



ABN 24 119 737 772

**ASX Release**  
15 March 2012

**Chairman's Letter**

The attached letter to shareholders provides an update of the Company's projects and will be distributed to shareholders on 15 March 2012.

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**For further information, please contact:**

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Chairman

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Or

Mr Clifford S. Foss Jr

Chief Executive Officer

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Dear Texon Shareholder,

It is six months since I wrote to you in August last year with an outline of the status of Texon's various projects, together with some thoughts on securing shareholder value from the Company's Olmos and Eagle Ford Projects. Since then we have made considerable progress.

Most importantly, the Company has appointed a new CEO, Mr Clifford S. Foss Jr – who from 2006-2008 was Snr VP Exploration for Petrohawk Energy. Mr Foss brings to Texon some 40 years of exploration and production success in the Texas Gulf Coast area.

At the end of 2011 the Proved, Probable and Possible Reserves\* attributable to the Company were 12.9 mmboe – an increase of 90% from year end 2010 (6.7mmboe). Year end 2011 reserves have since been reduced to 11.3 mmboe as a result of the sale of the Company's Leighton Olmos leases. Whilst the EFS audited reserves to Texon at year end 2011 are 11.3 mmboe (an increase of 125% from year end 2010), the overall potential of all of the possible Eagle Ford well locations on the Company's Eagle Ford leases could amount to some 59 mmboe to the Company's Working Interest.

During the first two months of this year, the Company's beneficial Production has averaged 805 boe per day – as a result of successful Olmos and Eagle Ford drilling. Revenue to the Company, before costs, has averaged US\$2.6 million per month over the four (4) months September – December 2011.

Texon's Eagle Ford Leases are the most valuable part of the Company's holdings. We now have some 7,200 Working Interest Eagle Ford acres (93% WI in 7,712 acres) and four (4) producing Eagle Ford wells. Experience gained from the first two of these wells benefited the fracture stimulation design of the third and fourth Eagle Ford wells, both of which have higher productivity than the first two wells. We believe the third and fourth wells are a guide as to the productivity that can be achieved from properly engineered Eagle Ford wells on Texon's Eagle Ford leases.

Projections using the third and fourth Eagle Ford wells suggest that future Eagle Ford wells in this area can be expected to produce 600,000 boe per well – of which some 80% would be oil and gas liquids. On a well spacing of 80 acres, Texon's Eagle Ford leases could support over 90 net wells, which together with additional joint venture wells could represent potential to Texon's WI of 59 mmboe.

Financial forecasts using forward Nymex oil and gas prices indicate that about 90% of the revenue from an Eagle Ford project based on such wells in Texon's leases will be oil price driven – with gas amounting to only 10% of the Eagle Ford revenue.

As announced in February, the Company has appointed Houston based Albrecht and Associates, Inc. and Brisbane based RBS Morgans, to seek potential buyers for all or part of the Company's Eagle Ford project. The Company believes that its four (4) Eagle Ford wells have largely de-risked its Eagle Ford leases and that a sale will provide the opportunity for shareholders to benefit from the value of these holdings. Target completion date for a transaction is mid 2012.

As foreshadowed in my August 2011 letter, in late October last year the Company appointed Albrecht and Associates, Inc. to seek buyers for Texon's Olmos production and related leases. This sale has now been completed. The pre sale cash position of the Company of US\$13.7 million at the end of January has been bolstered by the proceeds from the Olmos sale of US\$12.4 million before tax.

Texon has two other potential oil projects on its Mosman/Rockingham leases. The Company has 95-100% WI in some 1,000 acres where the Olmos reservoir is the target. Texon's Wilcox well (Hoskins #2 Wilcox) is now on pump. The Wilcox reservoir could cover 1,500-2,000 acres in the Mosman/Rockingham leases. Over the coming months, we will review new 3D seismic data over both of these potential projects to plan a way forward. It is likely that we will be drilling here later this year.

My August 2011 letter outlined other potentially valuable projects, in addition to the Mosman/Rockingham Olmos and Wilcox. Other projects either leased or being investigated include:

- ❖ A number of emerging multi-well and resource oil projects where we are targeting opportunities which have potential to the Company similar to the value of our current Eagle Ford holding. We plan to begin taking leases on one or more of these projects over the coming months with a view to beginning drilling towards the end of this year;
- ❖ 7,100 acres of leases where the Pearsall gas/liquids reservoir is the target below the Eagle Ford. Based on NuTech analysis of one well, the resource potential to Texon could be about 1Tcf of gas in place with 50 mmbbls of liquids in place. It is likely that this would be part of an Eagle Ford transaction; and
- ❖ We have other gas and gas/liquids prospects on our records but mostly these will only become attractive for drilling in the future at higher gas prices.

### Forward Plan

As a result of the Olmos sale, our cash position is sound. We are seeking around mid year to monetize all or part of our Eagle Ford holdings to provide shareholders with the opportunity to benefit from the value of these leases. The corporate structure of the Company provides deal structure flexibility to Texon and to a buyer of our Eagle Ford position.

In parallel, we are developing an inventory of new opportunities. We are seeking to place the Company in new multi-well and resource oil play projects which have potential to create "Eagle Ford like" value for the Company over the next 2-3 years, with initial drilling on these new projects possibly beginning towards the end of this year.

We will keep you informed of progress.

Yours sincerely,



**John Armstrong**  
Chairman

\* The year end 2011 Reserves in the Eagle Ford have been assessed by Netherlands, Sewell & Associates, Inc. For the Other Reserves, the year end 2011 reserves are taken to be the 2010 year end reserves (determined by Delilah B. Hainey of Hainey and Hainey, a reservoir consultant to the Company) less production in 2011. Netherlands, Sewell & Associates, Inc and Delilah B Hainey are qualified in accordance with ASX Listing Rule 5.11. Netherlands, Sewell & Associates, Inc has consented to the form and context of the Eagle Ford reserves shown in this report.

### Glossary:

boe: barrels of oil equivalent  
 mmbbl: million barrels  
 mmboe: million barrels of oil equivalent (including gas converted to oil equiv barrels on basis of 6mcf to 1 barrel of oil equiv)  
 Tcf: Trillion cubic feet  
 WI: Working Interest