LINC ENERGY

ANNUAL REPORT 2014

# UNLOCKING OUR POTENTIAL



# CORPORATE DIRECTORY

## DIRECTORS AS AT 30 JUNE 2014

**Mr. Ken Dark**
Chairman and Non-Executive Director

**Mr. Peter Bond**
CEO and Managing Director

**Mr. Craig Ricato**
Non-Executive Director

**Mr. Jon Mathews**
Independent Non-Executive Director

**Mr. Lim Ah Doo**
Lead Independent Non-Executive Director

**Mr. Koh Ban Heng**
Independent Non-Executive Director

## COMPANY SECRETARY

**Mr. Brook Burke**

## NOTICE OF ANNUAL GENERAL MEETING

This year Linc Energy will be offering two locations for shareholders to participate in the Linc Energy Ltd Annual General Meeting. The main event will take place in Brisbane, with a live video conference meeting being held in Singapore.

### Brisbane

| | |
|---|---|
| **Time** | 3pm |
| **Date** | Friday, 28 November 2014 |
| **Location** | Brisbane Convention & Exhibition Centre<br>Corner Merivale & Glenelg Streets<br>South Bank, Brisbane, QLD 4101 |

### Singapore

| | |
|---|---|
| **Time** | 1pm |
| **Date** | Friday, 28 November 2014 |
| **Location** | Mandarin Orchard Singapore<br>333 Orchard Road<br>Singapore, 238867 |

## PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

32 Edward Street,

Brisbane, QLD 4000 Australia

Telephone 61 7 3229 0800

Facsimile 61 7 3229 6800

## AUDITOR

**KPMG**

Level 16, 71 Eagle Street
Brisbane Qld 4000
Audit Partner: Matthew McDonnell
Year appointed: 2014

## BANKERS

Bank of Western Australia Ltd

National Australia Bank

Wells Fargo & Co

HSBC

KeyBank, N.A.

## STOCK EXCHANGE LISTINGS

Linc Energy Ltd shares are listed on the Singapore Exchange (SGX: TI6) and in the United States on the OTCQX (OTCQX: LNCGY).

## WEBSITE

www.lincenergy.com

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# CHAIRMAN'S MESSAGE

## DEAR FELLOW SHAREHOLDERS, THIS WILL BE MY LAST ANNUAL REPORT MESSAGE TO LINC ENERGY SHAREHOLDERS. I HAVE BEEN TRYING TO ENCOURAGE PETER BOND TO CHANGE HIS ROLE FROM THAT OF CEO TO EXECUTIVE CHAIRMAN NOW FOR QUITE SOME TIME, I AM DELIGHTED THAT HE HAS FINALLY CHOSEN TO MAKE THE MOVE.

I firmly believe that the Company will be far better served with Peter being able to concentrate on the more strategic and entrepreneurial aspects of the business without the distraction of Management and operations which are now being capably handled by our new CEO and Managing Director Craig Ricato. It is my desire to remain in the role of Non Executive Director into the foreseeable future, conditional upon your approval.

The Company's financial performance this year has not met our expectations. Your newly appointed CEO, with the full Board and Chairman's support has a clear vision and the drive necessary to reverse this trend over the coming months and years.

Enough from me for now, I thank you for your support over the past years.

Peter Bond in his following Managing Director's report will detail the activities of the past year.

Yours Sincerely

**Ken Dark**
**Retiring Chairman**

**Ken Dark was Chairman of Linc Energy for the entire 2014 financial year. On 1 October 2014, Peter Bond became Executive Chairman and Ken Dark remained on the Linc Energy Board as a Non-Executive Director.*



# MANAGING DIRECTOR'S REPORT

## DEAR FELLOW SHAREHOLDERS, IT HAS BEEN ANOTHER EXCITING YEAR FOR LINC ENERGY. OUR FOCUS HAS REMAINED UPON DEVELOPING OUR WORLD CLASS ASSET BASE, COMMERCIALISATION OF OUR INNOVATIVE TECHNOLOGY AND ON REINING IN COSTS, WITH THE AIM TO CONTINUE TO CREATE SHAREHOLDER VALUE.

I would have liked to have achieved these three issues far more quickly although I am very confident that these are now on track. Especially as we progress drilling the SAPEX shale asset and UCG takes further steps towards realising its potential.

## OIL AND GAS

In early 2014, the Oil and Gas team successfully drilled and completed the # 23H well at Umiat, Alaska, which produced light sweet crude oil at a peak rate of approximately 800 BOPD with excellent quality oil produced at 38 API gravity (basically that's equivalent to a diesel type product flowing out of the ground). This is a major milestone to show such high quality oil flowing so easily in a treacherous area that has not surfaced significant quantities of crude oil in more than half a century. The Umiat team have completed engineering analysis and made significant progress on environmental studies, while also continuing to identify development scenarios for the commercial development of this facility.

Production from our Gulf Coast and Wyoming oil reserves have remained steady, with 4,695 BOEPD (gross) average for the fiscal year ended 30 June 2014 for these collective regions. We remain optimistic about the potential of these assets. In the Gulf Coast, through the use of 3D seismic analysis, subsurface mapping and other advanced techniques, nearly 50 new drilling and over 70 recompletion opportunities have been identified.

Our assets in Wyoming have attracted the attention of a number of joint venture partners and we continue to evaluate these opportunities.

The Company has also been very pleased with the strong demand for the Senior Secured Notes offering by the Company's wholly-owned subsidiaries Linc USA GP and Linc Energy Finance (USA), Inc. which raised USD$125 million in August 2014. The net proceeds provide full funding of our Oil and Gas Division for the 2015 financial year, enabling us to undertake a Gulf Coast drilling program focused on new well targets and low cost recompletions, in order to boost production and cash flows.

Linc Energy has also received unsolicited expressions of interest for the purchase of the Company's Umiat and Wyoming conventional oil assets in the USA, as well as enquiries for the acquisition of the entire Linc Energy Oil and Gas portfolio in the USA. At the time of writing of this report, the Company was working with these parties to evaluate these expressions of interest. I believe we can view these overtures as a positive reflection of what has been achieved over these past couple of years by the Oil and Gas team especially our recent success at Umiat.

## SHALE OIL (SAPEX)

We have an incredibly exciting opportunity with our Arckaringa Basin asset in South Australia given the size and potential of both its conventional and unconventional oil and gas resources.

Independent reports have confirmed a potentially enormous estimated prospective resource in this Basin of 103 Billion Barrels of Oil Equivalent (BBOE) on an unrisked basis and 3.5 BBOE on a risked basis. These are huge numbers in anyone's book; a simply game-changing asset that if aptly extracted would have a profound positive impact on Linc Energy's profitability, as well as potentially bringing Australia back to being an oil exporter and oil self-sufficient nation. As such the Arckaringa Basin has become a key Company focus and core driver for Linc Energy.

We did take the time to ensure the right contracts, at the right prices, were put in place with experienced drilling contractors and other third parties and we were pleased to notify the market in October 2014 that the first well in this exploratory program had spudded. We intend for the Arckaringa Basin project to be long-running, with an aggressive and focused operation following the initial three-well exploratory program, conditional to drilling results and Board approval. It is vital therefore that we lay the groundwork for this plan in a careful and financially responsible manner, so that we are able to maximise as much value as possible from this extraordinary asset, after all it will be a cornerstone of the Company going forward for years to come.

## UNDERGROUND COAL GASIFICATION (UCG)

We are a Company with the technology to provide useful products such as oil, synthetic natural gas, power and transport fuels at a time when global energy consumption continues to rise, predominantly driven by growth in developing countries. The race to implement our commercially viable and environmentally sustainable alternatives to traditional energy generation has never been more important.

There have been several milestone achievements reached in the past year on our path to commercialisation of our proprietary Underground Coal Gasification (UCG) technology, including the first UCG licence income fee of AUD$20 million received from our partner Exxaro Resources, one of South Africa's largest diversified coal resource groups. Under this partnership Linc Energy is further entitled to AUD$7 million after the initial UCG project has passed agreed performance tests, which are currently scheduled for 2017, and future income from ongoing royalties from the synthesis gas produced.

A further breakthrough on the road to commercialisation has been Linc Energy receiving support from the Polish Government for the first UCG trial to ever take place in Poland. The technical, environmental, economic and safety features of UCG will be considered in the trial and the data collected used to support the development of a framework that should enable Linc Energy to put a commercial UCG facility into production in Poland.

To prepare for this prospective new legislation, we have significantly increased coal exploration licenses, to carry a potential 5 billion tonnes of coal across three licenses being awarded in Poland thus far, making Linc Energy one of the largest private owners of coal in the bountiful Upper Silesian Coal Basin in Poland.

The most exciting news for our UCG team is the discovery over the past year that Linc Energy's UCG process can be used for recovery of 'heavy oil' in an efficient and cost effective manner. This new 'heavy oil' business opportunity will drive a great deal of growth and profit potential from the UCG Division over the coming years. In fact, I'd say this discovery of adapting the UCG process for 'heavy oil' recovery has been as great a discovery as the development of UCG in the first place. Subsequently opening the door to a very large commercial opportunity. In utilising Linc Energy's UCG process instead of existing steam recovery technology (SAGD) on heavy oil, Linc Energy can demonstrate a lower cost and higher production process for recovery of 'heavy oil'.

We were also pleased to announce that the Company's Wyoming (USA) UCG Research & Development License Application was approved by both the Wyoming Department of Environmental Quality and the Federal Environmental Protection Agency in September 2014, after the Company met all stringent technical and regulatory requirements imposed by both regulators.

A number of other Clean Energy projects and potential joint venture partnerships are gaining significant momentum across the globe, including in the Ukraine where talks with D.TEK, the country's largest integrated coal and power generation company, have been delayed due to political unrest, but are still ongoing, and in Russia where UCG project discussions with LLC Yakut Minerals are underway. Other opportunities are being explored in Europe and Africa including Botswana, Czech Republic, Hungary, Mozambique, Tanzania and Zimbabwe and we also see significant opportunity for our UCG technology to be used to access the stranded coal resources in many countries throughout Asia, subsequently also addressing oil and gas shortages in that region.

In Australia, we've begun the scheduled stage of decommissioning at our UCG demonstration facility in Chinchilla, where the lessons learned in the development of our pioneering technology have been immense. We are still working with the Queensland Government to provide information that may enable a future commercial UCG project to be legislated in this state and we continue to evaluate other Australian locations where we see several other potential opportunities.

## COAL

We've had good progress towards the divestment of our wholly-owned conventional coal subsidiary, New Emerald Coal Ltd (NEC) and subject to offers received and relevant approvals, plan to divest NEC towards the end of 2014.

In late 2013, NEC executed a binding Sales and Purchase Agreement to acquire the Blair Athol Coal Mine in central Queensland, Australia. NEC plans to recommence operations at Blair Athol in the near-term, with significant steps towards this goal already achieved. This mine is estimated to produce up to 2Mt per annum of thermal coal, making it a very attractive value-add to the divestment package.

# CORPORATE

### Carmichael Royalty

We have previously told the market of our commitment to simplifying our business and divesting our non-core assets. As part of this strategy we were successful in selling the Carmichael Mine royalty in August 2014 to the mine's owner Adani, for AUD$155 million. The ability to use this income sooner to support projects we see as having a large benefit to the Company, such as our drilling campaign in Arckaringa Basin in South Australia, was also a major driver for this transaction.

### Safety, Community and Environment

A core value of the Linc Energy team is to exceed regulatory compliance where safety, the community and environment are concerned. In the year under review, the Company's integrated management systems were enhanced to ensure positive relationships are developed with all of our stakeholders, that we provide safe workplaces and systems of work and that we are respectful to the environments we are operating in. We continue to be well pleased with our performance in this aspect of operations and report no lost time injuries during the year under review.

### Enhancements to Executive team

To help us better realise the strategic opportunities that are available to us and as part of our process of continual improvement, a number of changes have been made to our Executive team in the past year.

Experienced Linc Energy Board member Craig Ricato was appointed to the position of CEO and Managing Director as I transitioned to the position of Executive Chairman of the Board, effective 1 October 2014.

Michael Mapp, who has been with Linc Energy since 2012, was promoted to the role of Chief Operating Officer to oversee the Company's operations, after demonstrating his strong capability and vision in the role of President of Coal.

What is important is that as a team, I strongly believe the reinvented Linc Energy structure will be able to deliver upon the execution of our day to day goals better whilst I, as Executive Chairman, will still be involved in the executive management of the business, however my new role will allow me greater time to focus on key strategic developments and Investor Relations.

Each of these new leaders, along with their Executives peers, is entrusted to maintain an environment and culture where our people can succeed to give us the momentum to achieve our goals.

### Transition to the SGX

One of our strategies this year to unlock the value we've created in Linc Energy was to list on the Singapore Exchange (SGX), which we could see as a way to stabilise the Company's share price, whilst attracting more international energy investors, to broaden our investor base, improve access to capital markets and ultimately to maximise shareholder value. We have greatly improved the stability of the stock price and having Genting come on board as a cornerstone investor has been positive. We are now in the process of attracting more investors to Linc Energy and the more we hit out key milestones, the more investors we will attract which in turn should assist growth in the Company's share price.

Linc Energy received strong investment demand for the international placement and public offer associated with the move to the SGX, which is a positive endorsement of our business potential. We were very pleased to secure Genting Strategic Investments as a new cornerstone investor during this process and to further see their continued support by increasing their stake several times since the Singapore IPO. We continue to have proactive contact with other potential institutional shareholders and work hard to increase trading volumes which in turn should reflect an improved share price.

On behalf of our Board and everyone at Linc Energy, I thank shareholders for making the transition to the SGX with us. We have such great confidence in our world-class assets, our technology and our people to deliver on our commitments and take Linc Energy to the next level. I look forward to sharing more achievements with you in the near future, next time from my viewpoint as Executive Chairman which after ten years as CEO at Linc Energy, I'm hopeful will be a positive move for us all.

Yours sincerely,



**Peter Bond**

**CEO and Managing Director**

** Peter Bond was CEO and Managing Director of Linc Energy for the entire 2014 financial year. On 1 October 2014, Peter Bond became Executive Chairman of the Board and fellow experienced Board member, Craig Ricato, was appointed to the position of CEO and Managing Director.*



# OIL & GAS

## KEY HIGHLIGHTS

OIL FLOWS IN UMIAT, ALASKA: Light sweet crude oil at a peak rate of approximately 800 BOPD and a sustained rate of 250 BOPD. Select Engineering studies are complete and Environmental studies are entering their fifth year, which is considerable research toward full development and assessment for Environmental Impact Statement preparation.

CAPITAL IMPROVEMENT: Raised USD$125,000,000 in new Senior Secured Notes to progress Gulf Coast drilling and development program.

HIGH QUALITY RESERVES AND RESOURCES: US Oil & Gas assets have 3P valuation (PV-10) of nearly $4.4 billion, and proved PV-10 of over USD$430 million, comprising 96% oil.

STEADY PRODUCTION IN GULF COAST & WYOMING: 4,695 BOEPD (gross) average for the fiscal year ended 30 June 2014 for Gulf Coast and Wyoming.

SAFETY AND ENVIRONMENT: Linc Energy continues to emphasise and concentrate on a culture of maintaining impeccable safety and environmental record from inception to date.

SOCIAL LICENCE: Ongoing stakeholder engagement is a core value of the Company and we have been active during the period across a number of jurisdictions in the United States. In particular, extensive engagement occurred during the Umiat drilling program where a stakeholder management plan was implemented to engage key stakeholders including outreach to local regional Native Alaskan communities (Nuiqsut & Anaktuvuk Pass), regulators, elected officials and business associations.

# STRATEGY & DELIVERY

## LINC ENERGY'S OIL AND GAS DIVISION FY 2015 PROGRAM IS FOCUSED ON ORGANIC GROWTH FROM EXISTING ASSETS, CASH MANAGEMENT AND RESERVE GROWTH COMBINED WITH CAPITAL AND COST DISCIPLINE.

This policy shift towards a more disciplined capital program year-over-year is noted below:

- Program FY 2014: Rapid drilling to chase production.
- Strategy FY 2015:
    - **Finance:** shore up capital structure and operate within cash flow while maintaining a keen eye on cost controls.
    - **Drilling:** mitigate risk with multi-pay, high graded prospect drilling program. We will identify multiple targets from the same wellbore selected from a portfolio of 50 distinct drilling prospects.
    - **Recompletions:** focus on our extensive portfolio of low-risk recompletions to maintain cash flow given these wells have a similar production profile to a new well for 10% of the cost.
    - **Reserves Growth:** via introduction and implementation of the Kepner-Tregoe (KT) risk analysis and mitigation program designed to continuously high-grade the drilling portfolio.

### Leveraging technological expertise to develop low-risk, high-return opportunities

Since the beginning of 2013 through to 30 June 2014, Linc Energy has successfully drilled 35 new wells and performed 43 recompletions in the Gulf Coast, which on a combined basis accounted for approximately 65% of average daily production for the fiscal year ended 30 June 2014.

The Company has continued to use proven technologies and production techniques to explore, develop and exploit oil and gas properties in order to assist in reducing drilling risks, lowering finding costs and to provide for more efficient production from properties. This has been demonstrated by Linc Energy achieving a greater than 86% success rate on new drilling since September 2012, with anticipated payout periods that generate higher internal rates of return.

### The further delineation and development of Umiat field in Alaska

In March 2014, Linc Energy successfully drilled and completed the Umiat # 23H well, which produced light sweet crude oil at a peak rate of approximately 800 BOPD and a sustained rate of 250 BOPD with excellent quality oil produced at 38 API gravity. The well design employed the latest in drilling and completion technologies delivering a 640 metre horizontal completion just 300 metres below the surface. This was the first time that significant quantities of crude were surfaced in Umiat since 1952.

Linc Energy has completed Select Engineering – Phase 1 for the project which identifies and analyses road options, pipeline routes, and environmental assessments of various development options. Environmental studies are entering their fifth year which involves considerable detailed research toward full development and assessment of the Environmental Impact Statement. The Company continues to engage key stakeholders including ongoing dialogue with Native Alaskan communities as well as State of Alaska and Federal authorities to apprise them of our progress and gain their support as well as cooperation.

Senior management has been very encouraged by the cooperative business environment under Governor Parnell, and thankful to be a large employer of skilled professionals and local businesses in pursuit of this multi-billion dollar prize. The current tax incentive

program under Senate Bill 21 is important to the welfare of the citizens and local business community as well as Linc Energy.

A stable tax regime is important to assess the sovereign risk of any project, and Linc Energy is fortunate to have the support in Alaska. By assessing the impact of these beneficial Alaskan tax incentives, the Company was also able to increase probable PV-10 of this asset from USD$1.5 billion as of 1 July 2012 to USD$2.5 billion as of 1 September 2013.

**Increasing cash flows by lowering the risk profile of Gulf Coast assets**

Our oil-centric strategy in the Gulf Coast is to focus on low-risk properties that generate strong cash flows through high internal rate of return wells with favorable payout periods. The Company believes the combination of our high-quality assets and proven workover and drilling abilities reduces our development risk and facilitates a lower-risk, higher-return strategy.

At the time Linc Energy acquired its Gulf Coast Oil and Gas assets in October 2011, the 14 oil fields purchased were producing approximately 2,350 gross BOEPD. Since the acquisition through 30 June 2014, the team has drilled 68 wells and performed nearly 70 recompletions. For the fiscal year ended 30 June 2014, the average production of the Gulf Coast properties had increased substantially to 4,695 gross BOEPD from approximately 150 wells.

**Benefiting from our technical expertise in salt dome geology**

Linc Energy has assembled a large and highly experienced team of geoscientists with significant expertise in subsurface salt formations that are specific to the Company's properties. The team has acquired 3D seismic data for 91% of the Company's Gulf Coast assets, including the Barbers Hill, Black Bayou, Port Neches, Cedar Point, Atkinson Island and High Island fields and has undertaken an extensive seismic reprocessing program. This seismic reprocessing continues to improve the ability to better identify opportunities.

The Company is well positioned to meet the unique challenges of drilling in and around salt domes, while also incorporating the experience the Company has gained from operating the assets.

**Pursue opportunistic acquisitions**

Linc Energy continually reviews opportunities to acquire producing properties, leasehold acreage and drilling prospects at attractive prices. Our acquisition strategy, as exemplified by the Gulf Coast and Wyoming acquisitions, have focused primarily on underdeveloped assets with growth potential that will allow the Company to enhance and exploit properties quickly without assuming unnecessary geologic, exploration or integration risk.



