises the balance sheet as at 31 March 2011, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the company and the consolidated entity ("the entity") for the year ended 31 March 2011. The company's directors are responsible for the financial report. I have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Directors' Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. The Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the Corporations Act 2001. I confirm that the independence declaration required by the Corporations Act 2001, provided to the directors' of AusTex Oil Limited on 29 June 2011 would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDITOR'S REPORT ***(cont'd)***

Audit Opinion

In my opinion,

a) the financial report of AusTex Oil Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company and consolidated entity's financial position as at 31 March 2011 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;

c) the remuneration disclosures that are contained in the Directors' report and notes to the financial statements comply with Accounting Standard AASB 124, Related Party Disclosures.

COLQUHOUNS
Chartered Accountants

Neil Colquhoun

Principal

Sydney
28 June 2011

7. Corporate Governance Statement

The Group is engaged in the upstream oil and gas industry, with operations in the USA.

AusTex Oil Limited has adopted systems of control and accountability as the basis for the administration of corporate governance. In keeping with the spirit of the ASX *Corporate Governance Principles and Recommendations*, the company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account the evolving status of the Company and Board structure.

Further information about the Company's corporate governance practices is set out on the Company's website at www.austexoil.com. Information published on the Company's website includes charters (for the Board and sub-committees), the company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

The Company's corporate governance practices are structured with reference to the ASX ***Corporate Governance Principles and Recommendations (second edition)***, as follows:

Principle 1	**Lay solid foundations for management and oversight**
Principle 2	**Structure the Board to add value**
Principle 3	**Promote ethical and responsible decision-making**
Principle 4	**Safeguard integrity in financial reporting**
Principle 5	**Make timely and balanced disclosure**
Principle 6	**Respect the rights of shareholders**
Principle 7	**Recognise and manage risk**
Principle 8	**Remunerate fairly and responsibly**

Additional Information and Explanation for Departures from Corporate Governance Principles and Recommendations

Principle 1: Lay solid foundations for management and oversight

1.1 - Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Company's Corporate Governance Plan includes a Board Charter, which discloses the specific responsibilities and functions of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Managing Director. The Board Charter also specifically outlines the role of the Company's Directors. Each function and its responsibility is outlined in the Board Charter which is available on the Company's website.

1.2 - Companies should disclose the process for evaluating the performance of senior executives.

The Board will monitor the performance of senior management, including measuring actual performance against planned performance.

The Board Charter sets out the process to be followed in evaluating the performance of senior executives. Each senior executive is required to participate in a formal peer review process which assesses individual performance where any area of unsatisfactory performance is addressed with the relevant person.

1.3 - Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

The Board Charter is publicly available on the Company's website. The Board Charter discloses the specific responsibilities of the Board. The Board delegates responsibility for the day-to-day operations and administration of the Company to the Managing Director and the Executive Director. The Board Charter specifically outlines the Board's composition and role.

An evaluation of senior executives took place in the last year based on the criteria established by the Board in line with its policies. Another full evaluation will be carried out in the coming year.

Principle 2: Structure the Board to add value

2.1 – A majority of the board should be independent directors.

Notwithstanding the fact that Mr Hung currently holds slightly in excess of 5% of the issued share capital of the company, three of the five members of the current board (Dr Power, Kay Philip and Mr Hung) are considered to be independent directors and the remaining two directors, Mr Daniel Lanskey, is not due to his role as Managing Director and, Mr Richard Adrey, due to his role as Executive Director.

A majority of the board is comprised of independent directors (as above) and three of the five members of the current board are non-executive Directors.

The Board is of the view that it is currently structured in such a way so as to add value and is appropriate for the complexity of the business at this time but is considering adding a new director in the near future to complement its current skill set.

An evaluation of the Board was conducted in April 2011 identifying a need for additional skills on the Board. This resulted in the appointment of Mr Hung.

It is intended that, as considered appropriate, further non-executive Director appointments to the Board will be made in the future as required.

2.2 - The chair should be an independent director.

The Chairman of the Board is Dr Peter Power who is considered to be an independent non-executive director.

2.3 - The roles of chair and chief executive officer should not be exercised by the same individual

The Company does not currently have a Chief Executive Officer however, the Company has a separate Chairman and a Managing Director who is responsible for the day to day operations and administration of the Company together with the Executive Director.

2.4 - The board should establish a nomination committee.

The Board, as a whole, currently serves as the Company's nomination committee. Terms and conditions of employees are negotiated by the Managing Director and/or Executive Director for recommendation to the Board. As the Company grows in size it is planned that the Company will implement a separate nomination committee with its own separate nomination committee charter.

2.5 - Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The performance of the Board and the various Board committees as and when established is to be evaluated by the Chairperson. The performance of each committee is measured against the scope and responsibilities detailed in their respective charters and the process for evaluating the performance of the Board, its committees and individual directors is to be disclosed by the Chairman.

An evaluation of the Board was conducted in April 2011 identifying a need for additional skills on the Board. This resulted in the appointment Mr Hung.

The Board is responsible for the evaluation and review of the performance of the Chairman and the effectiveness and programme of board meetings. The position of Chairman will be reviewed by the Board at the first Board meeting following the Annual General Meeting each year.

An evaluation of the Chairman and the effectiveness of board meetings will take place after this year's AGM. The programme of board meetings has been reviewed and modified to ensure timely information is reviewed by the board.

The Company's Corporate Governance Policies set out the process to be followed in evaluating the performance of senior executives. Each senior executive is required to participate in a formal peer review process which assesses individual performance where any area of unsatisfactory performance is addressed with the relevant person.

Non-Executive Directors are not entitled to any termination or retirement benefits.

2.6 - Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

A description of the skills and experience of each director is contained within the full year accounts lodged with the ASX on 29 June 2011. Three of the five members of the current board (Dr Power, Ms Philip and Mr Hung) are considered to be independent directors in accordance with the definition of an independent director as contained in the Company's Board Charter. The Board is of the view that it is currently structured in such a way so as to add value and is appropriate for the complexity of the business at this time.

The Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairperson.

The Board, as a whole, will serve as the Company's nomination committee.

The Board will determine the procedure for the selection and appointment of new directors and the re-election of incumbents in accordance with the Company's constitution and having regard to the ability of the individual to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. The policy for the appointment of new directors is set out in the Company's Board Charter which is publicly available on the Company's website.

Mr Lanskey and Ms Philip were appointed on 1 March 2006, Mr Adrey on 19 April 2006, Dr Power on 9 July 2007 and Mr Hung on 18 April 2011.

Principle 3: Promote ethical and responsible decision-making

3.1 - Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- **the practices necessary to maintain confidence in the company's integrity**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders**

- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company's Corporate Governance Plan includes a number of policies and charters which provide a framework for decisions and actions in relation to ethical conduct in employment.

All of the Company's Corporate Governance Policies and Charters are publicly available on the Company's website.

3.2 - Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees. The policy was reviewed in the last year and a new Securities Trading Policy was lodged with the ASX on 23 December 2010.

The policy is titled *"Securities Trading Policy"* and is publicly available on the Company's website.

The Company is presently considering the formulation a policy on diversity as contained in recommendation 3.2 and this will be released to the ASX, placed on the Company's website and disclosed in future annual reports when adopted by the Board.

3.3 - Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

The corporate code of conduct and the trading policy of the Company are set out in the Company's Corporate Governance Policies which are publicly available on the Company's website.

3.4 - Proportion of women employees, senior executive positions and on the Board

The Company currently employs 4 women including one female board member and a further 2 in senior executive positions out of a total of 15 employees in the company. At this stage the Company does not propose to adopt a formal policy on Diversity.

Principle 4: Safeguard integrity in financial reporting

4.1 - The board should establish an audit committee.

The Company has established an Audit and Risk Management Committee and a summary of the policy is publicly available on the Company's website.

4.2 - The audit committee should be structured so that it:

- **consists only of non-executive directors**
- **consists of a majority of independent directors**
- **is chaired by an independent chair, who is not chair of the board.**
- **has at least three members.**

The Audit and Risk Management Committee currently has two members following the resignation of Mr Sykes from the Board. Both members are independent non-executive directors. Prior to his resignation the committee was chaired by Mr Sykes who was not Chairman of the Board. Dr Power and Ms Philip are the other members of the Committee and are considered independent. The Committee proposes to appoint a further member at its next meeting and the new Chairman of the Committee will not be the Chairman of the Board.

4.3 - The audit committee should have a formal charter.

The Company's Corporate Governance Plan includes a formal charter for the Audit and Risk Management Committee.

4.4 - Companies should provide the information indicated in the *Guide to reporting on Principle 4*.

The Committee will meet twice a year and at least once each year with the Company's Auditors. The Committee has powers under the Company's Audit & Risk Management Charter including unrestricted access to the Company's internal and external auditors and all Company records for the purposes of carrying out its responsibilities under the Charter. The Committee will recommend to the Board procedures for the selection and appointment of external auditors and for the rotation of external auditor partners. Details surrounding the meetings of the Committee held in the last 12 months are contained separately in the Company's annual report.

Principle 5: Make timely and balanced disclosure

5.1 - Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has a continuous disclosure program/policy in place designed to ensure compliance with the ASX Listing Rule on continuous disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the Company's financial position.

5.2 - Companies should provide the information indicated in *Guide to Reporting on Principle 5.*

A summary of the Company's continuous disclosure policy is set out on the Company's website.

Principle 6: Respect the rights of shareholders

6.1 - Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company's Corporate Governance Plan includes a shareholder communications strategy, which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. This is contained within the Company's policies, a summary of which is contained on the Company's website.

6.2 - Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

A summary of the shareholder communication policy of the Company is set out in the Company's policies which are publicly available on the Company's website.

Principle 7: Recognise and manage risk

7.1 - Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Board in conjunction with the Audit and Risk Management Committee determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Company has established policies for the oversight and management of material business risks. A summary of the Audit and Risk Management Charter of the Company is set out on the Company's website.

7.2 - The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to the Board in conjunction with the Audit and Risk Committee. The Board and Audit and Risk Management Committee are required to assess risk management and associated internal compliance and control procedures and will be responsible for ensuring the process for managing risks is integrated within business planning and management activities.

Reports on risk management are to be provided to the Board by the Audit and Risk Management Committee at the first Board meeting subsequent to each Committee meeting.

7.3 - The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Reports on risk management are to be provided to the Board by the Audit and Risk Management Committee.

The Board will seek the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.

7.4 - Companies should provide the information indicated in *Guide to Reporting on Principle 7.*

Reports on risk management are to be provided to the Board by the Audit and Risk Management Committee.

The Board will ensure that the report under Recommendation 7.2 is provided at the relevant time.

The Board will ensure that the management or the executive director(s) provide the assurance under Recommendation 7.3 at the relevant time.

Principle 8: Remunerate fairly and responsibly

8.1 - The board should establish a remuneration committee.

The Board has established a separate Remuneration Committee.

8.2 - Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Committee distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. The Company's Constitution and the Corporations Act also provides that the remuneration of non-executive Directors will be not be more than the aggregate fixed sum determined by a general meeting.

The Board is responsible for determining the remuneration of the executive directors (without the participation of the affected director).

8.3 - Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

The Remuneration Committee will meet twice a year. A summary of the Remuneration Committee Charter is available on the Company's website. The members of the Remuneration Committee throughout the past year were Ms Philip (Chairman) and Mr Sykes. Mr Sykes will be replaced at the next meeting following his resignation from the Board.

A summary of the Company's policy on prohibiting transactions in associated products which operate to limit the risk of participating in unvested entitlements under any equity based remuneration scheme is contained within the Remuneration Committee Charter.

