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AUSTEX OIL LIMITED

Financial Report

for the year ended 31 December 2013

and

Directors' Report

and

Auditor's Report

2013

CORPORATE DIRECTORY

DIRECTORS

R A Adrey Managing Director & Interim Chairman - USA

N J Stone Non-Executive Director - USA

D Lanskey Non-Executive Director

P K Philip (Ms) Non-Executive Director

L Vierma Non-Executive Director - USA

R H Krause Non-Executive Director

COMPANY SECRETARY

J Clyne

REGISTERED AND PRINCIPAL OFFICE

Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Telephone: 02 9238 2363 Fax: 02 8088 7280

E-mail: admin@austexoil.com

Website: www.austexoil.com

AUDITORS

Hayes Knight (NSW) Pty Ltd

SHARE REGISTRY

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

Telephone: 02 9290 9600

PRINCIPAL BANKERS

ANZ Banking Group Limited

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DIRECTORS' REPORT

Your Directors present their Report on the consolidated accounts of AusTex Oil Limited and the entities it controlled for the year ended 31 December 2013.

DIRECTORS

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

Richard Adrey - USA
Managing Director & Interim Chairman (Executive Chairman until 1 February 2014)

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

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

Kwang Hou HUNG – Singapore
Deputy Chairman (resigned 19 May 2013)

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. Mr Hung resigned from the Board on 19 May 2013.

Daniel Lanskey - Australia
Non-Executive Director since 1 February 2014 (Managing Director until 31 January 2014)

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.

Mr. Lanskey holds a post-graduate Business Degree. Mr. Lanskey is a director of International Energy Corporation (Oklahoma), International Energy Corporation (Northern Oklahoma) and International Energy Corporation (Kansas) and until he became a non-executive director on 24 January this year, was associated with AusTex Oil on a day to day basis overseeing operations in Australia.

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Patricia Kay Philip ONM - Australia
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.

Ms Philip is an Honorary Associate in the School of Physics, University of Sydney.

She is a Senior Fellow of the Financial Services Institute of Australia (FINSIA), Member of the Association of International Petroleum Negotiators (AIPN), Member of the Australian Institute of Physics (AIP), Member Australian Society of Exploration Geophysicists (ASEG), and former Secretary of the Australian-French Association for Science and Technology (AFAS).

Ms Philip was a director of Proto Resources and Investments Ltd from 2006 to 2013, a former 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

Russell Krause - Australia
Non-Executive Director

Mr Krause has 25 years' experience in Stockbroking and Investment Banking and held Directorships and Senior Management positions with a number of leading Australian firms. Over this time Mr Krause's primary focus has been the Resources sector and brings extensive experience in Australia, Africa, Asia and North America. For the past 10 years he has worked on a number of North American Oil and Gas projects in the Mid-Western USA. Mr Krause is currently a Director of a Singapore based AuzMinerals Resource Group Limited and Novus Capital Limited.

Luis Vierma - USA
Non-Executive Director

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

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

Nicholas J Stone – USA (appointed 19 November 2013)
Non-Executive Director

Nick joined the Board on 19 November 2013. He was previously an investment banker with TPG Capital and KKR in the USA. He has an MBA from Stanford University and an Undergraduate Degree from Harvard University. He is a partner at California based Freestyle Investors which is a substantial shareholder in AusTex Oil.

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Justin B Clyne - Australia
Company Secretary (appointed 1 January 2014)

After taking a sabbatical in 2013, Justin Clyne was reappointed as joint company secretary of the Company on 1 January 2014 and has been the sole company secretary since 24 January 2014. 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.

Tom Bloomfield - Australia

Company Secretary (resigned 24 January 2014)

Tom Bloomfield was appointed as company secretary on 3 December 2012. He is a qualified Chartered Company Secretary, a member of the Australian Institute of Company Directors (AICD) and holds a Bachelor of Arts (BA) with Honors in Law. He is an experienced Company Secretary having acted for a number of ASX listed entities and is an experienced corporate governance specialist. Mr Bloomfield resigned as company secretary on 24 January 2014.

KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The names of the Directors at any time during the financial year ended 31 December 2013, unless otherwise indicated, were the following:

Non-Executive Directors	**Position**
Mr Russell Krause	Non-executive director
Ms Patricia Kay Philip	Non-executive director
Mr Nicholas Stone	Non-executive director (appointed 19 November 2013)
Mr Luis Vierma	Non-executive director
Mr Dan Lanskey	Managing Director (appointed non-executive director 1 February 2014)
Mr Kwang Hou Hung	Non-executive director (resigned 19 May 2013)

Executive Directors	**Position**
Mr Richard Adrey	Executive Chairman (appointed Managing Director and Interim Chairman 1 February 2014)

Other Key Management Personnel	**Position**
Mr David Clark	Chief Financial Officer
Mr Justin Clyne	Company Secretary (appointed 1 January 2014)
Mr Tom Bloomfield	Company Secretary (resigned 24 January 2014)

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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 December 31, 2013, for the Directors and key management personnel.

Year ended 31 Dec 2013	Short-term benefits		Post employment benefits	Share-based payments (options)	Total
Name	**Directors Fees**	**Contract Fees**	**Superannuation**		
Directors of AusTex Oil Limited					
R.A. Adrey	-	354,750	-	95,794	**450,544**
D. Lanskey	-	354,750	-	95,794	**450,544**
K. Philip	33,500	-	14,500	-	**48,000**
K.H. Hung[1]	18,462	-	-	-	**18,462**
L. Vierma	48,000	-	-	-	**48,000**
R. Krause	82,000	-	-	-	**82,000**
N. Stone	5,609	-	-	-	**5,609**
Key Management Personnel					
D.W. Clark	-	90,768	-	-	**90,768**
T. Bloomfield	-	38,900	-	-	**38,900**
TOTAL	**187,571**	**839,168**	**14,500**	**191,588**	**1,232,827**

1 Resigned as a director 19 May, 2013.

Year ended 31 Dec 2012	Short-term benefits		Post employment benefits	Share-based payments (options)	Total
Name	**Directors Fees**	**Contract Fees**	**Superannuation**		
Directors of AusTex Oil Limited					
P.E Power[2]	26,667	20,332			**46,999**
R.A. Adrey	-	320,000	-	88,253	**408,253**
D. Lanskey	-	320,000	-	88,253	**408,253**
K. Philip	30,000	-	2,700	-	**32,700**
K.H. Hung[1]	30,000	-	-	-	**30,000**
L. Vierma	30,000	-	-	-	**30,000**
R. Krause	5,625	-	-	-	**5,625**

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Key Management Personnel					
D.W. Clark	-	60,175	-	1,676	**61,851**
J.B. Clyne	-	63,750	-	6,705	**70,455**
T. Bloomfield	-	3,000	-	-	**3,000**
TOTAL	**122,292**	**787,257**	**2,700**	**184,887**	**1,097,136**

2. Resigned as a director 31 May, 2012.

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EXECUTIVE DIRECTORS

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

A. Managing Director – Daniel Lanskey (non-executive director since 1 February 2014)

Under an agreement dated 10 July 2010 between AusTex Oil and Etranz.com Pty Ltd, Daniel Lanskey had 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.

Following an annual review of the Agreement in May 2012, the Board of AusTex approved an increase in base contract payment to Etranz.com Pty Ltd from $300,000 to $330,000 per annum (exclusive of GST). A further increase of 15% per annum was approved subject to the Company achieving a minimum level of oil and gas production of 400 boe/day for 90 consecutive days. This increase occurred on 1 July 2013 as the target was achieved.

The agreement will end on 31 July 2016 unless terminated earlier.

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 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.

Either party may give the other party 6 months written notice to terminate the agreement.

By mutual agreement the contract was brought to an end on 31 January 2014 and since that time Mr Lanskey has been a non-executive director.

B. Executive Chairman – Richard Adrey – President – International Energy Corporation (Managing Director and Interim Chairman of AusTex Oil since 1 February 2014)

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. Mr Adrey was appointed to the position of Executive Chairman of AusTex Oil Limited on 31 May 2012.