# PROJECTS & OPERATIONS

## GULF COAST ASSETS

Linc Energy's Gulf Coast properties are onshore and in transitional coastal zones having a water depth of approximately 10 to 15 feet or less located in Brazoria, Calhoun, Chambers, Galveston, Harris, Liberty and Orange Counties in Texas, and Cameron and Lafourche Parishes in Louisiana, and cover 15,640 net acres. All of these fields are characterised by salt domes or geological structures related to deep-seated salt movement that have been a significant source of US domestic oil production since the turn of the 20th century.

These Gulf Coast properties have proved PV-10 of USD$416.6 million and prospective PV-10 reserves of USD$178.2 million, comprising 96% oil and are located in fields that are characterised by over 80 years of development drilling and production history.

Linc Energy's team of highly experienced and proven geological professionals have identified several up-dip trends, infill and adjacent lease drilling locations, and recompletion and re-entry opportunities in the Barbers Hill, Cedar Point, Atkinson Island, High Island, Black Bayou, and Hoskins Mound fields that are expected to provide access to proved, lower-risk reserves.

### Gulf Coast—going forward

The Company's current portfolio of drilling inventory will allow for organic growth through low-risk development drilling and recompletion opportunities. Through the use of 3D seismic analysis, subsurface mapping and other advanced techniques, nearly 50 new drilling opportunities have been identified within Linc Energy's existing fields, most of which have not yet been booked as proved or probable reserves, along with over 70 recompletion opportunities.

Linc Energy's Gulf Coast capital plan calls for approximately USD$46 million of drilling, completion and recompletion costs through to the end of fiscal 2015, which will provide for 16 new wells and 12 recompletions. The Gulf Coast team will continue to apply 3D seismic and subsurface mapping technologies to the subsurface salt structures in order to identify well locations with significant untapped reserve potential.




# FIELD AND DEVELOPMENT OVERVIEW

**Alaska Region — North Slope (Umiat) Development Plan**

| Phase I | Phase II | Phase III |
|---|---|---|
| **Key Milestones:**<br>· Drilled and flow tested horizontal well<br>· Peak flow rates of 800 BOPD<br>· Excellent quality oil at 38.5 API | **Key Milestones:**<br>· Evaluate flow test results and integrate them into reservoir simulation model<br>· Collect additional baseline data for EIS application<br>· Identify development scenarios<br>Evaluate advantages of engaging industry partner to assist in future development | **Key Milestones:**<br>· Complete EIS and permitting process<br>· Select development scenarios<br>· Finalize investment decision<br>· Construction of roads and<br>· pipelines<br>· Construction of process facilities<br>· Commence development drilling<br>Construciton of TAPS facilities<br>· and connection<br>Exploing a variety of financing strategies, including JV partners, asset-level financing, public-private partnerships, etc. |
| Reconfirm Reserve and Resource Value | Increased Reserve Value: Transition to Proved Reserves | Estimated Full Production: 50,000 BOPD |



## NORTH SLOPE, ALASKA (UMIAT)

Linc Energy's Umiat field, which comprises leases covering 18,540 net acres within the National Petroleum Reserve of Alaska, is considered to be one of the few remaining undeveloped light oil reservoirs in North America. Independent evaluator Ryder Scott has estimated this field contains OOIP of approximately one billion barrels. The productive reservoirs at Umiat are shallow with a depth of less than 2,000 feet and as at 1 September 2013 contained 155 MMBBLs of probable reserves and 39 MMBBLs of possible reserves. Ryder Scott has further estimated these reserves to have a 2P PV-10 value of approximately USD$2,465 million.

Linc Energy has in place a three-phase development plan for the Umiat field, which includes continued stakeholder engagement, extensive environmental studies and regulatory compliance initiatives that will help reconfirm and define the reserve potential of the Umiat field, while also preparing the property for future commercial production.

The Umiat team has completed Phase 1 of the North Slope (Umiat) Development Plan via the drilling of the Umiat #18 well. Preliminary results from the core analysis of this well:

(i) indicate good permeability and porosity;

(ii) confirm a robust hydrocarbon geochemical signature;

(iii) indicate high quality reservoir rock; and

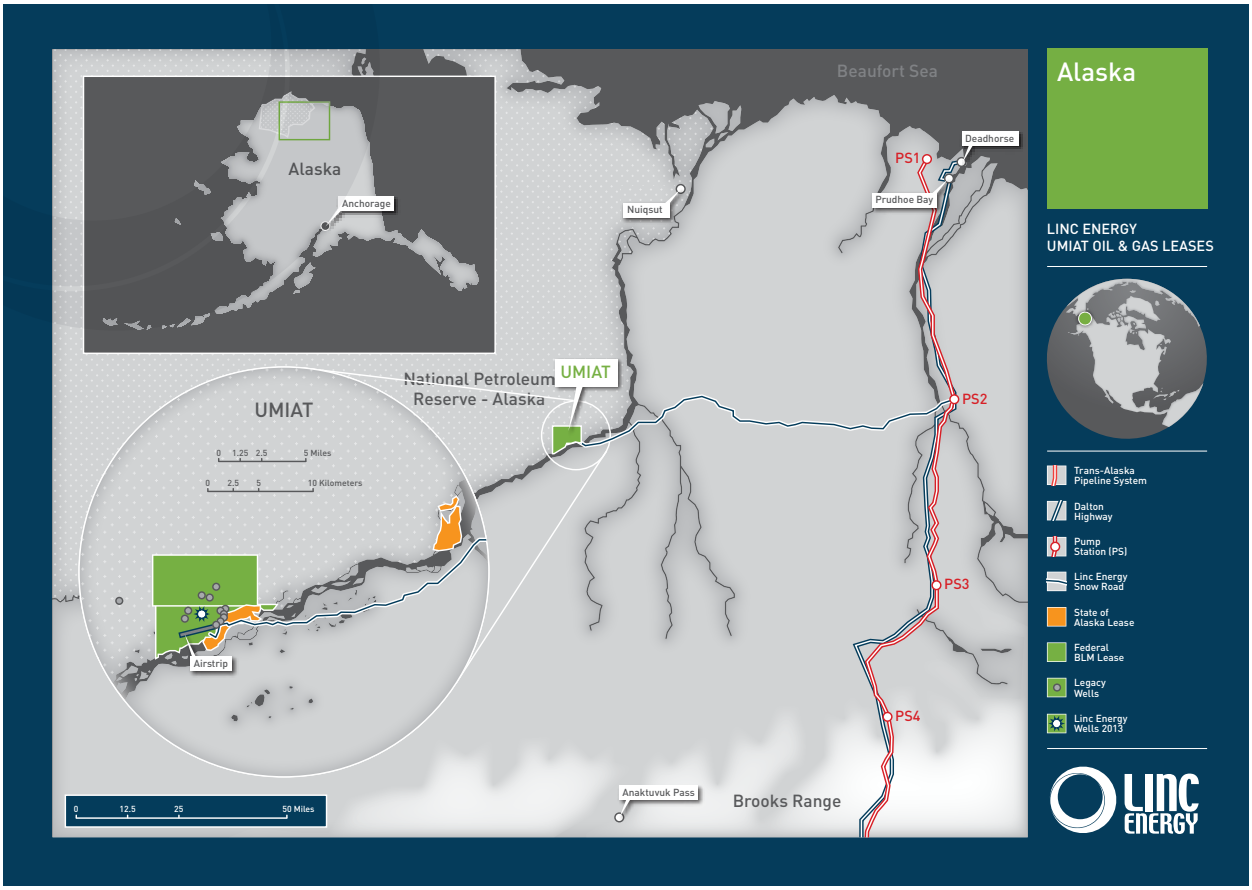
(iv) confirm that the Lower Grandstand formation is completely saturated with hydrocarbons.

Additionally, Linc Energy has commenced its environmental data acquisition for the Environmental Impact Study which is required for our eventual development plan to be submitted to the Bureau of Land Management, the lead United States federal agency for the Umiat Project. On March 21, 2014, Linc Energy successfully drilled and completed Well #23H at our Umiat field in Alaska which produced light sweet crude oil at a peak rate of approximately 800 BOPD and a sustained rate of 250 BOPD, suggesting significant commercial viability.

Linc Energy has commenced Phase 3 of the North Slope Development Plan and is continuing efforts to obtain all regulatory consents and approvals necessary for development of the Umiat field.

The Umiat team has also made significant progress on environmental studies, data for which will be used for future permitting purposes. These studies include bird, fish and moose surveys, lake, wetlands and hydrology studies, along with collection of metrological and air quality data.

Engineering studies are also underway to determine the site's infrastructure, including potential locations for drill sites, facility pads, bridges and gravel mine site locations. The access road and pipeline route selection options have been determined as part of this process, with three routes selected based on a combination of financial, technical, environmental and social criteria.



# KEY DATA

## GULF COAST

**9.9 MMBOE**
Total Proved Reserves[1]

**96% OIL**

1P PV-10
**USD$416.6 MILLION**

**15,640**
NET Acres

**78%**
Average Net Revenue Interest

**100%**
Working Interest[2]

**14** Fields (13 producing)

**150** Producing Wells

[1] *Haas Petroleum Engineering Services report dated 1 July 2014.*
[2] *Linc Energy has an 87.5% working interest in four of its wells.*

## UMIAT

**154.6 MMBOE**
Total Proved Reserves

**100% OIL**

2P PV-10:
**USD$2,465.3 MILLION**

**18,540**
Net Acreage

**67.6%**
Average Net Revenue Interest

**84.5%**
Working Interest

## WYOMING

**67.7 MMBOE**
Total Proved Reserves

**100% OIL**

**75%**
Average Net Revenue Interest

**97%**
Working Interest

3P PV-10:
**USD$1,140 MILLION**

**28,741**
Net Acreage

**3** Fields (all producing)

**31** Producing Wells

### Umiat—going forward

Subject to regulatory permits and approvals necessary for the development of the Umiat field, along with approval of the investment by Linc Energy's Board of Directors, it is anticipated that the initial development of Umiat could include the drilling of up to 70 wells.

The significant potential of this reservoir has led to inquiries concerning possible joint ventures or acquisitions and we continue to identify and evaluate all funding and development scenarios.

### Powder River Basin, Wyoming

Linc Energy's Wyoming properties span 28,741 net acres and include three primary units: the Big Muddy, South Glenrock B and South Cole Creek. The Wyoming properties, located in Converse County, 15 miles east of Casper, have historical cumulative production of 147 MMBBLs of oil, but have an estimated combined OOIP of over 400 MMBBLs. For the fiscal year ended 30 June 2014 the Wyoming properties produced on average 186 gross / 139 net BOPD from 31 wells.

The Company intends to apply an Enhanced Oil Recovery (EOR) strategy using $CO_2$ flooding techniques to develop the acreage position and maximise the value of the resource potential in the Powder River Basin region. Linc Energy has begun designing the specifics of the EOR strategy, which will be implemented in phases.

### Wyoming—going forward

Linc Energy believes Wyoming's Powder River Basin assets have the potential for peak production of 10,000 to 15,000 gross BOPD and that this Basin has the potential to produce 67 million additional barrels of oil through the effective application of a $CO_2$ Enhanced Oil Recovery (EOR) program.

Linc Energy has also been contacted by parties interested in exploring possible joint ventures or the purchase of the Company's Wyoming assets. Linc Energy continues to evaluate these possibilities and to identify other prospective development scenarios.

# SAPEX (SHALE OIL)

## KEY HIGHLIGHTS

Drilling program to realise enormous potential of 103 Billion BOE* shale oil resource in Arckaringa Basin in South Australia.

Initial stakeholder engagement.

# STRATEGY & DELIVERY

## LINC ENERGY'S SAPEX BUSINESS HOLDS LINC ENERGY'S PETROLEUM LICENCES IN SOUTH AUSTRALIA, WITH A TOTAL AREA OF APPROXIMATELY 24.6 MILLION ACRES IN THE ARCKARINGA, COOPER, EROMANGA, WALLOWAY AND STANSBURY BASINS.

Exploration for shale oil and gas in the Arckaringa Basin is currently underway, where independent analysis undertaken by DeGolyer & MacNaughton has highlighted a potentially enormous estimated prospective resource of 103 Billion Barrels of oil equivalent (BBOE) on an unrisked basis and 3.5 BBOE on a risked basis*.

To unlock this massive potential, a number of key strategies were implemented in the year under review:

**Better understand the asset**

Linc Energy's research to date concludes that the quality shale oil that has been found, particularly in the Arckaringa Basin, exhibits total organic carbon levels, permeability, porosity and thickness that compares favourably to other high volume unconventional shale oil locations around the world, including the prolific US Bakken, Eagle Ford and Mississippi Lime resource plays. Research further suggests that the conventional oil opportunities are also significant with several first-rate conventional oil well opportunities identified for exploration in the near future.

A preliminary study was undertaken by the independent oil and gas service provider and shale experts, Baker Hughes. This study, which produces a detailed model of the Arckaringa Basin and a plan to transition the resources to reserves, also includes geo mechanical modelling, wellbore stability analysis, well planning, hydraulic fracture design, along with simultaneous inversion analysis of seismic data and prediction of multiphase flow performance. The study will continue to be refined following the acquisition of ongoing drilling and seismic data.

**Focused drilling program to maximise value**

Much of the acreage that Linc Energy holds Petroleum Exploration Licences (PELs) in South Australia is underexplored, particularly the much deeper parts of the Basins which, prior to Linc Energy's exploration activities, have never been tested.

The drilling and completion techniques and well design that the SAPEX team are using are of the highest standard, with significant oil and gas drilling expertise in-house.

Having this experience on hand, combined with the rare size and quality of this resource, provides Linc Energy with a strong competitive advantage that could not only be a game changer for the Company but could also be of benefit to Australia's energy security. As such, the SAPEX team are working determinedly to flow hydrocarbons from this region at the earliest possible opportunity.

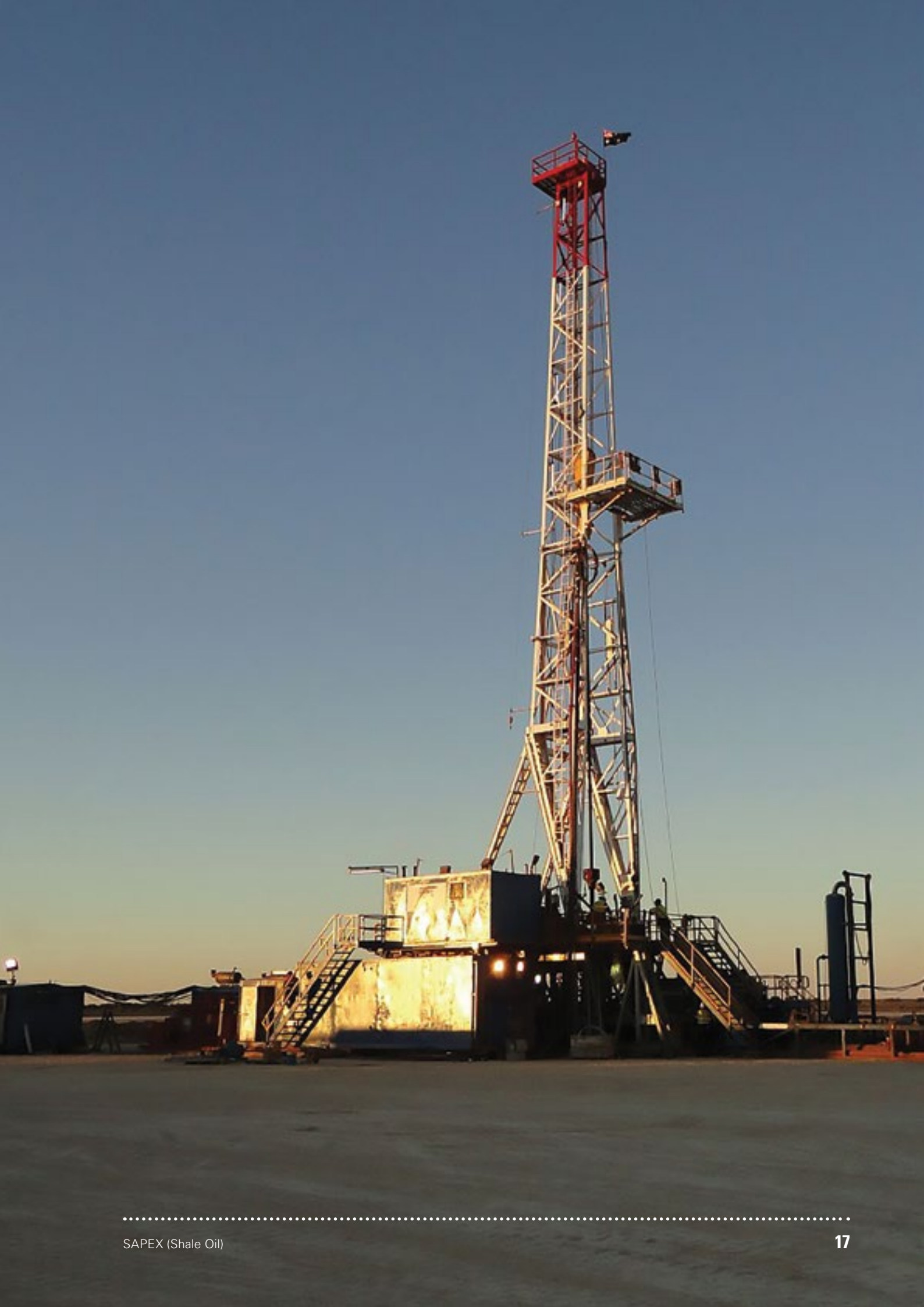
The targeted Arckaringa Basin exploration program will be initially funded within the Company's budget despite interest received from possible investment partners. Given the potential of this asset, the Board of Linc Energy decided that in the interests of maximising shareholder value, this opportunity should initially be exploited solely by Linc Energy. As the Basin is better defined the Company will consider partnership opportunities for later stages of resource development.

The SAPEX team continue to maximise value by further tightening expenditure, particularly in the negotiation of third party contracts associated with the Company's upcoming drilling campaign.
Arckaringa Basin Drilling Operations Plan

**Notes:*

*1) Prospective Resources estimate in DeGolyer and MacNaughton report dated 21 January 2013. The Prospective Resources estimate presented in this report has been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers by DeGolyer and MacNaughton by John W. Wallace (consultant), who has consented to the form and context in which the prospective resource estimate appears.*

*2) Prospective Resources are those quantities that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Application of any geological or economic chance factor does not equate prospective resources to contingent resources or reserves.*



# PROJECTS & OPERATIONS

## ARCKARINGA BASIN

Linc Energy holds petroleum exploration rights covering approximately 80% of the 20 million acres in Arckaringa Basin with 100% Working Interest in all PELs. Unrisked prospective resources for unconventional reservoirs in this Basin are estimated by independent analysts DeGolyer & MacNaughton to be as high as 103 Billion Barrels of oil equivalent (BBOE)*, with prospective resources on a fully risked basis still considered to be in the region of 3.5 BBOE*.

The focus of Linc Energy's immediate drilling in the Basin is to better understand the unconventional potential locked within these vast marine shales.

In previous drilling programs conducted during 2010, Linc Energy obtained "oil shows" at its Maglia 1 well, indicating the existence of a working petroleum system.

Significant additional upside potential exists in the Basin's conventional oil resources indicated to be contained within the deeper parts of the Arckaringa Basin, with Gustavson Associates providing a preliminary estimate of 125 billion BBL*. Linc Energy is assessing the conventional potential across the full extent of its portfolio.

There are infrastructure advantages in the Arckaringa Basin with this land defined as extremely flat terrain, with no surface restrictions to interrupt site development. A nearby heavy gauge railway line can provide access to both Darwin and Adelaide, with both of these locations being suitable for refining and export. Abundant access to source water from natural, shallow aquifers is also available should this be required in future for fracture stimulation.

Exploration rights for the sweet spots identified by Linc Energy in this area all exceed 10 years, ensuring minimal land expiry risk and access agreements with traditional owners for these areas are already in place. Furthermore, the Company has received continued regulatory support from the South Australian government for unconventional exploration and development within this Australian state.

**Arckaringa Basin—going forward**

Linc Energy has a clear vision for the Arckaringa Basin, beginning with the drilling of three new wells in the second half of the 2014 calendar year that will assist in proving up deeper parts of the Basin. Subject to drilling results, the Company will look to follow up this initial three well program with the drilling of a further three wells.

