



## ASX Announcement April 01, 2014

Red Fork Energy Limited  
ACN 108 787 720

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### Contact

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### Website

[www.redforkenergy.com.au](http://www.redforkenergy.com.au)

### Directors

Michael Fry (Chairman)  
David Prentice (Managing Director)  
Bill Warnock (Non Exec. Director)  
Larry Edwards (Non Exec. Director)  
David Colwell (Non Exec. Director)

### Executive Management

Chris Girouard (President & COO)  
Kevin Humphrey (Chief Financial Officer)  
Lee Francis (Exec. VP Operations)  
Suzie Foreman (Company Secretary)

### Listings

RFE.AX (Fully Paid Ordinary Shares)  
RDFEY.OTCQX (1 ADR = 10 FPO's)

### About Red Fork Energy

Red Fork Energy is an Australian domiciled publicly traded oil and gas producer and explorer, with assets and operations in Oklahoma.

The Company has positioned itself in one of the premier on-shore United States horizontal oil resource plays, with a large and prospective acreage position in the heart of the Mississippi Lime oil and liquids rich gas play.

## Annual Financial Report

Red Fork Energy Limited (ASX:RFE, OTCQX:RDFEY, Red Fork or the Company) is pleased to release its Annual Financial Report for the 6 month transitional reporting period ending 31 December 2013. The transition has been made in order to align the Company's reporting period with its US subsidiaries and with other peer group companies operating in the United States.

### Highlights - active Big River development program delivers strong growth:

- ✓ **Revenue growth:** Revenue increased by 43% in the 6 month period to US\$26.0m. The increase over the corresponding 6 month period in 2012 was 348%.
- ✓ **Positive EBITDA:** Red Fork generated an EBITDA profit of US\$10.1m for the 6 month period, an improvement of US\$15.7m to US\$5.6m loss for the 12 months ending 30 June 2013. The net operating result approached breakeven with a loss of US\$0.7m in the six months compared to a loss of US\$21.0m for the 2013 financial year.
- ✓ **Production growth:** Six month production of 573.8 mboe exceeded production of 459 mboe for the prior twelve months to 30 June 2013. Red Fork delivered production growth of 35% in the September 2013 Quarter and 41% in the December 2013 Quarter.
- ✓ **Growth in all reserve categories:** Group net 1P reserves increased by 33.4% to 18.6 mmboe in the six months, driving an 18.0% increase in Group 3P reserves to 33.4 mmboe. This represented an additional 15.4 mmboe in Group 3P reserves in the 12 month period, and 5.1 mmboe in the six months since Red Fork's mid year reserves update.
- ✓ **Reserves value:** The net present value of 1P reserves more than tripled to US\$277 million (up 210%) in the 12 months to December 31, 2013, and increased by 41% since Red Fork's mid year update in June. The net present value of Group 3P reserves increased by US\$274 million to US\$491 million in the 12-month period.

-ENDS-

For Enquiries:

### Investors

David Prentice  
Managing Director  
**Red Fork Energy Limited**  
+61 8 9200 4470

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Notes:

1. Boe means barrels of oil equivalent. The equivalent barrels have been calculated on a simple 6:1 ratio (oil to gas ratios vary across the Mississippian play however Red Fork's results to date indicate that they are typically in the range of 70% to 80% oil with the balance made up of liquids rich gas). Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 mscf: 1 bbl is based on an energy equivalency conversion method. It should be noted that the value ratio based on the price of crude oil compared to the price of natural gas can and currently does vary significantly from the energy equivalency of 6 mscf: 1 bbl.
2. Net & Post Royalties is estimated production net to Red Fork's Working Interest and after deduction of royalties.

### Forward Looking Statements

This announcement contains "forward-looking statements". Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil & gas prices and foreign exchange rate movements; estimates of future oil & gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil & gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company's plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company's Annual Reports, as well as the Company's other filings. The Company does not undertake any obligation to release publicly any revisions to any "forward looking statement" to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

# *Red Fork Energy Limited*

(ACN 108 787 720)

## *Annual Financial Report*

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*For the six month period ended  
31 December 2013*

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## GLOSSARY AND DEFINITIONS

|                            |                                                                                                                                                                                                                                                               |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1P Reserves</b>         | Proved reserves which have at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.                                                                                                                               |
| <b>2P Reserves</b>         | Proved plus probable reserves (which have at least a 50% probability that the quantities actually recovered) will equal or exceed the estimate.                                                                                                               |
| <b>3P Reserves</b>         | Proved plus probable plus possible reserves (which have at least a 10% probability that the quantities actually recovered) will equal or exceed the estimate.                                                                                                 |
| <b>ADR</b>                 | American Depository Receipt quoted on OTCQX International.                                                                                                                                                                                                    |
| <b>AUD/A\$</b>             | Australian currency.                                                                                                                                                                                                                                          |
| <b>BO</b>                  | Barrel of oil.                                                                                                                                                                                                                                                |
| <b>BOE</b>                 | Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalent at the time.                                                                     |
| <b>Group</b>               | Parent entity and its subsidiaries.                                                                                                                                                                                                                           |
| <b>GST</b>                 | Goods and services tax.                                                                                                                                                                                                                                       |
| <b>HBP</b>                 | HBP Program means the “Held by Production” drilling program.                                                                                                                                                                                                  |
| <b>LTI</b>                 | Long term incentives.                                                                                                                                                                                                                                         |
| <b>MBOE</b>                | Thousand barrels of oil equivalent.                                                                                                                                                                                                                           |
| <b>MMBOE</b>               | One million barrels of oil equivalent.                                                                                                                                                                                                                        |
| <b>MCF</b>                 | One thousand standard cubic feet of natural gas.                                                                                                                                                                                                              |
| <b>NPV10/PV10</b>          | The future Net Revenues of the Company’s Proved, Probable and Possible reserves, discounted at 10% per annum. The estimated future net revenue values do not necessarily represent the fair market value of the Company’s reserves.                           |
| <b>Net Revenue</b>         | Is calculated net of royalties, production taxes, lease operating expenses and future capital expenditures, before Federal Income Taxes.                                                                                                                      |
| <b>OTCQX International</b> | OTCQX International is the premium tier of the United States Over-the-Counter (OTC) marketplace, which gives non-US companies access to US investors without duplicative regulatory costs required of listing on a traditional US exchange.                   |
| <b>PDP reserves</b>        | Proved developed producing reserves.                                                                                                                                                                                                                          |
| <b>Proved reserves</b>     | Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions. Current economic conditions include prices and costs prevailing at the time of the estimate. Proved reserves may be developed or undeveloped. |
| <b>STI</b>                 | Short term incentives.                                                                                                                                                                                                                                        |
| <b>USD/US\$</b>            | United States currency.                                                                                                                                                                                                                                       |
| <b>WI</b>                  | Working interest.                                                                                                                                                                                                                                             |

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**Forward-Looking Statements**

This Annual Report includes forward-looking statements. These statements relate to Red Fork's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "anticipate", "believe", "intend", "estimate", "expect", "may", "plan", "project", "will", "should", "seek" and similar words or expressions containing the same. The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this presentation and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to Red Fork, or any of its affiliates or persons acting on its behalf. Although every effort has been made to ensure this report sets forth a fair and accurate view, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Reserve Certification Statement**

The information contained in this report, which relates to oil and gas reserve estimates is based on, and fairly represents the independent certification of the Company's oil and gas reserve information and supporting documentation (Reserve Report) prepared by Phil Grice who is an employee of Lee Keeling & Associates, Inc. (LKA). Phil Grice is a Qualified Petroleum Reserve and Resource Evaluator as defined by the ASX Listing Rules. LKA are petroleum consultants based in the United States with offices in Tulsa and Houston. LKA provide specific engineering services to the oil and gas industry and consult on all aspects of petroleum geology and engineering for both domestic and international projects and companies. Phil Grice and LKA have consented to the release of this reserves information in the form and context to which the estimated petroleum reserves and the supporting information are presented.

## **CORPORATE DIRECTORY**

### **Non-Executive Chairman**

Michael Fry

### **Managing Director**

David Prentice

### **Non-Executive Directors**

William Warnock

Larry Edwards

David Colwell

### **Chief Financial Officer**

Kevin Humphrey

### **Chief Operating Officer and President of Red Fork (USA) Investments, Inc.**

Chris Girouard

### **Executive Vice President of Operations**

Lee Francis

### **Registered Office – Australia**

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Oklahoma 74119

Phone +1 (918) 270 2941

Fax +1 (918) 828 9652

### **Auditors**

Grant Thornton Audit Pty Ltd

Level 1, 10 Kings Park Road

WEST PERTH WA 6005

### **Share Registry**

Security Transfer Registrars Pty Ltd

770 Canning Highway

APPLECROSS WA 6153

Telephone: +61 8 9315 2333

Facsimile: +61 8 9315 2233

### **Securities Exchange Listing**

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

ASX Codes: Ordinary shares RFE

OTCQX International

OTC Codes: RDFEY

1 ADR = 10 Ordinary Shares RFE

### **Bankers**

Guggenheim Partners, LLC

227 W Monroe St,

Chicago, IL 60606

Bank of Oklahoma

Bank of Oklahoma Tower

P.O. Box 2300 Tulsa, OK 74192

Commonwealth Bank of Australia

150 St Georges Terrace

Perth WA 6000

### **Website**

[www.redforkenergy.com.au](http://www.redforkenergy.com.au)

## Chairman's Letter

Dear Shareholder,

It is my pleasure to present the Red Fork Energy Limited Annual Report for the six-month transitional financial reporting period beginning on 1 July 2013 and ending on 31 December 2013.

The transition has been made in order to align the Company's reporting period with its US subsidiaries and with other peer group companies operating in the United States.

### **Active development of Big River Project**

During this period we continued with our strategy of developing the Company's extensive acreage position in the Big River Project focusing on the Mississippian lime and Woodford shale formation to further increase the level of acreage held by production and build out infrastructure that will facilitate the ultimate goal of full field development.

The operations team drilled approximately 20 gross operated wells during the six-month period under review funded by the increase in capital made available through the drawdown of the Guggenheim Partners LLC Secured Term Loan. This new loan paid out the existing credit facility provided by F & M Bank and provided additional capital to continue the development of the Big River Project.

### **Increase in reserve base**

In February 2014 we were pleased to announce a significant increase in the reserve base of the Company. The year-end Reserve Report effective 31 December 2013 depicted Net Proved reserves increasing by over a third during the reporting period of six months to 18.6 million barrels of oil equivalent with an independently certified PV10 value of US\$277 million.

### **Revised forward development program**

Red Fork's active development program at Big River has continued to drive increased production, revenue growth, and increased the reserve base. However, this development phase has been capital intensive which has overshadowed these core value drivers. The market has focused on capital intensity despite the value drivers, impacting Red Fork's market capitalisation significantly.

As a Company we have been challenged by this reduction in market capitalisation that in turn has consequences for acceptable levels of debt and other funding alternatives. To address these issues the Board has initiated a review of the 2014 Forward Development Program. The goal of the review is to design a plan to optimize the development of the asset during calendar year 2014 taking into consideration cash flow from existing operations, proceeds from the sale of non-core assets, the success of any future equity raisings and potential future borrowings.

### **Board renewal program**

We have continued to work towards improving corporate governance with the appointment of retired PricewaterhouseCoopers assurance partner David Colwell to the Board as an independent non-executive Director. David has also assumed the role of Chairman of the Audit Committee. Mr Bruce Miller retired from the Board with effect from 31 December 2013.



I appreciate the support and guidance throughout the reporting period of my fellow Board members and the Tulsa based senior management and staff.

Similarly I would like to thank shareholders for their ongoing patience as we continue to pursue the ultimate goal of unlocking value for shareholders.



Michael Fry  
Chairman

31 March 2014

## Directors' Report

The Directors submit their report for the Company and its consolidated entities ("Group" or "the Company") for the transitional financial six months from 1 July 2013 to 31 December 2013. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

- Michael Fry
- David Prentice
- Bruce Miller (Resigned 31 December 2013)
- William Warnock
- Larry Edwards
- David Colwell (Appointed 1 January 2014)

### Nature of Operations and Principal Activities

The Group's principal activities during the year continued to be the exploration and appraisal of, and development and production of, oil and gas in the mid-continent region of the United States.

No significant changes in the nature of the activities of the Group occurred during the reporting period.

### Change in Year-End Date

The Australian Securities and Investment Commission ("ASIC") granted relief to enable the Company to change its financial year end date from 30 June to 31 December effective 1 July 2013 in accordance with section 323D(2A) of the *Corporations Act 2001*. The change of year end has been made in order to align with the US subsidiary and peer companies operating in the US. The Company has a six month transitional financial year beginning on 1 July 2013 and ending on 31 December 2013. Hereafter, the Company will revert to a twelve month financial year commencing on 1 January and ending 31 December.

### Operating Result

The after tax loss for the Group for the six month period to 31 December 2013 amounted to \$0.7 million (30 June 2013:\$21m). After adding back the non-cash expenses of depreciation, depletion and amortisation, and employee share benefits, group profits were \$11.0m in the six months to 31 December 2013 (30 June 2013: loss of \$2.3m).

### Dividends

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

## Review of Operations

### Wells Drilled / Producing

Big River continued to be the key focus of the Company with two rigs operating during the six month period. The Company now has 70 gross wells (53 gross operated wells) at various stages from drilling to producing.

The following table details the gross well status across the development areas at the end of December 2013:

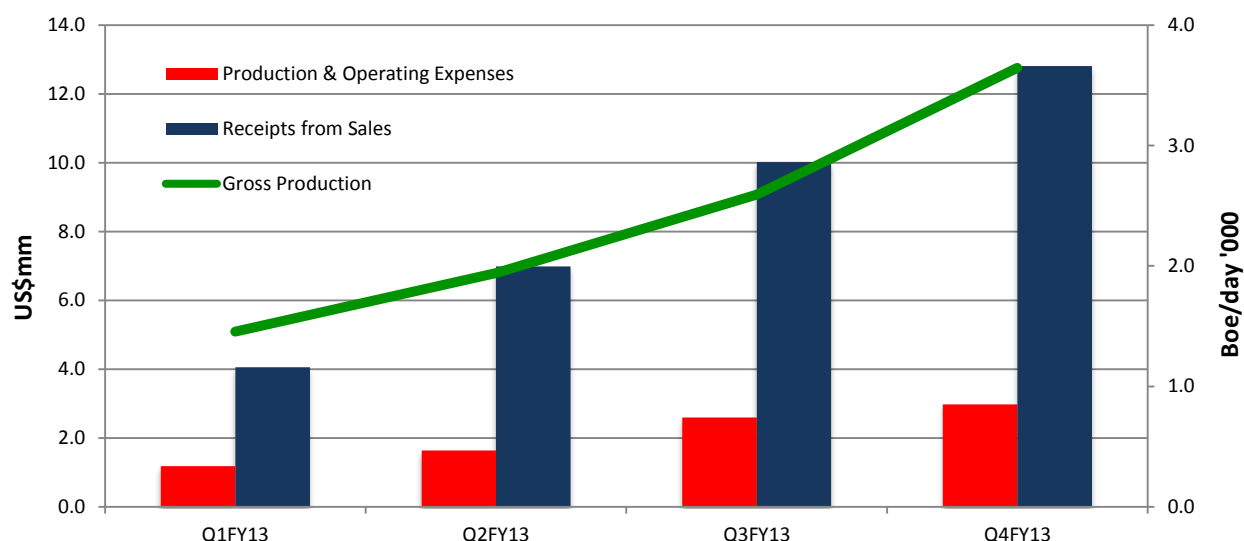
| Status               | Development Area |    |   |    |   |   |   |   |   |    | Gross Wells |          |
|----------------------|------------------|----|---|----|---|---|---|---|---|----|-------------|----------|
|                      | 1                | 2  | 3 | 4  | 5 | 6 | 7 | 8 | 9 | 10 | Total       | Operated |
| Producing/Testing    | 4                | 21 | 7 | 13 |   | 6 | 5 | 5 | 1 |    | 62          | 48       |
| Stimulating          |                  | 2  |   | 1  |   | 2 |   |   |   |    | 5           | 3        |
| Awaiting Stimulation |                  |    | 1 |    |   |   |   |   |   | 1  | 2           | 1        |
| Drilling             |                  |    |   |    |   |   |   | 1 |   |    | 1           | 1        |
| Total                | 4                | 23 | 8 | 14 | 0 | 8 | 5 | 6 | 1 | 1  | 70          | 53       |

Operational performance continued to strengthen with approximately 20 wells spudded in the six months to December and 18 wells stimulated and completed for production. Spud-to-sales days again continued their downward trend.

The HBP Strategy has resulted in ~50% of the acreage held by production by the end of 31 December 2013. In addition significant infrastructure has been implemented to ultimately support a full field development. This is now in place and operational.

### Production Growth

Gross production for the six month period was 573.8 mboe (459 mboe for the 12 months ended 30 June 2013) and recording consistent month on month increases. The Company delivered a 35% increase for the September Quarter to 238.4 mboe, and 41% to 335.4 mboe in the December quarter. Net Production averaged approximately 1,605 Boe/day for the September Quarter (post royalties) and approximately 2,154 Boe/day for the December quarter (post royalties). In addition, a record peak daily rate of 2,670 Boe/day was achieved during December 2013.



### Reserve Growth <sup>A</sup>

The Company updated its reserve position as at 31 December 2013 following independent certification by petroleum engineers, Lee Keeling & Associates, Inc. ("Lee Keeling").

The PV10 value of the Company's proved reserves as at the balance date was US\$277 million (2013: US\$196 million). PV10 value of all reserves including both probable and possible reserves totalled US\$491 million as at the balance date (2013: US\$380 million).

| Group Net (post royalties) Reserves<br>As at 31 December, 2013 | Oil (mmbbl) | Gas (bcf) | mmboe | NPV10 (US\$) |
|----------------------------------------------------------------|-------------|-----------|-------|--------------|
| Proved (1P)                                                    | 10.0        | 51.6      | 18.6  | 277          |
| Proved plus Probable (2P)                                      | 13.9        | 63.9      | 24.6  | 346          |
| Proved plus Probable plus Possible (3P)                        | 19.9        | 81.3      | 33.5  | 491          |

Big River was the focus of the Company's activities during calendar 2013 with drilling and development activity adding significant reserves across all categories. The largest increase in net present value in the twelve months to December 31, 2013 was in the proved category with Big River 1P NPV10 up 332% on the previous period to US\$238 million. In terms of volumes Big River net 1P reserves increased by 465% to 14.7mmboe, with Big River net 2P reserves up 469% to 19.9 mmboe and Big River net 3P reserves up 196% to 28.4 mmboe.

The economic model used to establish the net present value for these reserves uses SEC pricing method, based on a constant price of US\$96.76 per barrel for oil and a constant price of US\$3.65 per mcf for gas. Differentials were used

to adjust the gas price for the liquids yield contained in high BTU gas. Drilling and completion costs per well were estimated at US\$2.96 million. Lease operating expense assumptions for horizontal Big River wells were increased to reflect changes in production methods, which have resulted in better recovery of reserves.

<sup>A</sup> Refer to Competent Persons Reserve Certification Statement on Page 1.

### Asset Acquisition

During the six months the Company successfully closed a US\$4.5 million acquisition of leases and HBP acreage increasing its Working Interest in 15 producing wells in Noble County, with a third party estimated NPV of US\$14.8 million. Red Fork was very pleased to close this strategic transaction in Development Area 2 where the Company has one of its most concentrated positions of controlled acreage coupled with significant existing saltwater disposal facilities and gas gathering infrastructure.

## FINANCIAL REVIEW

### Operating and financial results for the six months ended 31 December 2013

Revenue from oil and gas sales and gathering and processing income during the six months amounted to US\$26.0 million (US\$18.2 million for the 12 months ended 30 June 2013 and US\$5.8 million for the 6 months ended 31 December 2012), an increase of 4.4 times the revenue in the comparable 6 months of the prior financial period. The increase in revenues reflects the increase in development activity focused around the Big River Project. Gross profits increased to US\$19.8 million for the six months (US\$11.6 million for the 12 months ended 30 June 2013 and US\$3.45 million for the 6 months ended 31 December 2012).

**Volume:** On a net revenue interest basis Red Fork produced and sold 203,277 BO during the period, compared to 144,577 BO produced during the 12 months ended 30 June 2013 and 46,524 BO produced during the 6 months ended 31 December 2012. Net gas sales were 470,203 MCF for the period, compared to 538,945 MCF for the 12 months ended 30 June 2013 and 211,726 MCF for the 6 months ended 31 December 2012.

**Price:** Average gross oil sales prices were US\$101.03 per barrel for the six months ended 31 December 2013; and average gas prices increased by almost 20% to US\$4.38 from US\$3.68 per MCF during the prior year.

The group returned a positive EBITDA\* of US\$10.1m, a significant improvement on the US\$5.6m loss in the prior financial year. Net operating results for the Group amounted to an after tax loss of US\$0.7 million.

The adjusted after tax loss of US\$21 million for the 12 months ended 30 June 2013 was as a result of change in accounting policy from “full cost” to the “successful efforts” method in accounting for the Group’s oil and gas properties. The change resulted in an additional US\$10 million non-cash amortisation expense and a write off of US\$6 million exploration costs for the financial year ended 30 June 2013. Total adjusted amortisation expense in the prior year amounted to US\$15 million. Further details of the change in accounting policy can be referred to in Note 2.

|                                    | 6 months to<br>December 2013 | 12 months to<br>June 2013<br>(adjusted) | 12 months to<br>June 2012<br>(adjusted) | 12 months to<br>June 2011<br>(adjusted) |
|------------------------------------|------------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------------|
|                                    | US\$'000s                    | US\$'000s                               | US\$'000s                               | US\$'000s                               |
| Revenues                           | 26,036                       | 18,181                                  | 6,193                                   | 3,034                                   |
| Gross profit                       | 19,833                       | 11,578                                  | 2,582                                   | 1,494                                   |
| EBITDA*                            | 10,132                       | (5,573)                                 | (9,567)                                 | (4,968)                                 |
| Net profit (loss) after income tax | (659)                        | (21,018)                                | (12,865)                                | (6,088)                                 |
| Basic loss per share (cents)       | (0.14)                       | (5.67)                                  | (4.41)                                  | (3.77)                                  |

\*Earnings before interest, taxation, depreciation and amortisation expense.

### Financial position

The Company has cash funds on hand of US\$34.8 million at year-end. The carrying value of the Company’s exploration assets as at balance date was US\$19 million. Production, plant equipment and pipeline assets are now held to a carrying value of US\$233 million, arising from the acceleration of drilling, development and production activities.

**Significant Changes in State of Affairs**

The following is a summary of events marking significant milestones in the state of affairs of the Company during the six month reporting period:

- Increased funding capacity by refinancing the existing credit facility with a new US\$150m secured term loan (the "Facility") provided by Guggenheim Partners, LLC on 6 November 2013. The new facility replaces the US\$45m credit facility with F&M Bank and Trust Company. The initial funded amount of US\$100m has been advanced at the reporting date;
- Finalised equity funding placement with Euroz Securities Limited Limited and Canaccord Genuity (Australia) Limited raising A\$47.7 million (before costs of issue).
- Added a further 28 producing wells, (19 Red Fork operated) during the six month period, with a further 8 wells (5 Red Fork operated) awaiting drilling or completion activity at 31 December 2013;
- Achieved the estimated calendar year end well count of 53 gross operated wells, in line with the forward program outlined in early 2013.
- Invested US\$90m in exploration, development, infrastructure and acreage acquisitions;
- Reported net oil and gas and other sales revenue of US\$26.0m for the six months compared to US\$18.2m for the twelve months ended 30 June 2013, an increase of 43%;
- PV10 of Proved reserves across all projects increased by 41% from US\$196m to US\$277m, Total reserves, including 2P and 3P reserve quantities increased from US\$380m to US\$491m; \*
- Achieved production exit rates of 3,812 Boe per day production and net of approximately 2,270 Boe per day by the year end, peaking at 2,670 Boe (net and post royalties).

\*PV10 reserves for the current period and prior year calculated at SEC Pricing. For further details refer to page 7.

**Matters Subsequent to the End of the Financial Period**

David Colwell was appointed as a Non-Executive Director on 1 January 2014.

On 21 February 2014, the Group announced a review of the 2014 Forward Program for the development of Big River based upon the Group's Estimated Net Reserves (and the attendant Group NPV10 value) as of December 31, 2013; the HBP drilling schedule; and the current market capitalization of the Company. The goal of this plan is to optimize the future development of the Group's assets. Future funding of this plan will be dependent upon the generation of positive cash-flow from operations, the success of future capital raisings (if required), and the proceeds from divestment of non-core assets and future borrowings. The Company expects to complete the review and update the market with a revised Forward Development Plan in early April.

In addition, on March 21, 2014, the Group executed a sale and purchase agreement for the sale of certain non-core assets. The transaction successfully closed on March 31, 2014 with approximate proceeds of US\$11 million (subject to any post-closing adjustments). The proceeds will be used to strengthen the Group's balance sheet.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2013 which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

**Future Developments, Prospects and Business Strategies**

The Board and executive management team are currently reviewing the 2014 forward program for the Big River Project with the goal of continuing with the development of the leasehold. This will require an adjustment to the rig line and drilling schedule. The review of the 2014 forward program is being undertaken in the context of the Group Estimated Net Reserves (and the attendant Group NPV10 value) as of December 31, 2013; the HBP drilling schedule; and the current market capitalization of the Company.