Following an annual review of the Agreement in May 2012, the Board of AusTex approved an increase in the base payment to Richard from $300,000 to $330,000 per annum. A further increase of 15% per annum was approved subject to the Company achieving a minimum level of oil and gas production of 400 boe/day for 90 consecutive days. This increase occurred on 1 July 2013 as the target was achieved.

The term of the agreement is until 31 July 2016, 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 AusTex, and to promote the interests of IEC and any group company. He is required to report directly to the AusTex board.

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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 non-executive director remuneration, presently, is $276,000 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 their 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.

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INTERESTS IN THE COMPANY

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

Director Name	Shares and Options Direct	Shares and Options Indirect
Richard Adrey	11,018,086 Ordinary Shares 5,000,000 options exercisable at $0.15 on or before 31 August 2014 5,000,000 options exercisable at $0.25 on or before 3 June 2016	Nil
Daniel Lanskey	Nil	2,652,145 Ordinary Shares 5,000,000 options exercisable at $0.15 on or before 31 August 2014 5,000,000 options exercisable at $0.25 on or before 3 June 2016
Patricia Kay Philip	1,317,574 Shares	566,000 Ordinary Shares
Luis Vierma	Nil	Nil
Russell Krause		6,000,000 options exercisable at $0.15 on or before 7 June 2014
Nicholas Stone	Nil	47,225,492 Ordinary Shares 98,766,667 Redeemable Convertible Preference Shares

Notes

Daniel Lanskey - holds 2,433,927 Shares as the sole director of Etranz.com Pty Ltd and 218,218 Shares as a trustee of the Lanskey Family Trust.
Kay Philip - holds 566,000 Shares Kay Philip <The Philip Superannuation Fund>.
Russell Krause - holds 6,000,000 options as a director of Penause Pty Ltd.
Nicholas Stone – The 47,225,492 Shares are held in the name of Citicorp Nominees Pty Limited as nominee for Ptolemy Capital LLC. Mr Stone is a shareholder and manager of Ptolemy Capital LLC. The Redeemable Convertible Preference Shares are held in the name of Ptolemy Energy Holdings LLC which is a subsidiary of Ptolemy Capital LLC.

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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:-

Grant Date	Number	Expiry Date	Exercise price
1/8/2011	27,272,726	29/07/2014	$0.15
1/9/2011	12,500,000	31/08/2014	$0.15
7/6/2012	20,490,197	7/06/2014	$0.15
13/6/2012	25,257,627	13/06/2015	$0.20
22/8/2012	182,000	15/08/2014	$0.15
22/8/2012	10,000,000	22/08/2014	$0.15
24/10/2012	20,000,000	24/10/2017	$0.15
3/12/2012	10,000,000	3/12/2015	$0.20
3/6/2013	10,000,000	3/6/2016	$0.25

LOSS PER SHARE

The basic loss per share for AusTex Oil Limited for the period was $0.0026 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 ended to 31 December 2013 was $1,116,977. The Directors of AusTex Oil have resolved not to recommend a dividend for the financial year ended 31 December 2013.

CORPORATE STRUCTURE

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

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

There has been no significant change in the nature of these activities during the year.

EMPLOYEES

The Group employed 23 fulltime and no part time employees as at 31 December 2013.

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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), International Energy Corporation (Northern 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.

For the year ended 31 December 2013, the Gross Revenue from combined operations was $16,932,493 resulting in a gross profit of $11,608,728 after Cost of Sales. A Net Loss of $1,116,977 was recorded.

The Group incurred an operating loss of $1,116,977 (2012: Loss $3,320,277) for the twelve (12) months to 31 December 2013 which represents a $2.2M reduction in the operating loss incurred for the twelve (12) months to 31 December 2012. Sales revenue earned was $16,932,493 (2012: $6,662,764) and represents an increase of 154% for the year. Major expense items incurred during the twelve (12) months to 31 December 2013 include Exploration expenses written-off of $3,086,576 (2012: $1,213,672), Finance costs of $721,002 (2012: $494,840); and Depreciation and depletion expense of $1,228,703 (2012: $1,224,057).

Cash at bank at 31 December 2013 was $19,156,512 (2012: $11,923,978). Net Assets at 31 December 2013 was $61,998,586 (2012: $36,584,686) which represents a 69.5% increase from the 2012 year.

As a junior oil and gas exploration and production company, AusTex may need to raise development capital to continue the company's strategy to acquire and develop oil and gas leases in the USA. During the year the company entered into agreements in relation to US$17.5 million of redeemable convertible preference shares in two tranches.

Oklahoma Operations

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

International Energy Corporation (Northern Oklahoma) holds interests in approx. 5,500 acres of oil and gas leases in Kay County, Oklahoma. Development drilling on the project was the main activity of the company during the reporting period. A total of 18 new Vertical production wells (not all were producing during the year) were drilled during the year and 3 new Salt Water Disposals well and production hub was completed.

Oil and gas production is expected to increase as the company continues to development new wells at this project.

International Energy Corporation (Oklahoma) is the operator of the leases.

Kansas Operations

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

The Company participated in the drilling of 3 additional wells in Kansas during the year.

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Trading on the TSX Venture Exchange (TSXV)

On 22 May 2013, AusTex commenced trading on the TSXV under the ticker ATO. This platform allows Canadian based investors access to the underlying ASX listed stock.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year ended 31 December 2013, US$17,500,000 was raised by the company resulting in the issue of 58,942,656 redeemable convertible preference shares (RCPA) and 57,724,011 redeemable preference shares (RPB). Shareholder approval was granted on 24 January 2014 such that all 116,666,667 preference shares issued are redeemable convertible preference shares. The additional capital was raised to continue the development of oil and gas leases in the USA and general working capital.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to year end, certain 6,925,021 options were exercised and 3,536,066 convertible notes were converted to ordinary shares, the full details of which are disclosed in Note 5(c). As set out in Note 19(b), the shareholders approved the issue of preference shares on 24 January 2014.

Since the end of the financial year the Directors are not aware of any other matter or circumstance, other than an extraordinary general meeting of shareholders held on 24 January 2014, 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.

A Reserve Report on the company's oil and gas leases prepared by Pinnacle Energy Services LLC was released to the ASX on 24 March 2014.

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, OFFICERS & AUDITOR

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 directors and 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.

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DIRECTORS' MEETINGS

In addition to regular Board discussions, 7 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
K H Hung	1	1
R Adrey	7	7
D Lanskey	7	7
K Philip	7	7
L Vierma	7	5
R Krause	7	7
N Stone	2	2

AUDIT COMMITTEE

During the financial year, 2 meetings of the audit committee were held, attended by the members comprising Russell Krause and Ms K Philip. The Audit Committee members at the time of this report are Kay Philip, Russell Krause and Nick Stone.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

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

R A Adrey
Managing Director & Interim Chairman



Sydney
26 March 2014

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Hayes Knight
Accountants & Business Advisers

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

To the Directors of Austex Oil Limited

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2013, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

Pran Rathod - Director Audit Services
Registered Company Auditor

Hayes Knight (NSW) Pty Ltd

Dated at Sydney, this 26 day of March 2014

An independent Member of the Hayes Knight Group and Morison International.
Liability limited by a scheme approved under Professional Standards Legislation.
Associated Offices : Melbourne | Brisbane | Adelaide | Perth | Darwin | Auckland

Consolidated Income Statement
For the year ended 31 December 2013

	Note	Consolidated Group 2013 $	2012 $
Sales Revenue	2	**16,932,493**	6,662,764
Cost of Sales		**(5,323,765)**	(2,456,710)
Gross Profit		**11,608,728**	4,206,054
Other income	2	**109,446**	396,086
Administration costs		**(960,702)**	(589,864)
Employment and related expenses		**(2,124,188)**	(1,356,432)
Impairment		**(3,086,576)**	(1,213,672)
Depreciation and depletion expense		**(1,228,703)**	(1,224,057)
Finance costs		**(810,446)**	(429,586)
Professional and consulting expense		**(1,911,981)**	(1,598,929)
Project management expenses		**(721,002)**	(494,840)
Other expenses		**(1,991,553)**	(1,015,037)
Loss before income tax	3	**(1,116,977)**	(3,320,277)
Income tax expense	4	**-**	-
Loss for the year	3	**(1,116,977)**	(3,320,277)
Earnings per share			
Basic earnings per share	5	**($0.0026)**	($0.0101)
Diluted earnings per share	5	**($0.0013)**	N/A