This drilling program will be focused on the Boorthanna Trough which formed the basis for the majority of the prospective resources identified by independent analysts and will target deeper shale zones within the Stuart range and Boorthanna formation prior to drilling to basement through the Pre-Permian. To date, no previous drilling has intersected the formations at depth and the results of these wells will be critical to understanding the Basin in detail.

Samples and core recovered during drilling activity will be sent for analysis of rock layers within the targeted formations with the most prospective source rock. Assessment of the data collected in this first phase of drilling will assist in determining the next development steps.

**Notes:*

*1) Prospective Resources estimate in DeGolyer and MacNaughton report dated 21 January 2013. The Prospective Resources estimate presented in this report has been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers by DeGolyer and MacNaughton by John W. Wallace (consultant), who has consented to the form and context in which the prospective resource estimate appears.*

*2) Prospective Resources are those quantities that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Application of any geological or economic chance factor does not equate prospective resources to contingent resources or reserves.*

## EROMANGA BASIN

SAPEX has 100% ownership of PELs 568 and 569, covering 6,211km$^2$ of the Eromanga Basin located in the far north-eastern part of South Australia. These licences are located north of the Cooper Basin which is the largest onshore oil and gas basin in Australia and were awarded in 2012 following a successful competitive bidding application. Work commitments during the first five years of the licence term include desktop geology and geophysics studies followed by seismic surveys and drilling.

Virtually no modern research data has been collected on this licence area. Regional interpretation has been completed with the help of a high-resolution gravity survey completed by the Company in mid to late 2013. Linc Energy will use this new data to assist in the design of a seismic program that will show the areas with best potential to test for the presence of commercial quantities of petroleum.

## WALLOWAY BASIN

The technical review on the thick lignite contained in the Walloway Basin of PEL120 continues. This lignite has shown potential for development by UCG. More work and evaluation with favourable results is required if this area is to advance toward development. SAPEX will continue to carry out field monitoring of artesian wells in the licence area on a quarterly basis.

## STANSBURY BASIN

SAPEX has 100% ownership of PEL 606, covering 8,509km$^2$ of the Stansbury Basin on Yorke Peninsula. The Stansbury Basin is relatively unexplored for hydrocarbons but minor oil and gas shows have been reported in the literature and historical drilling reports. Our evaluation will consider both conventional and unconventional hydrocarbon potential.

Continuation of geological and geophysical studies over PEL606 will aid in the preparation for geophysical and seismic surveys.





## ARCKARINGA BASIN DRILLING OPERATIONS PLAN

### Stage One (Q2 and Q3 - FY2015)

- Drilling Program with three vertical wells in three key areas:
  - Targeting the deeper parts of the Arckaringa Basin
- Detailed sampling and analysis of rock layers with the most prolific hydrocarbon content:
  - Thermal Maturity: confirm thermal gradient projections
  - Source Rock: confirm source rock quality of Stuart Range, Boorthanna and pre-Permian formations
  - Test one area with conventional prospective resource potential
  - Test all zones in core holes where movable hydrocarbons are detected
  - Logging of all Core Holes (standard suite and extended special shale suite)

# COMMUNITY ENGAGEMENT, ENVIRONMENT AND SAFETY

Community engagement, environmental management and safety are all key priorities for the SAPEX team and integral to the ongoing success of its operations.

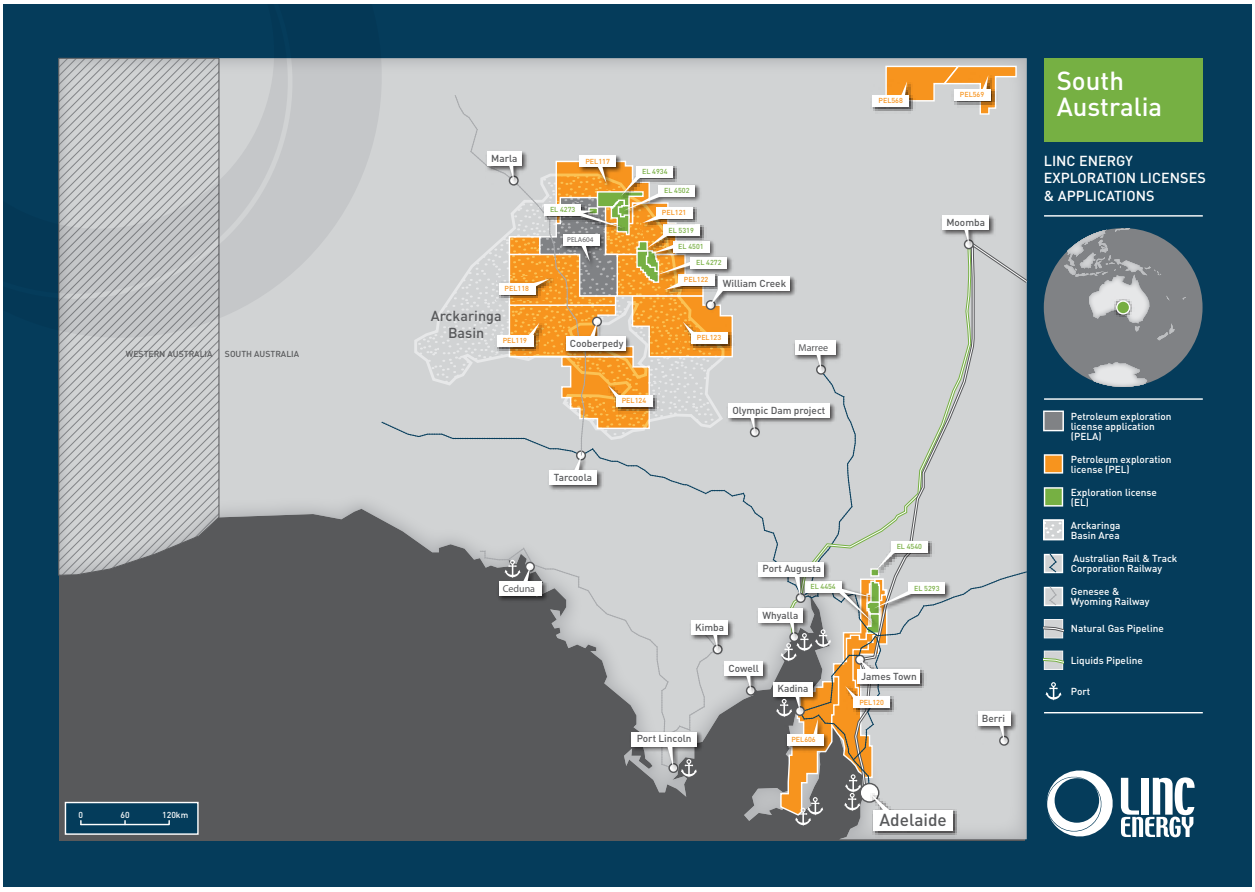
In the year under review Linc Energy organised a number of stakeholder events to provide the community with a view of the activities that form part of the Company's upcoming drilling program in the Arckaringa Basin. These well-received events included an open community forum, meetings with traditional indigenous owners and a presentation to the Coober Pedy Council.

Linc Energy has been engaging with the South Australian Government, by opting to share collected baseline water quality data of the Great Artesian Basin (GAB). The data collected through Linc Energy's groundwater monitoring program includes water quality samples taken at intervals over an 18 month timeframe from 25 locations targeting the Cadna-owie Formation of the GAB throughout the Boorthanna Trough region.

Linc Energy has to date met environmental regulation for its activities in the Arckaringa Basin and the Company's Environmental Assessment Report and Statement of Environmental Objectives for this project is available for public viewing on the South Australian Government's website.

An overarching Environmental Management System has been developed in order to ensure all SAPEX activities with the potential for impact on the environment are carried out in a manner that adequately addresses any environmental risks and statutory requirements.

Linc Energy also utilises a Safety Management System to ensure all employees and contractors act with diligence and effectively manage all safety elements on worksites. To date, all SAPEX field work has been conducted without incident.



# CLEAN ENERGY

## KEY HIGHLIGHTS

Linc Energy's first UCG licence fee of AUD$20 million received from partner Exxaro Resources in South Africa.

Coal exploration concessions increased to over 5 Billion Tonnes in Poland.

Linc Energy acts on Polish Government support of commercialising UCG in Poland by progressing a single gasifier demonstration facility.

Ongoing stakeholder engagement.

# STRATEGY & DELIVERY

**IN THE YEAR UNDER REVIEW, LINC ENERGY'S CLEAN ENERGY TEAM HAS CREATED A PLATFORM FOR COMMERCIALISATION OF THE COMPANY'S INNOVATIVE PROPRIETARY TECHNOLOGY, UNDERGROUND COAL GASIFICATION (UCG), IN ORDER TO GENERATE INCOME FROM THE USEFUL PRODUCTS PRODUCED FROM THIS TECHNOLOGY, WHICH INCLUDE ELECTRICAL POWER, TRANSPORTATION FUELS AND SUBSTITUTE NATURAL GAS.**

In addition to developing a growing pipeline of projects, Clean Energy's focus continues to be on delivering a self-sustaining source of revenue to cover operational expenditure and advancement of the business. This focus and execution resulted in a number of near term cash flow streams during the 2013-14 financial year, including:

- Receipt of the AUD$20 million licence fee from Exxaro Resources; and
- Revenue of AUD$3.5 million from service agreements and feasibility studies from current partners.


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# PROJECTS & OPERATIONS

## ASIAN PROJECTS & OPERATIONS

The Asian market will be a major focus for the Company going forward as it offers significant opportunity for Linc Energy and our patented UCG technology. Consequently, positive steps have been taken to provide market entry that should yield access to several key regions and deliver project opportunities in the 2015 financial year.

Countries with abundant stranded coal resources of interest to Linc Energy include Bangladesh, The People's Republic of China, India, Indonesia, Inner Mongolia and Malaysia.

### VIETNAM

Linc Energy has a business cooperation contract with Vietnam National Coal and Mineral Industries Group (VINACOMIN) and Japan's Marubeni Corporation to undertake a trial UCG project in the Red River Delta region in Vietnam. The three parties have signed the works and civil works contracts for stage one of the trial project planned for the Red River Delta, located about 60 kilometres south-east of Hanoi.

## EUROPEAN & AFRICAN PROJECTS & OPERATIONS

### POLAND

Linc Energy has moved forward with the commercialisation of UCG in Poland in the 2014 financial year and has received notification from the Polish Minister of Environment in June 2014 that clearly articulated their support for a commercial Synthetic Natural Gas (SNG) project in Poland. As such and subject to regulatory approval, Linc Energy plans to construct and operate a single gasifier demonstration facility during 2015.

The Company has also increased coal exploration concessions in Poland, specifically Polanka-Wielkie Drogi (PWD), Kobior and Kobior-Polnoc. Linc Energy estimates net coal resources of 1.2 billion Tonnes in the PWD concession, 2.8 billion Tonnes in the Kobior concession and 1.2 billion Tonnes in the Kobior-Polnoc concession. Thus the total net coal resource across Linc Energy's concessions in Poland is estimated at over 5 Billion Tonnes.

Importantly, the Company continues to see evidence of growing momentum behind UCG as a commercial technology in Poland, with significant progress achieved through engagement with the Polish Government at the highest levels.

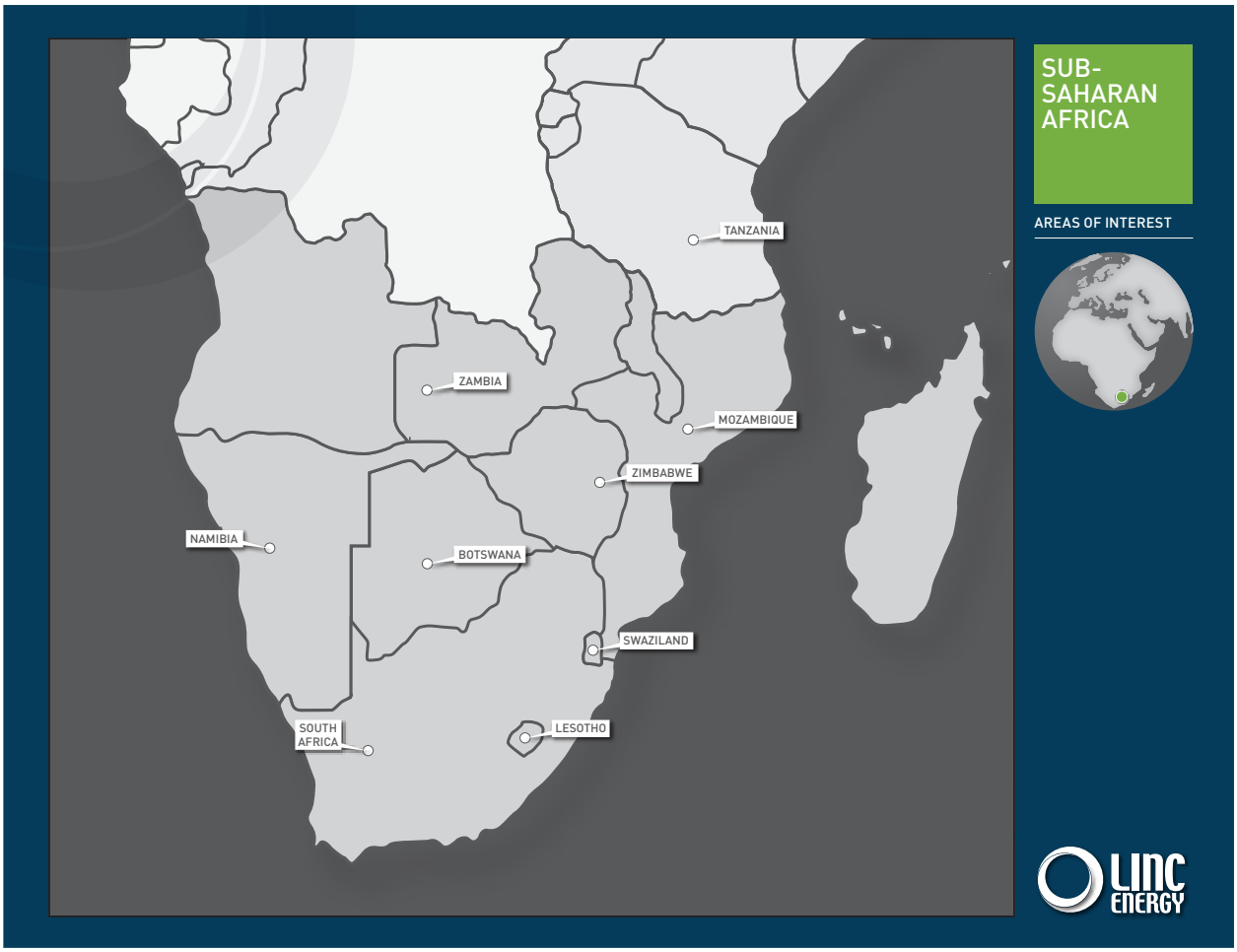
During the next year, further announcements regarding the Company's operational and commercial strategy for both the single gasifier demonstration plant and the one billion cubic metre per annum commercial scale UCG facility to produce syngas in Poland can be expected.

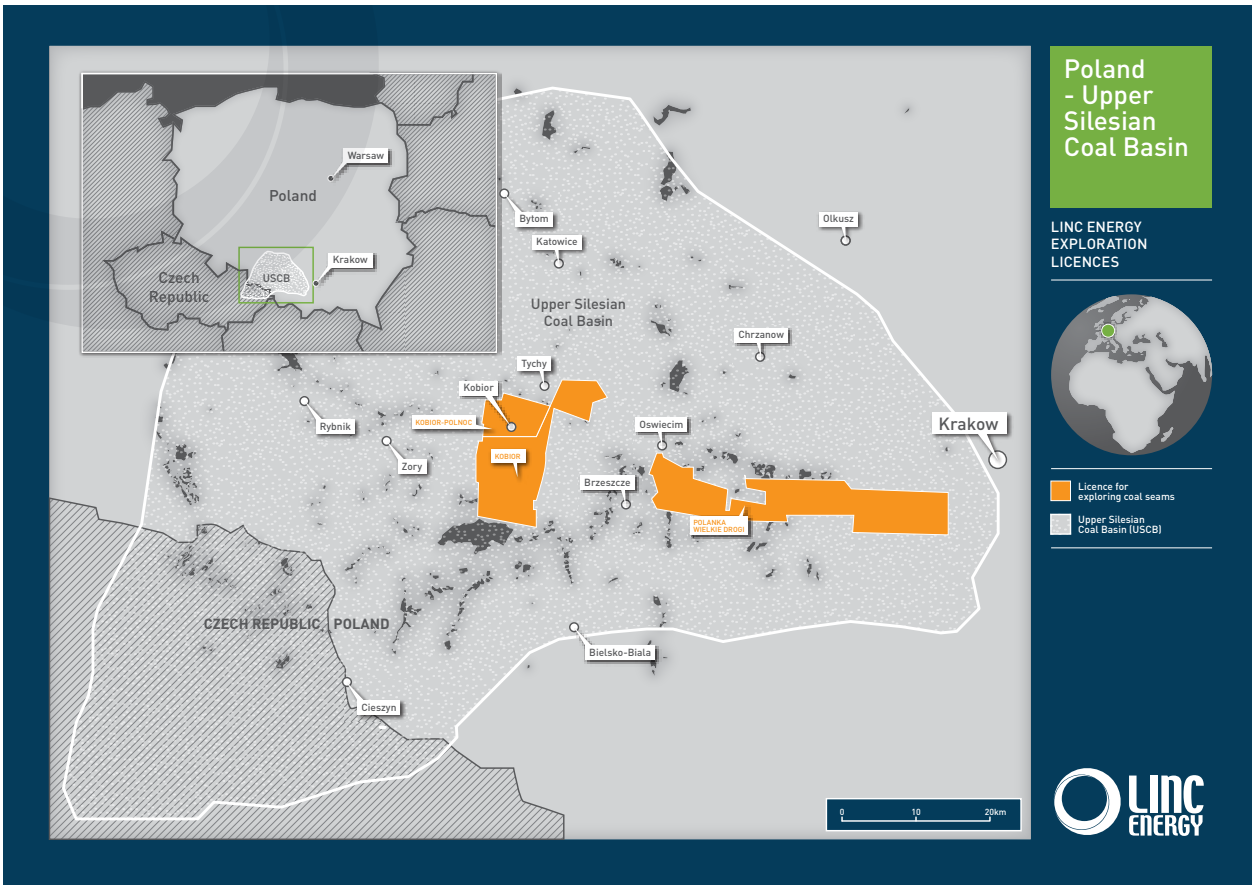
### UKRAINE

D.TEK, as Ukraine's largest integrated coal and power generation company, demonstrated an intent by conducting a full assessment of the global UCG industry. This led to Linc Energy being selected as a preferred partner to assess and develop the application of UCG on D.TEK's vast coal resources.

The recent conflict in the Ukraine has slowed progress on the Ukraine project, however Linc Energy continues to work with senior representatives of D.TEK in both Donetsk and Kiev. The Company anticipates that the 2015 financial year will see the conclusion of the Screening Study with D.TEK and establishment of a commercial model for progressing the two companies' collaboration to the next project phase.

It is important to note that the energy sector remains one of Europe's most highly politicised sectors, with the wholesale natural gas prices in the Ukraine reaching levels of over USD$450 per thousand cubic metres, as such, the opportunity for UCG in the Ukraine remains positive.


SUB-SAHARAN AFRICA
AREAS OF INTEREST
TANZANIA
ZAMBIA
MOZAMBIQUE
ZIMBABWE
NAMIBIA
BOTSWANA
SWAZILAND
SOUTH AFRICA
LESOTHO
LINC ENERGY


Poland - Upper Silesian Coal Basin
LINC ENERGY EXPLORATION LICENCES
Warsaw
Poland
Czech Republic
USCB
Krakow
Bytom
Katowice
Olkusz
Upper Silesian Coal Basin
Chrzanow
Tychy
Kobior
Rybnik
KOBIOR-POLNOC
KOBIOR
Zory
Oswiecim
Brzeszcze
POLANKA WIELKIE DROGI
Krakow
CZECH REPUBLIC
POLAND
Bielsko-Biala
Cieszyn
0
10
20km
Licence for exploring coal seams
Upper Silesian Coal Basin (USCB)
LINC ENERGY

## SOUTH AFRICA

In May 2013 Linc Energy formalised its partnership with Exxaro Resources, one of South Africa's largest diversified coal resource groups, to commercialise UCG within South Africa and neighboring regions. The partnership enables the joint pursuit of commercial power and liquid fuel solutions applying Linc Energy's patented UCG technology.