8. Income Statements

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDED 31 MARCH 2011

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Sales Revenue	2	3,608,700	1,476,862	-	-
Cost of Sales	3	(1,927,213)	(815,774)	-	-
Gross Profit		1,681,487	661,088	-	-
Interest income	2	114,493	166,962	114,490	166,962
Other income	2	22,796	20,870	20,000	20,870
Administration costs	3	(1,263,740)	(1,427,969)	(255,144)	(243,555)
Assets impairment expense	3	-	(515,753)	-	(515,753)
Depreciation and amortisation expense	3	(796,602)	(583,907)	(1,549)	(635)
Finance costs	3	(18,342)	-	(2,181)	-
Profit/(Loss) on disposal of non current assets	2	6,141	(162,408)	-	-
Professional and consulting expense	3	(1,345,556)	(1,047,848)	(645,137)	(699,977)
Other expenses	3	(602,271)	(515,323)	(290,516)	(231,758)
Loss before income tax	3	(2,201,594)	(3,404,288)	(1,060,037)	(1,503,846)
Income tax expense	4	-	-	-	-
Loss for the year	3	(2,201,594)	(3,404,288)	(1,060,037)	(1,503,846)
Earnings per share					
Basic earnings per share (cents)	6	($0.0108)	($0.0229)		
Diluted earnings per share (cents)	6	N/A	N/A		

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

9. Statement of Comprehensive Income

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 31 MARCH 2011

	Note	Consolidated Group		Parent Entity	
		2011 $000	2010 $000	2011 $000	2010 $000
Loss for the year		(2,201,594)	(3,404,288)	(1,060,037)	(1,503,846)
Other comprehensive income/(loss):					
Net increase in Fair Value Reserve		-	162,000	-	162,000
Exchange differences on translating foreign controlled entities		(2,268,367)	(4,383,662)	-	-
Income tax relating to components of other comprehensive income/(loss):		-	-	-	-
Other comprehensive loss for the year, net of tax		(2,268,367)	(4,221,662)	-	162,000
Total comprehensive loss for the year attributable to members of the parent entity		(4,469,961)	(7,625,950)	(1,060,037)	(1,341,846)

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

10. Statement of Financial Position

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	7	2,567,965	2,015,416	2,278,302	1,829,036
Trade and other receivables	8	380,190	589,338	62,432	50,879
Inventories	9	133,908	60,728	-	-
Available for sale financial assets	10	-	40,000	-	40,000
TOTAL CURRENT ASSETS		3,082,063	2,705,482	2,340,734	1,919,915
NON-CURRENT ASSETS					
Exploration and evaluation assets	11	3,591,784	3,445,685	-	-
Oil and gas assets	12	13,541,294	11,484,457	-	-
Property, plant and equipment	13	1,535,079	975,728	3,647	5,459
Investments in controlled entities	14	-	-	32,459,026	27,224,159
Intangible assets	15	44,769	60,050	-	-
Other financial assets	10	270,986	268,528	255,000	255,000
TOTAL NON-CURRENT ASSETS		18,983,912	16,234,449	32,717,672	27,484,618
TOTAL ASSETS		22,065,975	18,939,931	35,058,406	29,404,533
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	690,038	428,888	48,682	19,070
TOTAL CURRENT LIABILITIES		690,038	428,888	48,682	19,070
NON-CURRENT LIABILITIES					
Borrowings	17	650,558	-	-	-
TOTAL NON-CURRENT LIABILITIES		650,558	-	-	-
TOTAL LIABILITIES		1,340,596	428,888	48,682	19,070
NET ASSETS		20,725,379	18,511,042	35,009,724	29,385,463
EQUITY					
Issued capital	19	38,656,404	31,972,106	38,656,404	31,972,106
Reserves	20	(4,892,145)	(2,623,778)	-	-
Accumulated losses	21	(13,038,880)	(10,837,286)	(3,646,680)	(2,586,643)
TOTAL EQUITY		20,725,379	18,511,042	35,009,724	29,385,463

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

11. Statements of changes in Equity

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 MARCH 2011

	Share Capital	Reserves	Accumulated Losses	Total
Consolidated group	**$**	**$**	**$**	**$**
Balance at 1 April 2009	27,667,550	1,597,884	(7,432,998)	21,832,436
Issue of shares	4,429,350	-	-	4,429,350
Share issue costs	(124,794)	-	-	(124,794)
Total comprehensive income/(loss)	-	(4,221,662)	(3,404,288)	(7,625,950)
Balance at 31 March 2010	31,972,106	(2,623,778)	(10,837,286)	18,511.042
Balance at 1 April 2010	31,972,106	(2,623,778)	(10,837,286)	18,511,042
Issue of shares	7,231,600	-	-	7,231,600
Share issue costs	(547,302)	-	-	(547,302)
Total comprehensive income/(loss)	-	(2,268,367)	(2,201,594)	(4,469,961)
Balance at 31 March 2011	38,656,404	(4,892,145)	(13,038,880)	20,725,379
Parent entity				
Balance at 1 April 2009	27,667,550	(162,000)	(1,082,797)	26,422,753
Issue of shares	4,429,350	-	-	4,429,350
Share issue costs	(124,794)	-	-	(124,794)
Total comprehensive income/(loss)	-	162,000	(1,503,846)	(1,341,846)
Balance at 31 March 2010	31,972,106	-	(2,586,643)	29,385,463
Balance at 1 April 2010	31,972,106	-	(2,586,643)	29,385,463
Issue of shares	7,231,600	-	-	7,231,600
Share issue costs	(547,302)	-	-	(547,302)
Total comprehensive income/(loss)	-	-	(1,060,037)	(1,060,037)
Balance at 31 March 2011	38,656,404	-	(3,646,680)	35,009,724