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

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Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2013

	Note	Consolidated Group 2013 $	2012 $
Loss for the year		**(1,116,977)**	(3,320,277)
Other comprehensive income:			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods when specific conditions are met:			
Exchange differences on translating foreign controlled entities		**8,285,363**	(773,385)
Income tax relating to components of other comprehensive income:		**-**	-
Other comprehensive income for the year, net of tax		**8,285,363**	(773,385)
Total comprehensive income for the year attributable to members of the parent entity		**7,168,386**	(4,093,662)

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

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Consolidated Statement of Financial Position
As at 31 December 2013

	Note	Consolidated Group 2013 $	2012 $
Assets			
Current Assets			
Cash and cash equivalents	7	**19,156,512**	11,923,978
Trade and other receivables	8	**2,162,120**	1,031,087
Inventories	9	**501,774**	215,134
Other assets	14	**448**	259,458
Total Current Assets		**21,820,854**	13,429,657
Non Current Assets			
Exploration and evaluation assets	10	**1,803,249**	3,307,254
Oil and gas assets	11	**41,030,158**	22,773,867
Property, plant & equipment	12	**4,198,746**	2,548,503
Intangible assets	13	**40,346**	37,861
Other assets	14	**143,954**	103,838
Total Non Current Assets		**47,216,453**	28,771,323
Total Assets		**69,037,307**	42,200,980
Liabilities			
Current Liabilities			
Trade and other payables	15	**1,709,745**	887,953
Borrowings	16	**4,841,118**	4,613,119
Total Current Liabilities		**6,550,863**	5,501,072
Non Current Liabilities			
Borrowings	16	**172,329**	115,222
Provisions	17	**315,529**	-
Total Non Current Liabilities		**487,858**	115,222
Total Liabilities		**7,038,721**	5,616,294
Net Assets		**61,998,586**	36,584,686
Equity			
Issued capital	19	**77,213,906**	59,159,980
Reserves	20	**6,698,652**	(1,673,651)
Accumulated losses		**(21,913,972)**	(20,901,643)
Total Equity		**61,998,586**	36,584,686

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

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Consolidated Statement of Changes in Equity
As at 31 December 2013

	Share Capital	Convertible Note Equity Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Total
	$	$	$	$	$	$
Balance at 1 January 2012	43,883,806	-	(4,671,019)	89,264	(17,581,366)	21,720,685
Comprehensive income						
Loss for the year	-	-	-	-	(3,320,277)	(3,320,277)
Other Comprehensive income	-	-	(773,385)	-	-	(773,385)
Total comprehensive income for the year	-	-	(773,385)	-	(3,320,277)	(4,093,662)
Transactions with owners In their capacity as owners						
Issue of shares	16,625,250	-	-	-	-	16,625,250
Share issue costs	(1,349,076)	-	-	384,036	-	(965,040)
Convertible note equity portion	-	3,226,443	-	-	-	3,226,443
Convertible note issue costs	-	(176,530)	-	-	-	(176,530)
Options expense	-	-	-	247,540	-	247,540
Total transactions with owners In their capacity as owners	15,276,174	3,049,913	-	631,576	-	18,957,663
Balance at 31 December 2012	59,159,980	3,049,913	(5,444,404)	720,840	(20,901,643)	36,584,686
Balance at 1 January 2013	**59,159,980**	**3,049,913**	**(5,444,404)**	**720,840**	**(20,901,643)**	**36,584,686**
Comprehensive income						
Loss for the year	**-**	**-**	**-**	**-**	**(1,116,977)**	**(1,116,977)**
Other Comprehensive income	**-**	**-**	**8,285,363**	**-**	**-**	**8,285,363**
Total comprehensive Income for the year	**-**	**-**	**8,285,363**	**-**	**(1,116,977)**	**7,168,386**
Transactions with owners In their capacity as owners						
Issue of preference shares	**18,059,572**	**-**	**-**	**-**	**-**	**18,059,572**
Share issue costs	**(5,646)**	**-**	**-**	**-**	**-**	**(5,646)**
Options lapsed unexercised	**-**	**-**	**-**	**(104,648)**	**104,648**	**-**
Options expense	**-**	**-**	**-**	**191,588**	**-**	**191,588**
Total transactions with owners In their capacity as owners	**18,053,926**	**-**	**-**	**86,940**	**104,648**	**18,245,514**
Balance at 31 December 2013	**77,213,906**	**3,049,913**	**2,840,959**	**807,780**	**(21,913,972)**	**61,998,586**

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

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Consolidated Statement of Cash Flows
For the year ended 31 December 2013

	Note	Consolidated Group 2013 $	2012 $
Receipts from customers		**12,050,123**	4,703,393
Interest received		**30,798**	30,706
Payments to suppliers and employers		**(7,857,558)**	(5,435,872)
Finance costs		**(810,446)**	(429,586)
Other payments		**(27,774)**	-
Net cash provided by (used in) operating activities	**24**	**3,385,143**	(1,131,359)
Payments for property, plant and equipment		**(2,164,985)**	(1,583,035)
Payments for acquisition of prospects		**(561,455)**	(153,261)
Proceeds from sale of shares in listed company		**-**	266,750
Payments for exploration, evaluation and development expenditures		**(13,230,811)**	(8,820,864)
Payments for security deposits		**(20,574)**	(17,508)
Net cash used in investing activities		**(15,977,825)**	(10,307,918)
Proceeds from issue of shares		**-**	16,625,250
Payments for costs of share issues		**(5,646)**	(988,600)
Proceeds from issue of convertible note		**-**	7,533,146
Payments for costs of convertible note issue		**-**	(412,165)
Proceeds from issue of preference shares		**18,059,572**	-
Proceeds from borrowings		**108,728**	168,860
Repayment of borrowings		**(570,382)**	(60,556)
Net cash provided by financing activities		**17,592,272**	22,865,935
Net increase in cash and cash equivalents		**4,999,590**	11,426,658
Cash and cash equivalents at beginning of year		**11,923,978**	649,129
Effect of exchange rates On cash holdings in foreign currencies		**2,232,944**	(151,809)
Cash and cash equivalents at end of year	**7**	**19,156,512**	11,923,978

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

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
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*.
The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. 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 financial report was authorised for issue in accordance with a resolution of directors on 26th March 2014.

a. **Principles of Consolidation**
The consolidated financial statements comprise the financial statements of AusTex Oil Limited and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

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.
Subsidiary financial statements are prepared using the same balance date and accounting policies as the Group.
Investments in subsidiaries are carried out at their cost, less any impairment charges, in the parent entity's financial statements.

b. **Income Tax**
The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).
Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.
Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as 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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

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 substantially 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.

c. **Inventories**

Inventories for materials and supplies are stated at the lower of average costs incurred and net realisable value and for oil and gas an estimated net realisable value based on these products' current market price. Major types of inventories include materials and supplies and oil and gas.

d. **Property, Plant and Equipment**

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

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

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	20%–32%
Plant and equipment	10%–25%
Leased plant and equipment	10%–25%

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

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

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

Oil and Gas Assets – Assets in development

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

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

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

e. **Exploration and Development Expenditure**

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

When an area of interest is approved for development the accumulated expenditure is transferred to oil and gas assets.

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

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

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

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

f. **Environmental costs**

As the Group is directly involved in the extraction and use of natural resources, it is subject to various federal, state and local provisions regarding environmental and ecological matters. Compliance with these laws may necessitate significant capital outlays; however, to date the Group's cost of compliance has been insignificant. The Group does not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect the Group's business operations; however, there can be no assurances of future effects on the Group of new laws or interpretations thereof.

Environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve environmental safety or efficiency of existing assets. Expenditures that relate to an existing condition caused by past operations that have no future economic benefits are expensed. Environmental liabilities, which historically have not been material, are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities, when accrued, are based upon estimates of expected future costs. At December 31, 2013 and 2012, there were no such costs accrued.

g. **Asset Retirement Obligations**

The Group records a liability for asset retirement obligations (ARO) equal to the fair value of the estimated cost to retire an asset. The ARO liability is initially recorded in the period in which the obligation meets the definition of a liability.