The Group's rapid growth in operations and significant investment in development activities has exerted short term balance sheet pressure. The Group is confident that it will be successful in resolving these issues primarily through sale of non-core assets (as detailed in the Subsequent Events Note above). The Company will update the market with further details as soon as the review is complete and a revised development plan is finalized and approved by the Board and lenders.

### Environmental Regulations and Proceedings

The exploration, development and production operations conducted in the United States by the Group are subject to relevant environmental legislation and regulated by both State and Federal bodies, principally the Environmental Protection Agency on a federal level and by the Oklahoma Corporation Commission on a state level. The Group activities which are monitored and affected by legislation include drilling, development, storage, spill prevention controls and containment. The Group ensures that it complies with all regulations in carrying out its operations and is not aware of any breach of those environmental regulations.

Red Fork Energy is aware of its environmental obligations with regards to these activities and ensures that it complies with all regulations. There have not been any known breaches of the consolidated entity's obligations under these environmental regulations during the year under review and up to the date of this report.

Given the location of the Group's operations in the USA, both the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007* are not expected to have a material impact.

### INFORMATION ON DIRECTORS

|                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Michael Fry</b>       | <b>Non-Executive Chairman</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Qualifications           | B.Comm, F.Fin                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Experience               | Michael Fry holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of the Financial Services Institute of Australasia, and is a past member of the ASX. Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Other Directorships      | Michael Fry is currently the non-executive chairman of ASX Listed Companies Norwest Energy NL and Challenger Energy Limited. Mr Fry was a non-executive director of Liberty Resources Limited until 10 April 2012 and Killara Resources Limited until 9 October 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Special Responsibilities | Michael Fry is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>David Prentice</b>    | <b>Chief Executive Officer</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Qualifications           | Grad. Dip BA, MBA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Experience               | David Prentice's career includes more than 25 years' experience in commercial management and business development within the natural resources sector, working for some of Australia's leading resource companies. This has included high-level commercial and operational roles with a number of listed and unlisted resource companies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Other Directorships      | David is currently a non-executive director of ASX listed Jameson Resources Limited. He was a director of Challenger Energy Limited until 26 March 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>William Warnock</b>   | <b>Non-Executive Director</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Qualifications           | B.Sc. Civil Engineering. Registered professional civil and petroleum engineer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Experience               | William Warnock's career in the Oil and Gas industry spans 38 years and includes holding senior positions in Exxon USA (Offshore Division Reservoir Engineering Manager), Crystal Oil Company (Executive Vice President and Chief Operations Officer). William has extensive experience in prospecting for and evaluating oil and gas drilling and acquisition opportunities. During his 39 year career he has founded and ultimately sold six oil and gas E&P and marketing companies, and he also invented and patented three different processes related to oil and gas fracking and production. Brighton Energy was William's most recent successful venture, a natural gas exploration and production company which he formed in 1997. He was the majority owner, president and CEO of Brighton until its sale to Unit Petroleum and Chesapeake Energy in 2006. |
| Other Directorships      | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Special Responsibilities | William Warnock is the chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

|                      |                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Larry Edwards</b> | <b>Non-Executive Director</b>                                                                                                                                                                                                                                                                                                                                               |
| Qualifications       | B.Sc. Industrial Engineering and Management, M.B.A                                                                                                                                                                                                                                                                                                                          |
| Experience           | Larry Edwards has over 35 years holding senior executive positions in listed and non-listed entities across US and Canada. Larry's experience covers operations, project and business development, risk management and general corporate activities. Larry is also a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.      |
| Other                |                                                                                                                                                                                                                                                                                                                                                                             |
| Directorships        | Larry is a non-executive director of TSX listed New Flyer Industries Inc.                                                                                                                                                                                                                                                                                                   |
| Special              | Larry Edwards is a member of the Audit and Risk Committee and Remuneration and Nomination                                                                                                                                                                                                                                                                                   |
| Responsibilities     | Committee.                                                                                                                                                                                                                                                                                                                                                                  |
| <b>David Colwell</b> | <b>Non-Executive Director</b>                                                                                                                                                                                                                                                                                                                                               |
| Qualifications       | B.Sc. Accounting                                                                                                                                                                                                                                                                                                                                                            |
| Experience           | David Colwell is a retired Assurance Partner with career spanning 34 years with PricewaterhouseCoopers LLC. He most recently served as Managing Partner of the firm's Oklahoma practice for over 10 years until his retirement in 2012. Mr. Colwell has extensive experience in the energy sector and has worked with many multinational and publicly registered companies. |
| Other                |                                                                                                                                                                                                                                                                                                                                                                             |
| Directorships        | Nil                                                                                                                                                                                                                                                                                                                                                                         |
| Special              | David Colwell is the chairman of the Audit and Risk Committee and a member of Remuneration and                                                                                                                                                                                                                                                                              |
| Responsibilities     | Nomination Committee.                                                                                                                                                                                                                                                                                                                                                       |

## INFORMATION ON EXECUTIVES

### President of Red Fork (USA) Investments, Inc. and Chief Operations Officer

#### Chris Girouard - B.B.A, Certified Professional Landman

Chris Girouard has a degree in Petroleum Land Management and has managed the land department of several Tulsa based independent oil and gas exploration and production companies over 26 years. Chris was a founding member of Brighton Energy. Chris has extensive experience in managing and executing all phases of petroleum land management in Oklahoma, Texas, Arkansas, Louisiana, New Mexico and Colorado. Chris was appointed as President of Red Fork (USA) Investments, Inc. and Chief Operations Officer on 30 January 2013.

### Executive Vice President of Operations

#### Lee Francis

Lee Francis holds a degree in engineering and is a registered professional engineer in the state of Oklahoma. With over 35 years of experience as both an employee and consultant to independent and major oil and natural gas companies, Lee has been responsible for the drilling, completion and operation of numerous wells in the Mid-continent, Rocky Mountains, Gulf Coast and California. Lee was a founding member of Arapahoe Marketing Services, LLC and served as its President. Arapahoe Marketing Services, LLC, owned and maintained gas compressors employed on Brighton Energy operated wells and managed the marketing of its gas production. Lee was appointed as Executive Vice President of Operations on 30 January 2013.

### Chief Financial Officer

#### Kevin Humphrey B.B.A, CPA

Kevin Humphrey is a certified public accountant with extensive experience in the oil and gas industry. Mr. Humphrey's experience includes provision of audit and advisory services with Arthur Andersen, LLP, managing a portfolio of Oklahoma, Texas and New Mexico based energy customers with Bank of Oklahoma. Kevin was the Chief Financial Officer of Brighton Energy, Millbrae Energy and Mahalo Energy. Kevin was also a founding member and CFO for Eagle Energy of Oklahoma.

## COMPANY SECRETARY

#### Suzie Foreman B.Com, CA

Suzie is a chartered accountant with over 17 years of experience within the UK and Australia. Ms Foreman has 9 years' combined experience with KPMG and a boutique accounting firm specialising in the provision of audit and corporate services and also has extensive skills in the areas of financial and management reporting, due diligence, ASX

and ASIC corporate and regulatory compliance. Suzie has been involved in the listing of numerous exploration companies on the ASX, AIM and OTC markets and assisted in corporate matters including capital raisings, acquisitions, divestments, finance, joint ventures and corporate governance. Suzie is also Company Secretary to ASX listed companies Jameson Resources Limited and Merah Resources Limited. Suzie is a non-executive director of Merah Resources Limited.

Suzie Foreman is the secretary of the Audit and Risk Committee and the Remuneration and Nomination Committee.

## CORPORATE INFORMATION

### Corporate Structure

Red Fork Energy Limited is a public company incorporated and domiciled in Western Australia and listed on the Australian Securities Exchange (ASX Code: RFE) and US OTCQX (RDFEY). Red Fork Energy Limited and its wholly owned subsidiaries, Red Fork (USA) Investment Inc. and EastOk Pipeline LLC, are incorporated in the state of Oklahoma and are collectively referred to as “Red Fork Energy”, or “the Group”, as the context requires.

### Employees

Red Fork Energy Limited had 30 full time employees as at the date of this report. The Chief Executive Officer, David Prentice, is based in Perth, Australia. The operations of the Company (including exploration, development, production, engineering, land administration and general administration) are managed and supervised through the Company’s 100% owned operating subsidiary Red Fork (USA) Investments, Inc. from its office located in Tulsa (Oklahoma).

### Meetings of Directors

The number of directors' meetings (including committees) held during the transitional financial period each director held office, and the number of meetings attended by each director are:

| Director        | Directors Meetings |                                    | Audit & Risk Committee Meetings |                                    | Remuneration & Nomination Committee Meetings |                                    |
|-----------------|--------------------|------------------------------------|---------------------------------|------------------------------------|----------------------------------------------|------------------------------------|
|                 | Meetings Attended  | Number Held and Eligible to Attend | Meetings Attended               | Number Held and Eligible to Attend | Meetings Attended                            | Number Held and Eligible to Attend |
| Michael Fry     | 5                  | 5                                  | 2                               | 2                                  | 1                                            | 2                                  |
| David Prentice  | 5                  | 5                                  | -                               | -                                  | -                                            | -                                  |
| Bruce Miller*   | 5                  | 5                                  | -                               | -                                  | -                                            | -                                  |
| William Warnock | 5                  | 5                                  | 2                               | 2                                  | 2                                            | 2                                  |
| Larry Edwards   | 5                  | 5                                  | 2                               | 2                                  | 2                                            | 2                                  |

\* Resigned 31 December 2013

### Committee Membership

As at the date of this report, the Company had an Audit and Risk Committee and a Remuneration and Nomination Committee as sub committees of the Board of Directors. Members are as follows:

| Audit and Risk Committee | Remuneration and Nomination Committee |
|--------------------------|---------------------------------------|
| David Colwell (Chairman) | William Warnock (Chairman)            |
| Larry Edwards            | Larry Edwards                         |
| William Warnock          | David Colwell                         |
| Michael Fry              | Michael Fry                           |



### Options

At the date of this report the following options over ordinary shares in the Company were on issue and are unexercised.

| Type             | Date of Expiry   | Exercise Price<br>AUD | Number Under Option |
|------------------|------------------|-----------------------|---------------------|
| Unlisted Options | 30 June 2014     | \$0.65                | 1,600,000           |
| Unlisted Options | 30 June 2014     | \$0.35                | 708,333             |
| Unlisted Options | 30 June 2014     | \$0.45                | 708,333             |
| Unlisted Options | 30 November 2014 | \$1.20                | 501,000             |

No share options are issued to the directors as at the date of this report.

There have been no movements in the number of options issued during the six months ended 31 December 2013 and subsequent to the reporting date.

Directors' holdings of shares and performance rights during the financial period have been disclosed in the Remuneration Report. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

### Performance Rights

At the date of this report the following performance rights were on issue.

| Type                        | Date of Expiry  | Number Under Performance Rights |
|-----------------------------|-----------------|---------------------------------|
| Tranche B – Directors (i)   | 30 April 2016   | 1,000,000                       |
| Tranche C – Directors (ii)  | 30 April 2016   | 2,000,000                       |
| Tranche A – Employees (iii) | 26 October 2017 | 1,530,000                       |
| Tranche B – Employees (iv)  | 26 October 2017 | 3,590,000                       |
| Tranche C – Employees (v)   | 26 October 2017 | 3,740,000                       |

The above performance rights have the following vesting conditions:

- (i) Receipts from sales must exceed US\$16 million per annum (measured for two consecutive fiscal quarters annualized) ("milestone"), and the holder remains an employee of the Company until three months of the completion of the milestone.
- (ii) Receipts from sales must exceed US\$30 million per annum (measured for two consecutive fiscal quarters annualized) ("milestone"), and the holder remains an employee of the Company until three months of the completion of the milestone.
- (iii) Receipts from sales must exceed US\$8 million per annum (measured for two consecutive fiscal quarters annualized), and the holder is required to remain an employee for 12 months following the grant date for the Performance Rights to convert into Shares.
- (iv) Receipts from sales must exceed US\$16 million per annum (measured for two consecutive fiscal quarters annualized), and the holder is required to remain an employee for 24 months following the grant date for the Performance Rights to convert into Shares.
- (v) Receipts from sales must exceed US\$30 million per annum (measured for two consecutive fiscal quarters annualized), and the holder is required to remain an employee for 36 months following the grant date for the Performance Rights to convert into Shares.

In relation to the above Performance Rights Milestones, "receipts from sales" are currently defined as cash receipts in accordance with Red Fork's quarterly cash flow report (Appendix 5B).

During the six months ended 31 December 2013, a total of 630,000 performance rights were issued to employees of the Company. A total of 1,000,000 director performance rights and 500,000 employee performance rights were converted into fully paid ordinary shares due to vesting conditions being achieved. A total of 120,000 performance rights were cancelled due to cessation of employment.

Directors' holdings of performance rights as at the date of this report are as follow:

| Directors       | Type                   | Number of Performance Rights |
|-----------------|------------------------|------------------------------|
| David Prentice  | Tranche C              | 1,000,000                    |
| Bruce Miller    | Tranche B<br>Tranche C | 1,000,000<br>1,000,000       |
| William Warnock | -                      | -                            |
| Larry Edwards   | -                      | -                            |
| David Colwell   | -                      | -                            |
| Michael Fry     | -                      | -                            |

As at the end of the financial year there were 503 million ordinary shares on issue, 3.5 million unlisted options and 11.86 million unlisted performance rights on issue.

#### INDEMNIFYING OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every Officer, or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

The Company currently has a directors' and officers' liability insurance in place. A total premium of A\$72,255 has been paid for cover period from 1 May 2013 to 30 April 2014. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

#### Proceedings on Behalf of Company

No person has applied to the Court for leave to bring proceedings on behalf of the Company or to 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.

#### Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the reporting period is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 10 : Code of Ethics for Professional Accountants set by the Accounting Professional Ethics Standards Board.

The following fees for non-audit services were paid to the external auditors during the six month period ended 31 December 2013:

- Taxation services - \$18,000

#### AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Grant Thornton, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 25 and forms part of this directors' report for the transitional year ended 31 December 2013.

## REMUNERATION REPORT (Audited)

### A. Introduction

The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001. Information regarding the remuneration of key management personnel (“KMP”) is required by Corporations Regulations 2M.3.03. KMP are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

### Red Fork’s KMPs

Key Management Personnel for Red Fork include the following Non-Executive Directors, Executive Directors, and Senior Executives who were in office during or since the end of the six monthly period to 31 December 2013:

- Non-Executive Directors – there were three Non-Executive Directors at the reporting period end;
- Executive Directors and senior management (Executives) – as at 31 December 2013 there were five Executives, including Chief Executive Officer, David Prentice;
- Former Directors – there is one former Executive Director, Bruce Miller included as a Director for the Reporting Period.

| Category                | Name           | Position                               | Appointment Date |
|-------------------------|----------------|----------------------------------------|------------------|
| Non-Executive Directors | Michael Fry    | Independent Chairman                   | 20 April 2004    |
|                         | Bill Warnock   | Independent Non-Executive              | 17 January 2013  |
|                         | Larry Edwards  | Independent Non-Executive              | 1 May 2013       |
| Executive Directors     | David Prentice | CEO/ Managing Director                 | 20 April 2004    |
|                         | Bruce Miller   | Technical Director                     | 26 July 2005     |
| Executives              | Chris Girouard | President and Chief Operating Officer  | 30 January 2013  |
|                         | Kevin Humphrey | Chief Financial Officer                | 1 August 2011    |
|                         | Lee Francis    | Executive Vice President of Operations | 18 January 2013  |

### Reporting Notes

#### *Reporting in United States dollars*

In this report, the remuneration and benefits reported are presented in US dollars. This is consistent with the change in presentation currency of the company from Australian dollars to US dollars from 1 July 2011. Compensation for Australian-based employees is paid in Australian dollars and, for reporting purposes, has been converted to US dollars based on the average exchange rate for the year. Valuation of equity awards is converted at the applicable spot rate when the equity award is granted.

### Remuneration Period

#### *Change in Financial Period End*

Red Fork’s remuneration period runs from 1 January to 31 December each year which aligns with the US subsidiary’s reporting period. In order to increase transparency in the Financial Report and to align remuneration periods with reported outcomes, the Board has now changed the Company’s financial reporting period to 31 December. Payments to KMP for the six month period are detailed in table 3a.

### Comments on Remuneration Report at Red Fork’s most recent AGM

The Company received a 76.4% of “yes” votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback from shareholders at the 2013 Annual General Meeting on its remuneration practices.

### B. Remuneration Policy During the Reporting Period

The Red Fork Board is committed to transparent disclosure of its remuneration strategy and this report details the Group’s remuneration objectives, practices and outcomes for KMP, which includes Directors and senior executives, for the period ended 31 December 2013. Any reference to “executives” in this report refers to KMPs who are not Non-Executive Directors.

## B.1 Remuneration Policy Framework

The key objective of Red Fork's remuneration policy is to be a key enabler for the Company in achieving its strategic goal of continuing to build a successful oil and gas exploration and production company. It has been designed to reward executives and employees fairly and responsibly in accordance with the regional and international market in which the Company operates, and to ensure that Red Fork:

- Provides competitive rewards that attract, retain and motivate executives and employees of the highest calibre, who can successfully deliver, particularly as the Company moves through the current phase of rapidly increased development and production;
- Sets demanding levels of expected performance that have a clear linkage to an executive's remuneration;
- Benchmarks remuneration against appropriate comparator peer groups to make the Company competitive in a tight skilled human resources market, through an offering of both short and long term incentives and competitive base salaries.;
- Provides a level of remuneration structure to reflect each executive's respective duties and responsibilities;
- Aligns executive incentive rewards with the creation of value for shareholders;
- Complies with legal requirements and appropriate standards of governance.

## B.2 Policy for Executive Remuneration For Future Reporting Periods

The Company maintains its existing performance management procedures for Executive Directors and Senior Executives ("Executives") by having each executive undertake an annual performance appraisal with the CEO based on individual and business performance expectations and other circumstances. The CEO's performance is in turn reviewed by the Remuneration and Nomination Committee.

Executive Remuneration is to consist of the following key elements:

- Fixed remuneration or base salaries; and
- Variable remuneration, being the "at risk" component related to performance comprising:
  - i) Short Term Incentives (STI) ;
  - ii) Long Term Incentive (LTI).

The proportion of fixed remuneration and variable remuneration is established for each executive by the Remuneration and Nomination Committee with reference to market comparator data and the scope of each of the individual executive's role, and approved by the Board in accordance with the Remuneration Policy and the provisions of the STI and LTI Plans. These elements are both described in detail below.

## C. Remuneration Components

### C.1 Fixed Remuneration

Fixed remuneration was reviewed by the Remuneration and Nomination Committee and approved by the Board having regard to relevant comparable remuneration in the oil and gas industry. In addition, external consultants provided analysis and advice to ensure that the Chief Executive Officer and Senior Executives' remuneration was appropriate given market practices. The Company sought to position its fixed remuneration in line with comparably sized US-operated oil and gas exploration and production companies.

### Regional variations

Executives receive their fixed remuneration in the form of base salary and varying fringe benefits depending to some extent on the location in which the executive is based:

**Australia-based executives:** Executives receive an employer superannuation contributions made into a complying superannuation fund at the required Superannuation Guarantee rate (Currently 9.25%, 2013: 9.0%) of base salary. In line with prevalent market practice, Australia-based executives may receive other benefits including vehicle benefits.

**USA based executives:** Executives receive retirement benefits in accordance with 401k plan regulatory requirements. USA-based executives also receive Health Plan benefits in accordance with the Company's group health insurance plan.

### C.2 Variable Remuneration

#### C.2.1 STI Plan Applicable to the Reporting Period - 2013

The STI plan which ran from 1 January 2013 to 31 December 2013 were based 80% on annual Scorecard metrics and 20% on financial performance considerations selected by the Remuneration and Nomination Committee and approved by the Board.

The Scorecard factors for Company performance were based upon four measures weighted in accordance with the importance the Company placed on the key factors in affecting economic performance. For an oil and gas exploration and production company such as Red Fork Energy, oil and gas reserves and production growth are at the heart of the business and therefore the key measures and weighted as the most important:

- Drilling rates (30%);
- Reserve growth (30%);
- Production growth (30%); and
- Operating expenditure control (10%).

### C.2.2 STI Plan's Relation to Performance

At the beginning of 2014, the board tested the performance of each executive KMP based upon the key performance indicators set for the 2013 performance year. The Company exceeded some, but did not achieve others.

| <b><u>FACTOR</u></b>            | <b><u>SCORECARD PERFORMANCE</u></b> |
|---------------------------------|-------------------------------------|
| Cycle Time of Wells             | Target                              |
| Reserve Growth                  | Maximum                             |
| Production Ratio to 2012        | Maximum                             |
| Lease Operating Expense Per BOE | Not Achieved                        |

#### *Trigger Factor*

For the STI plan, an additional "trigger factor" was applied by the Remuneration Committee. A threshold performance level must be achieved on this factor or no incentive awards will be paid for Scorecard performance. The trigger factor for 2013 specified 46 gross operated producing wells must be in place before any Scorecard awards can be paid.

The Trigger Factor was achieved by 31 December 2013.

The scorecard performance will be assessed by the Board, and the score, in conjunction with the +/-20% "other financial performance factor" will form the basis of any STI Plan payments payable and will be determined subsequent to filing this report and be included in next year's Directors Report.

### STI Governance

The Board retains discretion to withhold the award of any STI payments depending on the Company's closing cash position and its ability to comply with its commitments for the following year after bonuses are paid. The decision to pay bonuses to the KMP will be determined following the Company's review of its forward development plan.

### C.3 STI Plan for the 2014 Reporting Period

As noted in the Directors' Report, the Board and executive management team are currently reviewing the 2014 forward development plan for the Big River Project with the goal of continuing with the development of the leasehold. This will require an adjustment to the rig line and drilling schedule, and consequently the STI Plan for 2014 will be approved by the Remuneration Committee and implemented following the conclusion of this review.

#### C.4.1 LTI Plan During the Reporting Period

The LTI plan in operation for the transitional 2013 year was a performance rights plan which linked remuneration incentives by way of Performance Rights to Company performance targets. The Performance Rights Plan (PRP) was approved by shareholders at the Company's Annual General Meeting (AGM) in 2011. As noted in the 30 June 2013 Annual Financial Report (Announced to ASX on 30 September 2013), any further issuance of Rights under the Performance Rights Plan was discontinued during the current financial period and the Company replaced the Performance Rights Plan with a Long Term Incentive Plan. No Performance Rights were issued to key management personnel during the period. Any value recorded in Table 3a, under "equity compensation received" for key management personnel during the period relates to rights granted in prior periods, to which the value on the date of grant has been brought to account over the applicable vesting period, in accordance with relevant accounting standards.

#### C.4.2 LTI Plan for Future Reporting Periods

The Company's proposed Long Term Incentive Plan was approved by Shareholders at the Company's 2013 Annual General Meeting, and full details of the plan can be found in the Red Fork Energy Notice of Annual General Meeting (Announced to ASX on 29 October 2013) and the 30 June 2013 Annual Report.

Beginning 1 January 2014, Red Fork implemented a new LTI plan, the purpose of which is to focus performance on long term shareholder value over a three year period. This plan provides "at risk" equity based incentives based on longer term company performance.

No Rights (Restricted Stock Awards) were made under the plan during the reporting period. Restricted stock awards are currently being made to plan participants for the 2014 LTI Plan, which will run and be tested over a 3 year performance period to 31 December 2016. The vesting will be linked to total shareholder return (TSR).

#### C.5 Policy for and Components of Non-Executive Remuneration During the Reporting Period

##### *Remuneration Policy*

##### *Non-Executive Director Fees*

The overall level of annual Non-Executive Director fees was approved by shareholders in accordance with the requirements of the Company's Constitution and the Corporations Act. The maximum aggregate Directors' fees payable to all of the Company's Non-Executive Directors is \$500,000 per annum. This aggregate amount was approved by shareholders at the 2012 Annual General Meeting.

##### *Equity Compensation*

In accordance with Australian practice and shareholder preference, the Company's current policy is not to grant equity based compensation to Non-Executive Directors. Accordingly, no equity components (performance rights) were offered to Non-Executive Directors in the reporting period to 31 December 2013.

##### *Remuneration Structure*

Non-Executive Directors receive a fixed remuneration of base fees plus statutory superannuation. In addition, and in recognition of the higher workloads and extra responsibilities of participating on a Board committee, if applicable, they also receive a committee fee and chairing a committee also warrants a higher fee. In addition to these fees, Non-Executive Directors are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, committee or shareholder meetings whilst engaged by Red Fork. All US Non-Executive Directors receive payment for the costs of their family medical insurance premiums in accordance with the US policy on group medical insurance. Non-Executive Directors do not earn retirement benefits other than superannuation and are not entitled to any compensation on termination of their directorships.

The annual Board and committee fees were reviewed during the reporting period to 30 June 2013, and have remained unchanged since this review. A further review will be conducted in the next financial period in accordance with the annual review of salaries performed by the Remuneration Committee.

The current Board and additional committee fee structure for Non-Executive Directors is as per Table 1 below:

Table 1- NED Board and Sub Committee Policy Fees

| Board     |           | Committees |         |
|-----------|-----------|------------|---------|
| Chair     | Member    | Chair      | Member  |
| \$120,000 | \$100,000 | \$10,000   | \$5,000 |

Fees for Non-Executive Directors are not linked to the performance of the Company; however, to align directors' interests with shareholder interests, the directors may hold shares in the Company as governed by the Company's Securities Trading Policy.