Under the deal, Linc Energy receives a total licence fee of AUD$30 million. To date, Linc Energy has received payment of AUD$23 million, with the final AUD$7 million payable upon successful completion of a performance test. Presently Linc Energy and Exxaro Resources are progressing the engineering to enable completion of such a performance test by early 2017.

Linc Energy has agreed to take a minimum of 15% equity in the initial UCG project, but has an option to have a 49% equity participation in all UCG projects developed by Exxaro Resources. Linc Energy will be eligible for royalties (linked to an energy index) for the synthesis gas produced and sold.

In return, Exxaro Resources are granted a non-exclusive licence to use Linc Energy's UCG intellectual property in Sub-Saharan Africa and an exclusive licence for specified areas within the region.

## RUSSIA (CHUKOTKA)

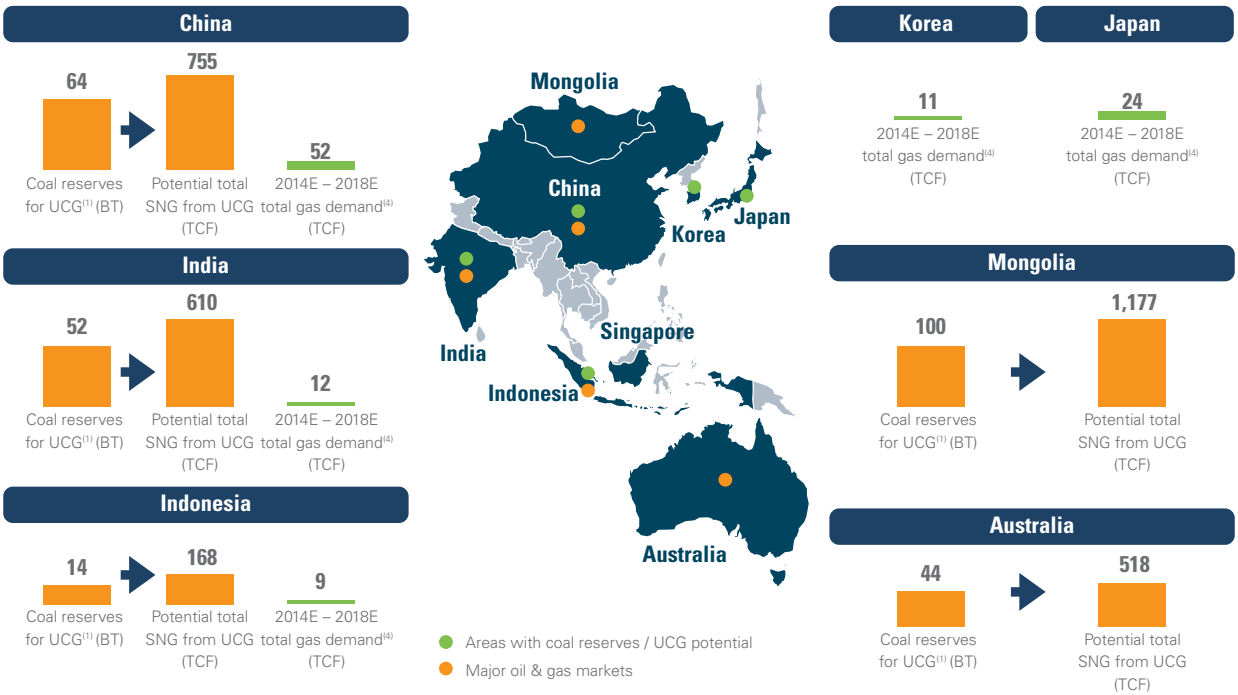
In June 2013, Linc Energy announced it had progressed discussions with LLC YakutMinerals, an affiliate of Ervington Investments Limited, and signed a Letter of Intent and Services Agreement to assess the potential deployment of Linc Energy's UCG technology on the coal resources of Chukotka in north-eastern Russia.

Linc Energy finalised a comprehensive assessment of Chukotka's coal resources for UCG development and provided an integrated UCG and Gas-to-Liquids (GTL) solution in early 2014. YakutMinerals has assessed Linc Energy's report and are evaluating the technology selection for the downstream facility. Post this downstream review, it is envisaged that Linc Energy and YakutMinerals could commence project development in north-eastern Russia.

The opportunity to bring energy independence and security to such a remote region of North-eastern Russia provides ongoing evidence of the value UCG can bring - not only to regions of high local demand, but also where reliance on imported energy sources is putting economic activity and growth at risk through excessively high prices and uncertain long term supply terms.

# UNCONVENTIONAL OIL & GAS - UCG

**Asia's abundant stranded coal resources**




**Linc Energy's proven UCG technology can take advantage of Asia's abundant stranded coal resources to address shortage of oil & gas resources.**

Note: Assumed that 3 million tonnes of coal is able to produce 1 billion $m^3$ of syngas, and 100% resource recovery.

(1) World Energy Council, 2007.

(2) Based on potential coal reserves from the Foreign Investment and Foreign Trade Agency of The Government of Mongolia (2010).

(3) Based on the difference between technical and marketable reserves as per Wood Mackenzie.

(4) Wood Mackenzie, dated 1 October 2013.



## OTHER REGIONS WITHIN EUROPE AND AFRICA

During 2014-2015, Linc Energy will continue to explore opportunities across a number of countries and territories within the European and African markets. Noteworthy regions being Czech Republic, Hungary, other territories within Russia, Botswana, Mozambique, Tanzania, and Zimbabwe.

# AMERICAS PROJECTS & OPERATIONS

## ALASKA, USA

The Cook Inlet, Alaska, represents an excellent fit for Linc Energy's proprietary UCG technology. The market continues to favour the production of SNG, with high demand for both natural gas and carbon dioxide off-takes for enhanced oil recovery. Linc Energy has identified local demand for SNG at over 1 billion cubic metres, with the potential for export in the form of Liquefied Natural Gas (LNG) further increasing demand. During the 2015 financial year it is planned that Linc Energy will enter into several supplier agreements to provide both SNG and carbon dioxide.

Linc Energy has progressed both engineering and exploration work which will be finalised in 2015 to confirm the commercialisation pathway for the Company's proposed SNG hub.

## WYOMING, USA

In September 2014 the Wyoming Department of Environmental Quality approved for Linc Energy to operate a UCG project in Wyoming's Powder River Basin. The United States Environmental Protection Agency also approved Linc Energy's aquifer exemption request, which was the final regulatory requirement in the extensive license application process that included multiple public comment sessions, an administrative hearing and stringent technical and regulatory reviews.

# UCG DEMONSTRATION FACILITY – CHINCHILLA, QUEENSLAND

Linc Energy's UCG Demonstration Facility continued to experience high demand from foreign visitors with delegations visiting the site from:

- Malaysia
- Indonesia
- Vietnam
- China
- India
- Hungary

A number of delegations are already planned to visit the site in the remainder of 2014 and in 2015 and we look forward to converting these into commercial opportunities.

In October, 2013 Linc Energy began the scheduled decommissioning process at Chinchilla in preparation to complete UCG operations.

Linc Energy continues to engage with the Queensland Government to resolve questions raised by the Queensland Government-appointed Independent Scientific Panel ISP report into UCG in Queensland. Work is ongoing and the Company will continue to answer these questions, in order to enable UCG to be developed into commercial operations in Queensland.

# GOING FORWARD

The following outcomes are planned for Clean Energy over the next 12 months:

- Revenue creation from engineering services and licensing associated with UCG opportunities;
- Regional focus resulting in project implementation within Poland, South and South East Africa and several key regions within Asia;
- Execution of gasification projects within Poland, Africa and Asia to drive toward commercialisation of UCG;
- Progression of a value creating opportunity in Wyoming and Alaska;
- The continuation of the UCG decommissioning process at Chinchilla;
- Creation of additional intellectual property to support and maintain our leadership position in the UCG market; and
- Application of UCG in other markets to create value for the Company.

## KEY HIGHLIGHTS

Entered into a Sale and Purchase Agreement to acquire the Blair Athol Coal Mine.

Teresa Environmental Impact Statement (EIS) public submissions received.

# STRATEGY & DELIVERY

## NEW EMERALD COAL LTD (NEC), A WHOLLY OWNED SUBSIDIARY OF LINC ENERGY, CONTINUES TO FOCUS ON DIVESTMENT OF THE COAL ASSETS.

The long term monetisation plan is for the divestment of the conventional coal assets via a sale. This may include interim financing arrangements, such as the sale of individual assets, to ensure the best long term outcome for Linc Energy's shareholders. In October 2013, NEC entered into a Sale and Purchase Agreement (SPA) to acquire the Blair Athol Mine, previously operated by Rio Tinto Coal Australia (RTCA). Linc Energy currently anticipates completing this transaction towards the end of the 2014 calendar year. The Blair Athol acquisition was opportunistic but it is not a long-term plan for the Company to be either a developer or a coal miner.



# PROJECTS & OPERATIONS

## BLAIR ATHOL

In October 2013, NEC executed a binding Sales and Purchase Agreement to acquire the Blair Athol Coal Mine from the Blair Athol Coal Joint Venture (BACJV). NEC plans to complete the acquisition of Blair Athol in the second half of 2014.

The Blair Athol Mine is an open-cut mine located approximately 220 km south-west of Mackay and approximately 24 km North-west of Clermont in the Bowen Basin region of Queensland, Australia. It has well defined geology with over 3,400 exploration drill holes into the remaining coal seams. The lease relating to the tenement for the Blair Athol Mine (ML 1804) covers an aggregate land area of approximately 23.6 $km^2$.

The Blair Athol Mine consists of two Mining Leases, ML 1804 and ML 1881. In November 2012, the BACJV ceased coal mining activities at the Blair Athol Mine, which had been in operation since 1984. The joint venture had been planning a rehabilitation program for the Blair Athol Mine when NEC approached RTCA (the mine manager) to acquire the mine.

A number of Conditions Precedents form part of the SPA, including the realignment of the lease boundary and issue of a replacement Environmental Authority.

Based on the Blair Athol Resource and Reserve reports completed by Xenith Consulting (an estimate provided in compliance with the JORC 2012), the Blair Athol Mine has a marketable coal reserve of 9.5 Mt and coal resources of 46.0 Mt. The Blair Athol Mine has been granted the necessary consents, permits and licences for the purpose of conducting coal mining activities. It is located adjacent to existing coal handling facilities and coal chain infrastructure. Concurrent with NEC's acquisition of the Blair Athol Mine, the Company will also conclude a number of other ancillary agreements that support the reopening of the mine, such as the supply of electricity, provision of housing and single persons accommodation, rail and port.

## TERESA

Linc Energy holds EPC 980, EPC1226, EPC1267 and EPC2841 in the Bowen Basin covering 343$km^2$. Linc Energy has also applied for two Mining Leases (MLa 70405, MLa 70442) and a Petroleum Lease (PLa 286). This combination of EPCs, MLas and PLa is known as the Teresa Project and is NEC's priority development asset.

The Teresa Project has a Coal Resource estimate of 302Mt (82Mt Indicated, 220Mt Inferred) and a Coal Reserve estimate of 49.6Mt (Probable) in compliance with the JORC code.

NEC's focus for Teresa over the last 12 months has centred on the EIS submission and subsequent public submissions. The mine completed the Prefeasibility Study (PFS) stage in June 2013 and will aim to enter the Feasibility (FS) stage once supplementary EIS requirements are incorporated for planning purposes.

**Teresa - Environmental Impact Statement (EIS)**

The Teresa Coal Project Full EIS was submitted to the Queensland Department of Environment and Heritage Protection (DEHP) for consideration in May 2013. This submission was a major step toward mining lease approval and a significant achievement following an extensive assessment program that began in 2011.

The EIS was prepared in consultation with GHD, a respected global consultancy group. The process identified and evaluated potential impacts of the proposed operation in addition to nominating mitigation measures that will allow the project to proceed with acceptable environmental impacts.

The EIS was made available for pubic submissions between 24 February and 4 April 2014. The DEHP received a total of 50 submissions during this period which were provided to NEC on 15 April 2014. These submissions raised a number of issues, however many were replicates or very similar in nature. A submissions register was provided to NEC on 30 April 2014 which provided an initial screening of submissions to identify individual issues and to categorise them for ease of analysis.

To continue the EIS process, NEC is now required under the *Environmental Protection Act 1994 (Qld)* to provide the following items to DEHP:

- A written summary of the submissions;
- A statement of response to the submissions; and
- Any amendments to the EIS proposed as a result of responding to submissions through a Supplementary EIS (SEIS).

NEC has sought and received an extension for the submission of the SEIS to May 2015.

Throughout the development of the study, Linc Energy has sought community engagement and endeavoured to communicate with regional stakeholders on a personal level.

NEC will continue to operate in a socially conscious manner, building on robust stakeholder relationships as the EIS moves closer to approval.

## PENTLAND

Linc Energy holds MDL 361 in the Galilee Basin covering 27.1km$^2$. This tenure combination is known as the Pentland Project.

The Pentland Project has a Coal Resource estimate of 266Mt (176Mt Indicated, 90Mt Inferred) in compliance with the JORC code. Coal quality data indicates a thermal coal with open-cut potential. The asset is close to existing infrastructure with the Mount Isa to Townville rail line running through the tenement.

Linc Energy continues to consider the highest return to shareholders from the Pentland coal asset and to provide technical and commercial details to interested parties as well as considering development plans with potential to commence an EIS on this project and move into the PFS Stage.

## DALBY

The 'Dalby' Project includes EPC 902, EPC 938, EPC 1537, EPC 1170, and MDLa 371 covering 700.2km$^2$ and has a Coal Resource estimate of 146Mt (146Mt Inferred) in compliance with the JORC code. The opportunities for development at the Dalby project will be considered as part of the asset review.

## GREAT NORTHERN LEASES

Linc Energy holds EPC 1525, EPC 1526, EPC 1527, EPC 1549, EPC 1550, EPC 2541, EPC 2549, EPC 2551, EPC 2543, and EPC 2552 covering 7,508 km$^2$. These tenements are known as the Great Northern Leases.

As part of the asset review program, further drilling locations have been identified within the granted EPCs and a drilling plan has been readied to return to the area in 2015.

# GOING FORWARD

Subject to offers received and relevant approvals, it is the intention of the Board of Linc Energy to divest NEC in the second half of 2014. Linc Energy and NEC have commenced preparation for the divestment and will further advise the market and shareholders in relation to this process in due course.

# JORC CERTIFIED COAL ASSETS

Of the Coal Division tenements controlled by Linc Energy, at the date of this report the following tenements had a resource estimate reported in compliance with the JORC Code:

| Tenement name / reference | Size and location | Indicated resources Mt | Inferred resources Mt | Total resource Mt | Type of coal | Mining method |
|---|---|---|---|---|---|---|
| Teresa<br>EPC 980, EPC 1267, EPC 1226, EPC 2841 MLA 70405, MLA 70442 | 343 sq km,<br>Bowen Basin Qld | 82 | 220 | 302[1] | Thermal / Metallurgical | Under-ground |
| Pentland<br>EPC 526, MDL 361 | 27 sq km,<br>Galilee Basin, Qld | 176 | 90 | 266[2] | Thermal | Open cut |
| Dalby<br>MDLa 371,<br>EPC 1770 | 377 sq km, Surat Basin, Qld | | 146 | 146[2] | Thermal | Open cut |
| **Total** | | **258** | **456** | **714** | | |

*[1] Coal Resources have been estimated and reported (in compliance with the JORC Code,2012 Edition) by Xenith Consulting Pty Ltd ("Xenith"). The Competent Person is Mr Troy Turner, a full time employee of Xenith. Mr Turner has given his consent to the inclusion of information in this report on matters related to Coal Resources in the form and context in which it appears.*

*[2] Coal Resources have been estimated and reported (in compliance with the JORC Code,2004 Edition) by Xenith. The Competent Person is Mr Troy Turner, a full time employee of Xenith. Mr Turner has given his consent to the inclusion of information in this report on matters related to Coal Resources in the form and context in which it appears.*

Of the Coal Division tenements controlled by Linc Energy, at the date of this report the following tenements had a reserve estimate reported in compliance with the JORC Code:

| Tenement name / reference | Size and location | Marketable Probable Reserve Mt | Total Reserve[1] Mt | Type of coal | Mining method |
|---|---|---|---|---|---|
| Teresa<br>EPC 980, EPC 1267, EPC 1226, EPC 2841 MLA 70405, MLA 70442 | 371 sq km,<br>Bowen Basin<br>Qld | 47 | 47 | Thermal | Under-<br>Ground |
| **Total** | | **47** | **47** | | |

*[1] Coal Reserves have been estimated and reported (in compliance with the JORC Code, 2012 Edition) by Snowden Mining Industry Consultants Pty Ltd ("Snowden"). The Competent Person is Mr Adrian Benson, a consultant working for Snowden. Mr Benson has given his consent to the inclusion of information in this report on matters related to Coal Resources in the form and context in which it appears. Note Resources are reported inclusive of Reserves.*

# CORPORATE

# CARMICHAEL ROYALTY (ADANI)

## IN AUGUST 2014 THE COMPANY ENTERED INTO A BINDING OPTION DEED WITH ADANI GROUP (ADANI) FOR THE TRANSFER OF LINC ENERGY'S BENEFITS IN AND OBLIGATIONS UNDER THE CARMICHAEL ROYALTY DEED TO ADANI.

The Option exercise consideration under the Option Deed is AU$155 million. Upon exercise of the Option by Adani or Linc Energy, the parties will enter into a Deed of Assignment and Assumption by which the rights and obligations of Linc Energy will be transferred to Adani.

The key commercial terms of the agreement are as follows:

- Adani will pay Linc Energy AU$155 million consideration in two instalments: AU$90 million in cash within five (5) days of the exercise of the Option and the balance AU$65 million in cash on or before twelve (12) months from the date of the signing of the Deed of Assignment and Assumption.
- It is expected that the Option will be exercised (at discretion of either Adani or Linc Energy) by no later than October 2014.
- The Company considers this transaction with Adani to be of benefit to shareholders given current coal market conditions and the projected time to first production from the Carmichael mine.

# THE BOARD





## KEN DARK, CHAIRMAN AND NON-EXECUTIVE DIRECTOR*

Ken Dark was appointed to the Linc Energy Board in October 2004 and has been Chairman since 2011. He began his early working life as an electrician before gaining tertiary engineering qualifications and ultimately managing an in-plant multi-disciplined project engineering team at Alcan's Australian Smelter. At that time, projects included world-leading innovations in Industrial Process Control. Concepts Ken pioneered are still the mainstay of process control for the international aluminium smelting industry.

In 1986, Ken left the corporate world and established a successful business in the fuel distribution and retail industry. He has represented fuel distributors and retailers, chairing the national marketing committees for two major fuel companies and leading the national franchise negotiation committee to the successful renewal of contracts with one of the oil majors. He is a founder and silent partner in a small chain of independent fuel and grocery outlets. Ken has also had experience in freelance management consulting and is a Graduate member of the Australian Institute of Company Directors.

## PETER BOND, CEO AND MANAGING DIRECTOR*

Peter Bond has a successful track record in the coal and mining industries, both in Australia and overseas. His business interests include mineral, mining and associated operations in Australia and South East Asia.

Peter was appointed to the Linc Energy Board in October 2004 and has been pivotal to its success since it listed on the Australian Securities Exchange in May 2006. He has personally seen the Company evolve from a small-cap business into an ASX 200 company, and seen the Company grow from a small team to a global company with offices and projects throughout the Asia Pacific, Europe, Africa and the Americas.

Building on his early engineering background, Peter has gained a unique knowledge and understanding of the coal industry over the course of a diversified career spanning more than 20 years. Peter has experience in the design, installation, commissioning and operation of complex processing plants and projects, and his various companies are recognised in the mineral processing industry for both innovation and efficiency.





## JON MATHEWS, NON-EXECUTIVE DIRECTOR

Mr. Jon Mathews is our Non-Executive Independent Director. Mr. Jon Mathews joined our Company in December 2009. He brings to our Company over 30 years of experience in the coal mining industry prior to joining us. Between 1971 and 1973 he was employed by the Queensland Coal Association as a Cadet Mine Manager. From 1976 to 1996 he was employed at Rhondda Collieries, Ipswich, holding positions through all facets of mining. He became the Mine Manager of MW Haenke Mines in 1980, which at the time was the largest underground producing operation in Queensland and from 1986 to 1996 progressed to the position of Company Manager Qld.