Asset retirement obligations primarily relate to the abandonment of natural gas and oil producing facilities and include costs to dismantle and relocate or dispose of production platforms, gathering systems, wells and related structures. Estimates are based on historical experience of plugging and abandoning wells, estimated remaining lives of those wells based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future and federal and state regulatory requirements. Depreciation of capitalized asset retirement costs is determined on a units-of-production basis.

When the liability is initially recorded, the Group increases the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is increased over time to reflect the change in its present value, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The Group reevaluates the adequacy of its recorded ARO liability at least annually. Actual costs of asset retirements such as dismantling oil and gas production facilities and site restoration are charged against the related liability. Any difference between costs incurred upon settlement of an asset retirement obligation and the recorded liability is recognized as a gain or loss in the Group's earnings.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

h. **Employee benefits**

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

(i) *Short term obligations*

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

(ii) *Share based payments*

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

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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

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.

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.

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.)

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

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.

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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

Derivative Financial Instruments

The Group makes limited use of derivative instruments to manage certain risks related to commodity prices, interest rates and foreign currency exchange rates. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Group's senior management. The Group does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features.

The Group has a risk management control system to monitor commodity price risks and any derivatives obtained to manage a portion of such risks. For accounting purposes, the Group has not designated commodity and foreign currency derivative contracts as hedges, and therefore, it recognizes all gains and losses on these derivative contracts in its Consolidated Statements of Income.

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 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.

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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

l. **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.

m. **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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

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.

n. **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.

o. **Cash and Cash Equivalents**

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

p. **Trade and other receivables**

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

q. **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)

r. **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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

s. **Borrowings**

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

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

t. **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.

u. **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.

v. **Preference shares**

The Preference Shares have been classified as equity in accordance with the substance of the contractual agreement and the definitions of a financial liability, a financial asset and an equity instrument.

w. **Comparative Figures**

Comparative figures have been adjusted to conform to changes in presentation for the current financial year.

x. **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.

(ii) *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 $1,803,249.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

x. **Critical Accounting Estimates and Judgments (continued)**

Key judgments

(iii) *Fair value of financial instruments*

Management apply valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

(iv) *Preference shares*

In the 2013 financial statements, the Group made a significant judgement about the classification of preference shares.

The Group follows the guidance of AASB 132 *Financial Instruments Presentation* to determine when preference shares are separated into liability and equity components. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the substance of the preference shares contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument in AASB 132. The RCPA and RPB preference shares are converted into ordinary shares at a fixed conversion price. AASB 132 states that a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Therefore, in accordance with the definitions in AASB 132 paragraph 11, RCPA and RPB preference shares are characterised as equity as opposed to liabilities and fall outside the definition of a financial liability in AASB 132 paragraphs 11(a) & 11(b).

Other determining factors include the fact that the preference shares are not puttable financial instruments within the definitions of AASB 132, are non-derivative financial instruments and that the redemption events, which can only be given rise to by the Company, relate to uncertain future events (contingent settlement provisions), and the directors do not believe such provisions are genuine and consider the occurrence of such events as being very unlikely to occur.

(v) *Reserves*

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

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recorded in income in that period.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

y. **Adoption of new accounting standards and interpretations**

The Group has adopted all new and amended Australian Accounting Standards and Interpretations effective from 1 January 2013. The adoption did not result in any significant changes to the Group's accounting policies.

AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) (as amended by AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments), and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These standards have not had any impact on the composition of investments currently consolidated into the Groups results.

AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

AASB 101 Presentation of Items of Other Comprehensive Income – Amendments to AASB 101

The amendments to AASB 101 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012-2 principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial; position. This standard has no significant impact on the Group's financial statements.

AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of Annual Improvements to IFRSs 2009=2011 Cycle by the International Accounting Standards Board, including:

- AASB1: First-time Adoption of Australian Accounting Standards to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and the resumes applying Australian Accounting Standards;
- AASB101: Presentation of Financial Statements and AASB134: Interim Financial Reporting to clarify the requirements for presenting comparative information;
- AASB 116: Property, Plant and Equipment to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment:
- AASB 132 and Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard has no significant impact on the Group's financial statements.

z. **New standards and interpretations not yet adopted.**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014 and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

AASB 9 introduced new requirements from the classification, measurement and derecognition of financial assets and financial liabilities. Application of AASB 9 is not expected to have a significant impact on the Group's accounting for financial assets and financial liabilities. AASB 9 is effective for annual periods beginning on or after 1 January 2015, and is available for early adoption.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 1: Statement of significant accounting policies (continued)

The key 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;
- requiring financial assets to be reclassified 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 2011–4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods commencing on or after 1 July 2013).

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3) These amendments serve a number of purposes , including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent Corporation Act 2001 disclosure requirements.

This Standard is not expected to significantly impact the Group's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011-4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011-4.

AASB 2012-3: Amendments to Australian Accounting Standards-Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard adds application guidance to AASB 132: Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. This Standard is not expected to significantly impact on the Group's financial statements.

There are no other standards that are not yet effective that are expected to have a material impact on the Group's consolidated financial statements in the current or future reporting periods.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013

Note 2: Revenue and other income

	Consolidated Group 2013 $	2012 $
Revenue from Continuing Operations		
Sales revenue		
— Sale of oil and gas	**16,932,493**	6,662,764
Total sales revenue	**16,932,493**	6,662,764
Total Revenue from Continuing Operations	**16,932,493**	6,662,764
Other income		
— Profit/(Loss) on disposal of non current assets	**58,338**	358,514
— Interest received	**30,798**	30,706
— Sale of scrap metal	**8,770**	5,024
— Insurance recoveries	**10,672**	1,842
— Sundry income	**868**	-
Total other Income	**109,446**	396,086
Total revenue and other income from continuing operations attributable to members of parent entity	**17,041,939**	7,058,850

Note 3: Loss for the year

	Consolidated Group 2013 $	2012 $
Loss before income tax includes the following expenses:		
— Bad and doubtful debts expensed/ (written back)	**-**	4,293
— Foreign currency exchange losses	**676,955**	-
— Rental expense on operating leases	**107,226**	103,941
a. **Significant Expenses**		
The following significant expense items are relevant in explaining the financial performance:		
— Foreign currency exchange losses	**676,955**	-
— Project management expenses*	**721,002**	494,840
— Impairment of exploration/oil and gas assets	**3,086,576**	1,213,672

* Project management expenses refer to legal, professional and compliance costs incurred for the 2013 listing on the Canadian TSX Venture Exchange and preparation of the independent expert's report for the issue of preference shares in November 2013.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 4: Income tax expense

	Consolidated Group 2013 $	2012 $
a. 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	**(1,116,977)**	(3,320,277)
Income tax benefit at 30%	**(335,093)**	(996,083)
Expenses not deductible	**1,141,128**	426,158
Future tax benefits not brought to account	**(806,035)**	569,925
Income Tax Expense	**-**	**-**

Weighted average effective tax rate tax rate is zero due to tax losses.

b. Unrecognised tax losses and timing differences

Unused tax losses for which no deferred tax asset has been recognised.	**11,067,585**	8,563,968
Potential tax benefit @ 30% (Dec 2012 – 30%)	**3,320,276**	2,569,190

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

Deferred Income Tax
Statement of financial position
Deferred income tax relates to the following:

Deferred Tax Liabilities		
Exploration and evaluation assets	540,975	992,176
Oil and gas assets	12,309,047	6,832,160
Deferred Tax Assets		
Deferred tax assets used to offset deferred tax liabilities	(12,850,022)	(7,824,336)
	-	**-**

Potential deferred tax assets net of deferred tax liabilities attributable to tax losses have not been brought to account because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable at the date of this report.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 4: Income tax expense (continued)

The benefits of these tax losses will only be obtained if:

(i) The Australian parent entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses and temporary differences to be realised;
(ii) The Australian parent entity complies with the conditions for deductibility imposed by the tax legislation;
(iii) No changes in tax legislation adversely affect the Australian parent entity in realising the benefit from deductions for the losses and temporary differences; and
(iv) The availability of certain tax losses is subject to the Australian parent entity successfully Establishing deductibility with regard to the continuity of ownership test and the same business test.