#### C.6 Remuneration Governance Including Use Of Remuneration Consultants

##### **(i) The role of the Board**

The Board is responsible for ensuring Red Fork's remuneration strategy is aligned with Company performance and shareholder interests and is equitable for participants. The Remuneration and Nomination Committee ("RNC") is responsible for reviewing and making recommendations to the Board on nomination and remuneration matters. The members of the Committee, comprising only Non-Executive Directors, are:

- ❖ Bill Warnock (Chairman of the RNC); Appointed 17 January 2013
- ❖ Larry Edwards; Appointed 1 May 2013; and
- ❖ Michael Fry

The RNC is governed by its Charter which was developed in line with ASX Corporate Governance Principles and Recommendations. Full details of the roles and responsibilities of the Remuneration and Nomination Committee are detailed in the Corporate Governance Statement on Page 37 of this Annual Report and can be accessed on the Company's website.

#### (ii) Appointment of Remuneration Consultants

In accordance with Section 206K Corporations Act, the Remuneration and Nomination Committee approved the engagement Villareal Associates to assist with the implementation of the LTI plan framework and to provide market data and reports on executive and non-executive pay to the Chairman of the Committee. The Board is satisfied that remuneration information and guidance provided by Villareal and Associates was free of undue influence.

#### D. Relationship between 2013 Company Performance and Remuneration Outcomes

The Company's STI Plan applicable to the reporting period was effective from 1 January 2013 to 31 December 2013, and payments under the plan will be made if deemed appropriate by the Remuneration Committee, in the subsequent reporting period. STI payments are granted annually to staff, executives and executive directors depending on individual performance over the specified period. The Company notes that current best practice is to align the STI policy to company performance outcomes rather than individual performance outcomes. Accordingly the Company has adjusted its STI policy which was implemented effective 1 January 2013 to reflect this change in compensation philosophy.

Awards issued under the Performance Rights Plan which was effective during the year were conditional upon both the achievement of revenue based targets and period of service, and vest in equal proportions from 1 to 3 years from the grant date provided the performance conditions are achieved. Revenue based targets were considered to be an appropriate measure of the Company's performance given the stage of Red Fork's development.

The Company has recognised that current best practice for LTI plans is to incorporate a broader based target measured against relative shareholder return. Issues of Restricted Stock Awards under this plan are due to be made shortly and will be reported in the subsequent reporting period.

The Table 2 below set out summary information about the company's earnings and other performance measures for the past five years (in US\$):

| Table 2                                 | December 2013 | June 2013 | June 2012 | June 2011 | June 2010 |
|-----------------------------------------|---------------|-----------|-----------|-----------|-----------|
| Revenue (\$mil.)                        | 26.0          | 18.2      | 6.2       | 3.0       | 2.6       |
| Gross Profit (\$mil.)                   | 19.8          | 11.6      | 2.6       | 1.5       | 1.1       |
| Reserves PV10 (P1) (\$m)                | 277*          | 196       | 61        | 72        | 90        |
| Reserves PV10 (P1+P2+P3) (\$m)          | 491*          | 380       | 217       | 157       | 204       |
| Gross Operating Wells (No.) – Big River | 53            | 36        | 9         | -         | -         |
| Net Production at period end (BOE/day)  | 2,270         | 1,690     | 388       | 297       | 427       |

\*Refer to Competent Persons Reserve Certification Statement on page 1.

#### E.1 Details of Remuneration

There were no material changes to base salaries paid to key management personnel during the period.

Tables 3a and 3b below outline the remuneration of directors and Key Management Personnel for the six months ended 31 December 2013 and the twelve months ended 30 June 2013:

Table 3a: Key Management Personnel Remuneration for the period ended 31 December 2013

| 31 December 2013               | Primary              |          |                       | Equity Compensation             | Post-employment              | TOTAL            | %                              |
|--------------------------------|----------------------|----------|-----------------------|---------------------------------|------------------------------|------------------|--------------------------------|
|                                | Base Salary and Fees | Bonus    | Non Monetary Benefits | Value of Performance Rights (i) | Superannuation Contributions |                  | Percentage Performance Related |
|                                | US\$                 | US\$     | US\$                  | US\$                            | US\$                         | US\$             |                                |
| <b>Executive Directors</b>     |                      |          |                       |                                 |                              |                  |                                |
| David Prentice                 | 190,117              | -        | 7,219                 | 639,332                         | 7,967                        | 844,635          | 75.7                           |
| Bruce Miller                   | 132,450              | -        | 11,042                | 639,332                         | -                            | 782,824          | 81.7                           |
| <b>Non-Executive Directors</b> |                      |          |                       |                                 |                              |                  |                                |
| Michael Fry                    | 59,886               | -        | -                     | -                               | -                            | 59,886           | -                              |
| William Warnock                | 57,500               | -        | 5,483                 | -                               | -                            | 62,983           | -                              |
| Larry Edwards                  | 57,500               | -        | -                     | -                               | -                            | 57,500           | -                              |
| <b>Executives</b>              |                      |          |                       |                                 |                              |                  |                                |
| Kevin Humphrey                 | 150,000              | -        | 7,986                 | 320,616                         | -                            | 478,602          | 67.0                           |
| Chris Girouard                 | 152,500              | -        | 11,042                | 320,616                         | -                            | 484,158          | 66.2                           |
| Lee Francis                    | 226,479              | -        | 7,986                 | 39,666                          | -                            | 274,131          | 15.1                           |
| <b>Total 31 Dec 2013</b>       | <b>1,016,432</b>     | <b>-</b> | <b>50,758</b>         | <b>1,959,562</b>                | <b>7,967</b>                 | <b>3,044,719</b> |                                |

## Notes:

- (i) In accordance with AASB 2, performance rights issued to Directors and Executives have been valued based on factors such as the underlying share price, the expected vesting date and vesting probability in achieving the specified revenue hurdles at the reporting date. A total of 3,940,000 performance rights were fully vested during the reporting period, of which 1,000,000 Performance Rights B issued to the Directors and 500,000 Performance Rights A issued to the employees and consultants were converted to fully paid ordinary shares on 28 November 2013. A value for the unconverted performance rights is also included in the total equity based remuneration. It should be noted that the Directors and Executives have not received this amount and these performance rights may have no actual financial value unless the required performance hurdles are achieved. Stock may also be issued to the recipient at a share issue price lower than valued and recognised in the financial report. For details of inputs to the valuation, refer Note 29.



Table 3b: Key Management Personnel Remuneration for the year ended 30 June 2013

| 30 June 2013                   | Primary              |                |                       | Equity Compensation         | Post-employment              | TOTAL            | %                              |
|--------------------------------|----------------------|----------------|-----------------------|-----------------------------|------------------------------|------------------|--------------------------------|
|                                | Base Salary and Fees | Bonus          | Non Monetary Benefits | Value of Performance Rights | Superannuation Contributions |                  | Percentage Performance Related |
|                                | US\$                 | US\$           | US\$                  | US\$                        | US\$                         | US\$             |                                |
| <b>Executive Directors</b>     |                      |                |                       |                             |                              |                  |                                |
| David Prentice                 | 428,455              | 63,660         | 30,592                | 709,447                     | 17,494                       | 1,249,648        | 61.8                           |
| Bruce Miller                   | 263,989              | 30,240         | 20,476                | 709,447                     | -                            | 1,024,152        | 72.2                           |
| Perry Gilstrap *               | 623,349              | 45,266         | 11,124                | 177,953                     | -                            | 857,692          | 26.0                           |
| <b>Non-Executive Directors</b> |                      |                |                       |                             |                              |                  |                                |
| Michael Fry                    | 112,890              | -              | -                     | -                           | -                            | 112,890          | -                              |
| William Warnock                | 59,167               | -              | 3,505                 | -                           | -                            | 62,672           | -                              |
| Larry Edwards                  | 19,167               | -              | -                     | -                           | -                            | 19,167           | -                              |
| Steve Miller ^                 | 24,476               | -              | -                     | 106,772                     | -                            | 131,248          | 81.4                           |
| <b>Executives</b>              |                      |                |                       |                             |                              |                  |                                |
| Kevin Humphrey                 | 290,514              | 37,125         | 14,882                | 217,750                     | -                            | 560,271          | 45.5                           |
| Chris Girouard                 | 284,005              | 25,313         | 20,115                | 217,750                     | -                            | 547,183          | 44.4                           |
| Lee Francis                    | 126,350              | -              | -                     | 1,913                       | -                            | 128,263          | 1.5                            |
| <b>Total 30 Jun 2013</b>       | <b>2,232,362</b>     | <b>201,604</b> | <b>100,694</b>        | <b>2,141,032</b>            | <b>17,494</b>                | <b>4,693,186</b> |                                |

\* Perry Gilstrap resigned on 18 February 2013

^ Steve Miller resigned on 19 November 2012

## E.2 At Risk Remuneration

Remuneration is structured to recognize both individual responsibilities, qualifications and experience as well as to drive performance over the short and long term. Fixed remuneration is established and aligned with responsibilities, while variable remuneration is used to reward and motivate outcomes. The relative weightings of "at risk" variable remuneration compared to fixed remuneration is as follows:

Table 4 – Proportion of fixed and variable annual award as a percentage of executive total remuneration.

| Table 4            | 6 Months to 31 December 2013 |                          |      |                | 12 Months to 30 June 2013 |                          |      |                |
|--------------------|------------------------------|--------------------------|------|----------------|---------------------------|--------------------------|------|----------------|
|                    | %                            | Variable Annual Reward % |      | Total variable | %                         | Variable Annual Reward % |      | Total variable |
|                    | Fixed                        | At Risk                  |      |                | Fixed                     | At Risk                  |      |                |
|                    | Remuneration                 | STI                      | LTI  | %              | Remuneration              | STI                      | LTI  | %              |
| David Prentice     | 24.3                         | -                        | 75.7 | 75.7           | 38.2                      | 5.1                      | 56.7 | 61.8           |
| Bruce Miller       | 18.3                         | -                        | 81.7 | 81.7           | 27.8                      | 2.9                      | 69.3 | 72.2           |
| Kevin Humphrey     | 33.0                         | -                        | 67.0 | 67.0           | 54.5                      | 6.6                      | 38.9 | 45.5           |
| Chris Girouard     | 33.8                         | -                        | 66.2 | 66.2           | 55.6                      | 4.6                      | 39.8 | 44.4           |
| Lee Francis        | 84.9                         | -                        | 15.1 | 15.1           | 100                       | -                        | -    | 1.5            |
| Non Exec Directors | 100                          | -                        | -    | -              | 100                       | -                        | -    | -              |

**F. Share-based remuneration****(i) Performance Rights Held by Key Management Personnel**

The number of performance rights in the Company held during the transitional financial period by each Director of Red Fork Energy Limited and other Key Management Personnel, including their personally related parties, are set out below:

| <b>31 December 2013</b>  | <b>Balance at<br/>01.07.13</b> | <b>Granted as<br/>Remuneration</b> | <b>On Conversion<br/>of Rights</b> | <b>Cancelled</b> | <b>Balance at<br/>31.12.13</b> | <b>Vested and<br/>Convertible</b> |
|--------------------------|--------------------------------|------------------------------------|------------------------------------|------------------|--------------------------------|-----------------------------------|
| <b><u>Directors</u></b>  |                                |                                    |                                    |                  |                                |                                   |
| David Prentice           | 2,000,000                      | -                                  | (1,000,000)                        | -                | 1,000,000                      | -                                 |
| Michael Fry              | -                              | -                                  | -                                  | -                | -                              | -                                 |
| Bruce Miller             | 2,000,000                      | -                                  | -                                  | -                | 2,000,000*                     | 1,000,000                         |
| William Warnock          | -                              | -                                  | -                                  | -                | -                              | -                                 |
| Larry Edwards            | -                              | -                                  | -                                  | -                | -                              | -                                 |
| <b><u>Executives</u></b> |                                |                                    |                                    |                  |                                |                                   |
| Kevin Humphrey           | 1,570,000                      | -                                  | -                                  | -                | 1,570,000                      | 190,000                           |
| Chris Girouard           | 1,570,000                      | -                                  | -                                  | -                | 1,570,000                      | 190,000                           |
| Lee Francis              | 380,000                        | -                                  | -                                  | -                | 380,000                        | -                                 |
|                          | <b>7,520,000</b>               | <b>-</b>                           | <b>(1,000,000)</b>                 | <b>-</b>         | <b>6,520,000</b>               | <b>1,380,000</b>                  |

\* As at the date of resignation, 31 December 2013

| <b>30 June 2013</b>      | <b>Balance at<br/>01.07.12</b> | <b>Granted as<br/>Remuneration</b> | <b>On Conversion<br/>of Rights</b> | <b>Cancelled</b>   | <b>Balance at<br/>30.06.13</b> | <b>Vested and<br/>Convertible</b> |
|--------------------------|--------------------------------|------------------------------------|------------------------------------|--------------------|--------------------------------|-----------------------------------|
| <b><u>Directors</u></b>  |                                |                                    |                                    |                    |                                |                                   |
| David Prentice           | 3,000,000                      | -                                  | (1,000,000)                        | -                  | 2,000,000                      | -                                 |
| Michael Fry              | -                              | -                                  | -                                  | -                  | -                              | -                                 |
| Bruce Miller             | 3,000,000                      | -                                  | (1,000,000)                        | -                  | 2,000,000                      | -                                 |
| Perry Gilstrap           | 3,000,000                      | -                                  | -                                  | (2,000,000)        | 1,000,000                      | 1,000,000                         |
| Steve Miller             | 600,000                        | -                                  | -                                  | -                  | 600,000                        | 600,000                           |
| William Warnock          | -                              | -                                  | -                                  | -                  | -                              | -                                 |
| Larry Edwards            | -                              | -                                  | -                                  | -                  | -                              | -                                 |
| <b><u>Executives</u></b> |                                |                                    |                                    |                    |                                |                                   |
| Kevin Humphrey           | -                              | 1,570,000                          | -                                  | -                  | 1,570,000                      | -                                 |
| Chris Girouard           | -                              | 1,570,000                          | -                                  | -                  | 1,570,000                      | -                                 |
| Lee Francis              | -                              | 380,000                            | -                                  | -                  | 380,000                        | -                                 |
|                          | <b>9,600,000</b>               | <b>3,520,000</b>                   | <b>(2,000,000)</b>                 | <b>(2,000,000)</b> | <b>9,120,000</b>               | <b>1,600,000</b>                  |

**Key Terms of Performance Rights**

The Performance Rights entitle each holder to fully paid ordinary shares in the Company on achievement of the achievement of certain milestones. Refer page 13 for full details.

**Performance rights in existence during the financial period**

Details of vesting profiles of the performance rights granted as remuneration to Key Management Personnel of the Group are set out below:

| Key Management Personnel | Grant date | No. of performance rights | % Vested | % Forfeited | Expiry date | Fair value per performance right at grant date (AUD) |
|--------------------------|------------|---------------------------|----------|-------------|-------------|------------------------------------------------------|
| David Prentice           | 30/11/2011 | 3,000,000                 | 66%      | -           | 30/04/2016  | \$0.620                                              |
| Bruce Miller             | 30/11/2011 | 3,000,000                 | 66%      | -           | 30/04/2016  | \$0.620                                              |
| Kevin Humphrey           | 21/09/2012 | 1,570,000                 | 12%      | -           | 26/10/2017  | \$0.735                                              |
| Chris Girouard           | 21/09/2012 | 1,570,000                 | 12%      | -           | 26/10/2017  | \$0.735                                              |
| Lee Francis              | 19/06/2013 | 380,000                   | -        | -           | 26/10/2017  | \$0.530                                              |

When exercisable each performance right is converted into one ordinary share of Red Fork Energy Limited. For details on the vesting conditions of each performance right, please refer to Note 16 of the Financial Report. There were no alterations to the terms and conditions of performance rights granted as remuneration since their grant date.

**(ii) Shares held by Key Management Personnel**

The number of shares in the Company held during the transitional financial period by each Director of Red Fork Energy Limited and other Key Management Personnel, including their personally related parties, are set out below. There were no shares granted during the six months as compensation.

| 30 June 2013      | Balance at 01.07.13 | Shares Issued | Performance Rights Exercised | Bought & (Sold) | Balance at 31.12.13 |
|-------------------|---------------------|---------------|------------------------------|-----------------|---------------------|
| <b>Directors</b>  |                     |               |                              |                 |                     |
| David Prentice    | 2,747,441           | -             | 1,000,000                    | -               | 3,747,441           |
| Michael Fry       | 1,894,774           | -             | -                            | -               | 1,894,774           |
| Bruce Miller      | 1,582,746           | -             | -                            | -               | 1,582,746*          |
| William Warnock   | -                   | -             | -                            | -               | -                   |
| Larry Edwards     | -                   | -             | -                            | -               | -                   |
| <b>Executives</b> |                     |               |                              |                 |                     |
| Kevin Humphrey    | -                   | -             | -                            | -               | -                   |
| Chris Girouard    | 60,000              | -             | -                            | 100,000         | 160,000             |
| Lee Francis       | -                   | -             | -                            | -               | -                   |
|                   | 6,284,961           | -             | 1,000,000                    | 100,000         | 7,384,961           |

\* As at the date of resignation, 31 December 2013

| 12 months ended 30 June 2013 | Balance at 01.07.12 | Shares Issued | Performance Rights Exercised | Bought & (Sold) | Balance at 30.06.13 |
|------------------------------|---------------------|---------------|------------------------------|-----------------|---------------------|
| <b>Directors</b>             |                     |               |                              |                 |                     |
| David Prentice               | 1,747,441           | -             | 1,000,000                    | -               | 2,747,441           |
| Michael Fry                  | 1,894,774           | -             | -                            | -               | 1,894,774           |
| Bruce Miller                 | 582,746             | -             | 1,000,000                    | -               | 1,582,746           |
| Perry Gilstrap               | 700,000             | -             | -                            | -               | 700,000             |
| Steve Miller                 | -                   | -             | -                            | -               | -                   |
| William Warnock              | -                   | -             | -                            | -               | -                   |
| Larry Edwards                | -                   | -             | -                            | -               | -                   |
| <b>Executives</b>            |                     |               |                              |                 |                     |
| Kevin Humphrey               | -                   | -             | -                            | -               | -                   |
| Chris Girouard               | 60,000              | -             | -                            | -               | 60,000              |
| Lee Francis                  | -                   | -             | -                            | -               | -                   |
|                              | 4,984,961           | -             | 2,000,000                    | -               | 6,984,961           |

**(iv) Options Held By Key Management Personnel**

There were no options held by key management personnel during the reporting period, and no shares were issued on the exercise of options during the period.

**G. Service Agreements**

Each KMP executive has a contract of employment. Table 7 below contains a summary of the key contractual provisions of the contracts of employment for the KMP executives:

Table 7 – Key Management Personnel Employment Contracts

| Name           | Employing Company            | Contract Duration          | Conditions                                                                                                                                                                                | Termination Notice period by Company                                                                                                                        | Termination notice Period by Executive |
|----------------|------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| David Prentice | Red Fork Energy Ltd          | 3 years                    | Executed on 1 July 2012, to serve as the Company's Chief Executive Officer /Managing Director at A\$430,000 per annum inclusive of superannuation                                         | 1 month with cause. Without cause, 3 months notice period and 3 months pay, or the Company may elect to pay 6 month salary and dispense with notice period. | 3 months notice period                 |
| Chris Girouard | Red Fork Energy Ltd          | 3 Years                    | Effective 1 February 2013, to serve as the Company's President of Red Fork USA Investments, Inc. and Chief Operating Officer on a salary of US\$305,000 on a total employment cost basis. | 1 month with cause. Without cause, 3 months notice period and 3 months pay, or the Company may elect to pay 6 month salary and dispense with notice period. | 3 months                               |
| Kevin Humphrey | Red Fork Energy Ltd          | Continues until terminated | Executed 28 December 2012, to serve as the Company's Chief Financial Officer on a salary of US\$280,000 on a total employment cost basis.                                                 | 1 month with cause or 3 months without cause                                                                                                                | 3 months                               |
| Lee Francis    | Red Fork USA Investments Inc | N/A                        | Salary of US\$280,000 effective 1 January 2013.                                                                                                                                           | Not eligible for a termination benefit                                                                                                                      | -                                      |
| Bruce Miller   | Red Fork Energy Ltd          | 3 years                    | Executed 17 December 2012, to serve as the Company's Executive Director - Resources on a salary of US\$264,900 on a total employment cost basis                                           | 1 month with cause. Without cause, 3 months notice period and 3 months pay, or the Company may elect to pay 6 month salary and dispense with notice period. | 3 months                               |

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

**David Prentice**  
**Chief Executive Officer**

**31 March 2014**

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**Auditor's Independence Declaration  
To the Directors of Red Fork Energy Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Red Fork Energy Limited for the year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner - Audit & Assurance

Perth, 31 March 2014

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## Corporate Governance

### Corporate Governance Statement

The Board and management recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

In accordance with ASX Listing Rule 4.10.3, the corporate governance statement reports on Red Fork Energy Limited's corporate governance practices by reference to the current ASX Corporate Governance Council's (CGC) Principles and Recommendations and the extent to which it has followed the CGC's published guidelines in relation to corporate governance. This statement reflects Red Fork Energy's corporate governance system in place during the 2013 financial year and as at the date of this report. Red Fork's individual Corporate Governance Policies and procedures are available on the Company's website: [www.redforkenergy.com.au](http://www.redforkenergy.com.au).

A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

#### ***Principle 1: Lay Solid Foundations for Management and Oversight***

##### ***1.1 Board Charter***

The day-to-day management of the Company is the responsibility of the Chief Executive Officer ("CEO"), as delegated by the Board. The Board is accountable to shareholders for the performance of the Company. The Board operates under the Board Charter that details its functions, responsibilities and powers and those delegated to management, including the Chairman, the Chief Executive Officer, Non-Executive Directors and the Company Secretary.

The central role of the Board is to set the Company's strategic direction, to select and appoint a CEO and to oversee the Company's management and business activities. In addition to the matters required by law to be approved by the Board, the following powers are also reserved for board decision:

- defining and setting the business objectives and monitoring performance and achievement of those objectives;
- monitoring and approving financial performance and budgets;
- as appropriate, the appointment or removal of the CEO, approving other key executive appointments and plans for executive succession;
- monitoring risk and compliance with legal, regulatory requirements, taking responsibility for risk management processes;
- authorising the issue of shares, options, equity instruments or other securities;
- authorising borrowings and the granting of security over the undertaking of the Company or any of its assets;
- authorising expenditure levels and delegating authority levels;
- ensuring appropriate reporting systems and internal controls are in place and functioning appropriately;
- approving policies of company-wide or general application;
- ensuring that shareholders and the financial market as a whole are fully informed of all material developments in relation to the Company and its operations;
- reviewing and monitoring the performance of its Committees; and
- reporting to and being accountable to shareholders.

On appointment, non-executive directors receive formal letters of service engagement and executive directors are appointed pursuant to employment agreements. These documents detail the terms and conditions of their appointment to the Board of Red Fork Energy. The procedures for appointment of Board members are governed by the Remuneration and Nomination Committee Charter, of which a copy is available on the Company's website.

The Board Charter sets a minimum number of Board meetings each year and provides for the establishment of its Board Committees being, the Audit and Risk Committee, and the Remuneration and Nomination Committee. The Charter also provides minimum standards of ethical conduct expected of the Directors, CEO and other key executives.

These are further elaborated in the Company's Code of Business Ethics and Conduct to guide the Directors, and other key executives in fulfilling their roles.

## ***Principle 2: Structure the Board to Add Value***

### ***2.1 Composition of the Board***

The Board currently comprises of five (5) members, being four (4) non-executive directors including the Chairman and one (1) executive director. The Directors consider that collectively they offer a balance of relevant skills, experience and expertise to fulfill their obligations to the Company, its shareholders and other stakeholders. Details of their skills, experience and expertise and the period of office held by each Director have been included in the Directors' Report. The number of board meetings and the attendance of the Directors are also set out in the Directors' Report.

The non-executive directors collectively contribute operational, accounting and finance expertise, international experience, an understanding of the industry in which Red Fork operates, knowledge of financial markets and an understanding of the Corporate Governance aspects of the Company. The CEO and the Chief Operations Officer ("COO") bring an additional perspective to the Board through a thorough understanding of the business.

The roles of the Chairman and the CEO are not exercised by the same individual. The role of CEO is carried out by Executive Director, Mr David Prentice and Mr Michael Fry is the Chairman of Red Fork Energy. The Board Charter summarises the roles and responsibilities of the Chairman, Mr Michael Fry, the CEO, Mr David Prentice and the Company Secretary, Ms Suzie Foreman.

The Chairman of the Board, Mr Michael Fry is an independent, Non-executive Director and a resident Australian citizen. Mr Fry will retire as a Non-executive Director from the Board at the Annual General Meeting to be held prior to end of May 2014 and a new independent Chairman will be appointed subsequently.

The Chairman is responsible for leadership and effective performance of the Board and for maintenance of the relations between Directors and management.

### ***2.2 Independence of Non-executive Directors and the Chairman of the Board***

The Company expects its Directors to bring independent view and judgment to the Board's deliberations.

In assessing a Director's independence, the Board considers the criteria for independence set out in Recommendation 2.1, including relationships affecting their independent status, and materiality of that relationship, any other information or circumstances that the Board considers to be relevant. The materiality test is subject to the nature of the relationship and the circumstances of the Director and it is considered from the perspective of the Company's, the Director's and the person or entity with which the Director has a relationship. The Board reviews the independence of directors before they are appointed, on an annual basis, and at any other time where circumstances of a director change such as to require assessment.