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

12. Statement of Cashflows

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

STATEMENT OF CASHFLOWS FOR YEAR ENDED 31 MARCH 2011

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,965,462	1,125,106	-	-
Interest received		114,493	166,962	114,490	166,962
Payments to suppliers and employees		(3,908,405)	(3,712,012)	(1,095,038)	(1,068,520)
Finance costs		(18,342)	(841)	(2,181)	(841)
Taxes paid		-	(101,315)	-	-
Net cash provided by (used in) operating activities	28	(846,792)	(2,522,100)	(982,728)	(902,399)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(1,315,168)	(733,461)	-	(5,830)
Proceeds from sale of plant and equipment		14,545	-	-	-
Payments for acquisition of prospects		(1,439,516)	-	-	-
Payments for exploration, evaluation and development expenditures		(3,231,667)	(4,095,574)	-	-
Repayments of notes receivables		-	(145,153)	-	(145,153)
Payments for loans to controlled entities		-	-	(5,252,303)	(6,514,204)
Net cash provided by (used in) investing activities		(5,971,806)	(4,974,188)	(5,252,303)	(6,665,187)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		7,231,600	4,409,350	7,231,600	4,409,350
Payments for costs of share issues		(547,302)	(124,795)	(547,302)	(124,795)
Proceeds from borrowings		724,319	-	-	-
Repayment of borrowings		-	-	-	-
Net cash provided by (used in) financing activities		7,408,617	4,284,555	6,684,298	4,284,555
Net increase/(decrease) in cash and cash equivalents		590,019	(3,211,733)	449,266	(3,283,030)
Cash and cash equivalents at beginning of financial year	7	2,015,416	5,260,198	1,829,036	5,112,066
Effect of exchange rates on cash holdings in foreign currencies		(37,470)	(33,049)	-	-
Cash and cash equivalents at end of financial year	7	2,567,965	2,015,416	2,278,302	1,829,036

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

13. Notes to the Consolidated Financial Statements

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

This financial report includes the consolidated financial statements and notes of AusTex Oil Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of AusTex Oil Limited as an individual parent entity ('Parent Entity'). The principle accounting policies adopted in preparation of the financial report are set out below. These policies have been consistently applied unless otherwise stated.

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.

The group has adopted revised AASB 101 Presentation of Financial Statements which became effective for annual reporting periods on or after 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy impacts presentation aspects only, there is no impact on earnings per share.

Statement of compliance

The financial report complies with Australian Accounting Standards, which include the Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of Directors on 28 June 2011.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. **Income Tax**

The income tax expense (revenue) for the year 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.

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.

Tax consolidation

AusTex Oil Limited has not implemented the tax consolidation legislation as of 31 March 2011.

c. **Inventories**

Stocks of petroleum products are measured at the lower of cost and net realisable value. Cost is derived on an absorption costing basis and includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 buildings and capitalised lease assets, but excluding freehold land, 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:

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	20%–32%
Plant and equipment	20%–32%
Leased plant and equipment	20%–32%

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

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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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.

g. **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.

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, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas. The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology.

Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period. The amount of the provision for future restoration costs relating to exploration and development activities is capitalised as a cost of those activities. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate the risks specific to the liability. The unwinding of discounting of the provision is recognised as a finance cost.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. **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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

j. **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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 or 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.

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 YEAR ENDED 31 MARCH 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 YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. **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 is 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.

n. **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 YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. **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.

q. **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.

s. **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 provision 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 YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t. **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)

u. **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.

v. **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.

w. **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.

x. **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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

aa. **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 $3,681,978.

ab. **Adoption of New and Revised Accounting Standards**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of AusTex Oil Limited.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ac. **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.

- 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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact 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 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is 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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

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

NOTE 2: REVENUE AND OTHER INCOME

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Revenue from Continuing Operations					
Sales revenue					
— sale of oil and gas		3,204,681	1,293,346	-	-
— provision of services		404,019	183,516	-	-
		3,608,700	1,476,862	-	-
Other revenue					
— interest received		114,493	166,962	114,490	166,962
— Profit/(Loss) on disposal of non current assets		6,141	(162,408)	-	-
Total Revenue from Continuing Operations		3,729,334	1,481,416	114,490	166,962
Other Income					
— Guarantee fee		20,000	20,000	20,000	20,000
— Referral fee		1,077	-	-	-
— Insurance recoveries		1,719	-	-	-
— Reimbursement		-	870	-	870
Total other Income		22,796	20,870	20,000	20,870
Total revenue and other income from continuing operations attributable to members of the parent entity		3,752,130	1,502,286	134,490	187,832

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 3: LOSS FOR THE YEAR

	Note	Consolidated Group		Parent Entity	
The following significant expense items are relevant in explaining the financial performance:		2011 $	2010 $	2011 $	2010 $
a. **Expenses**					
Cost of sales		(1,927,213)	(815,774)	-	-
Administration costs		(1,263,740)	(1,427,969)	(255,144)	(243,555)
Assets impairment expense		-	(515,753)	-	(515,753)
Depreciation and amortisation expense		(796,602)	(583,907)	(1549)	(635)
Finance costs		(18,342)	-	(2,181)	-
Profit/(Loss) on disposal of non current assets		6,141	(162,408)	-	-
Professional and consulting expense		(1,345,556)	(1,047,848)	(645,137)	(699,977)
Other expenses		(602,271)	(515,323)	(290,517)	(231,758)

NOTE 4: INCOME TAX EXPENSE

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Income Tax Expense		-	-	-	-

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	(2,201,594)	(3,404,288)	(1,060,037)	(1,358,693)
Income tax expense/(benefit) at 30%	(660,478)	(1,021,286)	(318,011)	(407,607)
Expenses not deductible	342,467	570,132	22,111	149
Foreign tax rate adjustment	58,835	62,715	-	-
Future tax benefits not brought to account	259,176	388,439	295,900	407,458
Income Tax Expense	-	-	-	-

