



ABN 24 119 737 772

30 January 2009
ASX release

DECEMBER 2008 QUARTERLY REPORT

PRODUCTION

Production for the quarter was:

	Gas (mcf)	Oil (bbl)	Total (mcf)
Gross	239,734	8,064	288,118
Nett (Texon share)	167,050	4,532	194,242

Year to date (12 months):

	Gas (mcf)	Oil (bbl)	Total (mcf)
Gross	722,386	10,521	785,512
Nett (Texon share)	518,111	6,300	555,911

Gross average daily production for the December quarter was 2,606 mcf/gpd and 88 bopd (Texon's share: 1,819 mcf/gpd and 49 bopd). Daily production as of 21 January 2009 was Gross: 2,608 mcf/gpd and 116 bopd (Texon's share: 1,808 mcf/gpd and 63 bopd).

The Company has increased nett quarterly production by 218% from 60,993 mcf in Q4 2007 to 194,242 mcf in Q4 2008.

REVENUE

Revenues received for the quarter and the 12 months year to date before severance tax and lease operating expenses were US\$1.42 million and US\$4.33 million respectively. Cash proceeds from gas sales are received two months after production and sales take place, so that the revenue received for the quarter is from production during August, September and October. The average oil and gas prices during the quarter were about US\$55/barrel and US\$6.60/mcf, respectively.

RECENT ACTIVITIES

- **Leighton Oil and Gas Project (Peeler #1) (Texon 70% WI, 52.5% NRI)**

The well was drilled and tested in the 3rd quarter and tied into sales gas on 7 November 2008. A compressor was installed in mid January to help stabilize the flow rate and the well is currently flowing at 105 bopd and 235 mcf/gpd. The gas has a heating value of about 1,350Btu/cubic foot, which will achieve a premium sales price, about one third above the benchmark Texas gas price.

There was an initial decline in production which is similar to that seen in the wells in the neighboring field. This decline is then followed by a gradual decline over a productive well life of 10 to 15 years. The Peeler well appears to have entered the longer term decline phase.

- **Matthews #2 (Texon 100%WI, 71.25% NRI)**

The Matthews #2, which is located on the Company's Duranbah lease, contained two potential target zones. Re-entry was made in October for the first zone and in December for the second. Testing of both zones failed to yield any oil or gas. The well will be plugged and abandoned.

- **Leasing**

Texon continues to grow its lease position in the vicinity of the Duranbah, Avoca and Leighton discoveries.

Two additional leases were acquired near Duranbah providing Texon with two further old well re-entry opportunities.

An additional prospect (Lennox) has been leased adjacent to the Company's Avoca well which is producing about 1mmcf/gpd and 15bopd. Lennox has similar geological and geophysical characteristics to Avoca and a gross resource potential of 1.3 to 1.6bcf.

Leases are being negotiated on two other prospects near to Avoca.

A further 80 acres were added to the Company's Leighton area leaseholdings bringing the Company's total Leighton leasehold position to 900 acres.

OIL & GAS PRICES AND RIG RATES

In the last 6 months the oil price has dropped from approx. US\$145 to US\$45/bbl and the gas price has declined from approx. US\$13 to \$4.50/mcf. As a result, drilling activity in the USA has declined with a consequent fall in material costs and rig rates. Current rig contract rates are 30-40% lower than rates in the middle of 2008.

LEIGHTON OIL AND GAS PROJECT (Texon 70%WI and 52.5% NRI)

In current market conditions, including reduced oil and gas prices, the Company's Leighton discovery stands out as being the least risky project for follow-up. We believe that Leighton has the most potential to add value to the Company in the near term, and could underpin the longer term future of the Company including providing Texon with access to considerable upside through increased oil and gas prices.

The drill site for the second Leighton well has been prepared and the Company plans to begin drilling this well in February or March this year.

Global Petroleum Limited and Excellong Inc who each have 15% WI in the Leighton Project first well, Peeler #1, have indicated they wish to exercise their option to participate in Leighton #2 on the same terms as Leighton #1 (refer to the Company's releases of 15 August and 12 September 2008 and to the

Company's September 2008 Quarterly Report for further information on these terms). As a result of this arrangement, Texon's 70% WI share of the dry hole cost of Leighton #2 will be substantially covered although Texon will fund its 70% WI share of the cost of testing and completing the well for production should it be successful.

Leighton #2 is located approximately 1km from Leighton #1 and will target the same seismic feature as the productive reservoir in Leighton #1.

If Leighton #2 is successful, and this should be known in the second quarter of the year, it would be the Company's intention to proceed with the development of the Leighton oil and gas field.

On the basis of the 40 acre spacing of development wells in the nearby field, some 10-20 wells could be required to fully develop the Leighton oil and gas field. Forecast production for the first twelve months from the Leighton Peeler #1 well is approx. 22,000 boe (nett to Texon) which at a US\$40/bbl oil price and a US\$5/mcf gas price would result in some A\$1.3M revenue to the Company.

Subject to acceptable terms and conditions the Company would seek a project finance arrangement to fund the development of the Leighton oil and gas field.

OTHER POSSIBLE PROJECTS

- **Maroubra #1 (Deep gas test)**

Maroubra has a gross upside potential of 200bcf of gas if the well encounters 200 feet of gas bearing sand at the target level as in nearby wells. The Company has not yet been successful in farming out this project but has the goal of retaining 25-35% WI.