The Board has reviewed the independence of each of the Directors in office at the date of this report and has determined that Non-executive Directors Mr Michael Fry, Mr William Warnock, Mr Larry Edwards and Mr David Colwell are independent directors. Mr David Prentice is not considered an independent Director as he is an Executive Director and member of Red Fork's management.

Mr Fry's retirement from the Board at the Company's next Annual General Meeting in May 2014 is a part of the Company's continuous Board renewal process to further expand and enhance its composition which saw the Company welcome a new independent Non-executive Director, Mr David Colwell in January 2014 and retirement of former Executive Director, Mr Bruce Miller on 31 December 2013. The Nomination Committee is currently leading the search for a new independent Chairman, and an additional independent non-executive director.

Mr Fry was appointed in April 2004. Although the length of Mr Fry's appointment on Board may be perceived as an interference with Mr Fry's independence as a Director, the Board considered that Mr Fry remains independent given that Mr Fry has never been a member of management and is free of any business or relationship that could materially interfere with or could reasonably be perceived to materially interfere with Mr Fry's independent exercise of his judgement.

Mr Fry holds 1,894,774 fully paid ordinary shares in the Company. Mr Fry is also the Non-executive Chairman of ASX Listed Companies Norwest Energy NL ("NWE") and Challenger Energy Limited ("CEL"). The Board considered that neither his Chairmanships nor his shareholdings, (as he is not a substantial shareholder in Red Fork Energy as defined by the Corporations Act,) interfere with the discharge of his duties to the Company. The Board is satisfied that Mr Fry commits the necessary time to discharge his role effectively.

The Company therefore complies with Recommendation 2.2 in that the Chairman of the Board, Mr Fry is an independent Director.

Mr Edwards is a non-management director of TSX Listed New Flier Industries Inc. (NFI). The Board is satisfied that this position would not interfere with Mr Edward's ability to discharge his duties to the Company.

Mr David Colwell was nominated to the Board during the reporting period and appointed as independent Director on 1 January 2014. Mr Colwell does not have any interest in other listed companies and does not have any relationships with any parties that could materially interfere with his ability to discharge his duties to the Company as an independent director.

The Company therefore complies with Recommendation 2.1 that the majority of its Board members are independent Directors.

The independent status of Directors standing for election or re-election is identified in the notice of Annual General Meeting (AGM). If the Board's assessment of a Director's independence changes, the change is disclosed to the market.

### *2.3 Nomination Committee*

The Nomination Committee was amalgamated with the Remuneration Committee in April 2013. The responsibilities of the combined Remuneration and Nomination Committee include evaluation of the performance of the Board and individual Directors, reviewing overall remuneration strategies, regularly reviewing Board composition to ensure it has the right combination of skills, diversity and expertise for conducting the Company's activities effectively and identifying specific individuals for nomination as Directors and reporting its conclusions to the Board. Where the Committee identifies any existing or projected competency gaps, it recommends a succession plan to the Board that addresses those gaps.

Following the Committee's review during the year, Mr David Colwell was nominated to the Board during the 6 month financial period and subsequently appointed as an independent Non-Executive Director in January 2014 following retirement of an Executive Director on 31 December 2013. The Committee is continuing leading the search for an additional independent Non-Executive Director and an independent Chairman in anticipation of Mr Fry's retirement in May 2014 as a continuation of the Company's Board renewal process and succession planning to address any existing or projected competency gaps.

The Committee's functions and responsibilities are detailed in the Remuneration and Nomination Committee Charter, of which a copy is available on the Company's website.

Key activities undertaken by the Remuneration and Nomination Committee during the year included:

- reviewing the size and composition of the Board;
- making recommendation to the board for the appointment of Non-executives Directors;
- reviewing the Company's remuneration policies and practices, approving the use of independent remuneration consultants to provide recommendations in respect of Red Fork's key management personnel remuneration and considering their advice;
- review of corporate governance aspects of remuneration matters and engagement with key stakeholders in respect of proposed remuneration practices;
- reviewing and approving the Long Term incentive Plan terms which were adopted at the 2013 AGM;
- reviewing and making recommendations to the Board on:
  - the new short term incentive plans for all executives and key management personnel;
  - reviewing the annual Remuneration Report;



#### *2.4 Criteria for selection of Directors*

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least two Directors with experience appropriate to the Company's operational market, in particular senior oil and gas technical personnel with exploration and production relevant experience. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and director-level business experience.

In its evaluation of candidates for the Board, the Committee will have regard to normally accepted nomination criteria, including:

- honesty and integrity;
- the ability to exercise sound business judgement;
- appropriate business experience and professional qualifications;
- absence of conflicts of interest or other legal impediments to serving on the Board;
- willingness to devote the required time; and
- the ability to attend Board and Committee meetings.

The Board is responsible for implementing a program to identify, assess and enhance Director competencies and puts in place succession plans to ensure an appropriate mix of skills, experience, expertise and diversity are maintained on the Board. The Board may engage an independent recruitment firm to undertake a search for suitable candidates. The Company's Director Selection Procedure is governed by the Remuneration and Nomination Committee Charter located on its website.

#### *2.5 Board renewal and succession planning*

The appointment of Directors is governed by the Company's Constitution and the Board Charter. The Remuneration and Nomination Committee is responsible for the selection process of candidates for the Board and Executives and assists the Board with succession planning. The Board as a whole is responsible for appointing the new Directors upon nomination and recommendation by the Committee.

In accordance with the Constitution of the Company, no director except a Managing Director (CEO) shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for election. At least one director must stand for election at each AGM. Any director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM. The Board's support for a Director's re-election is not automatic and is subject to satisfactory Director performance based on the Committee's review of the Directors' performance each year. The Company has not adopted a policy in relation to the retirement or tenure of Directors.

On 1 January 2014, Mr David Colwell was appointed as an additional independent Non-executive Director to the Board upon nomination by the Committee. Mr Colwell brings to Red Fork knowledge in local energy sector and experience gained over 34 years with many multi-international and publicly listed companies.

Mr Colwell is the first of two additional independent non-executive director appointments planned by the Board of Red Fork as a part of its ongoing Board renewal process. This includes the retirement of Mr. Bruce Miller effective 31 December 2013 and appointment of a new Chairman upon Mr Fry's retirement in May 2014.

#### *2.6 Evaluation of the performance of the Board, its Committees and individual Directors*

The performance evaluation process of the Board and individual Directors are the responsibilities of the Remuneration and Nomination Committee. The Board has introduced short term and long term incentive plans that have associated Key Performance Indicators (KPIs) and require an annual performance assessment of Executives against those KPIs by the Remuneration and Nomination Committee. Formal performance reviews of each Executive are conducted in December each year. The Remuneration Report on Section B.2 discloses the process for evaluating the performance of senior executives including the CEO.

The Board is charged with the responsibility of evaluating its Committees' performance in accordance with the Board Charter. The objective of this evaluation is to provide best practice corporate governance to the Company and to ensure proper discharge of Directors' obligations to its shareholders and stakeholders.

## 2.7 Induction and education

New Directors will receive an induction appropriate to their experience. This includes information on the Company's strategy, culture and values, key corporate and board policies, the rights and responsibilities of directors and the role of the Board and its Committees and meeting arrangements. New Directors are encouraged to partake in discussions with the CEO and senior executives and are provided with an option to visit Red Fork's principal operations. When appointed to the Board, new Directors receive a comprehensive letter of appointment or employment agreements for Executive Directors, which sets out the Company's expectations including the time commitment required upon the acceptance of the position and the Board's expectations regarding their involvement in Board Committee work. A summary of duties, rights and responsibilities and a copy of all corporate governance material are also provided.

Directors are encouraged to participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate. The Directors are also regularly provided with documents, presentations and briefings and are also provided with information on industry related and governance matters and new developments which have the potential to affect the Company.

## 2.8 Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making on Board deliberations. Directors have direct access to members of the Company management and to Company information in the possession of management. The Board also has a policy under which individual Directors and Board Committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Chairman. In the situation of a request by the Chairman, approval is required by a majority of Non-executive Directors.

## 2.9 Board Meetings

During the transitional financial year ended 31 December 2013, the Board held five (5) Board meetings.

Details of Directors' attendance at Board meetings are set out in the Table on page 12.

The Chairman, in conjunction with the CEO and the Company Secretary, sets the agenda for each meeting. Any Director may request matters be included on the agenda.

Typically at Board meetings the agenda will include:

- minutes of the previous meeting; and
- matters arising;
- table of registers of related parties and conflicts of interest;
- the COO's report and production data;
- the CFO's report and financial information;
- reports on major projects and current issues;
- specific business proposals;
- reports from the Chairs of the Committees on matters considered at Committee meetings; and
- Corporate and shareholder information.

Copies of Board papers are circulated in advance of the meetings in either electronic or hard copy form. Directors are entitled to request additional information where they consider further information is necessary to support informed decision-making.

On an annual, or more regular basis where determined, the Board approves the overall objectives of business strategy, business plans, budgets and financial statements; and review of statutory obligations and, other responsibilities identified in the Board Charter.

The CFO, COO and the Company Secretary attend meetings of the Board by invitation. Other members of senior management attend Board meetings when a matter under their area of responsibility is being considered or as otherwise requested by the Board.

At each scheduled Board meeting there is a session where Non-executive Directors can meet without a member of management present. This session is led by the Chairman.

The Company Secretary's particulars are set out in the Directors' Report. The appointment and removal of a Company Secretary is a matter for decision by the Board. The Company Secretary is responsible for ensuring that Board

procedures are complied with and that Governance matters are addressed. During the 2013 financial period, Suzie Foreman was the Company Secretary.

### 2.10 Committees of the Board

The Board has the ability under the Company's Constitution to delegate its powers and responsibilities to Committees of the Board. This allows the Directors to spend additional and more focused time on specific issues. The Board currently has two separate Committees to assist in the discharge of its responsibilities. These are the:

- Audit and Risk Committee; and
- Remuneration and Nomination Committee.

The Committees operate principally in a review or advisory capacity, except in cases where powers are specifically conferred on a Committee by the Board. Each Committee has a Charter, detailing its role, duties and membership requirements. The Committee Charters are reviewed regularly and updated as required.

Membership of the Committees is based on Directors' qualifications, skills and experience. Each separate Committee is comprised of:

- only Non-executive Directors;
- at least three members, the majority of whom are independent; and
- a Chairman appointed by the Board who is one of the independent Non-executive Directors.

The Board recognised the departure from ASX Corporate Governance Guidelines best practice in previous years in respect of the separate Committee composition. This was addressed via direct changes to the Board and the Board is now in full compliance with respect to Committee composition and functionality.

The composition of each Committee and details of the attendance of members at meetings held during the year are set out in *the Table in the Directors Report* on page 12.

Minutes of the individual Committee meetings are provided to all Directors and the proceedings of each meeting are reported by the Chairman of the Committee at the next Board meeting.

Prior to the commencement of each year, the Committees now establish an annual agenda for meetings for the coming year with reference to the Committee Charters and other issues the Committee members or Board consider appropriate for consideration by the Committees. This provides a timeline and an agenda for the Committees to focus activities on during the year. The Board is satisfied that the Committees have performed effectively in relation to their Charters.

### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

Red Fork considers that confidence in its integrity can only be achieved if its employees and executives conduct themselves ethically in all of their commercial dealings on the Company's behalf. The Company's Code of Business Ethics and Conduct (or the "Code of Conduct" or the "Code"), Share Trading Policy and Diversity Policy which apply to all Directors, officers, employees, consultants and contractors of the Company and its subsidiaries aim to promote and ensure a culture of high level ethical behavior and appropriate corporate practices.

#### 3.1 Code of Conduct

The Company's Code of Conduct, the Code of Business Ethics and Conduct sets out Red Fork Energy's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards.

Under the Code, all Directors, officers and employees must, amongst other things:

- act honestly, diligently and in good faith at all times in fulfilling their respective functions, and in the best interests of the Company as a whole;
- not take advantage of their position for personal gain, or the gain of their associates; and
- report any actual or potential breaches of the law, the Code or the Company's other policies to the Audit and Risk Committee Chairperson.

The Code also covers matters such as responsibilities to shareholders, sound employment practices, confidentiality, privacy, conflicts of interest and the protection and proper use of Company assets.

The Board sets the tone of legal, ethical and moral conduct to ensure that the Company is considered reputable by the industry and other outside entities. It actively promotes and encourages ethical behavior and protection for those who report violations of the Code or other unlawful or unethical conduct in good faith. Failure to comply with the Code is a serious breach of Red Fork's policy and will be investigated. Breaches range from formal written warning to termination of employment.

A Whistleblower policy demonstrates the Company's ongoing commitment to maintaining an open working environment in which employees and contractors are able to report instances of unethical behavior, unlawful or undesirable conduct without fear of intimidation or reprisal.

The purpose of the Whistle Blower policy is to:

- assist in the detection of unacceptable conduct;
- assist in providing employees and contractors with a supportive working environment in which they can raise issues to a senior level which are of legitimate concern to the Company and themselves in the knowledge that they will be addressed;
- provide a confidential reporting mechanism for unacceptable conduct; and
- provide a protection mechanism for individuals who report unacceptable conduct in good faith.

The Whistleblower Policy is available on the Company's website.

### *3.2 Trading in Company Shares*

Red Fork's Securities Trading Policy applies to all Directors, employees, contractors, consultants and advisors of Red Fork Energy and their associates (including spouses, children, family trusts and family companies) ("Restricted Persons"). The Policy provides a summary of the law on insider trading and other relevant laws and provides restrictions on dealing in Red Fork Energy securities. This Policy is separate from and additional to the legal constraints imposed by the Common Law, the Corporations Act and ASX Listing Rules, however it is closely aligned with these policies and guidelines.

The Policy prohibits Restricted Persons from dealing in the Company's securities when they are in possession of inside information. It also includes restrictions on trading in "closed" periods which include specified periods prior to and following the announcement of annual and half year results, quarterly reporting and other designated "closed" periods that the Board consider relevant to enforce.

Executive Directors and executives participate in the Company's equity based incentive scheme. All Directors and employees are required to seek approval from the Chairman (or in the case of the Chairman, the CEO) and advise the Company Secretary before trading in Red Fork's securities or entering into any other financial arrangement in respect of the Company's securities during the trading windows. All US employees are required to notify the President of USA Operations before dealing in Company securities. The Board periodically reminds Directors, senior executives and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information".

The Board also periodically reminds Directors of their obligations to notify the Company Secretary of any trade in securities to ensure that ASX Listing Rule requirements are met and advises all employees of the "closed" and "open" periods of trading via e-mail correspondence.

Any dealing in the Company's securities by Directors is notified to the ASX within five business days of the trade.

Red Fork has instituted prohibitions on Directors and senior executives from using derivatives or hedging arrangements that operate or are intended to operate to limit the economic risk of security holdings over unvested Company securities. In addition to this, prohibitions contained in the Share Trading Policy and the Company's Remuneration Policy also prohibit Restricted Persons who participate in Red Fork's equity based incentive plans from entering into transactions which would have the effect of hedging. The Company's Remuneration Policy is disclosed in the Remuneration Report and is governed by the Remuneration and Nomination Committee Charter.

The Company will publicly disclose all derivatives or hedging arrangements over vested Red Fork Energy securities taken out by a Director of the Company.

The Company's Share Trading Policy is located on its website.

### 3.3 Conflicts of Interest

The Board has approved Director's Conflict of Interest Guidelines which apply if there is, or may be, a conflict between personal interests of a Director or duties a Director owes to another company, and the duties a Director owes to Red Fork.

The Code of Conduct provides that Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

A register of Conflicts of Interest is tabled at every Board meeting.

### 3.4 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

A register of Related Parties is tabled at every Board meeting.

### 3.4 Diversity Policy

The Company has a diversity policy to provide an environment in which all employees, Directors and consultants are treated with fairness and respect, and have equal access to opportunities available at work regardless of gender, age, disability, marital status, sexual orientation, religion, ethnic or any other area of potential difference. The Policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

Red Fork aims to meet its ongoing commitment to diversity, by amongst other things respecting the unique attributes that each individual brings to the workplace and fostering a culture of inclusiveness.

On an annual basis, the Remuneration and Nomination Committee also assesses and reports to the Board the Company's progress towards achieving its measurable objectives set by the Board for achieving improvements in the diversity mix and specifically on the relative proportion of women and men in the workforce at all levels within the Company.

During the last financial year, the Company developed a diversity strategy with focus on increasing cultural diversity and participation by women in the workforce at all levels within the Company which is still applicable for the transitional financial period ended 31 December 2013. The measurable objectives and the Company's progress towards achieving them are detailed as follows:

| Objective                                                                                                                                                                                                          | Progress                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Increasing cultural diversity within the Company by ensuring this is advised to all external agencies engaged to provide recruitment services, and all prospective employees are treated with fairness and respect | Satisfied – routinely advised to recruitment agencies and senior executives involved in recruitment of prospective employees.                                                                     |
| Increasing participation by women in the workforce at all levels within the Company                                                                                                                                | Partly satisfied with the increase of women in Senior Executive positions from 9% in 2012 to 17% in 2013; and maintain the proportion of women in Red Fork as a whole at 42% at 31 December 2013. |

|                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Specific Diversity Targets by 2016:-</b></p> <ul style="list-style-type: none"> <li>- at least 20% of female representation on Red Fork's Board.</li> <li>- at least 15% of Senior Executive Positions are female.</li> <li>- at least 40% of Red Fork overall staff are female</li> </ul>  | <p>Not fulfilled at 31 December 2013 as the Company was not able to secure suitable female candidates when vacancies have arisen.</p> <p>Satisfied as at 31 December 2013 with 17%.</p> <p>Satisfied as at 31 December 2013 with 42%. The Company will look to maintain this target.</p> |
| <p><b>Specific Diversity Targets by 2020:-</b></p> <ul style="list-style-type: none"> <li>- at least 25% of female representation on Red Fork's Board.</li> <li>- at least 25% of Senior Executive Positions are female.</li> <li>- at least 40% of Red Fork overall staff are female.</li> </ul> | <p>Not fulfilled at 31 December 2013 as the Company was not able to secure suitable female candidates when vacancies have arisen.</p> <p>Not fulfilled at 31 December 2013.</p> <p>Satisfied as at 31 December 2013 with 42%. The Company will look to maintain this target.</p>         |

The Company has 30 permanent employees as at the date of this report (30 June 2013: 31). Although the Company is yet to fulfil its target of having female representation on the Board, it is pleased with its achievement of maintaining its participation by women in senior executive positions at 17% in 2013; and 42% of the Group's employees are women as at 31 December 2013.

The following table illustrates the proportion of full-time equivalent (FTE) women employees in the entire organization, in senior executive positions and on the Board of Red Fork:

|                                            | Actual as at 31 December 2013 (%) | Actual as at 30 June 2013 (%) |
|--------------------------------------------|-----------------------------------|-------------------------------|
| Women on Red Fork's Board                  | 0                                 | 0                             |
| Women in Senior Executive Positions (FTE*) | 17                                | 17                            |
| Women in Red Fork as a whole (FTE*)        | 42                                | 42                            |

FTE includes all full-time and part-time employees of Red Fork and its subsidiaries.

A copy of the Code of Business Ethics and Conduct, Share Trading Policy and Diversity Policy are available on Red Fork Energy Limited website.

#### **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

##### **4.1 Audit and Risk Committee**

The Board is committed to fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company. It has established an Audit and Risk Committee to assist with its oversight responsibilities for the Company's financial reporting process, the system of internal control in relation to matters affecting the Company's financial performance, audit process, risk management procedures and monitoring the Company's compliance with laws and regulations.

The Audit and Risk Committee consists of four (4) members as follows: -

- David Colwell – Non-executive Director and Chair of the Committee
- Larry Edwards – Non-executive Director
- William Warnock – Non-executive Director
- Michael Fry – Non-executive Director and Chairman of Red Fork Energy

Ms Suzie Foreman, the Company Secretary is the Secretary of the Committee

The Audit and Risk Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements, and recommends their approval to the members.

The Audit and Risk Committee Charter sets out the Committee's roles, responsibilities, composition, structure and membership requirements. A copy of the Charter is available on the Company's website. This Charter was reviewed and updated in March 2013.

The Committee Charter requires that the Committee be composed of Directors who are financially literate, with at least one Director possessing accounting or related financial expertise and qualifications and at least one Director who has experience in, and an understanding of the oil and gas industry. The Chairman of the Audit and Risk Committee cannot be the Chairman of the Company.

Mr Colwell, Mr Edwards, Mr Warnock and Mr Fry are voting members of the Committee. They are all independent Non-executive Directors of the Company as disclosed in various other sections of this Statement. Their qualifications and experience are set out on Pages 10 and 11. The Company therefore complies with Recommendation 4.2.

Key activities undertaken by the Audit and Risk Committee during the reporting period included:

- Approval of the scope, plan and audit fees for the transitional 2014 external audit;
- Review of the independence and the performance of the external auditor;
- Consideration of the requirement for an internal audit;
- Review and making recommendations to the Board on amendments to the Committee's charter and the Risk Management Policy;
- Monitoring the systems of internal control;
- Review and recommendation to the Board of the Group's annual financial statements; and meeting with the external auditors without management present.

The CFO, CEO are regular attendees at Audit and Risk Committee meetings. Auditors are invited to attend the Committee meetings at least twice annually.

#### *4.2 External auditor*

The Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, assesses the independence and monitors the performance of the external auditor. The Audit and Risk Committee also reviews any non-audit services proposed to be provided by the auditor and reviews them, in particular to identify any threats to independence which could arise for the provision of non-audit services. The Company's independent external auditor is Grant Thornton Audit Pty Ltd.

The current practice for Grant Thornton Audit Pty Ltd, subject to amendments in the event of legislative change, is for the rotation of the engagement partner for listed entity clients to occur every five years and prohibit the re-involvement of a previous audit partner in the audit service for two years following rotation. Details of analysis of fees paid to the external auditors, including a break-down of any fees for any non-audit services, are located in Note 25 to the Financial Statements. The external auditors also provide an annual declaration of their independence to the Company.

The Company's external auditor is required to attend its Annual General Meeting and be available to answer shareholder questions in relation to the conduct of the audit, its preparation and content of the audit report.

#### **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

Red Fork Energy acknowledges the importance and is committed to ensuring that shareholders and the markets in which its securities are listed are properly informed of matters which may have a material impact on the price at which the securities are traded. Its Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance. The Board has designated the Company Secretary and the CEO as the persons responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX, analysts, brokers, shareholders, the media and the public.

The Board approves any announcement relating to the annual and half year financial reports and any other information for disclosure to the market that contains or relates to financial projections, statements as to the future financial performance or changes to the policy or strategy of the Company when taken as a whole.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.  
The Continuous Disclosure Policy is available on Red Fork Energy's website.

#### **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

The Shareholder Communication Policy sets out the Company's aims and practices in respect of communicating with both current and prospective shareholders. Directors recognise that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. The Shareholder Communication Policy in conjunction with the Continuous Disclosure Policy reinforces the Company's commitment to promoting investor confidence by requiring:

- (a) compliance with the continuous disclosure obligations;
- (b) compliance with insider trading laws;
- (c) compliance with financial reporting obligations;
- (d) all information released to the market to be placed on Red Fork's website promptly following release;
- (e) compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Company;
- (f) all disclosures, including notices of meetings and other shareholder communications to be drafted in a clear, concise, timely and transparent manner; and
- (g) response to shareholder queries in a prompt and courteous manner.

Under the Shareholder Communication Policy, the Company Secretary and CEO have the primary responsibility for communication with shareholders.

The Company acknowledges the importance of effective communication with its shareholders and encourages their participation at general meetings. Given the geographical distance and cost associated with all Directors attending the AGM, the Company has a policy of encouraging overseas Directors to attend the AGM by rotation.

The Company's auditors are also required to attend its annual general meetings and be available to answer shareholder questions about the conduct of the audit, accounting policies adopted by the Company, the preparation and content of the Independent Auditor's Report. Copies of any addresses made by the Chairman or CEO and associated Company presentations are available on the Red Fork website. The outcome of voting on the items of business are disclosed to the market and posted on the Company's website after the AGM.

In addition, the Company makes the following information available on its website on a regular and timely basis:

- all Company announcements released to ASX;
- notices of general meetings and explanatory materials;
- annual reports; and
- most recent information briefings or presentation to the media and analysts.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.  
The Shareholder Communication Policy is available on Red Fork Energy's website.

#### **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

##### **7.1 Risk Management Policy**

Red Fork Energy recognises that risk is inherent to any business activity and that managing risk effectively and providing sound internal controls are critical to the immediate and future success of the Company and are key elements of good corporate governance. As a result, the Board has adopted a Risk Management and Internal Compliance and Control Strategy which sets out the Company's system of risk oversight, management of material business risks and internal control. These are governed by the Audit and Risk Committee Charter.

##### **7.2 Risk oversight**

The Board is ultimately responsible for the oversight and approval of the Company's risk management strategy, policy and key risk parameters. The Audit and Risk Committee assists the Board in fulfilling its obligations in relation to the



Company's risk management systems. Through the Committee, the Board requires management to design and implement a risk management and internal control system to manage the Company's material business risks and to report to it on whether those risks are being managed effectively. The Committee is responsible for liaising with key management in charge of functions including health and safety, financial, legal, environmental and social aspects of the business to identify key risk areas and obtain and provide an independent review of the adequacy of the effectiveness of the Company's risk and management and internal control systems.