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 5: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
Remuneration of the auditor of the Group for:				
Audit of the parent entity				
— Audit and review of financial report	23,063	42,886	53,063	82,886
Audit of controlled entities	-	-	-	-
— Audit and review of financial report	30,000	40,000	-	-
	53,063	82,886	53,063	82,886

NOTE 6: LOSS PER SHARE

		Consolidated Group	
		2011 $	2010 $
a.	**Basic Loss per share**		
i	Basic Loss per share	(0.0108)	(0.0229)
ii.	Net loss used to calculate basic loss per share	(2,201,594)	(3,404,288)
iii.	Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	203,468,943	148,780,137
b.	**Diluted loss per share**		
	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.	-	-

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 7: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group		Parent Entity	
		2011	**2010**	**2011**	**2010**
		$	**$**	**$**	**$**
Cash at bank and in hand		326,001	247,755	36,338	88,375
Promissory notes		541,605	463,911	541,605	463,911
Bank deposits		1,700,359	1,276,750	1,700,359	1,276,750
	28	2,567,965	2,015,416	2,278,302	1,829,036

Reconciliation of cash

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	2,567,965	2,015,416	2,278,302	1,829,036
	2,567,965	2,015,416	2,278,302	1,829,036

The Company has provided a guarantee for $1 million to the Australia and New Zealand Bank on behalf of Southern Cross Exploration NL of which Mr Boris Ganke; a former non-executive director is Chairman. The Company has also loaned $150,000 to Southern Cross Exploration NL and $250,000 to Chapmans Ltd of which Boris Ganke is Chairman. The loans are promissory notes and bear an interest rate of 10% p.a. The loan to Southern Cross Exploration NL was re-paid in full during the 2010-11 financial year.

NOTE 8: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group		Parent Entity	
		2011	**2010**	**2011**	**2010**
		$	**$**	**$**	**$**
CURRENT					
Trade receivables		244,012	445.745	-	-
Notes receivables		87,091	98,264	-	-
Provision for impairment		(38,707)	-	-	-
		48,384	98,264	-	-
Other receivables		87,794	45,329	62,432	50,879
Total current trade and other receivables		380,190	589,338	62,432	50,879

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 9: INVENTORIES

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$	$	$	$
CURRENT					
At net realisable value					
Oil stored in tank batteries		133,908	60,728	-	-
		133,908	60,728	-	-

NOTE 10: OTHER FINANCIAL ASSETS

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		$	$	$	$
CURRENT					
Available-for-sale financial assets		-	40,000	-	40,000
Total Current Assets		-	40,000	-	40,000
NON-CURRENT					
Other investments		270,986	268,528	255,000	255,000
Total Non-current Assets		270,986	268,528	255,000	255,000
a. **Available-for-sale financial assets comprise:**					
Listed investments, at fair value					
— shares in listed corporations		-	40,000	-	40,000
b. **Other investments comprise:**					
Unlisted investments, at cost					
— shares in unlisted corporations		255,000	255,000	255,000	255,000
— Security deposits		15,986	13,528	-	-

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 11: EXPLORATION AND EVALUATION ASSETS

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Exploration and Evaluation Assets					
Balance at beginning of year		3,445,685	3,776,991	-	-
Additions		632,851	882,262	-	-
Exchange difference		(486,753)	(1,213,568)	-	-
Balance at end of year		3,591,784	3,445,685	-	-

NOTE 12: OIL AND GAS ASSETS

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Oil and Gas Assets					
Balance at beginning of year		11,484,193	11,457,559	-	-
Additions		3,834,931	3,145,056	-	-
Exchange difference		(1,700,493)	(3,001,011)	-	-
Accumulated depreciation		(77,337)	(117,411)	-	-
Balance at end of year		13,541,294	11,484,193	-	-

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Property, Plant & Equipment					
At cost		2,897,374	1,897,167	5,830	5,830
Exchange difference		(557,276)	(318,126)	-	-
Accumulated depreciation		(805,019)	(603,312)	(2,183)	(635)
Balance at end of year		1,535,079	975,728	3,647	5,195
Movement					
Balance at beginning of year		1,579,040	989,217	5,830	-
Additions		1,061,524	989,566	-	5,830
Exchange difference		(300,466)	(399,743)	-	-
Balance at end of year		2,340,098	1,579,040	5,830	5,830
Accumulated Depreciation					
Balance at beginning of year		603,312	157,658	635	-
Depreciation charge		201,707	445,654	1,548	635
Balance at end of year		805,019	603,312	2,183	635

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 14: INVESTMENTS IN CONTROLLED ENTITIES (NON CURRENT)

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Investments in controlled entities					
Shares in unlisted controlled entities – at cost		-	-	4,500,000	4,500,000
Loans to controlled entities		-	-	27,609,026	22,374,159
Shares based payments		-	-	350,000	350,000
		-	-	32,459,026	27,224,159

Loans to controlled entities are unsecured and interest free with no fixed repayment terms.

NOTE 15: INTANGIBLE ASSETS

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Intangible assets					
At cost		108,090	143,478	-	-
Exchange difference		(12,289)	(35,388)	-	-
Accumulated amortisation		(51,032)	(48,040)	-	-
Net carrying value		44,769	60,050	-	-

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for 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 FOR THE YEAR ENDED 31 MARCH 2011

NOTE 16: TRADE AND OTHER PAYABLES

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
CURRENT					
Trade payables		624,159	362,326	23,776	2,470
Sundry payables and accrued expenses		65,879	66,562	24,906	16,600
		690,038	428,888	48,682	19,070

NOTE 17: BORROWINGS

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
NON-CURRENT					
Promissory notes		607,560	-	-	-
Lease liability		42,998	-	-	-
Total borrowings		650,558	-	-	-

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. They bear a fixed interest at 6% payable monthly in arrears.