- **Recompletions (Yegua Reservoir)**

There are two previously drilled wells with possibly unproduced gas zones on leases contiguous with the Company's lease which contains the Company's Duranbah well which is producing gas at a gross rate of 500 mcfcpd. The Company plans further technical work and will be seeking a farminee to share the risk and cost of re-entering and testing these wells with the intention of retaining approximately a 50% WI.

- **New Drilling (Yegua Reservoir)**

The Lennox prospect has been leased and negotiations are advanced in regard to obtaining leases on two other prospects located close to the Company's producing Avoca well (currently producing at gross rates of 1 mmcfpd and 15 bopd). These new prospects have the same target reservoir and 3D seismic characteristics as Avoca. The Company will be seeking farminees to share the risk and cost of drilling these prospects with the intention of retaining approximately a 50% WI.

- **New Drilling (Frio Reservoir)**

The Company has 7 leased prospects where the Frio Reservoir is the target and which are ready to drill. In the Company's September 2008 Quarterly Report, there was reference to a 37.5% WI having already been farmed out, but that company withdrew. Texon is seeking a new farminee with the

intention of retaining a 25% WI under an arrangement whereby all of the Company's costs of drilling and completing the wells would be funded by the farminee.

- **Divestiture**

The sale of two producing wells has been introduced to a number of parties. A suitable offer has not been received to date.

PROSPECTS AND LEASING

The Company's prospects have reservoir targets named Frio, Yegua, Leighton oil reservoir and Wilcox. The Frio gas reservoir is targeted in shallow wells with depths generally less than 1,500m. Prospects with the Yegua gas reservoir as a target would require wells of 1,500 to 2,150m. The Leighton oil reservoir occurs at a depth of about 2,700m and the Wilcox gas reservoir is at about 3,000 to 5,000m.

After ongoing review of the technical merits of the prospects and taking into account prospects drilled, the Company's inventory at the end of the quarter comprised 14 prospects which are leased and ready to drill [9 shallow (1 Yegua and 8 Frio) and 5 deep gas] and is seeking to secure leases over a further 13 prospects [shallow (5 Frio and 5 Yegua) and 3 deep].

ENDS

For further information, please contact:

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or

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Houston: +1 281 419 4976 (Houston is 15 hours behind Aust Eastern Standard time)

Glossary:

bbl: barrels

bcf: billion cubic feet

Btu: British thermal unit

bopd: barrels of oil per day

m: metres

M: million

mcf: thousand cubic feet

mcfe: thousand cubic feet of gas equivalent including oil converted to gas equivalent on the basis of 6mcf for each barrel of oil

mcfcpd: thousand cubic feet of gas per day

mmbbl: million barrels of oil

mmboe: million barrels of oil equivalent (including gas converted to oil equivalent barrels on basis of 6mcf to 1 barrel of oil equivalent)

NRI: Net Revenue Interest

Q1-Q4: Refers to the first, second, third and fourth calendar quarters of the year

WI: Working Interest

Texon Petroleum Ltd

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

TEXON PETROLEUM LTD

ABN

24 119 737 772

Quarter ended ("current quarter")

31 DECEMBER 2008

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	1,804	4,940
1.2	Payments for (a) exploration and evaluation	(2,757)	(11,467)
	(b) development	-	-
	(c) production	(430)	(1,047)
	(d) administration	(665)	(2,184)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	52	273
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other	-	-
Net Operating Cash Flows		(1,996)	(9,485)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(5)	(38)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	(6)	(23)
Net investing cash flows		(11)	(61)
1.13	Total operating and investing cash flows (carried forward)	(2,007)	(9,546)

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1.13	Total operating and investing cash flows (brought forward)	(2,007)	(9,546)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(2,007)	(9,546)
1.20	Cash at beginning of quarter/year to date	5,161	12,133
1.21	Exchange rate adjustments to item 1.20	1,680	2,247
1.22	Cash at end of quarter	4,834	4,834

Payments to directors of the entity and associates of the directors

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

		Current quarter
		\$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	395
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

Non-cash financing and investing activities

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

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

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	N/a
3.2 Credit standby arrangements	Nil	N/a

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,463
4.2 Development	-
Total	1,463

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,902	1,808
5.2 Deposits at call	2,933	3,353
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,834	5,161

Changes in interests in mining tenements

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

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)	None		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	None		
7.3	+Ordinary securities	90,019,500	61,365,000 * *balance restricted	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	None		
7.5	+Convertible debt securities (description)	None		

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7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	None			
7.7	Options (description and conversion factor)	A. 9,980,500 B. 2,770,000 C. 3,000,000 D. 5,780,000 E. 2,500,000 F. 2,500,000 G. 2,700,000	9,980,500 nil nil nil nil nil nil	<i>Exercise price</i> 50 cents 50 cents 75 cents 100 cents 50 cents 100 cents 75 cents	<i>Expiry date</i> 08-05-2009 08-05-2011 08-05-2011 08-05-2011 08-05-2012 08-05-2012 08-05-2010
7.8	Issued during quarter	None			
7.9	Exercised during quarter	None			
7.10	Expired during quarter	None			
7.11	Debentures (totals only)	None			
7.12	Unsecured notes (totals only)	None			

Compliance statement

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

Sign here:



Company secretary

Date: 30 January 2009

Print name: Desmond Frederick Olling

Notes

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

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