The Board is regularly briefed and involved in discussions in relation to any material business risks facing the Company. The Risk Management Policy confers the responsibility to all employees to proactively identify, manage and review and report on risks within their area of accountability and responsibility.

Management is responsible for promoting and applying the Risk Management Policy. Key responsibilities involve:

- Identifying and assessing business and operational risks
- Developing and implementing appropriate risk minimization strategies;
- Monitoring the effectiveness of internal controls; and
- Reporting on risk management capability and performance.

For the transitional financial period ended 31 December 2013, management has reported to the Board that the material risks are being appropriately managed.

### *7.3 Reporting and assurance*

The Board receives regular reports on the Company's financial and operational results.

The Audit and Risk Committee ensures the integrity of the financial statements of the Company and the independence of the external auditor. As detailed in responsibilities of the Audit and Risk Committee, the Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the Board members.

The Company's external auditors are invited to attend the Committee's meeting for discussion in relation to the Company's financial reporting matters and internal control systems without the presence of the Company's Executives.

Before adoption by the Board of the financial and half year financial statements, the Board receives written declaration from:

- i) its management (Chief Executive Officer and Chief Financial Officer) that the financial records of the Company have been properly maintained in accordance with Section 286 of the Corporations Act, and that the Company's financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period;
- ii) the Chief Financial Officer and Chief Executive Officer that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

The Risk Management and Internal Compliance and Control Strategy governed by the Audit and Risk Committee Charter is available on the Red Fork Energy website.

## **PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

### *8.1 Remuneration and Nomination Committee*

The Remuneration Committee was amalgamated with the Nomination Committee in April 2013. The Remuneration and Nomination Committee has delegated responsibilities in relation to the Company's remuneration policies as set out in the Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1.

### *8.2 Role*

The Remuneration and Nomination Committee assists the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and executives.

The Remuneration and Nomination Committee currently consists of four (4) Non-executive Directors, being Mr William Warnock, Mr Larry Edwards, Mr Michael Fry and Mr David Colwell, who are all independent Directors. Miss Suzie Foreman is the secretary of the Committee. The Committee met twice during the financial period.

### *8.3 Responsibilities*

The responsibilities of the Remuneration and Nomination Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors, recommendations for remuneration by gender and making recommendations on any proposed changes and undertaking reviews of the CEO's performance, including, setting with the CEO goals and reviewing progress in achieving those goals. In addition, the Committee undertakes performance evaluation of the Board as a whole to ensure an appropriate size and balance of skills and experience required to manage the Company.

The Committee has established a Remuneration Policy for the Company, of which a copy is available under the Committee's Charter. To ensure that it is fully informed when making remuneration decisions, the Committee draws on services from a range of external sources including professional advice from external remuneration consultants as it sees fit. Red Fork's guidelines on the use of external remuneration consultants sets out requirements to ensure their independence from the Company's management and includes the process for the selection of consultants and their terms of engagement. Remuneration consultants must report directly to the Committee on any remuneration advice in relation to Executives' remuneration.

The Remuneration Report outlines the Director and Executive remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001, the Corporations Regulations and the relevant Accounting Standards. Shareholders will be invited to consider and approve the Remuneration Report at the 2014 AGM.

### *8.4 Non-executive Directors' remuneration policy*

The structure of Non-executive Directors' remuneration is clearly distinguished from that of Executives. Remuneration for Non-executive Directors is fixed. Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses. Neither the Non-executive Directors nor Executives of the Company receive any retirement benefits other than superannuation. The Chairman does not receive equity remuneration benefits. Non-Executive Directors are also entitled to but not necessarily paid statutory superannuation.

The Company's new performance based incentive plans (short term variable incentives) and (long term incentives, which is equity based) are not offered to Non-Executive Directors.

### *Executive directors' remuneration policy*

As noted previously, Executive Directors are employed pursuant to employment agreements and are entitled to participate in the Company's performance based incentive plans (short term variable incentives and long term incentive, which is equity based). Summaries of these employment agreements and their incentive plans are set out in the Remuneration Report.

The Remuneration Policy also contains a prohibition on Directors entering into hedging arrangements to mitigate the risk of changes in value of unvested performance rights by the use of financial instruments. Directors are required to report to the Chairman (or in the case of the Chairman, the CEO) any such arrangements entered into in relation to vested securities, and must occur only within the trading periods allowed under the Securities Trading Policy.

Further details regarding the remuneration arrangements of the Company are set out in the Remuneration Report.

The checklist below summarises the Company's compliance with the Recommendations.

| Principles  | Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Compliance Yes/No | Reference/ Explanation |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------|
| <b>Pr 1</b> | <b>Lay solid foundations for management and oversight</b>                                                                                                                                                                                                                                                                                                                                                                                                                                             |                   |                        |
| Rec 1.1     | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.                                                                                                                                                                                                                                                                                                                                                                   | Yes               | Website and Page 26    |
| Rec 1.2     | Companies should disclose the process for evaluation of the performance of senior executives.                                                                                                                                                                                                                                                                                                                                                                                                         | Yes               | Website and Page 26    |
| Rec 1.3     | Companies should provide the information indicated in the Guide to reporting to Principle 1.                                                                                                                                                                                                                                                                                                                                                                                                          | Yes               | Website and Page 26    |
| <b>Pr 2</b> | <b>Structure the board to add value</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                   |                        |
| Rec 2.1     | A majority of the board should be independent directors.                                                                                                                                                                                                                                                                                                                                                                                                                                              | Yes               | Website and Page 27    |
| Rec 2.2     | The Chairperson should be an independent director.                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Yes               | Website and Page 27    |
| Rec 2.3     | The roles of chairman and chief executive officer should not be exercised by the same individual.                                                                                                                                                                                                                                                                                                                                                                                                     | Yes               | Website and Page 27    |
| Rec 2.4     | The board should establish a nomination committee                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Yes               | Website and Page 28    |
| Rec 2.5     | Companies should disclose the process of evaluating the performance of the board, its committees and individual directors.                                                                                                                                                                                                                                                                                                                                                                            | Yes               | Website and Page 29    |
| Rec 2.6     | Companies should provide the information indicated in the Guide to reporting to Principle 2                                                                                                                                                                                                                                                                                                                                                                                                           | Yes               | Website and Page 29    |
| <b>Pr 3</b> | <b>Promote ethical and responsible decision making</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                |                   |                        |
| Rec 3.1     | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>- the practices necessary to maintain confidence in the company's integrity</li> <li>- the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and</li> <li>- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul> | Yes               | Website and Page 31    |
| Rec 3.2     | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.                                                                                                                                                                         | Yes               | Website and Page 33    |
| Rec 3.3     | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.                                                                                                                                                                                                                                                                                                | Yes               | Website and Page 34    |
| Rec 3.4     | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.                                                                                                                                                                                                                                                                                                                              | Yes               | Website and Page 34    |
| Rec 3.5     | Companies should provide the information indicated in the Guide to reporting on Principle 3.                                                                                                                                                                                                                                                                                                                                                                                                          | Yes               | Website and Page 34    |

| Principles  | Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                         | Compliance<br>Yes/No                 | Reference/<br>Explanation                                                                            |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------------------------------------------------------------------------------------------------|
| <b>Pr 4</b> | <b>Safeguard integrity in financial reporting</b>                                                                                                                                                                                                                                                                                                                                                                                       |                                      |                                                                                                      |
| Rec 4.1     | The board should establish an audit committee.                                                                                                                                                                                                                                                                                                                                                                                          | Yes                                  | Website and<br>Page 34                                                                               |
| Rec 4.2     | The audit committee should be structured so that it:<br>- consists only of non-executive directors;<br><br>- consists of a majority of independent directors;<br><br>- is chaired by an independent chair, who is not the chair of the board; and<br>- has at least three members.                                                                                                                                                      | Yes<br><br>Yes<br><br>Yes<br><br>Yes | Website and<br>Page 35<br>Website and<br>Page 35<br>Website and<br>Page 35<br>Website and<br>Page 35 |
| Rec 4.3     | The audit committee should have a formal charter.                                                                                                                                                                                                                                                                                                                                                                                       | Yes                                  | Website and<br>Page 35                                                                               |
| Rec 4.4     | Companies should provide the information indicated in the Guide to reporting on Principle 4.                                                                                                                                                                                                                                                                                                                                            | Yes                                  | Website and<br>Page 35                                                                               |
| <b>Pr 5</b> | <b>Make timely and balanced disclosure</b>                                                                                                                                                                                                                                                                                                                                                                                              |                                      |                                                                                                      |
| Rec 5.1     | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.                                                                                                                                                                                  | Yes                                  | Website and<br>Page 35                                                                               |
| Rec 5.2     | Companies should provide the information indicated in the Guide to reporting on Principle 5.                                                                                                                                                                                                                                                                                                                                            | Yes                                  | Website and<br>Page 35                                                                               |
| <b>Pr 6</b> | <b>Respect the rights of shareholders</b>                                                                                                                                                                                                                                                                                                                                                                                               |                                      |                                                                                                      |
| Rec 6.1     | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.                                                                                                                                                                                                                  | Yes                                  | Website and<br>Page 36                                                                               |
| Rec 6.2     | Company should provide the information indicated in the Guide to reporting on Principle 6.                                                                                                                                                                                                                                                                                                                                              | Yes                                  | Website and<br>Page 36                                                                               |
| <b>Pr 7</b> | <b>Recognise and manage risk</b>                                                                                                                                                                                                                                                                                                                                                                                                        |                                      |                                                                                                      |
| Rec 7.1     | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.                                                                                                                                                                                                                                                                                               | Yes                                  | Website and<br>Page 36                                                                               |
| Rec 7.2     | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.                                                     | Yes                                  | Website and<br>Page 36                                                                               |
| Rec 7.3     | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes                                  | Website and<br>Page 37                                                                               |
| Rec 7.4     | Companies should provide the information indicated in the Guide to reporting on Principle 7.                                                                                                                                                                                                                                                                                                                                            | Yes                                  | Website and<br>Page 37                                                                               |

| Principles  | Recommendations                                                                                                                                                                             | Compliance<br>Yes/No | Reference/<br>Explanation |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------------|
| <b>Pr 8</b> | <b>Remuneration fairly and responsibly</b>                                                                                                                                                  |                      |                           |
| Rec 8.1     | The board should establish a remuneration committee.                                                                                                                                        | Yes                  | Website and<br>Page 38    |
| Rec 8.2     | The remuneration committee should be structured so that it:<br>- consists of a majority of independent directors<br>- is chaired by an independent director<br>- has at least three members | Yes                  | Website and<br>Page 38    |
| Rec 8.3     | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives                                          | Yes                  | Website and<br>Page 38    |
| Rec 8.4     | Companies should provide the information indicated in the Guide to reporting on Principle 8.                                                                                                | Yes                  | Website and<br>Page 38    |

## Financial Information

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the six months ended 31 December 2013**

|                                                                  |             | <b>CONSOLIDATED</b>                                       |                                                                |
|------------------------------------------------------------------|-------------|-----------------------------------------------------------|----------------------------------------------------------------|
|                                                                  | <b>Note</b> | <b>6 months to<br/>31 December 2013<br/><br/>US\$'000</b> | <b>12 months to<br/>30 June 2013<br/>Restated<br/>US\$'000</b> |
| <b>Sales Revenue</b>                                             | 3           | 26,036                                                    | 18,181                                                         |
| Cost of sales                                                    | 3           | (6,203)                                                   | (6,603)                                                        |
| <b>Gross profit</b>                                              |             | <b>19,833</b>                                             | <b>11,578</b>                                                  |
| Other revenue                                                    | 3           | 213                                                       | 476                                                            |
| Amortisation, depreciation, depletion and rehabilitation expense | 3           | (8,498)                                                   | (15,183)                                                       |
| Administration and other expenses                                | 3           | (2,479)                                                   | (3,098)                                                        |
| Exploration expenses                                             |             | (1,284)                                                   | (5,921)                                                        |
| Employment expenses                                              |             | (2,941)                                                   | (5,077)                                                        |
| Equity based payments                                            |             | (3,210)                                                   | (3,511)                                                        |
| Finance costs                                                    | 3           | (2,293)                                                   | (262)                                                          |
| Loss on foreign exchange movement                                |             | -                                                         | (20)                                                           |
| <b>Loss before income tax expense</b>                            |             | <b>(659)</b>                                              | <b>(21,018)</b>                                                |
| <b>Income tax expense</b>                                        | 4           | <b>-</b>                                                  | <b>-</b>                                                       |
| <b>Net loss for the year</b>                                     | 17          | <b>(659)</b>                                              | <b>(21,018)</b>                                                |
| <b>Other comprehensive income</b>                                |             |                                                           |                                                                |
| Items that may be reclassified subsequently to profit and loss:  |             |                                                           |                                                                |
| Exchange differences on translation of foreign operations        |             | (6,280)                                                   | (18,943)                                                       |
| Foreign exchange gain/(loss) reclassified to equity              |             | 6,166                                                     | 18,400                                                         |
| <b>Other comprehensive loss for the year net of taxes</b>        |             | <b>(114)</b>                                              | <b>(543)</b>                                                   |
| <b>Total comprehensive loss for the year</b>                     |             | <b>(773)</b>                                              | <b>(21,561)</b>                                                |
| <b>Earnings/(Loss) Per Share</b>                                 |             |                                                           |                                                                |
| Basic and diluted loss per share (cents)                         | 22          | (0.14)                                                    | (5.67)                                                         |

*The accompanying notes form part of these financial statements.*

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2013**

|                                        |             | <b>CONSOLIDATED</b>     |                     |                    |
|----------------------------------------|-------------|-------------------------|---------------------|--------------------|
|                                        | <b>Note</b> | <b>31 December 2013</b> | <b>30 June 2013</b> | <b>1 July 2012</b> |
|                                        |             |                         | <b>Restated</b>     | <b>Restated</b>    |
|                                        |             | <b>US\$'000</b>         | <b>US\$'000</b>     | <b>US\$'000</b>    |
| <b>CURRENT ASSETS</b>                  |             |                         |                     |                    |
| Cash and cash equivalents              | 6           | 34,790                  | 3,763               | 20,681             |
| Trade and other receivables            | 7           | 9,352                   | 8,002               | 2,134              |
| Derivative financial instruments       | 11          | 10                      | -                   | -                  |
| Other assets                           | 12          | 3,005                   | 7,812               | 1,198              |
| <b>TOTAL CURRENT ASSETS</b>            |             | <b>47,157</b>           | <b>19,577</b>       | <b>24,013</b>      |
| <b>NON-CURRENT ASSETS</b>              |             |                         |                     |                    |
| Exploration and evaluation expenditure | 8           | 19,131                  | 21,320              | 30,434             |
| Development and production assets      | 9           | 190,582                 | 106,452             | 29,853             |
| Plant, equipment and pipeline          | 10          | 42,607                  | 34,668              | 14,687             |
| Other assets                           | 12          | 466                     | 481                 | 65                 |
| <b>TOTAL NON-CURRENT ASSETS</b>        |             | <b>252,786</b>          | <b>162,921</b>      | <b>75,039</b>      |
| <b>TOTAL ASSETS</b>                    |             | <b>299,943</b>          | <b>182,498</b>      | <b>99,052</b>      |
| <b>CURRENT LIABILITIES</b>             |             |                         |                     |                    |
| Trade and other payables               | 13          | 39,507                  | 35,065              | 8,107              |
| Interest-bearing loans and borrowings  | 14          | -                       | 25,000              | -                  |
| Other financial liabilities            |             | 10                      | 11                  | 98                 |
| <b>TOTAL CURRENT LIABILITIES</b>       |             | <b>39,517</b>           | <b>60,076</b>       | <b>8,205</b>       |
| <b>NON CURRENT LIABILITIES</b>         |             |                         |                     |                    |
| Interest-bearing loan                  | 14          | 94,373                  | -                   | -                  |
| Other financial liabilities            |             | -                       | -                   | 100                |
| Restoration provision                  | 15          | 405                     | 400                 | 347                |
| <b>TOTAL NON-CURRENT LIABILITIES</b>   |             | <b>94,778</b>           | <b>400</b>          | <b>447</b>         |
| <b>TOTAL LIABILITIES</b>               |             | <b>134,295</b>          | <b>60,476</b>       | <b>8,652</b>       |
| <b>NET ASSETS</b>                      |             | <b>165,648</b>          | <b>122,022</b>      | <b>90,400</b>      |
| <b>EQUITY</b>                          |             |                         |                     |                    |
| Issued capital                         | 16          | 208,000                 | 165,810             | 113,913            |
| Reserves                               | 18          | 6,076                   | 3,998               | 3,700              |
| Accumulated losses                     | 17          | (48,428)                | (47,786)            | (27,213)           |
| <b>TOTAL EQUITY</b>                    |             | <b>165,648</b>          | <b>122,022</b>      | <b>90,400</b>      |

*The accompanying notes form part of these financial statements.*



**STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 31 December 2013**

**CONSOLIDATED**

|                                                                 |      | Issued<br>Capital | Accumulated<br>Losses | Share<br>Based<br>Payment<br>Reserve | Foreign<br>Currency<br>Translation<br>Reserve | Total           |
|-----------------------------------------------------------------|------|-------------------|-----------------------|--------------------------------------|-----------------------------------------------|-----------------|
|                                                                 | Note | US\$'000          | US\$'000              | US\$'000                             | US\$'000                                      | US\$'000        |
| <b>Balance at 1 July 2012</b>                                   |      | 113,913           | (18,630)              | 2,352                                | 1,347                                         | 98,982          |
| Adjustment on change in accounting policy                       | 2    | -                 | (8,582)               | -                                    | -                                             | (8,582)         |
| <b>Balance at 1 July 2012 (restated)</b>                        |      | <b>113,913</b>    | <b>(27,212)</b>       | <b>2,352</b>                         | <b>1,347</b>                                  | <b>90,400</b>   |
| Reported loss for the year                                      |      | -                 | (5,089)               | -                                    | -                                             | (5,089)         |
| Adjustment on change in accounting policy                       | 2    | -                 | (15,929)              | -                                    | -                                             | (15,929)        |
| Exchange difference arising on translation of foreign operation |      | -                 | -                     | -                                    | (18,943)                                      | (18,943)        |
| Foreign exchange loss reclassified to equity                    |      | -                 | -                     | -                                    | 18,400                                        | 18,400          |
| <b>Total comprehensive loss for the year (restated)</b>         |      | <b>-</b>          | <b>(21,018)</b>       | <b>-</b>                             | <b>(543)</b>                                  | <b>(21,561)</b> |
| Shares issued during the year                                   |      | 52,317            | -                     | -                                    | -                                             | 52,317          |
| Capital raising costs                                           |      | (2,705)           | -                     | -                                    | -                                             | (2,705)         |
| Conversion of options                                           |      | 60                | -                     | (19)                                 | -                                             | 41              |
| Conversion of performance rights                                |      | 2,225             | -                     | (2,225)                              | -                                             | -               |
| Expired and cancelled options and performance rights            |      | -                 | 444                   | (827)                                | -                                             | (383)           |
| Recognition of share based payments                             | 29   | -                 | -                     | 3,913                                | -                                             | 3,913           |
| <b>Balance at 30 June 2013 (restated)</b>                       |      | <b>165,810</b>    | <b>(47,786)</b>       | <b>3,194</b>                         | <b>804</b>                                    | <b>122,022</b>  |
| <b>Balance at 1 July 2013 (restated)</b>                        |      | 165,810           | (47,786)              | 3,194                                | 804                                           | 122,022         |
| Loss for the period                                             |      | -                 | (659)                 | -                                    | -                                             | (659)           |
| Exchange difference arising on translation of foreign operation |      | -                 | -                     | -                                    | (6,280)                                       | (6,280)         |
| Foreign exchange loss reclassified to equity                    |      | -                 | -                     | -                                    | 6,166                                         | 6,166           |
| <b>Total comprehensive loss for the period</b>                  |      | <b>-</b>          | <b>(659)</b>          | <b>-</b>                             | <b>(114)</b>                                  | <b>(773)</b>    |
| Shares issued during the period                                 |      | 43,918            | -                     | -                                    | -                                             | 43,918          |
| Capital raising costs                                           |      | (2,729)           | -                     | -                                    | -                                             | (2,729)         |
| Conversion of performance rights                                |      | 1,001             | -                     | (1,001)                              | -                                             | -               |
| Expired and cancelled options and performance rights            |      | -                 | 17                    | (17)                                 | -                                             | (17)            |
| Recognition of share based payments                             | 29   | -                 | -                     | 3,210                                | -                                             | 3,210           |
| <b>Balance at 31 December 2013</b>                              |      | <b>208,000</b>    | <b>(48,428)</b>       | <b>5,386</b>                         | <b>690</b>                                    | <b>165,648</b>  |

*The accompanying notes form part of these financial statements*

**STATEMENT OF CASH FLOWS**  
**For the six months ended 31 December 2013**

|                                                             |       | CONSOLIDATED                                   |                                             |
|-------------------------------------------------------------|-------|------------------------------------------------|---------------------------------------------|
|                                                             | Note  | 6 months to<br>31 December<br>2013<br>US\$'000 | 12 months to<br>30 June<br>2013<br>US\$'000 |
| <b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>              |       |                                                |                                             |
| Receipts from sales                                         |       | 22,823                                         | 16,144                                      |
| Payments to suppliers and employees                         |       | (10,565)                                       | (12,285)                                    |
| Interest received                                           |       | 33                                             | 490                                         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>            | 19(a) | <b>12,291</b>                                  | <b>4,349</b>                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |       |                                                |                                             |
| Payments for exploration activities                         |       | (3,406)                                        | (3,106)                                     |
| Payments for development activities                         |       | (75,979)                                       | (69,906)                                    |
| Payments for property, plant and equipment                  |       | (6,402)                                        | (21,632)                                    |
| Payments for acquisition of oil and gas properties          |       | (4,502)                                        | -                                           |
| <b>NET CASH (USED IN) INVESTING ACTIVITIES</b>              |       | <b>(90,289)</b>                                | <b>(94,644)</b>                             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |       |                                                |                                             |
| Proceeds from issue of shares and options                   |       | 43,918                                         | 52,377                                      |
| Transaction costs on issue of shares                        |       | (2,677)                                        | (2,705)                                     |
| Proceeds from borrowings                                    |       | 120,000                                        | 25,000                                      |
| Repayments of borrowings                                    | 14    | (45,000)                                       | -                                           |
| Borrowing costs, including capitalised finance fees         |       | (7,190)                                        | (262)                                       |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>            |       | <b>109,051</b>                                 | <b>74,410</b>                               |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> |       | <b>31,053</b>                                  | <b>(15,885)</b>                             |
| Cash at beginning of the period                             |       | 3,763                                          | 20,681                                      |
| Effect of exchange rates on cash                            |       | (26)                                           | (1,033)                                     |
| <b>CASH AT END OF PERIOD</b>                                | 19(b) | <b>34,790</b>                                  | <b>3,763</b>                                |

*The accompanying notes form part of these financial statements.*

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of preparation**

The financial report includes the consolidated financial statements and notes of Red Fork Energy Limited (RFE) and its wholly owned subsidiaries Red Fork (USA) Investments Inc. and EastOk Pipeline LLC. (collectively, the "Company", "Consolidated Entity" or "Group").

The financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

#### **Functional and presentation currency**

The consolidated financial statements are presented in United States dollars (US\$), which is the Group's presentation currency unless otherwise stated.

#### **Rounding**

The amounts in the financial statements for the current financial year and its comparatives have been rounded off to the nearest US\$1,000 under the provision of ASIC Class Order 98/100.

#### **Change in Financial Year End Date**

The Australian Securities and Investments Commission ("ASIC") granted relief to enable the Company to change its financial year end date from 30 June to 31 December effective 1 July 2013 in accordance with section 323D(2A) of the *Corporations Act 2001*. The change of year end has been made in order to align with the US subsidiary and peer companies operating in the US. The Company has a six month transitional financial year beginning on 1 July 2013 and ending on 31 December 2013. Hereafter, the Company will revert to a twelve month financial year commencing on 1 January and ending 31 December.

#### **Accounting Policies**

The accounting policies detailed below have been consistently applied to all the years presented unless otherwise stated.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

#### **Going Concern**

The financial report for the six months ended 31 December 2013 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realization of assets and extinguishment of liabilities in the ordinary course of business. For the period ended 31 December 2013 the Group recorded a net loss of \$0.7 million (June 2013: \$21.0 million) total equity of \$166 million (June 2013: \$122 million) and had working capital surplus of \$7.6 million (June 2013: deficit of \$40.5 million).

In November 2013 Red Fork (USA) Investments, Inc., a wholly owned subsidiary of the Group, entered into a credit agreement with Guggenheim Partners, LLC ("Guggenheim") of up to US \$150 million secured term loan ("Secured Loan"). At December 31, 2013, the Group has borrowed \$100 million under the Secured Loan (See note 14 Interest-Bearing Loans). Under the terms of the credit agreement, the Group has quarterly covenant reporting obligations, and the Group was in compliance with these covenants at 31 December 2013. The Group anticipates it will be in breach of certain covenants as at 31 March 2014 and accordingly it has obtained a waiver from Guggenheim in respect of those anticipated breaches as of that date.

In addition, on March 21, 2014, the Group executed a sale and purchase agreement for the sale of certain non-core assets. The transaction closed on March 31, 2014 with approximate proceeds of US\$11 million (subject to any post-closing adjustments). The proceeds will be used to strengthen the Group's balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company is also working to formulate a revised 2014 Forward Development Plan. The goal of this plan is to optimize the further development of the Group's assets. Future funding of this plan will be dependent upon the generation of positive cash-flow from operations, the success of future capital raisings (if required), and the proceeds from divestment of non-core assets and future borrowings.