NOTE 18: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2011	2010
Subsidiaries of AusTex Oil Limited:			
International Energy Corporation (Oklahoma), Inc.	Oklahoma, USA	100	100
International Energy Corporation of Northern Oklahoma, Inc.	Oklahoma, USA	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

b. **Incorporation of Controlled Entity**

On 12 August 2010, International Energy Corporation of Northern Oklahoma, Inc. was incorporated as a wholly owned subsidiary of International Energy Corporation (Oklahoma), Inc.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 19: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2011 $000	2010 $000	2011 $000	2010 $000
225,934,998 (2010: 169,425,000) fully paid ordinary shares	38,656,404	31,972,106	38,656,404	31,972,106

	31 March 2011		31 March 2010	
	No. of shares	$	No. of shares	$
a. **Ordinary Shares**				
At the beginning of reporting period	169,425,000	31,972,106	125,700,000	27,667,550
Shares issued during the year				
— Non renounceable 1:5 rights issue	33,884,998	5,421,600	-	-
— Share placements	22,625,000	1,810,000	43,725,000	4,409,350
— Share issue costs	-	(547,302)	-	(124,794)
At the end of the reporting period	225,934,998	38,656,404	169,425,000	31,972,106

During the year 33,884,998 fully paid shares were issued at sixteen (16) cents each to shareholders for cash on the basis of one (1) share for every five (5) shares held in accordance with fully underwritten non renounceable rights issue announced to the Australian Securities Exchange on 24 March 2010. On 4 March 2011 and 15 March 2011, 6,250,000 and 16,375,000 fully paid shares respectively were placed at eight (8) cents each for cash to parties associated with Novus Capital Limited.

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.

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 27: Share-based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 27: 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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 20: RESERVES

a. *Fair Value Reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or the asset is impaired.

b. *Foreign Currency Translation Reserve*

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

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Reserves					
Fair Value		-	-	-	-
Foreign Currency Translation		(4,892,145)	(2,623,778)	-	-
		(4,892,145)	(2,623,778)	-	-
Movement in Reserves					
Fair Value					
Balance at beginning of year		-	(162,000)	-	-
Increase/(Decrease) in market value of investments		-	162,000	-	-
Balance at end of year		-	-	-	-
Foreign Currency Translation					
Balance at beginning of year		(2,623,778)	1,759,884	-	-
Net difference on translation of foreign controlled entities		(2,268,367)	(4,383,662)	-	-
Balance at end of year		(4,892,145)	(2,623,778)	-	-

NOTE 21: ACCUMULATED LOSSES

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Accumulated Losses at the beginning of the financial year		(10,837,286)	(7,432,998)	(2,586,643)	(1,082,797)
Loss for the year		(2,201,594)	(3,404,288)	(1,060,037)	(1,503,846)
Accumulated Losses at the end of the financial year		(13,038,880)	(10,837,286)	(3,646,680)	(2,586,643)

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 22: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
a. **Finance Lease Commitments**					
Payable — minimum lease payments		44,434	-	-	-
— not later than 12 months		19,749	-	-	-
— between 1 and 3 years		24,685	-	-	-
— Greater than 3 years		-	-	-	-
Minimum lease payments		44,434			
Less future finance charges		-	-	-	-

The finance lease on plant and equipment commenced in 2010 and is a 3 year lease. The equipment is being leased at 0% interest with lease payments paid monthly in advance.

NOTE 23: EXPENDITURE COMMITMENTS

	Consolidated Group		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
(a) Key Management personnel commitments under Contracts payable within one year.	564,583	468,735	300,000	262,000
(b) Management contracts payable within one year	-	-	-	-
(c) Rental lease payable within one year	60,000	60,000	-	-

NOTE 24: EVENTS AFTER THE REPORTING PERIOD

The Company has provided a guarantee for $1 million to the Australia and New Zealand (ANZ) Bank on behalf of Southern Cross Exploration NL. In April, 2011, the ANZ Bank exercised its right to call on the bank guarantee in full. Southern Cross Exploration NL has agreed to issue 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.

On June 16, 2011, the Company entered into an agreement with a group of Sophisticated and Professional Investors based in the USA, in relation to a proposed placement, subject to shareholder approval, of up to 60,000,000 million fully paid ordinary shares at $0.10 and up to 30,000,000 million free options with an exercise price of $0.15 exercisable within 3 yrs of being issued.

In the interim, an amount of $US2.2million has been advanced to the company by way of promissory notes, which will convert to shares and options upon 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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 25: PARENT ENTITY

		2011 $	2010 $
Financial information in relation to:			
i.	**Statement of Comprehensive Income**		
	Loss before income tax	(1,060,037)	(1,503,846)
	Income tax expense	-	-
	Loss after income tax	(1,060,037)	(1,503,846)
	Loss attributable to members of the parent entity	(1,060,037)	(1,503,846)
ii.	Accumulated Losses		
	Accumulated losses at the beginning of the year	(2,586,643)	(1,082,797)
	Loss after income tax	(1,060,037)	(1,503,846)
	Accumulated losses at the end of the year	(3,646,680)	(2,586,643)
iii.	**Statement of Financial Position**		
	CURRENT ASSETS		
	Cash and cash equivalents	2,278,302	1,829,036
	Trade and other receivables	62,432	50,879
	Available for sale financial assets	-	40,000
	TOTAL CURRENT ASSETS	2,340,734	1,919,915
	NON-CURRENT ASSETS		
	Property, plant and equipment	3,647	5,459
	Investments in controlled entities	32,459,026	27,224,159
	Other financial assets	255,000	255,000
	TOTAL NON-CURRENT ASSETS	32,717,672	27,484,618
	TOTAL ASSETS	35,058,406	29,404,533
	CURRENT LIABILITIES		
	Trade and other payables	48,682	19,070
	TOTAL CURRENT LIABILITIES	48,682	19,070
	TOTAL LIABILITIES	48,682	19,070
	NET ASSETS	35,009,724	29,385,463
	EQUITY		
	Issued capital	38,656,404	31,972,106
	Accumulated losses	(3,646,680)	(2,586,643)
	TOTAL EQUITY	35,009,724	29,385,463

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 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.