Note 5: Earnings per share

		Consolidated Group 2013 $	2012 $
a.	**Basic Loss per share**		
i	Basic Loss per share	**(0.0026)**	(0.0101)
ii.	Net loss used to calculate basic loss per share	**(1,116,977)**	(3,320,277)
iii.	Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**432,951,041**	328,320,431
b.	**Diluted earnings per share**		
i	Diluted Earnings per share	**(0.0013)**	N/A
ii.	Net loss used to calculate diluted loss per share	**(729,660)**	N/A
iii.	Weighted average number of ordinary shares outstanding during the year used in calculating diluted loss per share	**553,979,224**	N/A

The Company's potential ordinary shares are its options granted, convertible note and convertible preference shares.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 5: Earnings per share (continued)

iv. Reconciliation between Net Loss used to calculate basic loss per share and Net loss used to calculate diluted loss per share

	Consolidated Group 2013 $	2012 $
Net Loss used to calculate basic loss per share	**(1,116,977)**	(3,320,277)
Add back:		
Interest expense on convertible notes	**387,317**	N/A
Net loss used to calculate diluted loss per share	**(729,660)**	N/A

v. Weighted average number of shares used as the denominator

	Consolidated Group 2013 $	2012 $
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**432,951,041**	328,320,431
Adjustments for calculation of diluted earnings per share:		
Options issued to Directors and Key Management Personnel at 31 December 2013	**26,500,000**	N/A
Convertible notes	**73,459,690**	N/A
Weighted number of dilutive RCPA and RCB preference shares	**21,068,493**	N/A
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**553,979,224**	N/A

- Convertible notes are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from the beginning of the reporting period on assumption that all convertible notes are converted to ordinary shares. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in Note 16(c).
- RCPA and RCB preference shares are considered to be potential ordinary shares and the weighted average number of these preference shares has been included in the determination of diluted earnings per share from their date of issue.

c. **Conversion, call, subscription or issue after 31 December 2013**

Since the end of the financial period, and before the reporting date of these financial statements, the following conversions to, call of, or subscriptions for ordinary shares or issues of potential ordinary shares have taken place.

	Consolidated Group 2013 No. of shares	2012 No. of shares
Options exercised and converted to ordinary shares	**6,925,021**	-
Convertible Notes converted to ordinary shares	**3,536,066**	-
Redeemable Convertible Preference Shares converted to ordinary shares	**-**	-
Total conversion to ordinary shares	**10,461,087**	-

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013

Note 6: Auditors remuneration

	Consolidated Group 2013 $	2012 $
Remuneration of the auditor of the Group for:		
Audit of the parent entity		
— Audit and review of financial report	**15,000**	12,500
Audit of controlled entities		
— Audit and review of financial report	**35,000**	25,000
	50,000	37,500

Note 7: Cash and cash equivalents

	Consolidated Group 2013 $	2012 $
Cash at bank and on hand	**511,386**	548,860
Bank deposits	**18,645,126**	11,375,118
	19,156,512	11,923,978

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	**19,156,512**	11,923,978
	19,156,512	11,923,978

Note 8: Trade and other receivables

	Consolidated Group 2013 $	2012 $
CURRENT		
Trade receivables	**2,028,366**	924,648
Other receivables	**133,754**	106,439
Total trade and other receivables	**2,162,120**	1,031,087

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 8: Trade and other receivables (continued)

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount $'000	Past due and impaired $	Past due but not impaired (days overdue) < 30 $	31–60 $	61–90 $	> 90 $	Within initial trade terms $
2013							
Trade receivables	**2,028,366**	**-**	**-**	**-**	**-**	**-**	**2,028,366**
Other receivables	**133,754**	**-**	**-**	**-**	**-**	**-**	**133,754**
Total trade and other receivables	**2,162,120**	**-**	**-**	**-**	**-**	**-**	**2,162,120**
2012							
Trade receivables	924,648	-	-	-	-	-	924,648
Other receivables	106,439	-	-	-	-	-	106,439
Total trade and other receivables	1,031,087	-	-	-	-	-	1,031,087

Note 9: Inventories

	Consolidated Group 2013 $	2012 $
CURRENT		
At net realisable value		
Oil and gas stored in tank batteries	**494,699**	215,134
Materials and supplies	**7,075**	-
	501,774	215,134

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 10: Exploration and evaluation assets

	Consolidated Group	
	2013	**2012**
	$	**$**
Exploration and evaluation assets		
At cost	**2,492,290**	3,915,307
Accumulated depreciation	**(689,041)**	(608,053)
Net carrying value	**1,803,249**	3,307,254
Movement in carrying amounts		
Balance at beginning of year	**3,307,254**	3,418,719
Additions	**299,329**	1,454,879
Impairment	**(2,688,575)**	(1,169,878)
Exchange difference	**862,763**	(75,065)
Depreciation charge for the year	**22,478**	(321,401)
Balance at end of year	**1,803,249**	3,307,254
Accumulated Depreciation		
Balance at beginning of year	**608,053**	293,087
Depreciation charge for the year	**(22,478)**	321,401
Exchange difference	**103,466**	(6,435)
Balance at end of year	**689,041**	608,053

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 11: Oil and gas assets

	Consolidated Group	
	2013	**2012**
	$	**$**
Oil and gas assets		
At cost	**42,040,964**	23,245,340
Accumulated depreciation	**(1,010,806)**	(471,473)
Net carrying value	**41,030,158**	22,773,867
Movement in carrying amounts		
Balance at beginning of year	**22,773,867**	16,388,528
Additions	**15,193,623**	7,262,629
Impairment	**(398,001)**	(154,083)
Exchange difference	**3,919,776**	(360,516)
Depreciation charge for the year	**(459,107)**	(362,691)
Balance at end of year	**41,030,158**	22,773,867
Accumulated Depreciation		
Balance at beginning of year	**471,473**	111,224
Depreciation charge for the year	**459,107**	362,691
Exchange difference	**80,226**	(2,442)
Balance at end of year	**1,010,806**	471,473

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 12: Property, plant and equipment

	Consolidated Group	
	2013	**2012**
	$	**$**
Property, Plant & Equipment		
At cost	**6,968,464**	4,199,526
Accumulated depreciation	**(2,769,718)**	(1,651,023)
Balance at end of year	**4,198,746**	2,548,503
Movement in carrying amounts		
Balance at beginning of year	**2,548,503**	2,699,249
Additions	**2,177,916**	1,562,160
Disposals	**(221,356)**	(4,822)
Exchange difference	**481,800**	(1,191,650)
Depreciation charge for the year	**(788,117)**	(516,434)
Balance at end of year	**4,198,746**	2,548,503
Accumulated Depreciation		
Balance at beginning of year	**1,651,023**	1,160,006
Depreciation charge for the year	**788,117**	516,434
Exchange difference	**330,578**	(25,417)
Balance at end of year	**2,769,718**	1,651,023

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 13: Intangible assets

	Consolidated Group	
	2013	**2012**
	$	**$**
Patents		
At cost	**111,561**	95,339
Accumulated amortisation	**(71,215)**	(57,478)
Net carrying value	**40,346**	37,861
Movement in carrying amounts		
Balance at beginning of year	**37,861**	42,502
Amortisation charge for the year	**(3,957)**	(3,708)
Exchange difference	**6,442**	(933)
Balance at end of year	**40,346**	37,861
Accumulated Depreciation		
Balance at beginning of year	**57,478**	54,977
Amortisation charge for the year	**3,957**	3,708
Exchange difference	**9,780**	(1,207)
Balance at end of year	**71,215**	57,478

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

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 14: Other assets

	Consolidated Group 2013 $	2012 $
Current		
Prepayments	**448**	259,458
	448	259,458
Non Current		
Lease bond deposit	**143,954**	103,838
	143,954	103,838

Note 15: Trade and other payables

	Consolidated Group 2013 $	2012 $
Current		
Trade payables	**1,627,979**	850,776
Sundry payables and accrued expenses	**81,766**	37,177
	1,709,745	887,953

Note 16: Borrowings

	Consolidated Group 2013 $	2012 $
Current		
Convertible note (secured)	**4,983,658**	4,306,703
Less: Convertible note issue costs (liability proportion)	**(235,635)**	(235,635)
Promissory notes (secured)	**-**	481,510
Lease liability (secured)	**93,095**	60,541
Total current	**4,841,118**	4,613,119
Non-Current		
Lease liability (secured)	**172,329**	115,222
Total non current	**172,329**	115,222

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 16: Borrowings (continued)

a. **Lease liability**

Lease liabilities are secured by the underlying leased assets.

b. **Promissory notes**

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

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

c. Convertible notes

Convertible notes have been issued as a source of long-term finance. Following passing of resolution 7 at the Company's Annual General Meeting held on 31 May 2012, the Group raised USD $7.5 million through the issuance of 7.5 million Convertible Notes and 7.5 million free attaching options for every two (2) shares issuable on conversion of the notes into shares. The options are unlisted and have an exercise price of AUD $0.20 and exercisable within three (3) years from the date of issue. Interest payable on each Note will compound and accrue annually at 10% per annum. Interest is payable quarterly in arrears commencing on 30 June 2012.