The Group is currently in discussions with Guggenheim to reset the loan covenants for the remainder of the year so that they will be consistent with the 2014 Forward Development Plan, and expects to complete this process with Guggenheim in April 2014.

The allocation of capital required in the execution of a revised 2014 Forward Development Plan will be at the discretion of the Directors, and will be considered in the light of working capital requirements.

Based on the above, the Directors consider the going concern basis of preparation to be appropriate for this financial report.

**(b) Adoption of new and revised standards  
Changes in accounting policies**

During the reporting period ended 31 December 2013, the Group adopted a voluntary change in accounting policy for its oil and gas exploration and development activities (refer to Note 2).

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information of these new standards is presented below.

**AASB 10 Consolidated Financial Statements**

AASB 10 supersedes AASB 127 *Consolidated and Separate Financial Statements* (AASB 127) and AASB Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

**AASB 11 Joint Arrangements**

AASB 11 supersedes AASB 131 *Interests in Joint Ventures* (AAS 131) and AASB Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. AASB 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, AASB 131's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. AASB 11 now requires the use of the equity method for arrangement classified as joint ventures (as for investments in associates).

**AASB 12 Disclosure of interests in Other Entities**

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

**Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures**

AASB 127 now only addresses separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**AASB 13 Fair Value Measurement**

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

**Amendments to AASB 119 Employee Benefits**

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant related to defined benefit plans. The amendments:

- eliminate the “corridor method” and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

The Group has reviewed the above new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies apart from the voluntary change in accounting policy as disclosed in Note 2.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 31 December 2013. As a result of this review the Group has determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies apart from the voluntary change in accounting policy as disclosed in Note 2.

**(c) Statement of compliance**

The consolidated general purpose financial statements for the period ended 31 December 2013 were approved and authorised for issue on 31 March 2014.

The consolidated financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**(d) Basis of consolidation**

The Group financial statements consolidate those of the parent entity and all of its subsidiaries as of 31 December 2013. The parent entity controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the reporting period are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

**(e) Income Tax**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(f) Exploration and Evaluation**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
  - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
  - (b) exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

The Group has changed in the accounting method for oil and gas exploration and development activities by the adoption of “successful efforts” method as opposed to “full cost” method effective 1 July 2013.

Under the successful efforts method, exploration expenditure which is either general in nature or relates to unsuccessful drilling operations, including geological and geophysical expenses applicable to undeveloped leasehold and leasehold exploration costs, are expensed as incurred. Only costs which relate to successful wells, development of dry holes and leases containing productive reserves are capitalised and amortised over the lives of the related reserves. The success or failure of each exploration effort is judged on a well-by-well basis as each potentially hydrocarbon-bearing structure is identified and tested.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to production assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Provision for Restoration and Rehabilitation**

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

**(h) Trade and Other Payables**

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 to 45 days of recognition.

**(i) Cash and Cash Equivalents**

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purpose of the Statement of Cash Flows, cash includes on hand and other funds held at call net of bank overdrafts.

**(j) 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 Australian Tax Office ("ATO"). 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.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(k) Foreign Currency**

*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 "functional" currency). The consolidated financial statements are presented in US dollars.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 assets and liabilities are translated at the exchange rate at Statement of Financial Position date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of transaction.

Exchange differences arising on the translation of monetary items are recognized in the Statement of Comprehensive Income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Translation differences arising on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the reserves within equity.

*Foreign operations*

The financial performance 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 exchange rates prevailing at Statement of Financial Position date.
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve as a separate component of equity. These differences are recognised in the Statement of Comprehensive Income upon disposal of the foreign operation.

**(l) Earnings Per Share**

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

**(m) Reclassifications**

Certain reclassifications have been made to the prior year financial statements and associated notes to the financial statements too conform to the current year presentation.

**(n) Trade and Other Receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at the nominal amount due.

**(o) Issued Capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(p) Operating Leases**

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

*(i) Interest*

Interest revenue is recognised when control of the right to receive the interest payment.

*(ii) Oil and Gas Sales*

Revenue from the sale of oil and gas is recognised under the sales method which is based on the amounts actually sold. Revenue is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the products. This occurs at the point of transfer of the product to the purchasers' transportation mode, either truck or pipeline.

**(r) Employee Benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and other employee benefits expected to be settled wholly within twelve months of the reporting date are measured at their undiscounted nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. Employee benefits that are expected to be settled later than one year (including any annual leave entitlements which are not used within one year) are measured at the present value of the estimated future cash flows.

Employee benefits expenses and revenues arise in respect of the following categories:

- Employment expenses comprise wages and salary payments non-monetary benefits, annual leave, sick leave and other leave benefits; and
- other types of employee benefits are recognised against earnings on a net basis in their respective categories.

**(s) Financial Instruments**

*Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified at fair value through profit or loss. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised when the contractual right 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 derecognised when the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- i) **Receivables**  
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 using the effective interest rate method.
- ii) **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 using the effective interest rate method.
- iii) **Loans and borrowings** are non-derivative financial liabilities and are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

**(t) Property, Plant & Equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Gas pipeline – over 50 years

Pipeline processing equipment – over 10 years

Software, office equipment and other assets – 3 to 7 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*(ii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Impairment of Non-Financial Assets**

The Consolidated Entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Consolidated Entity makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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.

**(v) Share-Based Payment Transactions**

*(i) Equity settled transactions:*

The Group has a Performance Rights Plan which provides equity based awards to key management personnel and employees. The Remuneration Committee approves the grant of such Performance Rights as incentives to attract and maintain the long term commitment of executives to the Company.

The cost of the awards are measured by reference to the fair value of the equity instrument on the grant date and they are amortised as an expense in profit or loss over the period in which the performance and service conditions are fulfilled (vesting) period.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Consolidated Entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**(w) Production Assets**

Production assets are carried at cost and include construction, installation or completion of wells, transferred exploration and evaluation assets, development wells and the cost of dismantling and restoration.

Subsequent capital costs, including major maintenance, are included in the asset's carrying amount 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. Otherwise costs are charged to profit or loss during the financial period in which they are incurred.

All capitalised costs are amortised on the units of production method using estimates of proved reserves.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(x) Significant accounting estimates, assumptions and judgements**

The preparation of the financial statements requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to impairment calculations, production assets and restoration provisions. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

***Estimates of Reserve Quantities***

The estimated quantities of hydrocarbon reserves reported by the consolidated entity are integral to the calculation of amortisation (depletion), depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical, models and assessment of the technical feasibility and commercial viability of producing the reserves. Management relies on independent third party reserve estimates which conform to guidelines prepared by the Society of Petroleum Engineers. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

***Depletion and Depreciation***

The Consolidated Entity uses the unit-of-production reserve depletion model to calculate amortisation and depreciation on capitalised expenditure relating to oil and gas assets. Proved (1P) reserves is used as a denominator for amortisation purposes under the Units of Production Methodology. This method necessitates the estimation of oil and gas reserves over which the carrying value of the relevant assets will be expensed to the statement of comprehensive income. The calculation of oil and gas reserves is complex and requires the use of estimates and assumptions by management of commodity prices, future production costs and geological structures. Reserve estimation aims to provide a statistically probable outcome in relation to the economically recoverable reserve, which may not on a yearly basis reflect the percentage of reserves depleted. However over the life of the producing assets all capitalised costs will be expensed to profit or loss.

***Provision for restoration***

The Consolidated Entity estimates the future removal and rehabilitation costs of production assets in order to determine its provision for restoration. In many instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology used for estimating cost and liability specific discount rates to determine the present value of those cash flows.

***Share-based Payments***

The Group's policy for stock based compensation is discussed in Note 1(v). The application of this policy requires the directors to make certain estimates and assumptions as to future events and circumstances relating to the stock's vesting.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Impairment of assets***

In determining the recoverable amount of assets, in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

***Exploration and evaluation***

The Consolidated Entity's accounting policy for exploration and evaluation assets is set out in Note 1 (f). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Consolidated Entity concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**2. VOLUNTARY CHANGE IN ACCOUNTING POLICY**

The financial report has been prepared on the basis of a retrospective application of a voluntary change in accounting method for oil and gas exploration and development activities by the adoption of the “successful efforts” method as opposed to a “full cost” method.

Under the successful efforts method, exploration expenditure which is either general in nature or relates to unsuccessful drilling operations, including geological and geophysical expenses applicable to undeveloped leasehold and leasehold exploration costs, are expensed as incurred. Only costs which relate to successful wells, development of dry holes and leases containing productive reserves are capitalised and amortised over the lives of the related reserves. The success or failure of each exploration effort is judged on a well-by-well basis as each potentially hydrocarbon-bearing structure is identified and tested.

In accordance with accounting under the successful efforts method of accounting, the Group reviews proved oil and gas properties for indications of impairment whenever events or circumstances indicate that the carrying value of its oil and gas properties may not be recoverable from the anticipated future net revenue from the oil and gas reserves.

Management believes that the change in accounting method will result in the financial report providing more relevant and reliable information because the Company has focused on exploration activities wherein there is risk associated with future success, and as such, earnings are best represented by attachment to the drilling operations of the Company.

The new accounting method was adopted on 1 July 2013 and has been applied retrospectively. Comparative figures for the financial year ended 30 June 2013 have been restated to reflect the change in accounting method. In addition, the Group has reclassified the field plant and equipment from “Other plant and equipment” to “Pipeline, plant and field equipment”.

In accordance with *AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors*, the impact of the change in accounting method on the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity for the financial year ended 30 June 2013 is set out below:

| <b>CONSOLIDATED</b>                                                            |                            |                     |
|--------------------------------------------------------------------------------|----------------------------|---------------------|
| <b>Financial Report Line Item / Balance Affected</b>                           | <b>Previously Reported</b> | <b>Restated</b>     |
|                                                                                | <b>12 months to</b>        | <b>12 months to</b> |
|                                                                                | <b>30 June 2013</b>        | <b>30 June 2013</b> |
|                                                                                | <b>US\$'000</b>            | <b>US\$'000</b>     |
| <b>A. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (EXTRACT)</b> |                            |                     |
| <b>Expenses</b>                                                                |                            |                     |
| Cost of sales                                                                  | 6,867                      | 6,603               |
| Exploration expense                                                            | -                          | 5,921               |
| Amortisation, depreciation and rehabilitation expense                          | 4,760                      | 15,183              |
| Administration and other expenses                                              | 3,249                      | 3,098               |
| <b>Loss before income tax expense</b>                                          | <b>(5,089)</b>             | <b>(21,018)</b>     |
| <b>Net loss for the year</b>                                                   | <b>(5,089)</b>             | <b>(21,018)</b>     |
| <b>Total comprehensive loss for the year</b>                                   | <b>(5,632)</b>             | <b>(21,561)</b>     |
| <b>Earnings/(Loss) per share</b>                                               |                            |                     |
| Basic and diluted loss per share (cents)                                       | (1.37)                     | (5.67)              |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**2. VOLUNTARY CHANGE IN ACCOUNTING POLICY (CONTINUED)**

| Financial Report Line Item / Balance Affected       | CONSOLIDATED        |                 |                 |
|-----------------------------------------------------|---------------------|-----------------|-----------------|
|                                                     | Previously Reported | Restated        | Restated        |
|                                                     | 30 June 2013        | 30 June 2013    | 1 July 2012     |
|                                                     | US\$'000            | US\$'000        | US\$'000        |
| <b>B. STATEMENT OF FINANCIAL POSITION (EXTRACT)</b> |                     |                 |                 |
| <b>Non-Current Assets</b>                           |                     |                 |                 |
| Exploration and evaluation expenditure              | 27,993              | 21,320          | 30,434          |
| Development and production assets                   | 124,290             | 106,452         | 29,853          |
| <b>Total Non-Current Assets</b>                     | <b>186,966</b>      | <b>162,921</b>  | <b>75,039</b>   |
| <b>Total Assets</b>                                 | <b>207,009</b>      | <b>182,498</b>  | <b>99,052</b>   |
| <b>Net Assets</b>                                   | <b>146,533</b>      | <b>122,022</b>  | <b>90,400</b>   |
| <b>Equity</b>                                       |                     |                 |                 |
| Accumulated losses                                  | (23,275)            | (47,786)        | (27,213)        |
| <b>Total Equity</b>                                 | <b>146,533</b>      | <b>122,022</b>  | <b>90,400</b>   |
| <b>C. STATEMENT OF CHANGES IN EQUITY (EXTRACT)</b>  |                     |                 |                 |
| Accumulated Losses:                                 |                     |                 |                 |
| Reported loss for the year                          | (5,089)             | (5,089)         | (6,254)         |
| Adjustment on change in accounting policy           | -                   | (15,929)        | (8,582)         |
| <b>Total comprehensive loss for the year</b>        | <b>(5,632)</b>      | <b>(21,561)</b> | <b>(14,988)</b> |
| <b>Closing Balance at 30 June</b>                   | <b>146,533</b>      | <b>122,022</b>  | <b>90,400</b>   |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**2. VOLUNTARY CHANGE IN ACCOUNTING POLICY (CONTINUED)**

| Financial Report Line Item / Balance Affected | CONSOLIDATED             |                          |
|-----------------------------------------------|--------------------------|--------------------------|
|                                               | Previously Reported      | Restated                 |
|                                               | 30 June 2013<br>US\$'000 | 30 June 2013<br>US\$'000 |

**D. NOTES TO THE FINANCIAL STATEMENTS (EXTRACT)**

**NOTE 3. REVENUES AND EXPENSES (EXTRACT)**

**(b) Cost of Sales**

|                          |              |              |
|--------------------------|--------------|--------------|
| Lease operation expenses | 4,788        | 4,524        |
| <b>Total</b>             | <b>6,867</b> | <b>6,603</b> |

**(c) Amortisation, depreciation and rehabilitation expense**

|                                   |              |               |
|-----------------------------------|--------------|---------------|
| Amortisation of production assets | 3,564        | (841)         |
| Amortisation of pipeline assets   | 705          | 988           |
| Depreciation expense              | 524          | 15,024        |
| Rehabilitation expense            | (33)         | 12            |
| <b>Total</b>                      | <b>4,760</b> | <b>15,183</b> |

**(d) Administration and other expenses**

|                 |              |              |
|-----------------|--------------|--------------|
| Consultant fees | 970          | 949          |
| Other expenses  | 618          | 487          |
| <b>Total</b>    | <b>3,249</b> | <b>3,098</b> |

**NOTE 8. EXPLORATION AND EVALUATION EXPENDITURE (EXTRACT)**

**Pre-production**

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| Exploration and evaluation phases | <b>27,933</b> | <b>21,320</b> |
|-----------------------------------|---------------|---------------|

**NOTE 9. DEVELOPMENT AND PRODUCTION ASSETS (EXTRACT)**

|                                         |                |                |
|-----------------------------------------|----------------|----------------|
| At cost                                 | 133,037        | 124,555        |
| Accumulated depreciation and impairment | (8,747)        | (18,103)       |
| <b>Total</b>                            | <b>124,290</b> | <b>106,452</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**2. VOLUNTARY CHANGE IN ACCOUNTING POLICY (CONTINUED)**

| Financial Report Line Item / Balance Affected                                          | CONSOLIDATED             |                          |
|----------------------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                                        | Previously<br>Reported   | Restated                 |
|                                                                                        | 30 June 2013<br>US\$'000 | 30 June 2013<br>US\$'000 |
| <b>NOTE 10. PLANT, EQUIPMENT AND PIPELINE (EXTRACT)</b>                                |                          |                          |
| <b>Pipeline, plant and field equipment</b>                                             |                          |                          |
| At cost                                                                                | 21,287                   | 35,679                   |
| Accumulated depreciation and impairment                                                | (1,556)                  | (12,157)                 |
| Total                                                                                  | <b>19,731</b>            | <b>23,522</b>            |
| <b>Other plant and equipment</b>                                                       |                          |                          |
| At cost                                                                                | 16,006                   | 1,614                    |
| Accumulated depreciation and impairment                                                | (1,069)                  | (817)                    |
| Total                                                                                  | <b>14,937</b>            | <b>797</b>               |
| <b>NOTE 17. ACCUMULATED LOSSES (EXTRACT)</b>                                           |                          |                          |
| Net loss for the year                                                                  | (5,089)                  | (21,018)                 |
| Change in accounting policy                                                            | -                        | (8,582)                  |
| Balance at the end of the year                                                         | <b>(23,275)</b>          | <b>(47,786)</b>          |
| <b>NOTE 19. CASH FLOW INFORMATION (EXTRACT)</b>                                        |                          |                          |
| <b>(a) Reconciliation of net loss after tax to the net cash flows from operations:</b> |                          |                          |
| Net loss for the year                                                                  | (5,089)                  | (21,018)                 |
| <b>Cash flows excluded from profit/loss attributable to operating activities</b>       |                          |                          |
| Exploration costs                                                                      | -                        | 5,921                    |
| <b>Non-cash items</b>                                                                  |                          |                          |
| Amortisation, depreciation and rehabilitation expense                                  | 4,760                    | 15,183                   |

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|            |                                                                         | <b>CONSOLIDATED</b>                                  |                                                   |
|------------|-------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------|
|            |                                                                         | <b>6 months to<br/>31 December 2013<br/>US\$'000</b> | <b>12 months to<br/>30 June 2013<br/>US\$'000</b> |
| <b>3.</b>  | <b>REVENUES AND EXPENSES</b>                                            |                                                      |                                                   |
| <b>(a)</b> | <b>Revenue</b>                                                          |                                                      |                                                   |
|            | <i>Sales revenue</i>                                                    |                                                      |                                                   |
|            | Oil sales                                                               | 21,709                                               | 13,246                                            |
|            | Gas sales                                                               | 3,607                                                | 4,036                                             |
|            | Miscellaneous sales                                                     | 720                                                  | 899                                               |
|            |                                                                         | <b>26,036</b>                                        | <b>18,181</b>                                     |
|            | <i>Other Revenue</i>                                                    |                                                      |                                                   |
|            | Interest received                                                       | 35                                                   | 476                                               |
|            | Foreign exchange gain                                                   | 8                                                    | -                                                 |
|            | Hedging gain                                                            | 170                                                  | -                                                 |
|            |                                                                         | <b>213</b>                                           | <b>476</b>                                        |
| <b>(b)</b> | <b>Cost of Sales</b>                                                    |                                                      |                                                   |
|            | Lease operating expenses                                                | 4,926                                                | 4,524                                             |
|            | Production expenses                                                     | 1,277                                                | 2,079                                             |
|            |                                                                         | <b>6,203</b>                                         | <b>6,603</b>                                      |
| <b>(c)</b> | <b>Amortisation, depreciation, depletion and rehabilitation expense</b> |                                                      |                                                   |
|            | Amortisation and depletion of production assets                         | 7,126                                                | (841)                                             |
|            | Amortisation of pipeline assets                                         | 1,235                                                | 988                                               |
|            | Depreciation expense                                                    | 129                                                  | 15,024                                            |
|            | Rehabilitation expense                                                  | 8                                                    | 12                                                |
|            |                                                                         | <b>8,498</b>                                         | <b>15,183</b>                                     |
| <b>(d)</b> | <b>Administration and other expenses</b>                                |                                                      |                                                   |
|            | Administration expenses                                                 | 76                                                   | 163                                               |
|            | Consultant fees                                                         | 1,016                                                | 949                                               |
|            | Compliance and share registry fees                                      | 436                                                  | 626                                               |
|            | Travel expenses                                                         | 221                                                  | 597                                               |
|            | Occupancy expenses                                                      | 156                                                  | 276                                               |
|            | Other expenses                                                          | 574                                                  | 487                                               |
|            |                                                                         | <b>2,479</b>                                         | <b>3,098</b>                                      |
| <b>(e)</b> | <b>Finance costs</b>                                                    |                                                      |                                                   |
|            | Interest expense                                                        | 2,075                                                | 262                                               |
|            | Amortisation of deferred loan costs                                     | 218                                                  | -                                                 |
|            |                                                                         | <b>2,293</b>                                         | <b>262</b>                                        |

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                                                                                                            |  | <b>CONSOLIDATED</b>     |                     |
|----------------------------------------------------------------------------------------------------------------------------|--|-------------------------|---------------------|
|                                                                                                                            |  | <b>6 months to</b>      | <b>12 months to</b> |
|                                                                                                                            |  | <b>31 December 2013</b> | <b>30 June 2013</b> |
|                                                                                                                            |  | <b>US\$'000</b>         | <b>US\$'000</b>     |
| <b>4. INCOME TAX EXPENSE</b>                                                                                               |  |                         |                     |
| The components of tax expense comprise:                                                                                    |  |                         |                     |
| Current tax                                                                                                                |  | -                       | -                   |
| Deferred tax                                                                                                               |  | -                       | -                   |
|                                                                                                                            |  | -                       | -                   |
|                                                                                                                            |  | -                       | -                   |
| The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows: |  |                         |                     |
| Prima facie tax benefit on loss from ordinary activity before income tax at 30% (30 June 2013: 30%)                        |  | (198)                   | (6,305)             |
| Add tax effect of:                                                                                                         |  |                         |                     |
| Losses not recognised                                                                                                      |  | 210                     | 5,752               |
| Share based payments                                                                                                       |  | 838                     | 1,061               |
| Other non-allowable items                                                                                                  |  | 130                     | 117                 |
| Other non-allowable items                                                                                                  |  | 57                      | 155                 |
|                                                                                                                            |  | 1,037                   | 780                 |
| Less tax effect of:                                                                                                        |  |                         |                     |
| Losses recognised not previously brought to account                                                                        |  | 1,037                   | 780                 |
| Income tax expense                                                                                                         |  | -                       | -                   |
| <b>5. DEFERRED TAX</b>                                                                                                     |  |                         |                     |
| <b>(a) Deferred tax recognised</b>                                                                                         |  |                         |                     |
| <b>Deferred tax liabilities</b>                                                                                            |  |                         |                     |
| Exploration and evaluation costs                                                                                           |  | (14,394)                | (7,195)             |
| Other                                                                                                                      |  | (1)                     | (1)                 |
| <b>Deferred tax assets</b>                                                                                                 |  |                         |                     |
| Carry forward revenue losses                                                                                               |  | 14,395                  | 7,196               |
| Net deferred tax                                                                                                           |  | -                       | -                   |
| <b>(b) Unrecognised deferred tax assets</b>                                                                                |  |                         |                     |
| Carry forward revenue losses                                                                                               |  | 10,375                  | 15,144              |
| Provisions and accruals                                                                                                    |  | 19                      | 11                  |
| Other                                                                                                                      |  | 3                       | 4                   |
|                                                                                                                            |  | <b>10,397</b>           | <b>15,159</b>       |

The Group recognises the benefits of tax losses to the extent of anticipated future taxable income or gains and are subject to satisfying the income tax laws in the relevant jurisdictions.

The comparative year disclosures for 30 June 2013 have been adjusted to be consistent with the 31 December 2013 format and to reflect the adjustments contained in Note 2 of the report.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                     |  | <b>CONSOLIDATED</b>                            |                                            |
|-------------------------------------|--|------------------------------------------------|--------------------------------------------|
|                                     |  | <b>As at<br/>31 December 2013<br/>US\$'000</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
| <b>6. CASH AND CASH EQUIVALENTS</b> |  |                                                |                                            |
| Cash at bank                        |  | 33,199                                         | 2,578                                      |
| Short Term Deposits                 |  | 1,591                                          | 1,185                                      |
|                                     |  | <b>34,790</b>                                  | <b>3,763</b>                               |

Cash at bank earns interest at floating rates based on a daily bank deposit rates and fixed interest is earned on term deposits held for maturity between 1-3 months.

**7. TRADE & OTHER RECEIVABLES**

**Current**

|                              |              |              |
|------------------------------|--------------|--------------|
| Oil and gas sales receivable | 9,195        | 7,364        |
| Other receivables            | 37           | 29           |
|                              | <b>9,232</b> | <b>7,393</b> |
| Prepayments                  | 120          | 609          |
|                              | <b>9,352</b> | <b>8,002</b> |

Terms and conditions relating to the above financial instruments:

- a) Oil and gas sales receivable is non-interest bearing and generally on 60 day terms;
- b) Other debtors are non-interest bearing and generally on 30 day terms

Ageing of past due but not impaired:

|                   |              |              |
|-------------------|--------------|--------------|
| Current – 30 days | 6,355        | 6,585        |
| 30 – 60 days      | 1,129        | 326          |
| 60 – 90 days      | 548          | 22           |
| Over 90 days      | 1,199        | 460          |
| Total             | <b>9,232</b> | <b>7,393</b> |

**8. EXPLORATION AND EVALUATION EXPENDITURE**

Exploration and evaluation costs carried forward in respect of petroleum exploration areas of interest.