During his period at Rhondda Collieriers he worked for various companies who owned the mining operation including Bond Coal Division, FAI mining Limited and Oceanic Coal Pty Ltd. He was also responsible during this period for ensuring the success of a joint venture partnership with a Japanese company, Showa Coal Australia, between 1986 and 1996. Between 2001 and 2009, he was a self-employed consultant to the coal mining, transport and waste industries.

Mr. Mathews was a member of the Executive Committee of the Queensland Coal Association between 1987 and 1996, he also served as Chairman of the Underground Mine Managers Committee for three years and was also a member of the selection panel for Cadet Mine Manager for Queensland.

Between 1987 and 1996, Mr. Mathews served as a director of West Moreton Coal Exporters between 1987 and 1996, and a Director of Parkhead Rail Terminal for the same period. Mr. Mathews obtained his unlimited first-class mine manager's certificate of competency (coal) (opencut and underground) in 1975.

## CRAIG RICATO, NON-EXECUTIVE DIRECTOR*

Craig Ricato brings a broad range of international experience to the Board across the regulatory, accounting and legal industries.

Craig was Linc Energy's Director, Legal and Corporate Affairs for over five years before becoming a non-executive director of Linc Energy, and continues to provide professional consulting and project management services on significant transactions in which the Company is involved.

Craig obtained a Bachelor of Commerce degree in 1991 and was admitted as a Legal Practitioner of the Supreme Court in 2001 after graduating with a Bachelor of Laws with First Class Honours. Craig has extensive experience working on legal and corporate matters related to the energy and resources industry, specifically with respect to cross-border transactions, international business structuring, mergers & acquisitions and equity capital markets. His early career background prior to joining the legal profession was in forensic accounting and law enforcement.

**Peter Bond was CEO and Managing Director and Ken Dark was Chairman of Linc Energy for the entire 2014 financial year. On 1 October 2014, Peter Bond became Executive Chairman of the Board and fellow experienced Board member, Craig Ricato, was appointed to the position of CEO and Managing Director. As at this date, Ken Dark remained on the Linc Energy Board in the capacity of Non-Executive Director.*





## LIM AH DOO, NON-EXECUTIVE DIRECTOR

Mr. Lim Ah Doo is an independent Director and Chairman of the Audit Committees of Sembcorp Marine Ltd, GP Industries Limited, ARA-CWT Trust Management (Cache) Limited and trustee Manager of Cache Logistics Trust (Sembcorp Marine Ltd, GP Industries Limited and ARA-CWT Trust Management (Cache) Limited are listed on the SGX-ST). He is also an independent Director of SM Investments Corporation (a company listed on the Philippine Stock Exchange), an independent Director, member of the Audit Committee and Chairman of the Nominating Committee of Sateri Holdings Limited (a company listed on the Hong Kong Stock Exchange), and an independent Director, Chairman of the Audit Committee and member of the Remuneration Committee of U Mobile Sdn Berhad.

Mr. Lim brings with him vast experience and wide knowledge as a former senior banker and corporate executive. He held several key positions in Morgan Grenfell during his 18-year banking career with Morgan Grenfell (Asia) Limited ("MGAL") from 1977 to 1995 including his appointment as its Chairman and Managing Director in 1993, a position which he held until he left MGAL in 1995. From 2003 to 2008, he was the President and subsequently non-executive Vice Chairman of RGE Pte. Ltd.,formerly known as RGM International Pte. Ltd., a leading global resource-based group. Mr. Lim was formerly an independent Commissioner and Chairman of the Audit Committee of PT Indosat Tbk, a leading listed Indonesian telecommunications group. Mr. Lim previously held directorships in EDB Investments Pte. Ltd., PST Management Pte. Ltd. and Chemoil Energy Limited. He also represented RGE Pte. Ltd. as a council member of the Singapore-Shandong Business Council and Singapore-Jiangsu Co-operation Council, and served as Chairman of EDBV Management Pte. Ltd. from 2005 to 2006 and the Singapore Investment Bankers Association in 1994 (as representative of Morgan Grenfell (Asia) Limited).

Mr. Lim holds an Honours Degree in Engineering from the Queen Mary College, University of London and a Master in Business Administration degree from the Cranfield Institute of Technology.

## KOH BAN HENG, NON-EXECUTIVE DIRECTOR

Mr. Koh Ban Heng started his career in the oil industry in 1972 with the then Mobil Oil Singapore as an operations engineer. In 1974, he joined Singapore Petroleum Company Limited where he held various positions throughout the years. Mr. Koh was appointed as the Chief Executive Officer and Executive Director of Singapore Petroleum Company Limited in 2003, and subsequently appointed Chief Executive Officer and Managing Director in March 2009. He retired as Chief Executive Officer and Managing Director on 30 June 2011 and was then appointed as Senior Advisor from 1 July 2011. Mr. Koh's experience spans aspects such as refining operations and planning, marketing, distribution and terminalling, supply and trading, oil and gas exploration and production, including the development and establishment of new businesses.

Mr. Koh currently holds directorships in Singapore Petroleum Venture Private Limited and Singapore Refining Company Private Limited. Mr. Koh is also an independent Director of Keppel Infrastructure Holding Pte. Ltd., a fully owned subsidiary of Keppel Corporation Limited which is listed on the SGX-ST and an independent Director of Tipco Asphalt PLC, a listed company in Thailand. Mr. Koh is a Director on the school boards of Chung Cheng High School Main, Chung Cheng High School Yishun and Nanyang Junior College. He also serves as the Chairman of the Asean Council on Petroleum for Singapore, as appointed by Keppel Corporation Limited which is a member of the Asean Council on Petroleum. Mr. Koh graduated from the then University of Singapore with a Bachelor of Sciences degree in 1972 and obtained a post-graduate diploma in Business Administration from the then University of Singapore in 1978.

# EXECUTIVE LEADERSHIP TEAM





## PETER BOND, CEO AND MANAGING DIRECTOR*

Peter Bond has a successful track record in the coal and mining industries, both in Australia and overseas. His business interests include mineral, mining and associated operations in Australia and South East Asia.

Peter was appointed to the Linc Energy Board in October 2004 and has been pivotal to its success since it listed on the Australian Securities Exchange in May 2006. He has personally seen the Company evolve from a small-cap business into an ASX 200 company, and seen the Company grow from a small team to a global company with offices and projects throughout the Asia Pacific, Europe, Africa and the Americas.

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## MICHAEL MAPP, CHIEF OPERATING OFFICER

Michael is a respected and successful mining professional who has been working in the industry for more than 20 years. Michael joined Linc Energy from Intra Energy where he held the position of Chief Operating Officer.

Prior to Intra Energy, Michael worked with the Xstrata group as Operations Manager of Ulan Coal and before that as Director of Coal Operations Australia for Vale, responsible for operations including Carborough Downs, Isaac Plains, Broadlea and the Integra Coal underground and open-cut mines. He was promoted to Director after positions of Executive General Manager of Vale Australian Operations, Executive General Manager of Vale NSW Operations and General Manager of Integra Coal Operations with AMCI.

Additional mining experience was gained through Thiess Contractors as Plant Operations Manager and Director of Engineering & Operations Mining Technologies Australia, which oversaw the introduction and operation of highwall mining systems in Australia.





## STUART JONES, CHIEF FINANCIAL OFFICER

Stuart Jones joined the Company in February 2013 and has over 20 years of accounting and finance experience and has held senior corporate positions in both the oil and gas and banking industries. He has previously been General Manager Finance and Investor Relations at an ASX-listed company and more recently an independent consultant focused on the energy and resources sector. He holds a Bachelor of Mathematics (with Honours) from the University of Liverpool.

## JANELLE VAN DE VELDE, CHIEF ADMINISTRATIVE OFFICER

Janelle van de Velde has over 25 years of experience working for publicly-listed companies.

Janelle joined Linc Energy in August 2006 and in this time has held many diverse roles including investor relations, corporate communications and stakeholder relations.

In the role of Chief Administrative Officer, Janelle is responsible for delivering a global communications strategy – in particular, developing and leading corporate communications, media, and stakeholder and government relations activities across all facets and jurisdictions in which the Company operates. Janelle is also responsible for Health and Safety and ensuring the required business services such as IT, telecommunications, travel and administration support the Company's requirements.

**Peter Bond was CEO and Managing Director and Ken Dark was Chairman of Linc Energy for the entire 2014 financial year. On 1 October 2014, Peter Bond became Executive Chairman of the Board and fellow experienced Board member, Craig Ricato, was appointed to the position of CEO and Managing Director. As at this date, Ken Dark remained on the Linc Energy Board in the capacity of Non-Executive Director.*


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# FINANCIALS

# CORPORATE GOVERNANCE STATEMENT

Linc Energy Ltd and its Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the Company's activities on behalf of the shareholders. In developing policies and standards the Board considers the SGX Code of Corporate Governance 2012 (the "2012 Code"). The Corporate Governance Statement set out below describes, as at 30 June 2014, the Company's corporate governance principles and practices which the Board considers to comply with the 2012 Code.

We recognise the importance of corporate governance and the maintenance of high standards of accountability to our Shareholders.

## BOARD'S CONDUCT OF AFFAIRS

### PRINCIPLE 1

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board is responsible for the governance of the Company. The role of the Board is to provide overall strategic guidance and effective oversight of management. The Board derives its authority to act from the Company's Constitution. The Board's responsibilities are encompassed in a formal Charter published on the Company's website. The Charter is reviewed annually to determine whether any changes are necessary or desirable.

The major powers the Board has reserved to itself are:

- Reviewing and approving the Company's strategic plans and performance objectives and reviewing the underlying assumptions and rationale;
- Monitoring financial outcomes and the integrity of reporting, and in particular, approving annual budgets and longer-term strategic and business plans;
- Monitoring the effectiveness of the Company's audit, risk management and compliance systems that are in place to protect the Company's assets and to minimise the possibility of the Company's operating beyond acceptable risk parameters;
- Monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;
- Selecting, appointing and monitoring the performance of the Chief Executive Officer ("CEO"), and if appropriate, terminating the appointment of the CEO;
- Reviewing senior management succession planning and development and ensuring appropriate resources are available;
- Reviewing and recommending to shareholder the appointment or if appropriate the termination of the appointment of the external auditor; and
- Monitoring the timeliness and effectiveness of reporting to shareholders.

The Board delegates to the CEO responsibility for implementing the Company's strategic direction and for managing the Company's day-to-day operations. Clear lines of communication have been established between the Chairman and the CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

Specific limits on the authority delegated to the CEO and other officers and management of the Company are set out in the Delegated Authorities Summary approved by the Board.

In addition, Mr. Lim Ah Doo has been appointed the Non-Executive Lead Independent Director of our Company and is available to our Shareholders where they have concerns for which contact through the normal channels of Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate.

We have three board committees, (i) the Audit and Risk Management Committee, (ii) the Nominating Committee, and (iii) the Remuneration Committee.

The number of Board, Board Committees, non-executive Director meetings held since to the end of the financial year under review, as well as the attendance of each Board member at these meetings, are disclosed in the table below.

### Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

| | Full meetings of Directors | | Meetings of Audit and Risk Management Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| K. Dark | 4 | 4 | 1 | 1 | 5 | 5 | 3 | 3 |
| Lim Ah Doo | 3 | 4 | 2 | 2 | - | - | 3 | 3 |
| P. Bond | 4 | 4 | - | - | - | - | - | - |
| J. Mathews | 3 | 4 | 2 | 3 | 5 | 5 | - | - |
| C. Ricato | 4 | 4 | 2 | 2 | - | - | - | - |
| Koh Ban Heng | 4 | 4 | - | - | 4 | 5 | 3 | 3 |

A = Number of meetings attended during the time the director held office or was a member of the committee.

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

### Meetings & Attendance

The schedule of all Board and Board Committees meetings is planned in advance. The Board has formal meetings and meets regularly during the year as required. The Board receives management papers in between each formal Board meeting. Our Board and Board Committees may also make decisions by way of circulating written resolutions.

New Directors receive a formal letter of appointment along with an induction pack. The contents of the appointment letter and induction pack contain sufficient information to allow the new Director to gain an understanding of:

- The Company's financial, strategic, operational and risk management position;
- The rights, duties and responsibilities of Directors;
- The roles and responsibilities of the Executive Team; and
- The role of Board Committees.

# BOARD COMPOSITION AND GUIDANCE

## PRINCIPLE 2

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% of shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

### Board Size, Composition & Competency

The Board's size and composition is subject to limits imposed by the Company's Constitution, which provides for a minimum of three Directors and a maximum of ten. The Board is composed of Directors with diverse skills and experience, relevant to the business of the Company and the benefits of these skills and experience add value to the Company's operations.

# BOARD COMPOSITION AND GUIDANCE (CONTINUED)

## PRINCIPLE 2 (CONTINUED)

### Board Independence

In assessing independence, the Board reviews the relationship that the Director and their immediate family have with the Company. In particular the Board applies the following criteria in determining independence:

- Is a Non-executive Director;
- Is not a shareholder of the Company holding more than five per cent of the voting shares or an officer of, or otherwise associated directly with, a shareholder of the Company holding more than five per cent;
- Within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provider;
- Is not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company or another Group member other than as a Director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company;
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- The Board regularly assesses the independence of Non-Executive Directors and has specifically considered the independence of all Non-Executive Directors, in accordance with the above criteria, during the financial year.

# CHAIRMAN AND CHIEF EXECUTIVE OFFICER

## PRINCIPLE 3

The Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The division of responsibilities between the Chairman and the CEO should be clearly established, set out in writing and agreed by the Board. In addition, the Board should disclose the relationship between the Chairman and the CEO if they are immediate family members.

### Separation of the Role of Chairman & the Chief Executive Officer

The Code of Corporate Governance recommends that the roles of chairman and chief executive officer be separated, to ensure an appropriate balance of power and increased accountability to shareholders. The roles of Chief Executive Officer and Non-Executive Chairman are currently held by Mr. Peter Bond and Mr. Kenneth Dark, respectively.

The Chairman is a Director appointed by the Board and in accordance with the Company's Board Charter is responsible for:

- Leadership of the Board;
- Chair Board meetings and shareholder meetings;
- Efficient organisation and conduct of the Board's function;
- Briefing all Directors in relation to issues arising at Board meetings;
- Facilitating effective contribution by all Directors;
- Overseeing that membership of the Board is skilled and appropriate for the Company's needs;
- Promoting constructive and respectful relations between Board members and between the Board and management;
- Reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board; and
- Monitoring Board performance.

The CEO is responsible to the Board for the overall development of strategy, management and performance of the Company. The CEO manages the organisation in accordance with the strategy, business plans and policies approved by the Board to achieve the agreed goals.

### Lead Independent Director

Mr. Lim Ah Doo has been appointed the Non-Executive Lead Independent Director of our Company and is available to our Shareholders where they have concerns for which contact through the normal channels of Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate.

# BOARD MEMBERSHIP

## PRINCIPLE 4

There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

### Nominating Committee

Our internal policy requires the Nominating Committee to have at least three members, of whom the majority has to be independent, including the Chairman. Our Nominating Committee comprises Mr. Koh Ban Heng, Mr. Kenneth Dark and Mr. Lim Ah Doo. The Chairman of the Nominating Committee is Mr. Koh Ban Heng. Our Nominating Committee is responsible for matters such as:

- review and recommend candidates for appointments to our Board and Board committees (excluding the appointment of existing members of our Board to each of our Audit and Risk Management Committee, our Nominating Committee and our Remuneration Committee for the purposes of the initial establishment of such Board committees), as well as candidates for senior management staff, who are not also candidates for appointment to our Board;
- review of board succession plans for our Directors, in particular, our Chairman and our Chief Executive Officer;
- develop a process for evaluation of the performance of our Board, our board committees and our Directors;
- review of training and professional development programmes for our Board;
- review and recommend nomination for re-appointment or re-election or renewal of appointment of our Directors;
- review and recommend candidates to be our nominees on the boards and board committees of the listed company and entities within our Group;
- determine independence of our Directors (except where the relevant Directors are conflicted);
- review the participation (whether by way of obtaining an interest in or taking a board seat or otherwise) by each Non-Executive Independent Director in any competing businesses and take into account such matters in the re-appointment or re-election or renewal of appointment of such Non-Executive Independent Director; and
- undertake generally such other functions and duties as may be required by law or the Listing Manual, and by amendments made thereto from time to time.

In the event that any member of our Nominating Committee has an interest in a matter being deliberated upon by our Nominating Committee, he will abstain from participating in the review and approval process relating to that matter as well as from voting on any resolutions relating to such matters.

# BOARD PERFORMANCE

## PRINCIPLE 5

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board undertakes ongoing self-assessment and review of its performance and of the performance of the Chairman, individual Directors and the Audit and Risk Management Committee that:

- Compares the performance of the Board with the requirements of the Board Charter;
- Sets forth the goals and objectives of the Board for the upcoming year; and
- Effects any improvements to the Board Charter that are necessary or desirable.

The Board also discusses with each Director their requirements, performance and aspects of involvement in the Company.

The Board Charter, including the evaluation process for the Board, is available on the Company's website.

# ACCESS TO INFORMATION

## PRINCIPLE 6

In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

### Complete, Adequate & Timely Information

The Company's Management endeavours to provide the Board with all relevant information to enable the Board to fulfil its role effectively. The Board is provided with Management's updates in Board papers, in Management reports provided in between formal Board meetings and in background information provided with any proposed resolution provided to the Board for its consideration. In relation to financial matters, any material variance between projected and actual results is required to be disclosed with sufficient information to explain the variance. Directors of the Company are entitled to liaise directly with key members of Management and to seek additional or clarification of information.

### Company Secretary

The Board is supported by the Company Secretary who is accountable to the Board through the Chairman on all corporate governance matters.

The Company Secretary is responsible for:

- Monitoring compliance with Board policy and procedures;
- Coordinating the completion and circulation of the Board agenda and briefing materials;
- Organising Board meetings and director attendance;
- Providing a point of reference for all dealings between Board and management;
- Ensuring the Company complies with its regulatory requirements; and
- The appointment or removal of any Company Secretary is subject to the approval of our Board.

### Independent Professional Advice

If necessary, our Directors are able to seek and obtain independent professional advice to assist them in their duties, at the expense of the Company.

# REMUNERATION MATTERS

## PRINCIPLE 7

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

### Remuneration Committee

The Board has established a remuneration committee which met five times during the year.

The Committee is established to support and advise the Board by setting and implementing appropriate remuneration and benefits policies and systems to:

- attract, retain and motivate executives, directors and employees for the long-term growth and success of the Company;
- enhance Company and individual performance for the benefit shareholders;
- demonstrate to investors a clear relationship between performance and remuneration; and
- support the Company's goals and values.

Our internal policy requires the Remuneration Committee to have at least three members, all of whom have to be non-executive and a majority of whom have to be independent, including the Chairman. Our Remuneration Committee comprises, Mr. Jon Mathews, Mr. Kenneth Dark and Mr. Koh Ban Heng. The Chairman of the Remuneration Committee is Mr. Jon Mathews. Our Remuneration Committee is responsible for, among others, recommending to our Board a framework and criteria of remuneration for the directors and key executives, including the review of interested person transactions that relate to remuneration matters, and for recommending specific remuneration packages for each director and the Chief Executive Officer. The recommendations of our Remuneration Committee are submitted for endorsement by the entire Board, subject to the requirement that no individual is directly involved in deciding their own remuneration. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind shall be covered by our Remuneration Committee.

All decisions at any meeting of our Remuneration Committee shall be decided by a majority of votes of the members present and voting and such decision shall at all times exclude the vote, approval or recommendation of any member who in interested in the subject matter under consideration.

# LEVEL AND MIX OF REMUNERATION

## PRINCIPLE 8

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

### Remuneration of Executive Directors and Key Management Personnel

The Company recognises that performance incentives should be weighted towards performance-based remuneration to better-align to Shareholders' interests. The Company's intention is to ensure that the level and composition of remuneration paid to Directors and key management personnel is market and industry appropriate and that its relationship to corporate and individual performance is clear. The remuneration of all Executive Directors and Key Management Personnel will feature both short and long term incentives clearly linked to performance based on the achievement of predetermined Key Performance Indicators (KPI's).