The Notes are payable in full two (2) years from the date the Notes are issued. The Notes are convertible into ordinary shares of the Company at the option of the holder at any time up to 31 May 2014. The conversion price of each note is in USD and the equivalent of AUD $0.15 converted into USD using the Reserve Bank of Australia published exchange rate on the day the Note is issued. The convertible notes are secured over the oil and gas leases held in Oklahoma and Kansas on a first priority basis. The subsidiaries of AusTex Oil Limited being International Energy Corporation (Oklahoma), Inc., International Energy Corporation of Northern Oklahoma, Inc. and International Energy Corporation (Kansas), Inc. also guarantee the performance of AusTex Oil Ltd of its financial obligations under the convertible notes.

The valuation of convertible notes was carried out using the Cox Ross Rubenstein (CRR) or binomial pricing model resulting in $4,983,658 shown as a current liability and $676,955 recorded as foreign exchange losses in the consolidated income statement. Any directly attributable transaction costs are allocated to the convertible note liability and convertible note equity reserve in proportion to their initial carrying amounts.

Note 17: Provisions

	Consolidated Group	
	2013	**2012**
	$	**$**
Asset Retirement Obligations	**315,529**	-
	315,529	-

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013

Note 18: Controlled entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)* Dec 2013	Dec 2012
Subsidiaries of AusTex Oil Limited:			
International Energy Corporation (Oklahoma), Inc.	Oklahoma, USA	100	100
International Energy Corporation of Northern Oklahoma, Inc.	Oklahoma, USA	100	100
International Energy Corporation (Kansas), Inc.	Kansas, USA	100	100
Well Enhancement Services, LLC	Oklahoma, USA	100	100

* Percentage of voting power is in proportion to ownership

Note 19: Issued capital

	Consolidated Group 2013 $	2012 $
432,951,041 (2012: 432,951,041) fully paid ordinary shares	**59,154,334**	59,159,980
116,666,667 (2012: Nil) fully paid preference shares	**18,059,572**	-
	77,213,906	59,159,980

	31 December 2013 No. of shares	$	31 December 2012 No. of shares	$
a. **Ordinary Shares**				
At the beginning of reporting period	**432,951,041**	**59,159,980**	280,480,451	43,883,806
Shares issued during the year				
— Share placements	**-**	**-**	143,622,257	15,553,450
— Share purchase plan	**-**	**-**	8,515,000	1,021,800
— Exercise of options	**-**	**-**	333,333	50,000
— Share issue costs	**-**	**(5,646)**	-	(1,349,076)
At the end of the reporting period	**432,951,041**	**59,154,334**	432,951,041	59,159,980

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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 19: Issued capital (continued)

	31 December 2013		31 December 2012	
	No. of shares	$	No. of shares	$
b. **Preference Shares**				
At the beginning of reporting period	-	-	-	-
Shares issued during the year				
— Share placement	**116,666,667**	**18,059,572**	-	-
At the end of the reporting period	**116,666,667**	**18,059,572**	-	-

Preference shares have been issued as a source of long-term finance. In accordance with the Subscription Agreement dated 18 October 2013 and following the passing of resolutions at an Extraordinary General Meeting of Shareholders held on 24 January 2014, the Group raised USD $17.5 million through the issue of 58,942,656 Redeemable Convertible Preference A Shares (RCPA shares) and 57,724,011 Redeemable Preference B Shares (RPB shares).

The preference share principal amounts are USD $8,841,398 (RCPA Shares) and USD $8,658,602 (RPB Shares). The dividend rate is 11.75% per annum and dividends are payable quarterly on 31 March, 30 June, 30 September and 31 December. The conversion price of each preference share is US $0.15 per RCPA and RPB share and are convertible over four (4) years.

Preference shares are redeemable only in contingent settlement circumstances and may be redeemed or converted into ordinary shares.

c. **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 23: Share-based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 23: Share-based Payments.

d. **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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 20: Reserves

a. *Convertible Note Equity Reserve*
The Convertible Note Equity Reserve records the equity portion of the convertible notes issued as described in Note 16.

b. *Foreign Currency Translation Reserve*
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

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

	Consolidated Group 2013 $	2012 $
Reserves		
Convertible note	**3,049,913**	3,049,913
Foreign Currency Translation	**2,840,959**	(5,444,404)
Options	**807,780**	720,840
	6,698,652	(1,673,651)
Movement in Reserves		
Convertible Note Reserve		
Balance at beginning of year	**3,049,913**	**-**
Convertible note equity portion	**-**	**3,226,443**
Convertible note issue costs (equity proportion)	**-**	**(176,530)**
Balance at end of year	**3,049,913**	**3,049,913**
Foreign Currency Translation Reserve		
Balance at beginning of year	**(5,444,404)**	**(4,671,019)**
Net difference on translation of foreign controlled entities	**8,285,363**	**(773,385)**
Balance at end of year	**2,840,959**	**(5,444,404)**
Options reserve		
Balance at beginning of year	**720,840**	**89,264**
Options expense - operating	**191,588**	**247,540**
- share issue	**-**	**384,036**
Options lapsed unexercised	**(104,648)**	**-**
Balance at end of year	**807,780**	**720,840**

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Notes to the Financial Statements
For the year ended 31 December 2013
Note 21: Parent entity information

		2013 $	2012 $
Financial information in relation to:			
i.	**Statement of Comprehensive Income**		
	Loss before income tax	**(3,290,958)**	**(2,235,773)**
	Income tax expense	**-**	**-**
	Loss after income tax	**(3,290,958)**	**(2,235,773)**
	Loss attributable to members of the parent entity	**(3,290,958)**	**(2,235,773)**
ii.	**Accumulated Losses**		
	Accumulated losses at the beginning of the year	**(8,060,876)**	**(5,929,634)**
	Loss after income tax	**(3,290,958)**	**(2,235,773)**
	Accumulated losses at the end of the year	**(11,351,834)**	**(8,165,407)**
iii.	**Statement of Financial Position**		
	CURRENT ASSETS		
	Cash and cash equivalents	**163,299**	1,405,248
	Trade and other receivables	**66,802**	92,250
	Loans to controlled entities	**5,231,320**	5,382,692
	TOTAL CURRENT ASSETS	**5,461,421**	6,880,190
	NON-CURRENT ASSETS		
	Property, plant and equipment	**4,002**	3,967
	Investments in controlled entities	**4,501,136**	4,501,136
	Loans to controlled entities	**64,812,557**	47,565,574
	TOTAL NON-CURRENT ASSETS	**69,317,695**	52,070,677
	TOTAL ASSETS	**74,779,116**	58,950,867
	CURRENT LIABILITIES		
	Trade and other payables	**311,328**	114,473
	Borrowings	**4,748,023**	4,071,068
	TOTAL CURRENT LIABILITIES	**5,059,351**	4,185,541
	TOTAL LIABILITIES	**5,059,351**	4,185,541
	NET ASSETS	**69,719,765**	54,765,326
	EQUITY		
	Issued capital	**77,213,906**	59,159,980
	Reserves	**3,857,693**	3,770,753
	Accumulated losses	**(11,351,834)**	(8,165,407)
	TOTAL EQUITY	**69,719,765**	54,765,326

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 22: 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, expenses and assets and liabilities according to geographical segments are shown below.