**Pre-production**

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| - Exploration and evaluation phases | <b>19,131</b> | <b>21,320</b> |
|-------------------------------------|---------------|---------------|

**Movement in carrying amounts**

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Opening balance                      | 21,320        | 30,434        |
| Expenditure incurred during the year | 1,945         | 9,048         |
| Disposals                            | (3)           | (40)          |
| Transfers (see Note 9)               | (4,131)       | (18,409)      |
| Change in accounting policy          | -             | 287           |
| <b>Closing balance</b>               | <b>19,131</b> | <b>21,320</b> |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the petroleum exploration areas of interest.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                             |                      | <b>CONSOLIDATED</b>                   |                                            |
|---------------------------------------------|----------------------|---------------------------------------|--------------------------------------------|
|                                             |                      | <b>As at<br/>31 December<br/>2013</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
| <b>9. DEVELOPMENT AND PRODUCTION ASSETS</b> |                      |                                       |                                            |
| At cost                                     | 215,811              | 124,555                               |                                            |
| Accumulated depreciation and impairment     | (25,229)             | (18,103)                              |                                            |
|                                             | <u>190,582</u>       | <u>106,452</u>                        |                                            |
| <b>Movement in carrying amounts</b>         |                      |                                       |                                            |
| Opening balance                             | 106,452              | 29,853                                |                                            |
| Additions                                   | 87,125               | 78,158                                |                                            |
| Disposals                                   | -                    | (334)                                 |                                            |
| Transfers (see Note 8)                      | 4,131                | 18,326                                |                                            |
| Depreciation charge for the period          | (7,126)              | -                                     |                                            |
| Change in accounting policy                 | -                    | (19,551)                              |                                            |
| <b>Closing balance</b>                      | <u>190,582</u>       | <u>106,452</u>                        |                                            |
| <b>10. PLANT, EQUIPMENT AND PIPELINE</b>    |                      |                                       |                                            |
| <b>Pipeline and field equipment</b>         |                      |                                       |                                            |
| At cost                                     | 44,851               | 35,679                                |                                            |
| Accumulated depreciation                    | (3,392)              | (2,157)                               |                                            |
|                                             | <u>41,459</u>        | <u>33,522</u>                         |                                            |
| <b>Other plant and equipment</b>            |                      |                                       |                                            |
| At cost                                     | 1,744                | 1,614                                 |                                            |
| Accumulated depreciation                    | (1,083)              | (817)                                 |                                            |
|                                             | <u>661</u>           | <u>797</u>                            |                                            |
|                                             | <u><b>42,607</b></u> | <u><b>34,668</b></u>                  |                                            |
| <b>Pipeline and field equipment</b>         |                      |                                       |                                            |
| Opening balance                             | 33,522               | 13,849                                |                                            |
| Additions                                   | 9,172                | 20,717                                |                                            |
| Transfers                                   | -                    | 83                                    |                                            |
| Depreciation charge for the period          | (1,235)              | (988)                                 |                                            |
| Change in accounting policy                 | -                    | (139)                                 |                                            |
|                                             | <u>41,459</u>        | <u>33,522</u>                         |                                            |
| <b>Other plant and equipment</b>            |                      |                                       |                                            |
| Opening balance                             | 1,146                | 837                                   |                                            |
| Additions                                   | 269                  | 479                                   |                                            |
| Disposals                                   | -                    | (15)                                  |                                            |
| Depreciation charge for the period          | (267)                | (15,024)                              |                                            |
| Change in accounting policy                 | -                    | 14,869                                |                                            |
|                                             | <u>1,148</u>         | <u>1,146</u>                          |                                            |
|                                             | <u><b>42,607</b></u> | <u><b>34,668</b></u>                  |                                            |

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                                                                                                     |  | <b>CONSOLIDATED</b>                            |                                            |
|---------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------|--------------------------------------------|
|                                                                                                                     |  | <b>As at<br/>31 December 2013<br/>US\$'000</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
| <b>11. DERIVATIVES</b>                                                                                              |  |                                                |                                            |
| <b>Current</b>                                                                                                      |  |                                                |                                            |
| Forward exchange contracts (Refer to Note 26)                                                                       |  | <b>10</b>                                      | <b>-</b>                                   |
| <b>12. OTHER ASSETS</b>                                                                                             |  |                                                |                                            |
| <b>Current</b>                                                                                                      |  |                                                |                                            |
| Inventories                                                                                                         |  | 221                                            | 386                                        |
| Deferred property costs (a)                                                                                         |  | 2,784                                          | 7,426                                      |
|                                                                                                                     |  | <b>3,005</b>                                   | <b>7,812</b>                               |
| <b>Non-Current</b>                                                                                                  |  |                                                |                                            |
| Bonds and Security deposits (b)                                                                                     |  | <b>466</b>                                     | <b>481</b>                                 |
| (a) Amounts incurred on jointly operated wells unallocated and unbilled to joint interest owners at the period end. |  |                                                |                                            |
| (b) Bonds and security deposits have been reclassified from current to non-current assets.                          |  |                                                |                                            |
| <b>13. TRADE &amp; OTHER PAYABLES</b>                                                                               |  |                                                |                                            |
| <b>Current</b>                                                                                                      |  |                                                |                                            |
| Trade creditors (a)                                                                                                 |  | 37,321                                         | 32,646                                     |
| Other creditors and accruals                                                                                        |  | 2,162                                          | 2,396                                      |
| Employee accruals                                                                                                   |  | 24                                             | 23                                         |
|                                                                                                                     |  | <b>39,507</b>                                  | <b>35,065</b>                              |
| Aggregate amounts payable to related parties:                                                                       |  |                                                |                                            |
| Directors and director-related entities                                                                             |  | 29                                             | -                                          |
| <b>Terms and conditions</b>                                                                                         |  |                                                |                                            |
| (a) Trade creditors are non-interest bearing and are normally settled on 45 day terms.                              |  |                                                |                                            |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                   |  | <b>CONSOLIDATED</b>                            |                                            |
|-----------------------------------|--|------------------------------------------------|--------------------------------------------|
|                                   |  | <b>As at<br/>31 December 2013<br/>US\$'000</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
| <b>14. INTEREST-BEARING LOANS</b> |  |                                                |                                            |
| <b>Current</b>                    |  |                                                |                                            |
| Secured credit facility           |  | -                                              | 25,000                                     |
| <b>Non-Current</b>                |  |                                                |                                            |
| Secured loan (a)                  |  | 100,000                                        | -                                          |
| Less: Deferred loan costs (b)     |  | (5,627)                                        | -                                          |
|                                   |  | <b>94,373</b>                                  | <b>-</b>                                   |

- (a) On 6 November 2013, Red Fork (USA) Investments, Inc., a wholly owned subsidiary of the Company, entered into a credit agreement with Guggenheim Partners, LLC of up to US\$150 million secured term loan, ("Secured Loan"). The loan replaces the US\$45 million credit facility with F&M Bank and Trust Company which was fully repaid in November 2013 with the draw-down of the Secured Loan. Under the loan the borrowing base is determined by reference to the Company's proved reserves. An initial borrowing base amount of US\$100 million has been advanced. Interest is payable at LIBOR plus 8.5% per annum, payable monthly (with a LIBOR floor of 2.0%). The Credit Facility has a 4 year term with a maturity date of 15 December 2017, and contains both negative and affirmative covenants including a minimum interest coverage ratio and a maximum leverage ratio.

The Facility is secured in the form of a mortgage covering leasehold properties, wells, leasehold working interests, royalty interests and other mining and mineral interests situated in Oklahoma, and it is guaranteed by the parent Company.

At 31 December 2013, the Group was in compliance with the covenants, however, the Group anticipates it will be in breach of certain covenant(s) as of 31 March 2014 and has obtained a waiver as of that date. The Group is currently in discussions with Guggenheim to reset the loan covenants for the remainder of the year so that they will be consistent with the 2014 Forward Development Plan. The Group expects to complete the process with Guggenheim in April 2014.

- (b) The Company has capitalized \$5.6m of financing costs associated with setting up of the Secured Loan, which will be amortised over the term of the loan.

**15. RESTORATION PROVISION**

**Non-current**

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Rehabilitation costs                       | <b>405</b> | <b>400</b> |
| <b>Rehabilitation Costs</b>                |            |            |
| Opening balance                            | 400        | 481        |
| Adjustment for prior period over provision | -          | (133)      |
| Liabilities incurred during the period     | 36         | 40         |
| Additions in provisions during the period  | 8          | 12         |
| Provisions used during the period          | (39)       | -          |
| Balance at end of period                   | <b>405</b> | <b>400</b> |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|                                                         |                    | <b>CONSOLIDATED</b>                            |                                            |
|---------------------------------------------------------|--------------------|------------------------------------------------|--------------------------------------------|
|                                                         |                    | <b>As at<br/>31 December 2013<br/>US\$'000</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
| <b>16. ISSUED CAPITAL</b>                               |                    |                                                |                                            |
| <b>Issued and paid up capital</b>                       |                    |                                                |                                            |
| 501,051,719 (30 June 2013: 388,551,719) Ordinary shares |                    | <b>208,000</b>                                 | <b>165,810</b>                             |
| <b>(a) Movements in issued capital</b>                  |                    |                                                |                                            |
| <b>At the beginning of the period</b>                   |                    | 165,810                                        | 113,913                                    |
| Shares issued during the period:                        |                    |                                                |                                            |
| - Placement at \$0.43 each                              |                    | 43,918                                         | -                                          |
| - Placement at \$0.67 each                              |                    | -                                              | 52,317                                     |
| - Option conversion                                     |                    | -                                              | 60                                         |
| - Performance rights conversion                         |                    | 1,001                                          | 2,225                                      |
| Share issue costs                                       |                    | (2,729)                                        | (2,705)                                    |
| <b>At end of the period</b>                             |                    | <b>208,000</b>                                 | <b>165,810</b>                             |
| <b>(b) Movements in number of shares on issue</b>       |                    |                                                |                                            |
| <b>Fully paid</b>                                       | <b>Number</b>      | <b>Number</b>                                  |                                            |
| <b>At the beginning of the period</b>                   | 388,551,719        | 310,229,853                                    |                                            |
| Shares issued during the period:                        |                    |                                                |                                            |
| - Placement at \$0.43 each                              | 111,000,000        | -                                              |                                            |
| - Placement at \$0.67 each                              | -                  | 74,626,866                                     |                                            |
| - Option conversion                                     | -                  | 95,000                                         |                                            |
| - Performance rights conversion                         | 1,500,000          | 3,600,000                                      |                                            |
| <b>At end of the period</b>                             | <b>501,051,719</b> | <b>388,551,719</b>                             |                                            |

**Terms and conditions of contributed equity***Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

**NOTES TO THE FINANCIAL STATEMENTS  
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**16. ISSUED CAPITAL (CONTINUED)**

**(c) Options**

At the end of the reporting period, there are 3,517,666 options over unissued shares as follow:

| Type             | Date of Expiry   | Exercise Price<br>AUD | Number Under Option |
|------------------|------------------|-----------------------|---------------------|
| Unlisted Options | 30 June 2014     | \$0.65                | 1,600,000           |
| Unlisted Options | 30 June 2014     | \$0.35                | 708,333             |
| Unlisted Options | 30 June 2014     | \$0.45                | 708,333             |
| Unlisted Options | 30 November 2014 | \$1.20                | 501,000             |

There were no movements in employee options during the six months ended 31 December 2013.

**(d) Performance rights**

The issue of the performance rights is pursuant to the Company's Performance Rights Plan approved by shareholders at the Annual General Meeting held on 30 November 2011.

At the end of the reporting period, there are 11,860,000 performance rights on issue as follow:

| Type                        | Date of Expiry  | Number Under<br>Performance Rights | Vesting Probability |
|-----------------------------|-----------------|------------------------------------|---------------------|
| Tranche B – Directors (i)   | 30 April 2016   | 1,000,000                          | 100%                |
| Tranche C - Directors (ii)  | 30 April 2016   | 2,000,000                          | 95%                 |
| Tranche A – Employees (iii) | 26 October 2017 | 1,530,000                          | 100%                |
| Tranche B – Employees (iv)  | 26 October 2017 | 3,590,000                          | 100%                |
| Tranche C – Employees (v)   | 26 October 2017 | 3,740,000                          | 95%                 |

The above performance rights have the following vesting conditions:

- (i) Receipts from sales must exceed US\$16 million per annum (measured for two consecutive fiscal quarters annualized) ("milestone"), and the holder remains an employee of the Company until three months of the completion of the milestone.
- (ii) Receipts from sales must exceed US\$30 million per annum (measured for two consecutive fiscal quarters annualized) ("milestone"), and the holder remains an employee of the Company until three months of the completion of the milestone.
- (iii) Receipts from sales must exceed US\$8 million per annum (measured for two consecutive fiscal quarters annualized) and the holder is required to remain an employee for 12 months following grant date for the Performance Rights to convert into Shares.
- (iv) Receipts from sales must exceed US\$16 million per annum (measured for two consecutive fiscal quarters annualized) and the holder is required to remain an employee for 24 months following grant date for the Performance Rights to convert into Shares.
- (v) Receipts from sales must exceed US\$30 million per annum (measured for two consecutive fiscal quarters annualized) and the holder is required to remain an employee for 36 months following grant date for the Performance Rights to convert into Shares.

**NOTES TO THE FINANCIAL STATEMENTS  
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**16. ISSUED CAPITAL (CONTINUED)**

During the six months ended 31 December 2013, a total of 630,000 performance rights were issued to the employees of the Company, 1,500,000 performance rights issued to directors and employees were exercised and a total of 120,000 performance rights were cancelled due to cessation of employment.

|                                                                                                  | <b>CONSOLIDATED</b>                     |                                      |
|--------------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------|
|                                                                                                  | <b>6 months to<br/>31 December 2013</b> | <b>12 months to<br/>30 June 2013</b> |
|                                                                                                  | <b>US\$'000</b>                         | <b>US\$'000</b>                      |
| <b>17. ACCUMULATED LOSSES</b>                                                                    |                                         |                                      |
| Balance at the beginning of the period                                                           | (47,786)                                | (18,630)                             |
| Net loss for the period                                                                          | (659)                                   | (21,018)                             |
| Transfer of expired & cancelled options and performance rights from reserve (refer Note 18(iii)) | 17                                      | 444                                  |
| Change in accounting policy                                                                      | -                                       | (8,582)                              |
| Balance at end of the period                                                                     | <b>(48,428)</b>                         | <b>(47,786)</b>                      |
| <b>18. RESERVES</b>                                                                              |                                         |                                      |
| <b>Reserves</b>                                                                                  |                                         |                                      |
| Share based payment reserve                                                                      | 5,386                                   | 3,194                                |
| Foreign currency translation reserve                                                             | 690                                     | 804                                  |
|                                                                                                  | <b>6,076</b>                            | <b>3,998</b>                         |
| <b>(a) Share based payment reserve (i)</b>                                                       |                                         |                                      |
| At beginning of the period                                                                       | 3,194                                   | 2,352                                |
| Performance rights issued during the period                                                      | 43                                      | 2,186                                |
| Conversion of options                                                                            | -                                       | (19)                                 |
| Options cancelled and expired                                                                    | -                                       | (444)                                |
| Performance rights cancelled                                                                     | (17)                                    | (383)                                |
| Performance rights conversion                                                                    | (1,001)                                 | (2,225)                              |
| Employee equity settled payments                                                                 | 3,167                                   | 1,727                                |
| Balance at end of the period                                                                     | <b>5,386</b>                            | <b>3,194</b>                         |
| <b>(b) Foreign currency translation reserve (ii)</b>                                             |                                         |                                      |
| At beginning of the period                                                                       | 804                                     | 1,347                                |
| Movement during the period                                                                       | (114)                                   | (543)                                |
| Balance at end of the period                                                                     | <b>690</b>                              | <b>804</b>                           |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**18. RESERVES (CONTINUED)**

- (i) The share based payment reserve is used to record the value of equity benefits provided to the employees and directors as part of their remuneration.
- (ii) The foreign currency translation reserve records exchange differences arising on translation of the entities into the presentation currency of the Group.
- (iii) A total of 120,000 performance rights issued to the employees were cancelled during the year. The remaining vesting expense of US\$17,007 of these performance rights was recorded through the reserve and has been transferred to accumulated losses on cancellation in accordance with AASB2.

|                                                                                        |  | <b>CONSOLIDATED</b>                                  |                                                   |
|----------------------------------------------------------------------------------------|--|------------------------------------------------------|---------------------------------------------------|
|                                                                                        |  | <b>6 months to<br/>31 December 2013<br/>US\$'000</b> | <b>12 months to<br/>30 June 2013<br/>US\$'000</b> |
| <b>19. CASH FLOW INFORMATION</b>                                                       |  |                                                      |                                                   |
| <b>(a) Reconciliation of net loss after tax to the net cash flows from operations:</b> |  |                                                      |                                                   |
| Net loss                                                                               |  | (659)                                                | (21,018)                                          |
| <b>Cash flows excluded from profit/loss attributable to operating activities</b>       |  |                                                      |                                                   |
| Finance costs                                                                          |  | 2,293                                                | 262                                               |
| Exploration costs                                                                      |  | 1,284                                                | 5,921                                             |
| <b>Non-cash items</b>                                                                  |  |                                                      |                                                   |
| Amortisation, depreciation and rehabilitation expense                                  |  | 8,498                                                | 15,183                                            |
| Share based payments                                                                   |  | 3,210                                                | 3,511                                             |
| Unrealised foreign (gain)/losses                                                       |  | (32)                                                 | 50                                                |
| Unrealised foreign gain                                                                |  | (10)                                                 | -                                                 |
| Change in accounting policy adjustments                                                |  | -                                                    | (415)                                             |
| <b>Changes in assets and liabilities</b>                                               |  |                                                      |                                                   |
| Increase in receivables                                                                |  | (2,177)                                              | (2,618)                                           |
| Increase in payables and accruals                                                      |  | (116)                                                | 3,473                                             |
| <b>Net cash flows from / (used in) operating activities</b>                            |  | <b>12,291</b>                                        | <b>4,349</b>                                      |
| <b>(b) Reconciliation of cash:</b>                                                     |  |                                                      |                                                   |
| Cash balances comprises                                                                |  |                                                      |                                                   |
| AUD accounts                                                                           |  | 1,607                                                | 910                                               |
| USD accounts                                                                           |  | 33,183                                               | 2,853                                             |
|                                                                                        |  | <b>34,790</b>                                        | <b>3,763</b>                                      |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

|            |                                                                                                        | <b>CONSOLIDATED</b>                                  |                                                   |
|------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------|
|            |                                                                                                        | <b>6 months to<br/>31 December 2013<br/>US\$'000</b> | <b>12 months to<br/>30 June 2013<br/>US\$'000</b> |
| <b>20.</b> | <b>KEY MANAGEMENT PERSONNEL DISCLOSURES</b>                                                            |                                                      |                                                   |
| <b>(a)</b> | <b>Remuneration of Directors and Executives</b>                                                        |                                                      |                                                   |
|            | Details of remuneration paid to key management personnel have been disclosed in the Directors' Report. |                                                      |                                                   |
|            | Aggregate of remuneration paid to key management personnel during the period as follows:               |                                                      |                                                   |
|            | Short term employee benefits                                                                           | 1,106                                                | 2,535                                             |
|            | Post-employment benefits                                                                               | 9                                                    | 17                                                |
|            | Share-based payments                                                                                   | 1,960                                                | 2,141                                             |
|            |                                                                                                        | <b>3,075</b>                                         | <b>4,693</b>                                      |

**21. SEGMENT INFORMATION**

Management has determined, based upon the reports reviewed by the CEO and used to make strategic decisions, that the Group has one reportable segment being oil and gas exploration and production in the United States of America.

The CEO reviews internal management reports on a monthly basis that are consistent with the information provided in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required, because the information as presented is used by the CEO to make strategic decisions.

**(i) Major customers**

The Group has three major customers during the reporting period to whom it sells its production. The most significant customer is Phillips 66 Company which accounts for 83% of external revenue. The next most significant sales customer is Seminole Energy Services LLC. which accounts for 6% of external revenue, followed by PVR Midstream which accounts for 3% of external revenue.

During the previous financial year, the most significant customer was Phillips 66 Company which accounted for 68% of external revenue, followed by Seminole Energy Services LLC. which accounted for 15% of external revenue, and Sunoco Inc. which accounted for 6% of external revenue.

|            |                                                                                                               | <b>As at<br/>31 December 2013<br/>US\$'000</b> | <b>As at<br/>30 June 2013<br/>US\$'000</b> |
|------------|---------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------|
| <b>22.</b> | <b>LOSS PER SHARE</b>                                                                                         |                                                |                                            |
|            | The following reflects the income and share data used in the calculation of basic and diluted loss per share: |                                                |                                            |
|            | Earnings used in calculation of basic and diluted earnings per share                                          | (659)                                          | (21,018)                                   |
|            | Weighted average number of ordinary shares on issue used in the calculation of basic loss per share           | (i) 480,068,023                                | 370,415,724                                |

(i) Share options are not considered dilutive, as their impact would be to decrease the net loss per share.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**23. RELATED PARTY DISCLOSURE**

**Ultimate Parent**

Red Fork Energy Limited is the ultimate Australian parent Company.

**Other Related Party Transactions**

During the reporting period ended 31 December 2013, Cimmaron Engineering Inc., a company Mr Francis has an interest in, receives fees totalled US\$12,000 for engineering services provided to the US subsidiaries.

Perry Gilstrap, former president, received a \$400,000 cash payment in February 2014 for fulfilling his services under this twelve month consulting arrangement entered into following his resignation from Red Fork Energy limited in February 2013. The amount was classified as restricted cash at December 31, 2013.

Other than those stated above and in the Remuneration Report, there are no other related party transactions.

**24. INTEREST IN SUBSIDIARIES**

The following Company is a subsidiary of Red Fork Energy Limited.

| Name                             | Country of Incorporation | Percentage of equity interest held by Consolidated Entity |                | Investment            |                   |
|----------------------------------|--------------------------|-----------------------------------------------------------|----------------|-----------------------|-------------------|
|                                  |                          | 31 December 2013 %                                        | 30 June 2013 % | 31 December 2013 US\$ | 30 June 2013 US\$ |
| Red Fork (USA) Investments, Inc. | USA                      | 100%                                                      | 100%           | 1,000                 | 1,000             |
| EastOK Pipeline LLC              | USA                      | 100%                                                      | 100%           | -                     | -                 |
| Prairie Gas Gathering LLC        | USA                      | 100%                                                      | 100%           | -                     | -                 |

**25. AUDITOR'S REMUNERATION**

Amounts received or due and receivable by :

|                                                                                                                 | CONSOLIDATED                          |                                    |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|
|                                                                                                                 | 6 months to 31 December 2013 US\$'000 | 12 months to 30 June 2013 US\$'000 |
| - HLB Mann Judd- an audit of the financial report of the Company at the financial year end and half year review | -                                     | 52                                 |
| - Grant Thornton- audit at financial year end of the Company                                                    | 125                                   | 91                                 |
| - Grant Thornton- audit of successful effort conversion                                                         | 25                                    | -                                  |
| Other Services:                                                                                                 |                                       |                                    |
| - Grant Thornton- taxation fees                                                                                 | 18                                    | 33                                 |
|                                                                                                                 | <b>168</b>                            | <b>176</b>                         |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**26. FINANCIAL INSTRUMENTS**

**Financial risk management and risk policies**

The Group's principal financial instruments comprise bank overdrafts, cash, short-term deposits and credit facilities. The main purpose of these financial instruments is to hold finance for the entity's operations. The entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the entity's financial instruments are cash flow, interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**(a) Interest rate risk**

The Group is exposed to movements in market interest rates on short term deposits and credit facility. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result from a change in these risks. The balance of debt as at 31 December 2013 was US\$100 million (30 June 2013: US\$25 million) and is included in the Interest Rate Sensitivity Analysis below.

**Interest Rate Sensitivity Analysis**

At 31 December 2013, if interest rates had been 2% higher or lower than the prevailing rates realised, with all other variables held constant, the effect on loss and equity as a result of interest rates changes would be as follows:

|                                  | <b>31 December 2013<br/>US\$'000<br/>Net Change</b> | <b>30 June 2013<br/>US\$'000<br/>Net Change</b> |
|----------------------------------|-----------------------------------------------------|-------------------------------------------------|
| <b>CHANGE IN LOSS</b>            |                                                     |                                                 |
| Increase in interest rate by 2%: |                                                     |                                                 |
| AUD accounts                     | 32                                                  | 18                                              |
| USD accounts                     | 664                                                 | 57                                              |
| USD credit facility              | (2,000)                                             | (500)                                           |
|                                  | (1,304)                                             | (425)                                           |
| Decrease in interest rate by 2%: |                                                     |                                                 |
| AUD accounts                     | (32)                                                | (18)                                            |
| USD accounts                     | -                                                   | -                                               |
| USD credit facility              | 2,000                                               | 500                                             |
|                                  | 1,968                                               | 482                                             |
| <b>CHANGE IN EQUITY</b>          |                                                     |                                                 |
| Increase in interest rate by 2%: |                                                     |                                                 |
| AUD accounts                     | 32                                                  | 18                                              |
| USD accounts                     | 664                                                 | 57                                              |
| USD credit facility              | (2,000)                                             | (500)                                           |
|                                  | (1,304)                                             | (425)                                           |
| Decrease in interest rate by 2%: |                                                     |                                                 |
| AUD accounts                     | (32)                                                | (18)                                            |
| USD accounts                     | -                                                   | -                                               |
| USD credit facility              | 2,000                                               | 500                                             |
|                                  | 1,968                                               | 482                                             |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

**(b) Net fair values of financial assets and liabilities**

The net fair value of cash and cash equivalent and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximate their carrying values due to their short-term maturity.

The net fair value of other monetary financial assets and financial liabilities is based on discounting future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The balances are not materially different from those disclosed in the statement of financial position of the Group.