As an overall objective the Board intends that executive rewards should satisfy the following key criteria as part of its good governance practices:

- Competitiveness and reasonableness;
- Acceptability to Shareholders;
- Performance linkage via KPI's / alignment of executive compensation through short term incentives and long term incentives based on achievement of KPI's; and
- Delivery of a balanced solution addressing all elements of total remuneration.

# DISCLOSURE ON REMUNERATION

## PRINCIPLE 9

Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

At our Company's annual general meeting held in 2005, our shareholders approved the employee option plan (the "Employee Option Plan"). Following changes to the taxation of employee share schemes announced in the Australia 2009 Federal Budget, the Employee Share Option Scheme was replaced with the performance rights plan (the "Performance Rights Plan", together with the Employee Option Plan, the "Share-Based Incentive Plans"), which was approved by our Shareholders at our annual general meeting dated 26 November 2009.

### Employee Option Plan

The Employee Option Plan was established as an effective retention tool which provided alignment between the interests of the management and the shareholders. Under the Employee Option Plan, the options under the Employee Option Plan (the "Options") were granted at the discretion of our Board in accordance with the rules of the Employee Option Plan and all directors and staff employed by our Group are eligible participants. As determined by our Board, a minimum continuous period of employment (usually twelve months) with our Company or any of our subsidiaries is required prior to the first exercise date, which falls on 31 December annually. Subject to ongoing employment with our Company or any of our subsidiaries, the Options are exercisable at the earlier of (i) the date falling two years after the grant date and (ii) the date of which special circumstances (as defined therein) arise in respect of the employee. The Options do not carry dividend or voting rights. Apart from a time-based service condition, there are no other conditions. When exercisable, each Option is convertible into one ordinary Share.

Under the Employee Option Plan, in the event of a variation in our issued share capital (whether by way of a bonus issue, pro rata issue of Shares, reorganisation of capital), the exercise price and/or number of Shares comprised in an Option to the extent unexercised shall be adjusted in such manner as the committee administrating the Employee Option Plan may in its absolute discretion determine to be appropriate. Subsequent to the adoption of the Performance Rights Plan, no further Options were granted pursuant to the Employee Option Plan.

# DISCLOSURE ON REMUNERATION (CONTINUED)

## PRINCIPLE 9 (CONTINUED)

### Performance Rights Plan

Similar to the Employee Option Plan which it replaced, the Performance Rights Plan seeks to align the interest of the eligible employees with the future and current Shareholders through the sharing of a personal interest in the future growth and development of our Company. The provision for the Performance Rights Plan to vest in multiple tranches over multiple years provides the balance between the objectives of attracting and retaining high performing employees and aligning the interests of these employees with the shareholders in the long term. The rights issued under the Performance Rights Plan (the "Rights") will be determined at the discretion of our Board. To this end, our Board may from time to time, in its absolute discretion, grant to a full time employee or director of our Company or subsidiaries, Rights in the Performance Share Plan. The Rights vests in four equal tranches over 48 months, with the first tranche vesting 18 months following commencement of employment. In determining the number of Rights granted to an employee, our Board takes into consideration an employee's base salary, level within the Company and the Company's share price at the time of grant. Rights under the Performance Rights Plan do not carry dividend or voting rights until they convert into ordinary Shares. Rights automatically convert to shares on the vesting dates provided all vesting conditions have been met.

Should employment of the eligible participant lapse due to death or total permanent disability, the unvested Rights will continue to vest but there will be no further entitlements to future Rights awards. In the case where employment of the eligible participant ceases due to redundancy, our Board, in its sole and absolute discretion and on a case-by-case basis, may consider whether the unvested Rights will vest and if so, how many.

### Administration of our Performance Rights Plan

Our Remuneration Committee will be designated as the committee responsible for the administration of our Performance Rights Plan. Our Remuneration Committee will determine, inter alia, the following:

- the persons to be granted Rights under the Performance Rights Plan; and
- recommendations for modifications to the Performance Rights Plan.

In compliance with the requirements of the SGX Mainboard Rule Book, a Participant of the Performance Rights Plan who is a member of the Remuneration Committee shall not be involved in its deliberations in respect of the Rights to be granted to or held by that member of the Remuneration Committee.

### Size of the Performance Rights Plan

The aggregate number of new Shares which may be issued pursuant to the exercise of Rights granted under the Performance Rights Plan, when added to the number of Shares issued in respect of the Employee Option Plan, at any point in time, shall not exceed 5.0% of the total issue share capital of our Company on the day immediately preceding the date of the relevant grant.

**In this Annual Report the Company:**

- Discloses policies to determine the nature and amount of remuneration of executive and non-executive Directors and senior executives of the Company. The Company provides remuneration details for each Director and the five most highly remunerated senior executives of the Company;
- Discloses details and explains any performance conditions applicable to the remuneration of executive Directors and senior executives of the Company; and
- Provides an explanation of the option-based compensation payments for each Director and senior executives of the Company.

A reasonable opportunity is also provided at the Company's Annual General Meeting for discussion of the Company's remuneration practices and remuneration paid to Directors and key management personnel.

## Remuneration of Non-Executive Directors

The directors' fees payable to our non-executive Directors are paid in cash (subject to shareholders' approval at each AGM). Each non-executive Director is paid a basic fee of S$130,000 per annum, except for the Chairman who is paid S$180,000 per annum. Non-executive Directors are paid an additional S$20,000 per annum per Committee for membership of a Committee with the exception of the Chairman of each Committee who receives an additional S$30,000 per annum per Committee. The Chairman of each Board Committee is paid a higher fee compared to the members of the respective committees in view of the greater responsibility carried by that office. Executive Directors are not paid Directors' fees. Our non-executive Directors' basic fee structure is as disclosed in the table below:

| Non-Executive Role | Base NED fee (S) | Audit Comm fee (S) | Nomination Comm fee (S) | Rem Comm fee (S) |
|---|---|---|---|---|
| Chairman/Committee Chairman | $180,000 | $50,000 | $30,000 | $30,000 |
| Member | $130,000 | $30,000 | $20,000 | $20,000 |

## Annual Remuneration Report

A breakdown showing the level and mix of each individual Director's and Key Executive's remuneration payable for the financial year under review is as disclosed in the table below:

| Directors | Short Term | | | Post-employment | | Long term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|---|
| Remuneration Bands | Cash salary and fees % | Cash bonus and retainers[1] % | Non-monetary benefits % | Super-annuation % | Termination benefits % | Long Service leave[2] % | Rights[3] % | Total % |
| **S$2,000,001 – S$2,500,000** | | | | | | | | |
| P. Bond | 65 | 28 | 1 | 6 | - | - | - | 100 |
| **S$1,000,001 – S$1,500,000** | | | | | | | | |
| C. Ricato | 54 | 43 | 2 | 1 | - | - | - | 100 |
| **S$250,001 – S$500,000** | | | | | | | | |
| J. Mathews | 50 | - | - | 5 | - | - | 45 | 100 |
| **Below S$250,000** | | | | | | | | |
| K. Dark | 86 | - | 6 | 8 | - | - | - | 100 |
| Lim Ah Doo[4] | 100 | - | - | - | - | - | - | 100 |
| Koh Ban Heng[4] | 100 | - | - | - | - | - | - | 100 |

[1] *Cash bonuses and retainers paid were not linked to performance. Mr P Bond's bonus was a sign on bonus for his new contract and Mr C Ricato' s retainers were paid in six monthly intervals for retention of his legal services on a consultancy basis.*

[2] *The values shown in the table above for long service leave reflects the amount accrued for the financial year*

[3] *The values shown in the table above for share-based payments reflects the assessed fair value of the share-based payment calculated in accordance with accounting standards and recognised as a non-cash expense for each person during the year. These figures do not represent the actual cash value of the share rights vested the period.*

[4] *Mr Lim Ah Doo's and Mr Koh Ban Heng's remuneration are for the period they were appointed non-executive directors on 22 November 2013.*

# DISCLOSURE ON REMUNERATION (CONTINUED)

## PRINCIPLE 9 (CONTINUED)

| Key Executives<br>Remuneration Bands | Short Term<br>Cash salary and fees<br>% | Cash bonus and retainers<br>% | Non-monetary benefits<br>% | Post-employment<br>Super-annuation<br>% | Termination benefits<br>% | Long term benefits<br>Long Service leave[1]<br>% | Share-based payments<br>Rights[2]<br>% | Total<br>% |
|---|---|---|---|---|---|---|---|---|
| **S$1,250,001 – S$1,500,000** | | | | | | | | |
| S. Jones | 32 | - | - | 3 | - | - | 65 | 100 |
| **S$1,000,001 – S$1,250,000** | | | | | | | | |
| M. Mapp | 40 | - | 2 | 4 | - | - | 54 | 100 |
| **S$750,001– S$1,000,000** | | | | | | | | |
| C. Fisher | 32 | - | 1 | 3 | - | - | 64 | 100 |
| **S$500,001 – S$750,000** | | | | | | | | |
| A. Bond[3] | 73 | - | - | 7 | - | 1 | 20 | 100 |
| D. Schofiled[3] | 64 | - | 2 | 4 | 30 | - | - | 100 |
| S. Broussard[3] | 58 | 19 | 3 | 2 | 18 | - | - | 100 |
| **S$250,001 – S$500,000** | | | | | | | | |
| B. Young[3] | 68 | 23 | 2 | 3 | - | - | 4 | 100 |
| J. Van de Velde | 84 | - | 6 | 8 | - | 2 | - | 100 |
| **Below S$250,000** | | | | | | | | |
| S. Whitehead[3] | 91 | - | - | 9 | - | - | - | 100 |

[1] *The values shown in the table above for long service leave reflects the amount accrued for the financial year.*

[2] *The values shown in the table above for share-based payments reflects the assessed fair value of the share-based payment calculated in accordance with accounting standards and recognised as a non-cash expense for each person during the year. These figures do not represent the actual cash value of the share rights vested the period.*

[3] *Mr A Bond, Mr D Schofield, Mr S Broussard, Mr B Young and Mr S Whitehead's remuneration are for the period they held key executive positions during the financial year.*

One of Mr P Bond's children is employed by the Company and his annual remuneration exceeds S$50,000 as per the breakdown below:

| Immediate Family Member of CEO<br>Remuneration Bands | Short Term<br>Cash salary and fees<br>% | Cash bonus and retainers<br>% | Non-monetary benefits<br>% | Post-employment<br>Super-annuation<br>% | Termination benefits<br>% | Long term benefits<br>Long Service leave[1]<br>% | Share-based payments<br>Rights[2]<br>% | Total<br>% |
|---|---|---|---|---|---|---|---|---|
| **S$100,001 – S$150,000** | | | | | | | | |
| A. J Bond | 89 | - | - | 8 | - | 1 | 2 | 100 |

[1] *The values shown in the table above for long service leave reflects the amount accrued for the financial year.*

[2] *The values shown in the table above for share-based payments reflects the assessed fair value of the share-based payment calculated in accordance with accounting standards and recognised as a non-cash expense for each person during the year. These figures do not represent the actual cash value of the share rights vested the period.*

There were no options held under the Employee Option Plan to Directors of the Group at the end of the financial year.

Set out below is a summary of the number of options granted under the Employee Option Plan to key management personnel of the Group and held at the end of the financial year.

| Name | Expiry date[1] | Exercise price $ | Balance at start of year[2] Number | Granted Number | Exercised Number | Forfeited/ expired Number | Balance at end of year[3] Number |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| J. Van de Velde | 31 Dec 2013 | 3.16 | 100,000 | - | - | (100,000) | - |
| C. Fisher | 31 Dec 2013 | 2.49 | 33,333 | - | - | (33,333) | - |
| | | | **133,333** | **-** | **-** | **(133,333)** | **-** |

[1] *Options vest and are exercisable over three consecutive years from the initial grant date, with one-third of the total options awarded vesting and exercisable at 31 December each year following completion of a minimum service period, usually twelve months. The expiry date disclosed is the expiry date of the third and final tranche of options. Where an employee has been employed for greater than three years, an additional award of options may be granted at the discretion of the Board in the employee's fourth year.*

[2] *Or date commenced as a key management person.*

[3] *Or date ceased as a key management person.*

Set out below is the number of rights granted under the Performance Rights Plan to Directors of the Group, including their related parties, held at the end of the financial year.

| Directors Name | Balance at start of year[1] Number | Number of rights granted as compensation during year Number | Vested during the year Number | Forfeited during the year Number | Unvested balance at end of the year[2] Number |
|---|---|---|---|---|---|
| **2014** | | | | | |
| P. Bond[3] | 11,824 | 3,345 | - | - | 15,169 |
| J. Mathews | 250,000 | - | (125,000) | - | 125,000 |
| | **261,824** | **3,345** | **(125,000)** | **-** | **140,169** |

[1] *Or date commenced as a key management person.*

[2] *Or date ceased to be a key management person.*

[3] *Mr P Bond's rights are held by related parties.*

# DISCLOSURE ON REMUNERATION (CONTINUED)

## PRINCIPLE 9 (CONTINUED)

Set out below is the number of rights granted under the Performance Rights Plan to Key Executives of the Group, including their related parties, held at the end of the financial year.

| Key executives<br>Name | Balance at start of year[1]<br>Number | Number of rights granted as compensation during year<br>Number | Vested during the year<br>Number | Forfeited during the year<br>Number | Unvested balance at end of the year[2]<br>Number |
|---|---|---|---|---|---|
| 2014 | | | | | |
| S Jones | 800,000 | - | - | - | 800,000 |
| D. Schofield[3] | - | 200,000 | - | (200,000) | - |
| S. Broussard[4] | 900,000 | - | - | (900,000) | - |
| B. Young | 91,220 | - | (22,805) | - | 68,415 |
| A. Bond | 900,100 | - | (250,100) | - | 650,000 |
| M. Mapp | 1,000,000 | 473,732 | (824,609) | (649,123) | - |
| C. Fisher | 798,000 | - | (223,000) | - | 575,000 |
| | **4,489,320** | **673,732** | **(1,320,514)** | **(1,749,000)** | **2,093,415** |

[1] *Or date commenced as a key management person.*

[2] *Or date ceased to be a key management person.*

[3] *Mr D Schofield's consulting agreement contained a transaction success for of 200,000 shares or its cash equivalent to be paid upon the completion of one of three potential transactions during the term of his contract. Mr D Schofield's contract was terminated prior to completion and the rights were forfeited*

[4] *Mr S Broussard's opening balance included 600,000 rights based on performance conditions. These conditions were not met and the rights were forfeited upon termination. The remaining three allocations of 100,000 rights were also forfeited upon termination.*

### Loans to key management personnel

On 16 December 2011, a loan of $250,000 was provided to Ken Dark, a Non-Executive Independent Director, for the purposes of exercising options granted under the Employee Share Plan. The loan was provided on commercial terms, with interest calculated monthly at a final rate of 9.83 per cent. The loan was repayable no later than four years from the date of the loan and was secured by a holding lock over the shares. Interest was invoiced to Mr Dark at the end of each month and was then paid by the end of the next calendar month. On 27 November 2013, the total outstanding balance of the loan and all accrued interest was repaid in full (2013: Principle $238,220, Interest $0).

On 22 August 2012, an agreement was entered into to provide a loan of up to $243,350 (£150,000) to Hillgrove Pty Ltd, a company controlled by Managing Director Peter Bond, for the purposes of providing short term funding to PowerHouse Energy Plc. An amendment was made to the original contract, extending the amount of the loan by an additional $16,150 (£10,000). The loan was provided on commercial terms, with interest calculated monthly at a final rate of 9.83 percent. The loan was repayable no later than four years from the date of the loan. Linc Energy retained the right to take over the loan from Hillgrove Pty Ltd. Interest was invoiced to Hillgrove Pty Ltd at the end of each month. On 27 November 2013, the total outstanding balance of the loan and all accrued interest was repaid in full (2013: Principle $259,550 (£160,000), Interest $18,130 (£10,882)).

### Other transactions with key management personnel

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or joint control over the financial operating policies of those entities. A number of these entities transacted with the Group during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

### Director's interests as at 21 July 2014

The relevant interest of each director in the shares and rights over such instruments issued by the company, as notified by the directors to the SGX in accordance with S205G(1) of the *Corporations Act 2001*, on the 21 July 2014 is as follows:

| Name | Ordinary shares | Rights over ordinary shares |
|---|---|---|
| K. Dark | 1,290,000 | - |
| P. Bond | 202,621,028 | - |
| J. Mathews | 378,000 | 125,000 |
| C. Ricato | 1,001,561 | - |
| L. Ah Doo | - | - |
| K. Ban Heng | - | - |

Details of options granted to directors of the Company under the Employee Option Plan are as follows:

| Name of director | Number of options granted for financial year ended 30 June 14 | Aggregate options granted since commencement of scheme to 30 June 14 | Aggregate options exercised since commencement of scheme to 30 June 14 | Aggregate options outstanding as at 30 June 14 |
|---|---|---|---|---|
| K. Dark | - | 3,000,000 | (3,000,000) | - |
| C. Ricato | - | 1,500,000 | (1,500,000) | - |

Since the commencement of the plan, no options have been granted to the controlling shareholders of the Company or their associates and no participant under the plan has been granted 5% or more of the total options under the plan.

During the financial year no options have been granted under the plan. Since commencement of the plan, a total of 76,113,000 options have been granted.

# ACCOUNTABILITY AND AUDIT

## PRINCIPLE 10

The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Company's Management endeavours to provide the Board with all relevant information to enable the Board to fulfil its role effectively. The Board is provided with Management's updates in Board papers, in Management reports provided in between formal Board meetings and in background information provided with any proposed resolution provided to the Board for its consideration. In relation to financial matters, any material variance between projected and actual results is required to be disclosed with sufficient information to explain the variance. Directors of the Company are entitled to liaise directly with key members of Management and to seek additional or clarification of information.

The Company has established a number of policies to ensure that it complies with legislative and regulatory requirements. These include, but are not limited to the following:

- Continuous Disclosure Policy;
- Code of Conduct;
- Securities Trading Policy
- Ethical Business Conduct Policy;
- Health and Safety Policy;
- Diversity Policy
- Environmental Policy;
- Related Party Transaction Policy; and
- Corporate Governance Practices and Policies

The above Company Policies are available on the Company's website.

# RISK MANAGEMENT AND INTERNAL CONTROLS

## PRINCIPLE 11

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Company has a holistic, enterprise-wide risk program for the oversight and management of material business risks.

The Company has a Treasury and Risk Management team which monitors and oversees the continuous improvement of risk identification, assessment, treatment and reporting, including legislative compliance. The Company regularly engages external, independent, governance experts to audit the Company's Risk and Compliance processes and to make recommendations which support the Company's business units in the implementation of the Company's enterprise-wide risk management framework.

The Company has established a number of policies that directly or indirectly serve to reduce and/or manage risk. These include, but are not limited to the following:

- Continuous Disclosure Policy;
- Audit and Risk Management Committee Policy;
- Code of Conduct;
- Securities Trading Policy
- Shareholder Communications Policy;
- Ethical Business Conduct Policy;
- Health and Safety Policy;
- Diversity Policy
- Environmental Policy;
- Related Party Transaction Policy; and
- Corporate Governance Practices and Policies

The above Company Policies are available on the Company's website.

The Company performs regular audits of the internal control systems and risk management compliance across the Group. The audits take account of both the nature and materiality of risk.

Management provides monthly reports to the Board which include the identification of material business risks and matters relating to the effectiveness of the Company's management of its material business risk.