	December 2013			December 2012		
	Total	**Australia**	**USA**	**Total**	**Australia**	**USA**
	$	**$**	**$**	**$**	**$**	**$**
REVENUE						
Sales revenue	**16,932,493**	**-**	**16,932,493**	6,662,764	-	6,662,764
Cost of sales	**(5,323,765)**	**-**	**(5,323,765)**	(2,456,710)	-	(2,456,710)
Interest revenue	**30,798**	**13,504**	**17,294**	30,706	24,335	6,371
Other revenue	**78,648**	**-**	**78,648**	365,380	62,500	302,880
Total segment revenue	**11,718,174**	**13,504**	**11,704,670**	4,602,140	86,835	4,515,305
EXPENSES						
Administration costs	**(960,702)**	**(394,202)**	**(566,500)**	(589,864)	(320,750)	(269,114)
Employment and related expenses	**(2,124,188)**	**-**	**(2,124,188)**	(1,356,432)	-	(1,356,432)
Impairment	**(3,086,576)**	**-**	**(3,086,576)**	(1,213,672)	-	(1,213,672)
Depreciation and depletion expense	**(1,228,703)**	**(1,588)**	**(1,227,115)**	(1,224,057)	(1,674)	(1,222,383)
Finance costs	**(810,446)**	**(903)**	**(809,543)**	(429,586)	(677)	(428,909)
Professional and consulting expenses	**(1,911,981)**	**(1,111,572)**	**(800,409)**	(1,598,929)	(1,005,717)	(593,212)
Project management expenses	**(721,002)**	**(721,002)**	**-**	(494,840)	(494,840)	-
Other expenses	**(1,991,553)**	**(1,075,195)**	**(916,358)**	(1,015,037)	(498,950)	(516,087)
Total segment expenses	**(12,835,151)**	**(3,304,462)**	**(9,530,689)**	(7,922,417)	(2,322,608)	(5,599,809)
RESULTS						
Net profit loss before income tax	**(1,116,977)**	**(3,290,958)**	**2,173,981**	(3,320,277)	(2,235,773)	(1,084,504)
Income tax	**-**	**-**	**-**	-	-	-
Net loss	**(1,116,977)**	**(3,290,958)**	**2,173,981**	(3,320,277)	(2,235,773)	(1,084,504)
ASSETS AND LIABILITIES						
Assets	**69,037,307**	**234,103**	**68,803,204**	42,200,980	1,501,465	40,699,515
Liabilities	**7,038,721**	**5,059,351**	**1,979,370**	5,616,295	4,185,541	1,430,754

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 23: Share-based payments

i. On 31 May 2013, approval was obtained at the Company's AGM to grant 10,000,000 share options to key management personnel under the AusTex Oil Limited Employee Option Plan to take up ordinary shares at an exercise price of $0.15 each. The options are exercisable on or before 31 May 2016. The options hold no voting or dividends rights and are not transferable. Options had also been granted in 2011 and 2012 under this plan.

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

Grant Date	Expiry Date	Exercise price	Number	Date exercisable
31 August 2011	31 August 2014	$0.15	12,500,000	31 August 2011
13 February 2012	11 January 2014	$0.15	2,482,000	13 February 2012
31 May 2013	31 May 2016	$0.15	10,000,000	31 May 2013

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

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

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

Iv Equity Instrument disclosures relating to key management personnel options:

Period ended 31 Dec 2013 Name	Balance at the start of the period	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at end of the period
Directors of AusTex Oil Limited						
R.A. Adrey	6,000,000	5,000,000	-	(1,000,000)	10,000,000	10,000,000
D. Lanskey	6,000,000	5,000,000	-	(1,000,000)	10,000,000	10,000,000
R. Krause	6,000,000	-	-	-	6,000,000	6,000,000
Other key management personnel						
D.W. Clark	100,000	-	-	-	100,000	100,000
J.B. Clyne	400,000	-	-	-	400,000	400,000

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 23: Share-based payments (continued)

Period ended 31 Dec 2012 Name	Balance at the start of the period	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at end of the period
Directors of AusTex Oil Limited						
R.A. Adrey	8,500,000	-	-	(2,500,000)	6,000,000	6,000,000
D. Lanskey	8,500,000	-	-	(2,500,000)	6,000,000	6,000,000
R. Krause	6,000,000	-	-	-	6,000,000	6,000,000
P.E. Power[1]	3,500,000	-	-	(3,500,000)	-	-
Other key management personnel						
D.W. Clark	-	100,000	-	-	100,000	100,000
J.B. Clyne	-	400,000	-	-	400,000	400,000

1. Resigned 31 May 2012

A summary of the movements of all company options issues is as follows:

	Number	Weighted average exercise price
Options outstanding as at 1 January 2012	45,272,726	$0.172
Granted	98,911,824	$0.168
Forfeited	(100,000)	$0.15
Exercised	(333,333)	$0.15
Expired	(2,500,000)	$0.25
Options outstanding as at 31 December 2012	141,251,217	$0.168
Granted	10,000,000	$0.25
Forfeited	(800,000)	$0.15
Exercised	-	-
Expired	(3,000,000)	$0.40
Options outstanding as at 31 December 2013	147,451,217	$0.169
Options exercisable as at 31 December 2013**:**	147,451,217	$0.169
Options exercisable as at 31 December 2012**:**	141,251,217	$0.168

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 23: Share-based payments (continued)

As at the date of exercise, the weighted average share price of options exercised during the year was $Nil. (2012: $0.15)

The weighted average remaining contractual life of options outstanding at year end was 1.16 years. The weighted average exercise price of outstanding options at the end of the reporting period was $0.169.

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

The weighted average fair value of options granted during the year was $0.03 (2012: $0.029). These values were calculated using the Black-Scholes (2012: Cox Ross Rubenstein) option pricing model applying the following inputs:

	2013	2012
Weighted average exercise price:	$0.25	$0.15
Weighted average life of the option:	3 years	2.63 years
Expected share price volatility:	57.12%	100%
Risk-free interest rate:	2.68%	3.47%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Note 24: Cash flow information

	Consolidated Group 2013 $	2012 $
a. **Reconciliation of Cash Flow from Operations With Loss after Income Tax**		
Loss after income tax	**(1,116,977)**	(3,320,277)
Non-cash flows in profit/(loss)		
Depreciation and amortisation	**1,228,703**	1,224,057
Exploration expenses written-off	**3,086,576**	1,213,672
Options expense	**191,588**	247,540
(Profit)/Loss on disposal of non current assets	**(58,338)**	(358,514)
Foreign Exchange Losses	**837,719**	-
Other non cash flows items	**(712,681)**	549,049
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(1,131,033)**	(698,071)
(Increase)/decrease in inventories	**(286,640)**	(65,371)
(Increase)/decrease in other financial assets	**259,010**	(231,874)
Increase/(decrease) in trade and other payables	**821,792**	206,054
Increase/(decrease) in borrowings	**265,424**	102,320
Cash flows from operations	**3,385,143**	(1,131,359)

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 25: Key management personnel disclosures

The names of the Directors at any time during the financial period ended 31 December 2013, unless otherwise indicated, were the following:

Directors	**Position**
Mr Richard Adrey	Chairman and Managing Director(appointed 24 January 2014)
Mr Dan Lanskey	Managing Director (resigned 24 January 2014)
Ms Patricia Kay Philip	Non-Executive Director
Mr Kwang Hou Hung	Non-Executive Director (resigned 19 May 2013)
Mr Luis F Vierma	Non-Executive Director
Mr Russell Krause	Non-Executive Director
Mr Nick Stone	Non-Executive Director (appointed 19 November 2013)
Other Key Management Personnel	**Position**
Mr David Clark	Chief Financial Officer
Mr Tom Bloomfield	Company Secretary (appointed 3 December 2012, resigned 24 January 2014)
Mr Justin Clyne	Company Secretary (resigned 3 December 2012, re-appointed 1 January 2014)