**(c) Credit risk exposure**

The Group's maximum exposure to credit risk at each balance date in relation to each class of recognised financial assets is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the statement of financial position.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade accounts receivable are recorded at the invoiced amount. The Group does not have any off-balance-sheet credit exposure related to customers. Credit risk is managed on a Group basis. The credit risk of the Group arises from cash and cash equivalents, deposits with banks and financial institutions, available-for-sale financial assets, as well as credit exposure to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's credit rating of A (or equivalent) are accepted.

The Group assesses credit risk and allowance for doubtful accounts on a customer specific basis. The Group's policy is to not grant long-term credit to customers and to deal only with customers well-known in the oil and gas industry and with sufficient financial capability to meet its obligations. During the reporting period ended 31 December 2013, there were three major customers who accounted for 92% of the Group's total sales (refer to Note 21). Each of these customers is an oil or gas major, well-known in the industry and to management and management believes each customer to have sufficient financial capability. As of 31 December 2013 and 30 June 2013, the Group does not have an allowance for doubtful debt accounts.

The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

**Concentration of Credit Risk**

One customer (Phillips 66 Company) accounted for 83% of the Group's oil and gas sales for the period ended 31 December 2013 (30 June 2013: 68%). Receivables from that customer accounted for 40% of the total trade receivables as at the reporting date (less than 30% as at 30 June 2013). Loss of the major customer would severely impact the Company's operations.

**(d) Liquidity risk management**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate committed credit facility. The Group aims to maintain flexibility in funding to meet ongoing operational requirements and exploration and development expenditures by keeping a committed credit facility available.

The following table details the Company's and the Group's expected maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial assets.



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**26. FINANCIAL INSTRUMENTS (CONTINUED)**

| <b>FINANCIAL LIABILITIES</b> | <b>Interest Rate Payable</b> | <b>Less than 1 month<br/>US\$'000</b> | <b>1 to 3 months<br/>US\$'000</b> | <b>3 months to 1 year<br/>US\$'000</b> | <b>1 to 5 years<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> |
|------------------------------|------------------------------|---------------------------------------|-----------------------------------|----------------------------------------|----------------------------------|---------------------------|
| <b>31 December 2013</b>      |                              |                                       |                                   |                                        |                                  |                           |
| Interest bearing             | 10.5%*                       | -                                     | -                                 | -                                      | (100,000)                        | (100,000)                 |
| Non-Interest bearing         | -                            | -                                     | (39,482)                          | -                                      | -                                | (39,482)                  |
|                              |                              | -                                     | (39,482)                          | -                                      | -                                | (139,482)                 |
| <b>30 June 2013</b>          |                              |                                       |                                   |                                        |                                  |                           |
| Interest bearing             | 3.25%                        | -                                     | -                                 | (25,000)                               | -                                | (25,000)                  |
| Non-Interest bearing         | -                            | -                                     | (35,042)                          | -                                      | -                                | (35,042)                  |
|                              |                              | -                                     | (35,042)                          | (25,000)                               | -                                | (60,042)                  |

\*Refer Note 14

**(e) Foreign exchange risk management**

The Consolidated Entity undertakes its exploration and production transactions denominated in US currency. Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency of the Group. The Group deposits are denominated in both US and Australian dollars. Currently there are no foreign exchange hedging programs in place, however the Group treasury function manages the purchase of foreign currency to meet operational requirements. The impact of reasonably possible changes in foreign exchange rates for the Group is material and the Board recognises and manages this by maintaining adequate cash flow in the entity's US currency account.

**(f) Foreign currency risk sensitivity analysis**

At 31 December 2013, the effect on loss and equity as a result of 10% change in the value of the Australian Dollar to the US Dollar, with all other variable remaining constant would be as follows:

|                           | <b>31 December 2013<br/>US\$'000</b> | <b>30 June 2013<br/>US\$'000</b> |
|---------------------------|--------------------------------------|----------------------------------|
| <b>CHANGE IN LOSS</b>     | <b>Net Change</b>                    | <b>Net Change</b>                |
| Improvement in AUD by 10% | 161                                  | 91                               |
| Decline in AUD by 10%     | (161)                                | (91)                             |

|                           | <b>Net Change</b> | <b>Net Change</b> |
|---------------------------|-------------------|-------------------|
| <b>CHANGE IN EQUITY</b>   |                   |                   |
| Improvement in AUD by 10% | 161               | 91                |
| Decline in AUD by 10%     | (161)             | (91)              |

The above foreign currency sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

**(g) Price Risk Management**

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 commodities.

The Group's maximum exposure to price risk at each reporting period is the oil sales revenue as indicated in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The Group assesses credit risk and hedges its crude oil prices by entering into swaps with Cargill Incorporated. During the reporting period, the Group sold West Texas Intermediate ("WTI") swaps at an average price of US\$101.23 per barrel for 50,000 barrels, and 40,000 barrels at a price of US\$103.40 per barrel which were settled as at 31 December 2013, resulting in a net hedging gain of US\$0.2m for the period. In addition, the Company hedged 20,000 barrels per month from January to March 2014 at a price of US\$98.6 per barrel.

Below is a summary of the forward exchange contracts Red Fork entered during the reporting period:

| Settlement Period | Contract Quantity<br>(Barrels) | Hedged Price<br>(US\$ per barrel) |
|-------------------|--------------------------------|-----------------------------------|
| August 2013       | 10,000                         | 101.23                            |
| September 2013    | 10,000                         | 101.23                            |
|                   | 10,000                         | 103.40                            |
| October 2013      | 10,000                         | 101.23                            |
|                   | 10,000                         | 103.40                            |
| November 2013     | 10,000                         | 101.23                            |
|                   | 10,000                         | 103.40                            |
| December 2013     | 10,000                         | 101.23                            |
|                   | 10,000                         | 103.40                            |
| January 2014      | 20,000                         | 98.60                             |
| February 2014     | 20,000                         | 98.60                             |
| March 2014        | 20,000                         | 98.60                             |

**(h) Capital Management**

The Company's objectives when managing capital are to maintain an acceptable debt to equity ratio, safeguard the Group's ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. Other than the covenants described in Note 14, the Group has no externally imposed capital requirements. Accordingly, the objective of the Company's capital risk management is to adjust its capital structure to meet the financial risks of the Group, and to respond to changes in these risks and in the market. These responses are achieved by maintaining appropriate liquidity to meet anticipated operating requirements, management of debt levels, distributions to shareholders and shareholder issues.

The strategy of the Group during the year was to maintain a minimum acceptable debt to equity ratio sufficient to meet its planned expenditure. At 31 December 2013 the Company had \$100 million of outstanding debt.

**(i) Fair Value Measurement of Financial Instruments**

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of the following fair value measurement hierarchy in accordance with AASB 7 *Financial Instruments: Disclosures*.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**26. FINANCIAL INSTRUMENTS (CONTINUED)**

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2013 and 30 June 2013.

|                                    |      | Level 1          | Level 2   | Level 3  | Total            |
|------------------------------------|------|------------------|-----------|----------|------------------|
| 31 December 2013                   | Note | US\$'000         | US\$'000  | US\$'000 | US\$'000         |
| <b>Financial assets</b>            |      |                  |           |          |                  |
| Cash and cash equivalents          |      | 34,790           | -         | -        | 34,790           |
| Receivables                        |      | 9,232            | -         | -        | 9,232            |
| Forward exchange contracts         | 11   | -                | 10        | -        | 10               |
| <b>Total financial assets</b>      |      | <b>44,022</b>    | <b>10</b> | <b>-</b> | <b>44,032</b>    |
| <b>Financial liabilities</b>       |      |                  |           |          |                  |
| Payables                           |      | (39,482)         | -         | -        | (39,482)         |
| Loans and borrowings               |      | (100,000)        | -         | -        | (100,000)        |
| <b>Total financial liabilities</b> |      | <b>(139,482)</b> | <b>-</b>  | <b>-</b> | <b>(139,482)</b> |

|                                    |  | Level 1         | Level 2  | Level 3  | Total           |
|------------------------------------|--|-----------------|----------|----------|-----------------|
| 30 June 2013                       |  | US\$'000        | US\$'000 | US\$'000 | US\$'000        |
| <b>Financial assets</b>            |  |                 |          |          |                 |
| Cash and cash equivalents          |  | 3,763           | -        | -        | 3,763           |
| Receivables                        |  | 7,393           | -        | -        | 7,393           |
| <b>Total financial assets</b>      |  | <b>11,156</b>   | <b>-</b> | <b>-</b> | <b>11,156</b>   |
| <b>Financial liabilities</b>       |  |                 |          |          |                 |
| Payables                           |  | (35,042)        | -        | -        | (35,042)        |
| Loans and borrowings               |  | (25,000)        | -        | -        | (25,000)        |
| <b>Total financial liabilities</b> |  | <b>(60,042)</b> | <b>-</b> | <b>-</b> | <b>(60,042)</b> |

**27. CONTINGENT ASSETS AND LIABILITIES**

There are no contingent liabilities or contingent assets.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**28. EMPLOYEE BENEFITS**

As at the date of this report, Red Fork Energy had 30 employees (30 June 2013: 31).

**Employee Incentive Option Plan**

The Company has now ceased the use of share options.

In prior years, the Company had an Employee Incentive Scheme previously approved at the general meeting.

The plan provides for the Board to elect to offer options to an employee having regard to the potential contribution of the employee to the Consolidated Entity and any other matters the Board considers relevant.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the Scheme, is the price determined by the Board and advised to the employee when Options are offered to the employee.

All options expire on the earlier of their termination date or 30 days following termination of the employee's employment. Options vest on granting, however exercise can be conditional upon the Consolidated Entity achieving certain performance hurdles as determined by the Board of directors.

There are no voting or dividend rights attaching to the options. There are no voting rights attaching to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

11,632,500 options have been issued under this scheme to date.

No options were issued during the reporting period and no options are held by the key management personnel as at the balance date. A total of 501,000 options are held by the employees of the Company which are due to expire on 30 November 2014.

**Performance Rights Plan**

The Company has a Performance Rights Plan approved at the annual general meeting held on 30 November 2011.

The Red Fork Performance Rights Plan supersedes the former Red Fork Share Option Plan and enables the Remuneration Committee to grant performance rights to directors and executives (and employees). The current performance rights vest upon specified sales revenue targets; will convert into fully paid ordinary shares in the Company but do not have any value to the holder until the performance targets are achieved. Performance rights granted under the plan carry no rights to dividend or voting rights.

Performance Rights are valued at the prevailing share price at the time they are granted and are brought to account based upon probability of specified production targets being achieved.

A total of 11,860,000 performance rights were on issue at the reporting date of which 3,000,000 performance rights were issued to the directors and 8,860,000 performance rights were issued to other executives and employees. Refer to Remuneration Report section F for performance rights issued to directors and executives as part of their remuneration.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**29. SHARE BASED PAYMENT PLANS**

**Recognised Employee Share-Based Payment Expenses**

The equity-settled share-based payment expense recognised in the statement of comprehensive income for employee services rendered is shown as below:

|                                                                                       | <b>6 months to December 2013<br/>US\$'000</b> | <b>12 months to 30 June 2013<br/>US\$'000</b> |
|---------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Total expenditure arising from employee and director share-based payment transactions | 3,210                                         | 3,511                                         |

**Share Option Plan**

Options were issued to directors and executives as part of their remuneration under the Company's Employee Incentive Option Plan as described in the Director's Report. The options were not issued based on performance criteria, but were issued to all directors of Red Fork Energy Limited and its subsidiary to increase goal congruence between executives, directors and shareholders.

The Company has now ceased the use of share options. The Red Fork Performance Rights Plan supersedes the former Red Fork Share Option Plan.

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued during the reporting period:

|                                               | <b>CONSOLIDATED</b>          |                                                        |
|-----------------------------------------------|------------------------------|--------------------------------------------------------|
|                                               | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average Exercise<br/>Price<br/>AUD</b> |
| <b>31 December 2013</b>                       |                              |                                                        |
| <b>Outstanding at beginning of the period</b> | 3,517,666                    | \$0.64                                                 |
| Granted during the period                     | -                            | -                                                      |
| Exercised during the period                   | -                            | -                                                      |
| Expired/cancelled during the period           | -                            | -                                                      |
| <b>Outstanding at the end of the period</b>   | <u>3,517,666</u>             | <u>\$0.64</u>                                          |
| <b>Exercisable at the end of the period</b>   | <u>3,517,666</u>             |                                                        |
| <b>30 June 2013</b>                           |                              |                                                        |
| <b>Outstanding at beginning of the year</b>   | 4,899,166                    | \$0.76                                                 |
| Granted during the year                       | -                            | -                                                      |
| Exercised during the year                     | (95,000)                     | \$0.02                                                 |
| Expired/cancelled during the year             | (1,286,500)                  | \$0.40                                                 |
| <b>Outstanding at the end of the year</b>     | <u>3,517,666</u>             | <u>\$0.64</u>                                          |
| <b>Exercisable at the end of the year</b>     | <u>3,517,666</u>             |                                                        |

- (i) The options outstanding at 31 December 2013 had a weighted average exercise price of A\$0.64.  
(ii) Options outstanding at 31 December 2013 had a weighted average remaining life of 0.4796 years.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**29. SHARE BASED PAYMENT PLANS (CONTINUED)**

**Performance Rights Plan**

Performance rights were issued to directors and executives as part of their remuneration under the Company's Performance Rights Plan which was approved at the annual general meeting held on 30 November 2011 (refer to the Remuneration Report section F).

During the reporting period, a total of 630,000 performance rights were issued to the employees of the Company, 1,000,000 director performance rights were converted into shares and 500,000 employee performance rights were converted into shares. A total of 120,000 performance rights were cancelled due to cessations of employment. Performance rights issued to key management personnel are disclosed in the Remuneration Report. US\$0.6 million worth of performance rights issued to the directors were vested and converted to shares during the reporting period.

A total value of A\$4.94 million (30 June 2013: A\$5.14 million) of performance rights issued will be allocated across the vesting period. The fair value of the performance rights granted was estimated as at the date of grant using the market value at that date, the probability of the relevant market conditions being met and the expected length of the vesting period. Refer to Note 16 (d).

**30. PARENT ENTITY DISCLOSURES**

**Financial position**

|                              | <b>31 December<br/>2013<br/>US\$'000</b> | <b>30 June<br/>2013<br/>US\$'000</b> |
|------------------------------|------------------------------------------|--------------------------------------|
| <b>Assets</b>                |                                          |                                      |
| Current assets               | 1,683                                    | 1,058                                |
| Non-current assets           | 162,204                                  | 146,445                              |
| Total assets                 | <b>165,887</b>                           | <b>147,503</b>                       |
| <b>Liabilities</b>           |                                          |                                      |
| Current liabilities          | 249                                      | 174                                  |
| Non-current liabilities      | -                                        | -                                    |
| Total liabilities            | <b>249</b>                               | <b>174</b>                           |
| <b>Equity</b>                |                                          |                                      |
| Issued capital               | 208,000                                  | 165,810                              |
| Accumulated losses           | (53,034)                                 | (26,796)                             |
| Reserves                     |                                          |                                      |
| Foreign currency translation | 5,287                                    | 5,122                                |
| Share-based payments         | 5,385                                    | 3,193                                |
| Total equity                 | <b>165,638</b>                           | <b>147,329</b>                       |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**30. PARENT ENTITY DISCLOSURES (CONTINUED)**

|                              | 6 months to<br>31 December 2013<br>US\$'000 | 12 months to<br>30 June 2013<br>US\$'000 |
|------------------------------|---------------------------------------------|------------------------------------------|
| <b>Financial performance</b> |                                             |                                          |
| Loss for the period          | (26,239)                                    | (5,243)                                  |
| Other comprehensive income   | (114)                                       | (543)                                    |
| Total comprehensive income   | <b>(26,353)</b>                             | <b>(5,786)</b>                           |

**31. SUBSEQUENT EVENTS**

David Colwell was appointed as a Non-Executive Director on 1 January 2014.

On 21 February 2014, the Group announced a review of the 2014 Forward Program for the development of Big River based upon the Group's Estimated Net Reserves (and the attendant Group NPV10 value) as of December 31, 2013; the HBP drilling schedule; and the current market capitalization of the Company. The goal of this plan is to optimize the future development of the Group's assets. Future funding of this plan will be dependent upon the generation of positive cash-flow from operations, the success of future capital raisings (if required), and the proceeds from divestment of non-core assets and future borrowings. The Company expects to complete the review and update the market with a revised Forward Development Plan in early April.

In addition, on March 21, 2014, the Group executed a sale and purchase agreement for the sale of certain non-core assets. The transaction successfully closed on March 31, 2014 with approximate proceeds of US\$11 million (subject to any post-closing adjustments). The proceeds will be used to strengthen the Group's balance sheet.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2013 which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

**32. COMMITMENTS FOR EXPENDITURE**

**Mineral Lease Commitments**

The mineral leases in the exploration prospects in the USA have primary terms ranging from 3 years to 5 years and generally have no specific capital expenditure requirements. However, mineral leases that are not successfully drilled and included within a spacing unit for a producing well within the primary term will expire at the end of the primary term unless re-leased.

**Hedging Commitments**

The Company is in contract to sell 20,000 barrels per month of calculated average West Texas Intermediate ("WTI") swaps at an average price of US\$98.60 per barrel from January to March 2014. The Company is looking to maintain and add to this program in the future in an effort to provide an appropriate level of protection to future cash flows in the event of lower crude pricing.

**Capital Expenditure Commitments**

As at the reporting date, there are no capital expenditure commitments. All drilling contracts are short term and for a few wells at a time.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

**32. COMMITMENTS FOR EXPENDITURE (CONTINUED)**

**Lease Commitments**

|                                                                         | CONSOLIDATED                 |                          |
|-------------------------------------------------------------------------|------------------------------|--------------------------|
|                                                                         | 31 December 2013<br>US\$'000 | 30 June 2013<br>US\$'000 |
| The Company leases office facilities under a long-term lease agreement: |                              |                          |
| Within one year                                                         | 201                          | 232                      |
| After one year but not more than five years                             | 503                          | 607                      |
| More than five years                                                    | -                            | -                        |
|                                                                         | <b>704</b>                   | <b>839</b>               |



***DIRECTORS' DECLARATION***

1. In the opinion of the directors of Red Fork Energy Limited (the 'Company'):
  - a. the accompanying financial statements and notes are 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 then ended; and
    - ii. complying with Australian Accounting Standards , the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 31 December 2013.

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



**Mr David Prentice**  
**Chief Executive Officer**

31<sup>st</sup> March 2014

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## **Independent Auditor's Report To the Members of Red Fork Energy Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Red Fork Energy Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 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 the period's end or from time to time during the period.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company'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.

### **Auditor's opinion**

In our opinion:

- a the financial report of Red Fork Energy Limited 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 period ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

### **Report on the remuneration report**

We have audited the remuneration report included in pages 15 to 24 of the directors' report for the period ended 31 December 2013. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 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 on the remuneration report**

In our opinion, the remuneration report of Red Fork Energy Limited for the period ended 31 December 2013, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner - Audit & Assurance

Perth, 31 March 2014

**ADDITIONAL SHAREHOLDERS' INFORMATION****A. CORPORATE GOVERNANCE**

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is detailed following the Director's Report.

**B. SHAREHOLDING****1. Substantial Shareholders**

The names of the substantial shareholders listed on the Company's register as at 5 March 2014:

| <b>Name</b>                | <b>Number of shares</b> |
|----------------------------|-------------------------|
| CITICORP NOM PL            | 58,883,658              |
| RBC INVESTOR SVCS AUST NOM | 56,417,064              |
| JP MORGAN NOM AUST LTD     | 52,126,262              |
| HSBC CUSTODY NOM AUST LTD  | 44,631,848              |
| NATIONAL NOM LTD           | 42,697,067              |
| PROSPECT CUST LTD          | 27,038,334              |

**2. Unquoted Securities**

| <b>Class of Equity Security</b>  |  | <b>Number</b> | <b>Number of Security Holders</b> |
|----------------------------------|--|---------------|-----------------------------------|
| 30 June 2014 option - \$0.65     |  | 1,600,000     | 3                                 |
| 30 June 2014 option - \$0.35     |  | 708,333       | 3                                 |
| 30 June 2014 option - \$0.45     |  | 708,333       | 3                                 |
| 30 November 2014 option - \$1.20 |  | 501,000       | 5                                 |
| Performance Rights B – Directors |  | 1,000,000     | 1                                 |
| Performance Rights C – Directors |  | 2,000,000     | 2                                 |
| Performance Rights A – Employees |  | 1,530,000     | 18                                |
| Performance Rights B – Employees |  | 3,590,000     | 23                                |
| Performance Rights C – Employees |  | 3,740,000     | 24                                |

Names of persons holding greater than 20% of a class of unquoted securities:

| <b>Class of Equity Security</b>  | <b>Number</b> | <b>Holder</b>                    |
|----------------------------------|---------------|----------------------------------|
| 30 June 2014 option - \$0.35     | 187,500       | Michael Hynes                    |
| 30 June 2014 option - \$0.35     | 333,333       | EAS Advisors LLC                 |
| 30 June 2014 option - \$0.35     | 187,500       | Prals Pty Ltd                    |
| 30 June 2014 option - \$0.45     | 187,500       | Prals Pty Ltd                    |
| 30 June 2014 option - \$0.45     | 187,500       | Michael Hynes                    |
| 30 June 2014 option - \$0.45     | 333,333       | EAS Advisors LLC                 |
| 30 June 2014 option - \$0.65     | 480,000       | Sabah & Sapi Pty Ltd             |
| 30 June 2014 option - \$0.65     | 880,000       | PJS Marketing Pty Ltd            |
| Performance Rights B – Directors | 1,000,000     | Bruce Miller and related party   |
| Performance Rights C – Directors | 1,000,000     | David Prentice and related party |
| Performance Rights C – Directors | 1,000,000     | Bruce Miller and related party   |

**ADDITIONAL SHAREHOLDERS' INFORMATION (Continued)****3. Number of holders in each class of equity securities and the voting rights attached**

There are 1,982 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

**4. Distribution schedule of the number of holders in each class of equity security as at 5 March 2014.**

| By Class         | Holders of Ordinary Shares | No. Of Ordinary Shares | %              |
|------------------|----------------------------|------------------------|----------------|
| 1-1,000          | 257                        | 71,146                 | 0.01%          |
| 1,001 - 5,000    | 321                        | 969,592                | 0.19%          |
| 5,001 – 10,000   | 290                        | 2,396,609              | 0.48%          |
| 10,001 - 100,000 | 804                        | 29,698,499             | 5.93%          |
| 100,001 and over | 310                        | 467,915,873            | 93.39%         |
| <b>TOTALS</b>    | <b>1,982</b>               | <b>501,051,719</b>     | <b>100.00%</b> |

**5. Marketable Parcel**

There are 63 shareholders with less than a marketable parcel.

**6. Restricted Securities**

The Company has no restricted securities at the current date.

**7. Twenty largest holders of each class of quoted equity security**

The names of the twenty largest holders of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 5 March 2014) is as follows:

**Ordinary Shares**

| Name                             | No. of Ordinary Shares | %             |
|----------------------------------|------------------------|---------------|
| CITICORP NOM PL                  | 58,883,658             | 11.75%        |
| RBC INVESTOR SVCS AUST NOM       | 56,417,064             | 11.26%        |
| JP MORGAN NOM AUST LTD           | 52,126,262             | 10.40%        |
| HSBC CUSTODY NOM AUST LTD        | 44,631,848             | 8.91%         |
| NATIONAL NOM LTD                 | 42,697,067             | 8.52%         |
| PROSPECT CUST LTD                | 27,038,334             | 5.40%         |
| GHIRARDELLO LUIGI                | 20,566,969             | 4.10%         |
| BNP PARIBAS NOMS PL              | 15,602,202             | 3.11%         |
| HEALY ROBERT ANTHONY             | 11,940,785             | 2.38%         |
| UBS NOM PL                       | 10,811,718             | 2.16%         |
| WARBONT NOM PL                   | 7,369,579              | 1.47%         |
| ZERO NOM PL                      | 6,524,550              | 1.30%         |
| JKH INV PL                       | 5,790,000              | 1.16%         |
| PRENTICE DAVID                   | 3,747,441              | 0.75%         |
| QIC LTD                          | 3,522,192              | 0.70%         |
| CS FOURTH NOM PL                 | 2,668,387              | 0.53%         |
| MARIE SCODELLA & ASSOC PL        | 2,546,915              | 0.51%         |
| ABN AMRO CLEARING SYDNEY         | 2,189,054              | 0.44%         |
| WILLIAM TAYLOR NOM PL            | 2,160,000              | 0.43%         |
| PITT STREET ABSOLUTE RETURN FUND | 2,050,000              | 0.41%         |
| <b>TOTAL</b>                     | <b>379,284,025</b>     | <b>75.70%</b> |

**Lease Schedule as at 31 December 2013**

| Lease Location           | Acres  | Working Interest | Average Net Revenue Interest |
|--------------------------|--------|------------------|------------------------------|
| Grant County, Oklahoma   | 4,980  | 100%             | 81.25%                       |
| Kay County, Oklahoma     | 5,530  | 100%             | 80.56%                       |
| Noble County, Oklahoma   | 20,751 | 100%             | 81.18%                       |
| Pawnee County, Oklahoma  | 13,198 | 100%             | 81.47%                       |
| Payne County, Oklahoma   | 28,194 | 100%             | 81.27%                       |
| Osage County, Oklahoma   | 1,280  | 100%             | 80.00%                       |
| Wagoner County, Oklahoma | 10,248 | 100%             | 80.95%                       |