# AUDIT COMMITTEE

## PRINCIPLE 12

The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

### Audit Committee

The Company has established an Audit and Risk Management Committee which operates in accordance with the Audit and Risk Management Committee Policy. Our internal policy requires our Audit and Risk Management Committee to have at least three members, all of whom have to be non-executive and the majority of whom, including the Chairman, have to be independent. Under our Audit and Risk Management Committee's terms of reference, our Audit and Risk Management Committee should include members who are financially literate and have at least two members, including the Chairman having recent and relevant accounting or related financial management expertise or experience and some members who have an understanding of the industries in which we operate. Our Audit and Risk Management Committee has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by our management and full discretion to invite any Director or Executive Officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Audit and Risk Management Committee comprises three members, namely Mr. Lim Ah Doo, Mr. Craig Ricato and Mr. Jon Mathews. The Chairman of the Audit and Risk Management Committee is Mr. Lim Ah Doo. The Audit and Risk Management Committee is meets regularly during the year to perform functions such as:

- overseeing the adequacy of the controls established by executive management to identify and manage areas of potential risk and to safeguard our assets;
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements and financial information provided to Shareholders and our Directors is accurate and reliable;
- reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of our Company and any announcements relating to our Company's financial performance;
- review with external auditors and reporting to our Board at least annually on the adequacy and effectiveness of our internal control system, including financial, operational, compliance and information technology controls (such review can be carried out internally or with the assistance of any competent third parties);
- reviewing with the external auditors, the programme, scope and results of the internal audit and our management's response to their findings to ensure that appropriate follow-up measures are taken;
- reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;
- reviewing with external auditors the impact of any new or proposed changes in accounting principles or regulatory requirements on our financial information;
- making recommendations to our Directors on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- reviewing the interested person transactions (including the interested person transactions disclosed in this offering document except for those insofar as they relate to remuneration matters) or the transactions that may lead to conflicts of interests, to ensure that they are in compliance with the laws and the regulations of the SGX-ST, and are reasonable and in the best interests of our Company;
- monitoring the investments in our customers, suppliers and competitors made by our Directors, controlling shareholders and their respective associates who are involved in the management of or have shareholding interests in similar or related business of our Company and make assessments on whether there are any potential conflicts of interests;
- reviewing filings with the SGX-ST or other regulatory bodies which contain our financial information and ensure proper disclosure;
- commissioning and reviewing the findings of internal investigations into matters where there is any suspected fraud or irregularity or failure of internal controls or infringement of any law, rule and regulation which has or is likely to have a material impact on our operating results and/or financial position;
- reviewing policy and arrangements by which our staff and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken;
- reviewing our risk management structure (including all hedging policies) and any oversight of our risk management processes and activities to mitigate and manage risk at acceptable levels determined by our directors;
- reporting to our Board the work performed by our Audit and Risk Management Committee in carrying out its functions;
- reviewing the co-operation given by our officers to the external auditors; and
- performing any other act as delegated by our Board and approved by our Audit and Risk Management Committee.

All decisions at any meeting of our Audit and Risk Management Committee shall be decided by a majority of votes of the members present and voting and such decision shall at all times exclude the vote, approval or recommendation of any member who is interested in the subject matter under consideration.

Apart from the duties listed above, our Audit and Risk Management Committee is required to commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on our results of operations and/or financial position. Each member of our Audit and Risk Management Committee must abstain from voting on any resolution in respect of matters in which he is interested.

## Auditor

KPMG was appointed as auditor at the annual general meeting on 27 November 2008 and continues in office in accordance with section 327 of the *Corporations Act 2001.*

### Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important. The Board of Directors has considered the non-audit services provided during the year by the auditor and in accordance with the written advice of the Audit and Risk Management Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Group or jointly sharing risks and rewards.

We have complied with Rule 712 and Rule 715 of the Listing Manual of the SGX-ST in the appointment of our auditors.

During the year the following fees were paid or payable for audit and non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Audit services** | | |
| KPMG Australia | 414,900 | 370,900 |
| Overseas KPMG firms | 547,267 | 382,678 |
| | **962,167** | 753,578 |
| **Services other than statutory audit:** | | |
| KPMG Australia: | | |
| IT advisory services | 20,500 | 11,135 |
| Assurance services | 498,736 | 20,000 |
| Other services | 44,775 | - |
| | **564,011** | 31,135 |
| **Overseas KPMG:** | | |
| **Assurance services** | **291,680** | - |

# INTERNAL AUDIT

## PRINCIPLE 13

The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company has policies and procedures in place that are designed to support risk management across the Group. These authorities, policies and procedures are kept under review as the Group continues to grow. These include policies relating to treasury (hedging), insurance, the conduct of employees and third parties with which the Group conducts business.

There are areas of the Group's business where it is necessary to accept risks to achieve a satisfactory return for shareholders, such risks reflecting the Board's overall appetite for risk. It is the Group's objective to apply expertise to prudently manage rather than eliminate such risks by keeping them under frequent review.

The Company maintains a formal risk management register which will detail the principal risks which may adversely impact the performance of the Group and the execution of its growth strategies. Once key risks are identified, each risk is assigned to the relevant person within the business who is responsible for implementing a strategy (unless already in place) to mitigate the risk where they are within the Group's control.

Additionally, the Company has this financial year undertaken the commissioning of an annual internal control audit by a suitable and qualified professional accounting firm until such time the Audit and Risk Management Committee is satisfied that the Company's internal controls are sufficiently robust and effective.

# SHAREHOLDER RIGHTS AND RESPONSIBILITIES

## PRINCIPLE 14

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements

We are committed to treating all our shareholders fairly and equitably. We recognise that shareholders should be entitled to equal information rights and we strive to provide sufficient information in particular to changes and updates in our business which would be likely to have a material effect on the value of the Company's shares.

Shareholders whose names are registered in the CDP Register and the Register of Members are entitled to participate in, and vote at, our general meetings. We provide shareholders with an explanatory statement on all resolutions at our general meetings requiring a vote and we ensure that we do not bundle resolutions. The Company's practice is to poll the votes on all resolutions and the results of the votes are announced as soon as they are available.

# COMMUNICATION WITH SHAREHOLDERS

## PRINCIPLE 15

Companies should devise an effective investor relations policy to regularly convey pertinent information to shareholders. In disclosing information, companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures

The Company's shareholder communication policy is built around compliance with disclosure obligations. The framework for communicating with shareholders is to concisely and accurately communicate:

- The Company's strategy;
- How the Company implements that strategy; and
- The financial results consequent upon that strategy and its implementation.

The Board seeks to inform shareholders of all major developments affecting the Company by:

- Preparing half yearly and yearly financial reports;
- Preparing quarterly cash flow reports and reports as to activities;
- Making announcements in accordance with the listing rules and continuous disclosure obligations;
- Hosting all of the above on the Company's website;
- Annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report together with notice of meeting and proxy form; and
- Voluntarily releasing other information which it believes is in the interest of shareholders.

The Company's Shareholder Communications Policy is available on the Company's website.

# CONDUCT OF SHAREHOLDER MEETINGS

## PRINCIPLE 16

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company is committed to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to reach widely and communicate promptly. The Company endeavours to facilitate participation in shareholder meetings and to deal promptly with shareholder enquiries.

General meetings are used to communicate with shareholders and allow a reasonable opportunity for informed shareholder participation. Shareholder meetings are an opportunity for shareholders and other guests to hear from and question the Board and management of the Company. The Chairman and Managing Director make presentations separately before attending to voting on resolutions and general business. The chair of the meeting, usually the Chairman, is responsible for the conduct of the meeting.

The Company's auditor attends its annual general meeting and is available to answer any questions regarding the conduct of the audit and the preparation and content of the auditor's report.

The Company strives to ensure a broad range of participants may actively be involved in the conduct of its shareholder meetings without attending in person. The Company accepts nominations for the Board of the Company that are made to the Company Secretary in accordance with the Company's constitution. The Company conducts annual and extraordinary general meetings in accordance with the regulatory requirements and its constitution.

The Company drafts notices and proxy forms to maximise the ability of readers to understand and vote on the issues presented.

**Securities Trading Policy**

The Company has a formal Securities Trading Policy with respect to dealings in the securities of the Company by its employees and officers. The Policy provides clear guidance on when employees and officers are restricted from dealing in securities including for the period of one month prior to the release of the Company's financial statements, when officers or employees are in possession of price sensitive or inside information, or for short-term considerations. A copy of the Securities Trading Policy and notification of the trading blackout period are notified to all employees and officers prior to each trading blackout period.

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

**Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001***

To: the directors of Linc Energy Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

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

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

**KPMG**

**Matthew McDonnell**
**Partner**
**Brisbane, Australia**
**8 October 2014**

*KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.*

*Liability limited by a scheme approved under Professional Standards Legislation.*

# DIRECTORS' REPORT

The Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Linc Energy Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2014.

## DIRECTORS

Unless otherwise stated, the following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

| Name, qualifications and independence status | Experience and special responsibilities |
|---|---|
| Mr. K. Dark<br>Chairman<br>Non-Executive Independent Director | Member of Remuneration Committee<br>Member of Nomination Committee<br>Director since October 2004<br>Appointed Chairman on 12 October 2012 and resigned 1 October 2014. |
| Mr. Lim Ah Doo<br>Non-Executive Lead Independent Director | Chairman of the Audit and Risk Management Committee<br>Member of Nomination Committee<br>Director since 22 November 2013. |
| Mr. P. Bond<br>Managing Director | Managing Director and Chief Executive Officer until 1 October 2014<br>Executive Director since October 2004<br>Appointed Executive Chairman 1 October 2014. |
| Mr. J. Mathews<br>Non-Executive Independent Director | Chairman of the Remuneration Committee.<br>Member of the Audit and Risk Management Committee.<br>Director since December 2009. |
| Mr. C. Ricato<br>Non-Executive Director | Executive Director since October 2010<br>Non-Executive Director since 1 July 2013<br>Member of the Audit and Risk Management Committee.<br>Appointed Managing Director and Chief Executive Officer on 1 October 2014. |
| Mr. Koh Ban Heng<br>Non-Executive Independent Director | Chairman of Nomination Committee<br>Member of Remuneration Committee<br>Director since 22 November 2013. |

# OTHER DIRECTORS INFORMATION

| Director | Other current public company directorships | Former public company directorships in the last 3 years |
|---|---|---|
| Mr. K. Dark | None | None |
| Mr. P. Bond | European-Australian Business Council Ltd | None |
| Mr. J. Mathews | None | None |
| Mr. C. Ricato | Pan Terra Gold Ltd | None |
| Mr. Lim Ah Doo | GP Industries Ltd<br>ARA-CWT Trust Management Ltd<br>Trustee Manager of Cache Logistics Trust<br>Sateri Holdings Ltd<br>Sembcorp Marine Ltd<br>SM Investments Corporation | Chemoil Energy Ltd |
| Mr Koh Ban Heng | Tipco Ashpalt PLC of Thailand | Singapore Petroleum Company Ltd |

# COMPANY SECRETARY

Mr. Brook Burke has been the Company Secretary since 4 November 2010. He has extensive experience in the areas of corporate law, energy and resource law and corporate governance both in private practice and working in-house in the energy industry.

# PRINCIPAL ACTIVITIES

The principal continuing activities of the Group consisted of:

- Conventional oil and gas exploration and production;
- Exploration and development of conventional coal resources; and
- Unconventional oil and gas focused on the commercialisation of our proprietary technology in Underground Coal Gasification (UCG), the process of converting coal into a valuable synthetic gas in situ.

Linc Energy has constructed and commissioned a UCG to Gas to Liquid (GTL) demonstration facility. The Company also owns and operates a commercial UCG operation in Uzbekistan, which supplies syngas to a nearby power station.

# DIVIDENDS

No dividends were paid or declared by the Company during the year or up to the date of this report.

# REVIEW OF OPERATIONS

Information on the operations of the Group and its business strategies and prospects is set out in the Review of Operations and Activities on pages 7 to 34 of this Annual Report.

# FINANCIAL PERFORMANCE

### Revenues

Total Group revenues have increased from $124,370,000 to $148,390,000 representing oil and gas sales in the US, gas sales in Uzbekistan and Clean Energy consulting and intellectual property license revenue.

Oil and gas sales in the USA have increased by 19.8% from $118,259,000 (USD$121,440,000) to $141,627,000 (USD$130,000,000) reflecting an improvement in the gross production rates for the twelve month period from 4,431 BOEPD to 4,695 BOEPD.

The average oil sales price achieved for the year was USD$102.15 per barrel after hedging and USD$3.59 per Mcf of natural gas. Under the terms of its previous Reserve Based Lending facility and Asset Based Lending facility, Linc Energy is required to hedge a certain portion of its oil production to ensure that interest and field operating costs are fully covered. Further details of these oil hedges are included in note 26 to the financial statements.

## Oil sales (Linc net interest)

| Area | Year ended 30 June 2014 Total Barrels | Year ended 30 June 2013 Total Barrels | Year ended 30 June 2014 Average BOEPD | Year ended 30 June 2013 Average BOEPD |
|---|---|---|---|---|
| Gulf Coast | 1,287,419 | 1,113,319 | 3,528 | 3,050 |
| Wyoming | 50,138 | 43,833 | 137 | 120 |
| **Total** | **1,337,557** | **1,157,152** | **3,665** | **3,170** |

The Group experienced an increase in revenue from gas sales in Uzbekistan from $2,267,000 to $2,637,000 as well as in revenue generated from UCG consulting agreements from $3,845,000 to $4,126,000. For the financial year ended 30 June 2014, $2,456,000 has been released for Exxaro IP revenues with the remaining $17,544,000 of the initial $20,000,000 payment being recognised as deferred revenue in the statement of financial position. Revenue will be recognised on a monthly basis over the expected period that the services are provided.

### Oil Production

Daily average production from the Gulf Coast fields increased by 266 BOEPD gross over the prior year from from 4,243 BOEPD gross to 4,509 BOEPD. This improvement was due to increased drilling activity at Cedar Point field for the period.

Production from the Wyoming fields is steady on the previous year results at around 186 BOEPD gross.

### Gross Profit

Gross profit for the Group has decreased from $64,989,000 to $36,011,000 due to increased cost of sales which is predominantly driven by non-cash adjustments from the issuance of updated reserves reports for the Gulf Coast assets.

### Operating Expenses

Total administration and corporate costs for the period increased by $9,355,000 to $82,738,000 (2013: $73,383,000). The figure represents additional costs associated with refinancing activities during the period as well as delisting from the Australian Securities Exchange (ASX) and subsequently relisting on the Singapore Exchange (SGX).

Net foreign exchange losses for the period were $3,356,000, which is a $12,329,000 decrease from the prior year (2013: gain $8,973,000).

Site operating costs have decreased by $2,200,000 from $9,075,000 to $6,875,000. This is predominantly a result of decreased activity at the Group's Chinchilla demonstration facility.

The Group has also incurred other expenses totalling $44,847,000 with the majority related to non-cash impairment expense. Based on the reserves reports for the Gulf Coast assets issued by Haas Petroleum Engineering Services, Inc. on 1 March 2014 and 1 July 2014, a net impairment expense was recorded for $34,390,000. An amount of $5,469,000 has also been recognised for impairment on intangible assets in the USA for a UCG tenement which has been relinquished. The remaining $4,988,000 was for payment to Gladstone Ports Corporation for the coal group's take-or-pay coal export arrangement.

During the year, the Company sold its rights to certain oil and gas production tax credits pursuant to Alaska Statute 43.55.023 amounting to $71,369,000 (USD$65,187,000). The net proceeds from this transaction were $57,387,000 (USD$52,834,000). This resulted in a discount on the sale of the receivable of $13,982,000 (USD$12,353,000).

### Finance Income and Expenses

Finance expenses of $70,303,000 was higher than the prior year (2013: $47,579,000) due to increased debt levels of the company held during the 2014 financial period. The largest component was interest paid and accrued and borrowing costs attributed to establishing the senior secured notes, convertible notes and reserve-based lending facility. An additional unfavourable movement of $45,822,000 was recognised as the fair value adjustment through profit and loss for the embedded derivative component of the convertible note option. Interest income has been higher this year due to increased cash reserves being held on interest bearing accounts.

# FINANCIAL PERFORMANCE (CONTINUED)

## Financial Position

Current assets of the Group have decreased by $96,874,000 million during the twelve month period from 30 June 2013 primarily as a result of:

- Cash and cash equivalents reduced by $75,291,000 (refer to statement of cash flows for a breakdown of movements);
- Trade and other receivables have also decreased by $29,805,000 mainly due to the Alaskan tax rebate funding receivable of $32,597,000 million being held at 30 June 2013 compared to a nil balance for the current financial years program as at 30 June 2014;
- Available-for-sale assets increased by $9,258,000 after a reclassification from non-current assets due to the Company proposing the sale of certain listed investments within its portfolio; and
- Other assets have reduced by $958,000 to nil due to the Group no longer holding foreign currency options.

Non-current assets of the Group have decreased by $28,646,000 due to a decrease of $14,253,000 in receivables from term deposits held by banking institutions as security against guarantees. These funds are no longer restricted and are included in the Company's 'cash and cash equivalents' balance at 30 June 2014.

Oil and gas assets for the period have increased by $5,571,000 million which includes capital additions of $126,358,000 being recognised for exploration in Umiat and the drilling of development wells in the Gulf Coast. Unfavourable movements in impairment ($34,390,000), depletion ($73,168,000) and foreign exchange rate movements ($12,638,000) have reduced the value of the oil and gas assets as at 30 June 2014.

Intangibles have increased slightly by $2,617,000 for exploration works being performed in Poland, USA and Australia.

Available-for-sale assets have decreased by $14,162,000 due to decreases in the share prices of our listed equity investments ($4,904,000) as well as reclassification of one of the Company's listed investments to current assets ($9,258,000).

Current liabilities of the Group have increased by $171,002,000 predominately due to a reclassification of the convertible note from non-current liabilities to current liabilities totalling $197,144,000. This movement is driven by the early redemption date offered to note holders falling within 12 months of the reporting date (10 April 2015). This is offset by a reduction in trade and other payables of $31,966,000 due to lower balances outstanding to Umiat creditors. There is also $4,211,000 being recognised for the current portion of Exxaro IP deferred revenue. It should be noted that the Group has received $20,000,000 for this arrangement with $2,456,000 currently being recognised as revenue in profit and loss. The balance is sitting as current and non-current deferred revenue and will be recognised in profit and loss over the expected life of the project.

At 30 June 2014 the Group had a net current liability position of $196,444,000 due to the reclassification of the Convertible Note from non-current to current liabilities. Although the Company is in the process of exploring various options with the Note holders to rectify the position, the redemption option date of 10 April 2015 sits within 12 months of the reporting date and thus in accordance with Australian Accounting Standards and International Financial Reporting Standards the note must be classified as a current liability.

In addition to the ongoing negotiations surrounding the CB Note holders, the Company is reviewing each business unit and implementing various strategy options to strengthen the financial position of the Group moving forward. This includes but is not limited to:

- the entry into a binding Put and Call Option Agreement regarding the Company's Carmichael Royalty Deed which will generate proceeds of $155,000,000 in two instalments,
- divestment of the non-core coal and oil & gas assets
- Increased focus and investment in our Arckaringa basin shale oil drilling program.

Non-current liabilities have decreased by $118,864,000 predominately due reclassification of the convertible note however offset by recognition of deferred income from Exxaro IP revenue ($13,333,000). Additionally provisions have increased by $6,466,000 due to increase in rehabilitation obligations for the Oil & Gas business ($3,765,000), increase in decommissioning and site restoration costs at the Chinchilla demonstration facility ($1,256,000) and increase in employee entitlements for the Group ($1,064,000).

# CASH FLOWS

Net cash outflows from operating activities of $32,577,000 were comprised of:

- Receipts from customers of $164,836,000 of which $140,684,000 was from US oil and gas sales and $24,152,000 from syngas sales and clean energy consulting.
- Payments to suppliers and employees of $135,727,000 comprising $36,714,000 in US and Uzbekistan production costs and $99,013,000 in working capital.
- Payments for US oil commodity swaps of $7,076,000.
- Interest and borrowing costs paid of $54,610,000.

Net cash outflows from investing activities of $117,803,000 were predominately comprised of:

- Payments for exploration and development of oil and gas assets of $184,349,000 of which $65,257,000 was spent on Umiat and $119,092,000 on drilling of wells in the Gulf Coast.
- Receipt of $57,387,000 million in Alaskan tax rebate funding.
- Payments for exploration intangibles of $5,420,000 predominately comprised of $3,237,000 for exploration activities in Australia.
- Return of bonds and bank guarantee funds held totalling $13,378,000.

Net cash inflows from financing activities of $81,232,000 million were predominately comprised of:

- Gross proceeds of $55,499,000 million from IPO issue.
- Payments of $11,114,000 for financing activities and IPO costs.
- Proceeds of $11,302,000 from exercise of employee options and Genting call option agreement.
- Net proceeds of $72,328,000 from drawings on Key Bank reserve based lending facility of which $36,243,000 million was partly used to repay the Wells Fargo asset based lending facility which was subsequently closed.
- Payments of $9,791,000 for Fortress warrant.