(ii) Key Management Personnel Compensation

	Consolidated Group	
	2013	**2012**
	$	**$**
Short-term benefits	**839,168**	787,257
Share-based payments	**191,588**	184,887
Directors' Fees	**202,071**	124,992
Total **Key Management Personnel Compensation**	**1,232,827**	1,097,136

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 Group's related parties include its key management personnel and controlled entities.
The parent company provides unsecured interest free loans to its controlled entities with no fixed date for repayment.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 25: Key management personnel disclosures (continued)
(iv) Shareholdings of Key Management Personnel

At the date of this report, Directors held the following relevant interest in ordinary shares of the company:

		Balance at Beginning of year	Changes during the period	Balance at End of year
N.J. Stone[1]	Indirect	-	47,225,492	47,225,492
R.A. Adrey	Direct	11,018,086	-	11,018,086
D. Lanskey	Direct and Indirect	3,152,145	(500,000)	2,652,145
P.K. Philip	Direct and Indirect	1,883,574	-	1,883,574
L.F. Vierma	Direct and Indirect	Nil	-	Nil
R. Krause	Direct and Indirect	Nil	-	Nil

At the date of this report, Directors held the following relevant interest in preference shares of the company:

		Balance at Beginning of year	Changes during the period	Balance at End of year
N.J. Stone[1]	Indirect – Redeemable convertible preference (RCPA) shares	-	51,995,234	51,995,234
N.J. Stone[1]	Indirect – Redeemable preference (RPB) shares	-	46,771,433	46,771,433

1. Mr Stone is a manager and shareholder of Ptolemy Capital LLC, the registered holder, but does not control or own more than 20% of the shares in Ptolemy Capital LLC or Ptolemy Energy Holdings LLC.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 26: Financial risk management

The Group's financial instruments consist of deposits with banks, promissory notes, investments, accounts receivable and payable, convertible notes, redeemable convertible preference shares, redeemable preference shares, loans to and from subsidiaries and finance 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	
		2013	2012
		$	$
Financial Assets			
Cash and cash equivalents	**7**	**19,156,512**	11,923,978
Trade and other receivables	**8**	**2,162,120**	1,031,087
Other financial assets			
— Cash for lease bond	**14**	**143,954**	103,838
Total Financial Assets		**21,462,586**	13,058,903
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	**15**	**1,709,745**	887,953
— Borrowings	**16**	**5,013,447**	4,728,341
Total Financial Liabilities		**6,723,192**	5,616,294

Financial Risk Management Policies

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

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

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.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 26: Financial risk management (continued)

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. The subsidiaries have account receivables which are all US customers.

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

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

b. Liquidity risk

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

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

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect managements expectations that banking facilities will be rolled forward.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 26: Financial risk management (continued)

Financial liability and financial asset Maturity analysis	Consolidated Group 2013			
	Within 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
Financial liabilities due for payment				
Convertible notes	**4,748,023**	**-**	**-**	**4,748,023**
Trade and other payables	**1,709,745**	**-**	**-**	**1,709,745**
Finance lease liabilities	**93,095**	**172,329**	**-**	**265,424**
Total contractual and expected outflows	**6,550,863**	**172,329**	**-**	**6,723,192**
Financial assets — cash flows realisable				
Cash and cash equivalents	**19,156,512**	**-**	**-**	**19,156,512**
Trade and other receivables	**2,162,120**	**-**	**-**	**2,162,120**
Lease bond deposits	**-**	**143,954**	**-**	**143,954**
Total anticipated inflows	**21,318,632**	**143,954**	**-**	**21,462,586**
Net (outflow)/inflow on financial instruments	**14,767,769**	**(28,375)**	**-**	**14,739,394**

Financial liability and financial asset Maturity analysis	Consolidated Group 2012			
	Within 1 Year $	1 to 5 Years $	Over 5 Years $	Total $
Financial liabilities due for payment				
Bills of exchange and promissory notes	481,510	-	-	481,510
Convertible notes	4,071,068	-	-	4,071,068
Trade and other payables	887,953	-	-	887,953
Finance lease liabilities	60,906	114,857	-	175,763
Total contractual and expected outflows	5,501,437	114,857	-	5,616,294
Financial assets — cash flows realisable				
Cash and cash equivalents	11,923,978	-	-	11,923,978
Trade and other receivables	1,031,087	-	-	1,031,087
Lease bond deposits	-	103,838	-	103,838
Total anticipated inflows	12,955,065	103,838		13,058,903
Net (outflow)/inflow on financial instruments	7,453,628	(11,019)		7,442,609

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 26: Financial risk management (continued)

c. Market Risk

(i) 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 may impact on the Group's financial results unless those exposures are appropriately managed.
The Group's exposure to foreign currency risk at the end of the reporting period expressed in Australian dollars was as follows:

December 2013

Consolidated Group	**Net Financial Assets/(Liabilities) in AUD $**
Functional currency of entity	
US dollars	**14,739,394**
Statement of Financial Position Exposure	**14,739,394**

December 2012

Consolidated Group	**Net Financial Assets/(Liabilities) in AUD $**
Functional currency of entity	
US dollars	7,442,609
Statement of Financial Position Exposure	7,442,609

(ii) 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.

(iii) Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in exchange rates, interest 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	
	Profit	**Equity**
Year ended 31 Dec 2013	**$**	**$**
+/- 5% in $A/$US	1,000,000	1,000,000
+/- 2% in interest rate	100,000	100,000
+/- $5/barrel of oil	750,000	750,000
Year ended 31 Dec 2012		
+/- 5% in $A/$US	450,000	500,000
+/- 2% in interest rate	100,000	100,000
+/- $5/barrel of oil	500,000	500,000

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2013
Note 26: Financial risk management (continued)

c. Market Risk (continued)

(iv) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The financial instruments that primarily expose the Group to interest rate risk are borrowings, convertible notes issued, preference shares issued and cash and cash equivalents.

Note 27: Finance lease commitments

	Consolidated Group 2013 $	2012 $
a. **Finance Lease Commitments**		
Payable — minimum lease payments		
— not later than 12 months	**93,095**	60,906
— between 1 and 5 years	**172,329**	121,664
Minimum lease payments	**265,424**	182,570
Less future finance charges	**-**	6,807
Present value of minimum lease payments	**265,424**	175,763

Note 28: Operating lease commitments

	Consolidated Group 2013 $	2012 $
Operating (rental) lease payable		
— not later than 12 months	94,600	94,600
— between 1 and 5 years	378,400	378,400
	473,000	473,000

Note 29: Events after the reporting period

Subsequent to year end, certain options were exercised and some convertible notes were converted to ordinary shares, the full details of which are disclosed in Note 5(c). As set out in Note 19(b), the shareholders approved the issue of preference shares on 24 January 2014. A Reserve Report on the company's oil and gas leases prepared by Pinnacle Energy Services LLC was released to the ASX on 24 March 2014. Since the end of the financial year the Directors are not aware of any other matters or circumstances not otherwise dealt with within the financial report that have significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Note 30: Contingent liabilities

Indeterminate obligations with regard to the restoration of well leasehold in accordance with the well lease agreement (Notes 1(g) and 17).

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Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 16 to 63 are in accordance with the *Corporations Act 2001* and:
   a. Comply with Accounting Standards and International Financial Reporting Standards; and
   b. give a true and fair view of the financial position as at 31 December 2013 and of the performance for the period ended on that date of the consolidated group;
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
   a. the financial records of the company for the financial period have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
   b. the financial statements and notes for the financial period comply with the Accounting Standards; and
   c. the financial statements and notes for the financial period give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board of Directors.

Director



Dated at Sydney, this 26th day of March 2014

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Accountants & Business Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTEX OIL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Austex Oil Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of Austex Oil Limited a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTEX OIL LIMITED

Auditor's Opinion

In our opinion:

(a) the financial report of Austex Oil Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Austex Oil Limited for the year ended 31 December 2013 complies with s 300A of the *Corporations Act 2001*.

Pran Rathod-Director Audit Services
Registered Company Auditor

Hayes Knight (NSW) Pty Ltd

Dated at Sydney, this 26 day of March 2014

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