	2011			2010		
	Total	**Australia**	**USA**	**Total**	**Australia**	**USA**
	$	**$**	**$**	**$**	**$**	**$**
REVENUE						
Sales revenue	3,608,700	-	3,608,700	1,476,862	-	1,476,862
Interest revenue	114,493	114,490	3	166,962	166,962	-
Other revenue	22,796	20,000	2,796	20,870	20,870	-
Total segment revenue	3,745,989	134,490	3,611,499	1,664,694	187,832	1,476,862
RESULTS						
Net loss before income tax	(2,201,594)	(1,060,037)	(1,141,557)	(3,404,288)	(1,503,846)	(1,900,442)
Income tax	-	-	-	-	-	-
Net loss	(2,201,594)	(1,060,037)	(1,141,557)	(3,404,288)	(1,503,846)	(1,900,442)
ASSETS AND LIABILITIES						
Assets	22,065,975	2,599,380	19,466,595	18,939,931	2,180,374	16,759,557
Liabilities	1,340,596	48,682	1,291,914	428,888	19,070	409,818

NOTE 27: SHARE-BASED PAYMENTS

i. On 16 September 2010, 2,900,000 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 $0.19 each. The options are exercisable on or before 30 September 2011. The options hold no voting or dividend rights and are not transferable.

ii. Options granted to key management personnel are as follows:

Grant Date	Number
16 September 2010	2,900,000

Further details of these options are provided in the Report of the Directors. 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).

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 28: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
a. **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
Loss after income tax	(2,201,594)	(3,404,288)	(1,060,037)	(1,503,846)
Non-cash flows in loss				
Depreciation and amortisation	796,602	574,465	1,549	635
Assets impairments expense	-	515,753	-	515,753
(Profit)/Loss on disposal of non current assets	(6,141)	162,408	-	-
Other non cash flows items	127,223	(62,597)	17,701	(6,795)
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	209,148	(173,266)	(11,553)	84,121
(Increase)/decrease in inventories	(73,180)	(56,333)	-	-
(Increase)/decrease in available for sale financial assets	40,000	-	40,000	-
Increase/(decrease) in trade and other payables	261,150	(78,242)	29,612	7,733
Cash flows from operations	(846,792)	(2,522,100)	(982,728)	(902,399)

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES

(i) Directors

The names of the Directors at any time during the financial year ended 31 March 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 Trevor Sykes	Non-executive director (resigned 16 December 2010)
Mr Kwang Hou Hung	Non-executive director (appointed 15 April 2011)

Executive Directors	**Position**
Mr Dan Lanskey	Managing Director
Mr Richard Adrey	Executive Director (International Energy Corporation)

(ii) Key Management Personnel Compensation

	Consolidated Group		**Parent Entity**	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Consultants' Fees	564,583	430,736	300,000	262,000
Directors' Fees	75,000	82,500	75,000	82,500

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) Guarantee and loans

The Company has 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 are promissory notes and bear an interest rate of 10% per annum.

(v) Shareholdings of Directors and Executives

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

			Balance at Beginning of year	**Net change**	**Balance at end of year**
R.A. Adrey	-	Indirect	10,618,086	-	10,618,086
D. Lanskey	-	Indirect	3,787,872	(525,000)	3,262,872
P.K. Philip	-	Direct	1,079,574	-	1,079,574
P.E. Power	-	Indirect	5,793,447	5,475,000	11,268,447
K.H. Hung	-	Direct	-	15,000,000	15,000,000

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 30: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, promissory notes, short-term 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		Parent Entity	
		2011 $	2010 $	2011 $	2010 $
Financial Assets					
Cash and cash equivalents	10	2,567,965	2,015,416	2,278,302	1,829,036
Trade and other receivables	11f	380,189	589,338	62,432	50,879
Available-for-sale financial assets:					
— listed investments at fair value	18	-	40,000	-	40,000
Other financial assets					
— Unlisted investments at cost	18	270,986	268,528	255,000	255,000
Total Financial Assets		3,219,140	2,913,282	2,595,734	2,174,915
Financial Liabilities					
Financial liabilities at amortised cost					
— Trade and other payables	24	690,038	428,888	48,682	19,070
— Borrowings	25	650,558	-	-	-
Total Financial Liabilities		1,340,596	428,888	48,682	19,070

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 has, in turn, established a dedicated Financial Risk Management Committee (FRMC) to undertake such responsibility. The FRMC 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 FRMC are reviewed by the Board.

The FRMC'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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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 FRMC 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.

Financial Assets Pledged as Collateral

The Company has provided a guarantee for $1 million to the Australia and New Zealand (ANZ) Bank on behalf of Southern Cross Exploration NL. In May, 2011, the ANZ Bank exercised its right to call on the bank guarantee in full. Southern Cross Exploration NL has agreed to issue 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.

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 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.

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.

	Consolidated Group		Parent Entity	
	Profit	**Equity**	**Profit**	**Equity**
Year ended 30 June 2011	**$**	**$**	**$**	**$**
+/-5% in $A/$US	500,000	400,000	-	-
+/-$5/barrel of oil	200,000	150,000	-	-
Year ended 30 June 2010				
+/-5% in $A/$US	400,000	400,000	-	-
+/-$5/barrel of oil	100,000	50,000	-	-

AusTex Oil Limited ABN 42 118 585 649 and Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

NOTE 31: COMPANY DETAILS

The registered office and registered place of business of the company is:

57th Floor, MLC Centre
19 Martin Place
Sydney NSW 2000

14. Additional Securities Exchange Information

Additional information, current as at 15 July 2011, required by the ASX is as follows:

Substantial Shareholders

Name	Shares Held
Kwang Hou HUNG	15,000,000
Phesoj Pty Ltd	12,479,429

Distribution of Equity Security Holders

a) Total Number of shareholders: 1635

b) Analysis of equity holders by size of holding:

Security Classes
Fully Paid Ordinary Shares

Holdings Ranges	Holders	Total Units	%
1-1,000	107	8,258	0.004
1,001-5,000	173	728,093	0.322
5,001-10,000	227	1,949,000	0.863
10,001-100,000	802	32,808,146	14.521
100,001-9,999,999,999	326	190,441,501	84.290
Totals	1,635	225,934,998	100.000

c) The number of shareholders with less than a marketable parcel is 282.

Top 20 Shareholders

Holder Name	Balance at 15-07-2011	%
KWANG HOU HUNG	15,000,000	6.639
PHESOJ PTY LTD	12,479,429	5.523
MR RICHARD A ADREY	10,618,086	4.700
DR LEON EUGENE PRETORIUS	9,072,567	4.016
KENG CHUEN THAM	7,000,000	3.098
MR VICTOR WAN <SUPER FUND A/C>	4,700,000	2.080
RONATAC PTY LTD <MASTER CARPETS HLDNG S/F A/C>	4,000,000	1.770
MRS LINDA ADREY	3,827,234	1.694
DAVIES NOMINEES PTY LTD <SUPER DUPER SUPER FUND A/C>	3,500,000	1.549
ETRANZ.COM PTY LTD	2,872,872	1.272
HSBC CUSTODY NOMINEES	2,450,000	1.084
DAN FULKERSON <EST LATE B R FULKERSON A/C>	2,400,000	1.062
AUSTRALIAN SECURITIES COMPANY (INTERNATIONAL) PTY LTD	2,135,500	0.945
ALGENI PTY LTD <THE URRY FAMILY S/FUND A/C>	2,110,000	0.934
CANTORI PTY LTD <CANTORI SUPERFUND A/C>	2,070,164	0.916
TERSTAN NOMINEES PTY LTD <MORROWS P/L SUPER FUND A/C>	1,867,600	0.827
JENNIFER TOOK SUPERANNUATION PTY LTD <JENNIFER TOOK SUPER FUND A/C>	1,725,000	0.763
MRS JENNIFER TOOK	1,525,000	0.675
BERPAID PTY LTD	1,500,000	0.664
MELBOURNE CAPITAL LTD	1,500,000	0.664
Total	92,353,452	40.876
Issued Capital	**225,934,998**	

Shareholder voting rights are specified in clause 11 of the Company's Constitution lodged with the ASX on 8 January 2008

Listed Options $0.25 exp. 1 December 2011

Holdings Ranges	Holders	Total Units	%
1-1,000	50	31,614	0.144
1,001-5,000	78	217,012	0.989
5,001-10,000	29	225,364	1.027
10,001-100,000	70	2,637,238	12.019
100,001-99,999,999,999	33	18,831,282	85.821
Totals	260	21,942,510	100.000

Top 20 Option Holders

Holder Name	Balance at 15-07-2011	%
MR TROY BOWEN	2,829,000	12.893
CIRRUS AIRCRAFT NSW PTY LTD	2,699,742	12.304
DR LEON EUGENE PRETORIUS	2,430,234	11.075
PENAUSE PTY LTD	1,769,332	8.063
RUJACQ PTY LTD <KRAUSE FAMILY A/C>	1,156,250	5.269
MS JULIE CAMPBELL	634,884	2.893
MR PRIYANK BUDHIRAJA	603,258	2.749
MR MICHAEL RICHARD CLARKE	500,000	2.279
PHESOJ PTY LTD	482,788	2.200
MR DILIP NOEL HOOLE	458,948	2.092
NOLA ISABELLA TREACY & PETER BRIAN TREACY <BRIAN TREACY FAMILY A/C>	431,250	1.965
MR RUSSELL HENRY KRAUSE	407,750	1.858
SUNDERLAND FAMILY SUPER PTY LTD <SUNDERLAND FAMILY S/F A/C>	400,000	1.823
CANTORI PTY LTD <CANTORI SUPERFUND A/C>	364,535	1.661
SIMMAN INVESTMENTS PTY LTD <THE CAMERON SUPER FUND A/C>	363,181	1.655
DAVIES NOMINEES PTY LTD <SUPER DUPER SUPER FUND A/C>	355,000	1.618
STERICKER SUPER PTY LTD <THE STERICKER FAM S/F A/C>	345,000	1.572
MR SIMON WILLIAM TRITTON	300,000	1.367
PROPERTY & INVESTMENT WORKS PTY LTD <EASTERN VALLEY R/E A/C>	280,000	1.276
ACHILLES FINANCIAL PTY LTD <GORDON SUPER FUND A/C>	250,000	1.139
Total	17,061,152	77.754
Issued Capital	**21,942,510**	

Unquoted Options

As at 15 July 2011, there were 14,900,000 unquoted options outstanding. The holders do not have any voting rights in their capacity as option holders. Following the approval of shareholders at the Annual General Meeting held in July 2010, 7,000,000 options were granted to Directors of the Company.

No. Of Options	Expiry Date	Exercise Price
4,400,000	30 September 2011	19 cents
5,000,000	1 December 2011	25 cents
2,500,000	31 March 2012	25 cents
3,000,000	30 June 2013	40 cents

Use of Funds

During the year ended March 31, 2011, the Company has used funds raised to acquire and develop oil and gas assets in the USA.

15. 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)

COMPANY SECRETARY

J B Clyne

REGISTERED AND PRINCIPAL OFFICE

57th Floor, MLC Centre, 19 Martin Place, Sydney NSW 2000 Australia

Telephone: 02 9238 2363 Fax: 02 8088 7280

E-mail: admin@austexoil.com

Website: www.austexoil.com

AUDITORS

Colquhouns Chartered Accountants

SHARE REGISTRY

Boardroom Pty Ltd, 207 Kent Street, Sydney NSW 2000

Telephone: 02 9290 9600

PRINCIPAL BANKERS

ANZ Banking Group Limited