# SHAREHOLDER RETURNS

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Profit/(loss) attributable to equity holders of Linc Energy Ltd | ($227,180,000) | ($63,805,000) | ($61,891,000) | $296,455,000 | ($16,255,000) |
| Basic EPS | (41.21) cents | (12.40) cents | (12.18) cents | 59.27 cents | (3.48) cents |
| Diluted EPS | (41.21) cents | (12.40) cents | (12.18) cents | 57.71 cents | (3.48) cents |
| Dividends paid | - | - | - | $49,643,000 | - |
| Dividends per share | - | - | - | $0.10 | - |

# USE OF PROCEEDS

| | Amount $'000 SGD | Amount $'000 AUD |
|---|---|---|
| IPO Funds raised | 62,220 | 55,499 |
| Less underwriting commissions | (3,462) | (3,089) |
| **Net IPO proceeds** | **58,758** | **52,410** |

| Actual use of proceeds to 30 June 2014: | IPO Funds Raised[1] $'000' AUD | Utilised to date $'000' AUD |
|---|---|---|
| Conventional Oil & Gas (Umiat Development) | 18,315 | 18,315 |
| Unconventional Oil & Gas (Clean Energy / SAPEX) | 22,477 | 1,847 |
| Working Capital & General Corporate Expenses | 5,550 | 5,550 |
| Expenses in connection with Offering | 9,157 | 9,157 |
| **Total use of IPO proceeds to 30 June 2014** | **55,499** | **34,869** |

[1] *As disclosed in the IPO prospectus.*

As at 30 June 2014, the actual use of proceeds are in accordance with the stated use outlined in the IPO prospectus.

# SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the year were as follows:

- Listing on Singapore Stock Exchange - On 18 December 2013, the Company listed all existing shares and issued 47,850,000 new shares on the SGX-ST (SGX-ST ticker TI6) at an issue price of S$1.20 per share, and raised approximately S$57,420,000 (AUD$51,200,000) in gross proceeds. The Company subsequently issued a further 4,000,000 additional shares on 27 December 2013 at an issue price of S$1.20 per share and raised approximately S$4,800,000 (AUD$4,300,000) in gross proceeds.
- Asset Based Lending Facility – On 24 October 2013, Linc Energy Resources, Inc. (LER), paid the outstanding balance of AUD$36,243,000 (USD$35,000,000) on the Asset Based Credit Facility to Wells Fargo Bank, NA. This Credit Facility was cancelled after payment.
- Reserve Based Lending Facility – On 24 October 2013, LER entered into a new reserve-based credit facility (the Credit Facility) with Key Bank, NA. The borrowing base under the facility was USD$65,000,000 with an accordion feature up to USD$75,000,000. Redetermination of the borrowing base occurs semi-annually, on 1 April and 1 October. The Credit Facility was repaid in full and cancelled subsequent to the end of the reporting period.

# MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### 9.625% First Lien Senior Secured Notes

On 13 August 2014, the Company's wholly-owned subsidiaries Linc USA GP and Linc Energy Finance (USA), Inc. (the Issuers), issued USD$125,000,000 of 9.625% First Lien Senior Secured Notes due 31 October 2017 (the First Lien Senior Notes). The First Lien Senior Notes were issued at 100% of their face value. The borrowings under the First Lien Senior Notes will be used to fund capital expenditures, repay existing debt and for general corporate purposes.

The First Lien Senior Notes are fully guaranteed and unconditionally, jointly, and severally, by Linc Energy Resources, Inc. and all of the existing and future US domestic subsidiaries of Linc Energy Resources. The interest on the First Lien Senior Notes is payable on 30 April and 31 October of each year, beginning on 31 October 2014. The First Lien Senior Notes contain affirmative and negative covenants that, among other things, limit the Issuers ability to make investments; incur additional indebtedness or issue preferred stock; create liens; sell assets; enter into agreements that restrict dividends or other payments to restricted subsidiaries; consolidate, merge or transfer all or substantially all of the assets of the Issuers; engage in transactions with the Issuers affiliates; pay dividends or make other distributions on capital stock or prepay subordinated indebtedness; and create unrestricted subsidiaries. The First Lien Senior Notes also contains customary events of default. Upon the occurrence of events of default arising from certain events of bankruptcy or insolvency, the First Lien Senior Notes shall become due and payable immediately without any declaration or other act of the holders of the First Lien Senior Notes.

The First Lien Senior Notes are redeemable by the Issuers at any time on or after 30 April 2015, at the redemption prices set forth in the indenture. The First Lien Senior Notes are redeemable by the Issuers prior to 30 April 2015, at the redemption prices plus a "make-whole" premium set forth in the indenture. The Issuers are also entitled to redeem up to 35% of the aggregate principal amount of the First Lien Senior Notes before 30 April 2015 with net proceeds that the Issuers raise in equity offerings at a redemption price equal to 109.625% of the principal amount of the First Lien Senior Notes being redeemed, plus accrued and unpaid interest and an applicable exit premium set forth in the indenture.

### Reserve-based Lending Facility

On 13 August 2014, in conjunction with the raising of capital via the 9.625% First Lien Senior Secured Notes, the Group repaid in full the outstanding balance, including accrued interest, of USD$69,200,000 on the Key Bank Reserve-Based Lending facility. The facility was cancelled on full repayment.

### Carmichael Royalty

On 27 August 2014, the Company entered into a binding Put and Call Option Deed in relation to the Carmichael Royalty with the Adani Group. Under the Deed, the Company will assign, by way of exercising its Put Option, the rights to the future Carmichael Royalty stream in return for total consideration of $155,000,000 to be paid in two instalments. The first instalment of $90,000,000 will be paid between fifty and sixty-five days from post exercise of either the Put of Call option. The second instalment of $65,000,000 must be paid to the Company by no later than 12 months after the Call or Put option is exercised.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on likely developments and expected results of operations of the Group are included in this Annual Report under the Review of Operations and Activities section on pages 7 to 34. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Annual Report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

# ENVIRONMENTAL REGULATION

The Group is subject to statutory environmental requirements in various jurisdictions in which it operates in relation to exploration, UCG, GTL and oil and gas production.

In relation to Australian law and in the reporting period, the Group generally complied with its environmental obligations. There were no instances of non-compliance that the Group considered to be material in nature.

In Queensland, the Group must comply with environmental legislation for exploration and UCG activities. The *Environmental Protection Act* regulates the environmental performance of the Group when conducting environmentally relevant activities (which include exploration, mining by UCG and gas processing). The Group has environmental licences issued for exploration tenements and the Chinchilla Demonstration Facility. The Group considers that at no point has it operated materially outside the requirements of its environmental permits.

In April 2014 the Company was served a Complaint and Summons from the Department of Environment and Heritage Protection ("DEHP") in Queensland charging the Company with four indictable offences of wilfully and unlawfully causing serious environmental harm during the operation of its UCG Demonstration Facility at Chinchilla on a date or dates unknown between July 2007 and February 2012. The Company considers these allegations to be without merit, although there can be no assurance that the Company will not be found guilty of the offences. In the event that the Company is found guilty, the maximum aggregate financial penalty under the EPA for the potential offences is approximately $9,200,000 although the Company considers that the more likely potential implications are that it may have to pay a nominal fine, undertake some form of rehabilitation and engage in regular compliance monitoring and reporting to DEHP, which should not have a material impact on the Company's operations.

In South Australia, the Group's activities are currently limited to desktop activities. Environmental regulation of exploration activities are controlled through the petroleum legislation. The Group has approved Statements of Environmental Objectives (SEO's) and Environmental Impact Reports (EIR's) for exploration in the Arckaringa, Walloway and Cooper Basins.

In the US the Group has been actively engaged in exploration for UCG prospects in the State of Alaska and characterisation in the State of Wyoming. The drilling is conducted under all appropriate and required permits secured from State and Federal agencies.

The Group operates an oilfield in Wyoming under approvals from the Wyoming Oil and Gas Conservation Commission, oilfields in Texas under approvals from the Texas Commission on Environmental Quality and the Railroad Commission of Texas and in Louisiana with approvals from the Louisiana Department of Natural Resources and Office of Conservation.

Other than as specified above, the Group was not subjected to any enforcement actions during the reporting period.

Further comments on the Group's environmental management activities can be found in the Review of Operations and Activities commencing on page 7.

# SHARE OPTIONS

At 11 September 2014, total unissued ordinary shares of the Company under option are:

| Expiry date | Exercise price range | Number of shares |
|---|---|---|
| 31 December 2014 | $1.50 to $3.16 | 281,332 |
| **Total** | | **281,332** |

The options do not entitle the holder to participate in any share issue of the Company. All options expire on the earlier of their expiry date or one month after an employee's termination date.

# SHARES ISSUED ON EXERCISE OF OPTIONS

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there are no amounts unpaid on the shares issued):

| Number of shares | Amount paid on each share |
|---|---|
| 32,866 | $0.59 |
| 50,000 | $0.70 |
| 126,666 | $0.79 |
| 75,000 | $0.97 |
| 66,666 | $1.45 |
| **351,198** | |

# PERFORMANCE RIGHTS

At 11 September 2014, total unissued ordinary shares of the Company under performance rights are:

| Vesting date (financial year) | Number of shares |
|---|---|
| 2015 | 4,880,785 |
| 2016 | 2,686,745 |
| 2017 | 1,995,459 |
| 2018 | 992,581 |
| 2019 | 107,599 |
| **Total** | **10,663,169** |

The rights do not entitle the holder to participate in any share issue of the Company.

# SHARES ISSUED ON VESTING OF PERFORMANCE RIGHTS

During or since the end of the financial year, the Company issued 2,424,383 ordinary shares as a result of vested performance rights.

# INSURANCE AND INDEMNIFICATION OF OFFICERS

Linc Energy Ltd has obtained Directors and Officers Liability Insurance. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance cover, as such disclosure is prohibited under the terms of the contract.

The Company has agreed to indemnify the following current directors of the Company, Mr. K Dark, Mr. P Bond, Mr. J Mathews, Mr. C Ricato, Mr. Lim Ah Doo and Mr. Koh Ban Heng against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify certain senior executives for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The senior executives in question are the Company Secretary, Mr B Burke, Chief Operating Officer, Mr M Mapp and the former Chief Financial Officer, Mr A Rohner. The agreement stipulates that the Company will meet the full amount of any such liabilities, including legal fees.

# AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 60 and forms part of the Directors' Report.

# ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Financial Report and Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**Statement by Directors**

We, Peter Bond and Ken Dark, being two Directors of Linc Energy Ltd (the "Company"), do hereby confirm on behalf of the Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the financial results for the year ended 30 June 2014 to be false or misleading in any material aspect.

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



**Peter Bond**
**Director**

**8 October 2014**

# ANNUAL FINANCIAL REPORT


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This financial report contains the consolidated financial statements for the consolidated entity consisting of Linc Energy Ltd and its subsidiaries (the Group). Information required by the Corporations Amendment Regulations 2010 in respect of the parent entity is included in note 33 of this report.

The financial report is presented in Australian Dollars.

Linc Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 32 Edward Street, Brisbane, Qld 4000.

A description of the nature of the entity's operations and its principal activities is included in the review of operations and activities on pages 7 to 34 and in the Directors' Report on pages 61 to 69, both of which are not part of this financial report.

*Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Investors Centre on our website: www.lincenergy.com.*

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the year ended 30 June 2014**

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | **148,390** | 124,370 |
| Cost of sales | 3 | **(112,379)** | (59,381) |
| **Gross profit** | | **36,011** | 64,989 |
| Gain on purchase of oil and gas assets | | **-** | 628 |
| Other income | 2 | **439** | 143 |
| **Expenses:** | | | |
| Administration and corporate | | **(82,738)** | (73,383) |
| Site operating costs | | **(6,875)** | (9,075) |
| Exploration and evaluation | | **(2,135)** | (3,245) |
| Technology development | | **(10,030)** | (11,139) |
| Net foreign exchange gains / (losses) | | **(3,356)** | 8,973 |
| Other expenses | 4 | **(44,847)** | (33,322) |
| Discount on sale of receivable | 5 | **(13,982)** | - |
| **Results from operating activities** | | **(127,513)** | (55,431) |
| Finance income | 6 | **1,224** | 676 |
| Finance expenses | 6 | **(70,303)** | (47,579) |
| **Net finance costs** | | **(69,079)** | (46,903) |
| Profit / (loss) before other financial instruments expenses and income tax | | **(196,592)** | (102,334) |
| Other financial instruments expenses | 6 | **(29,474)** | 16,348 |
| **Profit / (loss) before income tax** | | **(226,066)** | (85,986) |
| Income tax benefit / (expense) | 7 | **(3,412)** | 22,161 |
| **Profit / (loss) for the year** | | **(229,478)** | (63,825) |
| **Other comprehensive income / (loss)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net change in the fair value of available-for-sale financial assets, net of transaction costs and tax | 6 | **(3,432)** | 6,596 |
| Foreign currency translation differences for foreign operations | | **(6,372)** | 31,620 |
| **Total items that may be reclassified subsequently to profit or loss** | | **(9,804)** | 38,216 |
| **Total other comprehensive income / (loss) for the period, net of tax** | | **(9,804)** | 38,216 |
| **Total comprehensive income / (loss) for the year** | | **(239,282)** | (25,609) |
| **Profit / (loss) attributable to:** | | | |
| Equity holders of Linc Energy Ltd | | **(227,180)** | (63,805) |
| Non-controlling interests | | **(2,298)** | (20) |
| **Profit / (loss) for the year** | | **(229,478)** | (63,825) |
| **Total comprehensive income / (loss) attributable to** | | | |
| Equity holders of Linc Energy Ltd | | **(236,694)** | (26,683) |
| Non-controlling interests | | **(2,588)** | 1,074 |
| **Total comprehensive income / (loss) for the year** | | **(239,282)** | (25,609) |
| | | **Cents** | **Cents** |
| **Earnings per share attributable to the ordinary equity holders Linc Energy Ltd:** | | | |
| Basic earnings / (loss) per share | 24 | **(41.21)** | (12.40) |
| Diluted earnings / (loss) per share | 24 | **(41.21)** | (12.40) |

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## As at 30 June 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 8 | **48,716** | 124,007 | **41,632** | 118,294 |
| Trade and other receivables | 9 | **20,721** | 50,526 | **2,688** | 1,334 |
| Inventories | 10 | **2,857** | 2,935 | **-** | - |
| Available-for-sale assets | 11 | **9,258** | - | **9,258** | - |
| Other financial assets | 16 | **-** | 958 | **-** | 958 |
| **Total current assets** | | **81,552** | 178,426 | **53,578** | 120,586 |
| Trade and other receivables | 9 | **13,847** | 28,100 | **5,396** | 16,498 |
| Intangibles | 12 | **268,677** | 271,294 | **39,428** | 41,137 |
| Property, plant and equipment | 13 | **15,728** | 17,806 | **7,909** | 8,949 |
| Oil and gas assets | 14 | **561,109** | 555,538 | **-** | - |
| Available-for-sale investments | 15 | **2,058** | 16,220 | **2,058** | 16,220 |
| Deferred tax assets | 7 | **-** | 1,077 | **23,437** | 21,408 |
| Other financial assets | 16 | **-** | 30 | **-** | - |
| Investment in subsidiaries | | **-** | - | **427,001** | 364,572 |
| Receivables from subsidiaries | | | | **68,922** | 60,688 |
| **Total non-current assets** | | **861,419** | 890,065 | **574,151** | 529,472 |
| **Total assets** | | **942,971** | 1,068,491 | **627,729** | 650,058 |
| **Liabilities** | | | | | |
| Trade and other payables | 17 | **62,131** | 94,097 | **7,536** | 18,683 |
| Borrowings | 18 | **197,695** | 1,632 | **197,507** | 1,464 |
| Provisions | 19 | **8,193** | 8,574 | **1,717** | 2,033 |
| Deferred revenue | 20 | **4,211** | - | **4,211** | - |
| Other financial liability | 21 | **5,766** | 2,691 | **-** | - |
| **Total current liabilities** | | **277,996** | 106,994 | **210,971** | 22,180 |
| Trade and other payables | 17 | **1,124** | 1,281 | **-** | - |
| Borrowings | 18 | **337,026** | 477,423 | **4** | 169,717 |
| Deferred tax liability | 7 | **-** | 894 | **-** | - |
| Provisions | 19 | **43,518** | 37,052 | **5,393** | 3,572 |
| Deferred revenue | 20 | **13,333** | - | **13,333** | - |
| Other financial liability | 21 | **2,785** | - | **-** | - |
| **Total non-current liabilities** | | **397,786** | 516,650 | **18,730** | 173,289 |
| **Total liabilities** | | **675,782** | 623,644 | **229,701** | 195,469 |
| **Net assets** | | **267,189** | 444,847 | **398,028** | 454,589 |
| **Equity** | | | | | |
| Share capital | 22 | 396,794 | 325,388 | 396,794 | 325,388 |
| Reserves | 23 | 51,163 | 70,459 | 26,803 | 40,017 |
| Retained earnings / (accumulated losses) | | (189,082) | 38,098 | (25,569) | 89,184 |
| **Total equity attributable to equity holders of the company** | | **258,875** | 433,945 | **398,028** | 454,589 |
| Non-controlling interest | | 8,314 | 10,902 | - | - |
| **Total equity** | | **267,189** | 444,847 | **398,028** | 454,589 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2014**

| in thousands of dollars $'000 |
|---|
| Balance as at 1 July 2012 |
| **Total comprehensive income for the period** |
| Profit / (loss) for the period |
| **Other comprehensive income** |
| Foreign currency translation differences for foreign operations |
| Impairment of available-for-sale financial assets, net of tax |
| Net change in fair value of available-for-sale financial assets, net of transaction costs and tax |
| Total other comprehensive income |
| Total comprehensive income for the period |
| **Transactions with owners, recorded directly in equity** |
| **Contributions by and distributions to owners** |
| Share-based payment expense |
| Shares issued and transferred from share-based payment reserve on vesting of performance rights |
| Shares issued and transferred from share-based payment reserve on exercise of options |
| Cash settled share-based payments transferred from share-based payment reserve on vesting of performance rights |
| Total contributions by and distribution to owners |
| Total transactions with owners |
| **Balance as at 30 June 2013** |
| **Balance as at 1 July 2013** |
| **Total comprehensive income for the period** |
| Profit / (loss) for the period |
| **Other comprehensive income** |
| Foreign currency translation differences for foreign operations |
| Net change in fair value of available-for-sale financial assets, net of transaction costs and tax |
| Total other comprehensive income |
| Total comprehensive income for the period |
| **Transactions with owners, recorded directly in equity** |
| **Contributions by and distributions to owners** |
| Share-based payment expense |
| Shares issued and transferred from share-based payment reserve on vesting of performance rights |
| Shares issued and transferred from share-based payment reserve on exercise of options |
| Shares issued from initial public offering and over allotment |
| Initial public offering capitalised costs, net of tax |
| Shares issued on exercise of call option |
| Cash settled share-based payments transferred from share-based payment reserve on vesting of performance rights |
| Cash settled share-based payments transferred from share-based payment reserve on vesting of warrants |
| Total contributions by and distribution to owners |
| Total transactions with owners |
| **Balance as at 30 June 2014** |

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

| Attributable to equity holders of the company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Share capital | Foreign currency translation | Available-for-sale reserve | Other reserves | Share-based payments | Retained earnings | Total | Non-controlling interest | Total equity |
| 310,606 | (119) | (2,169) | 5,309 | 28,516 | 101,903 | 444,046 | 9,828 | 453,874 |
| - | - | - | - | - | (63,805) | (63,805) | (20) | (63,825) |
| - | 30,526 | - | - | - | - | 30,526 | 1,094 | 31,620 |
| - | - | 4,799 | - | - | - | 4,799 | - | 4,799 |
| - | - | 1,797 | - | - | - | 1,797 | - | 1,797 |
| - | 30,526 | 6,596 | - | - | - | 37,122 | 1,094 | 38,216 |
| - | 30,526 | 6,596 | - | - | (63,805) | (26,683) | 1,074 | (25,609) |
| - | - | - | - | 13,363 | - | 13,363 | - | 13,363 |
| 9,556 | - | - | - | (9,556) | - | - | - | - |
| 5,226 | - | - | - | (1,992) | - | 3,234 | - | 3,234 |
| - | - | - | - | (15) | - | (15) | - | (15) |
| 14,782 | - | - | - | 1,800 | - | 16,582 | - | 16,582 |
| 14,782 | - | - | - | 1,800 | - | 16,582 | - | 16,582 |
| **325,388** | **30,407** | **4,427** | **5,309** | **30,316** | **38,098** | **433,945** | **10,902** | **444,847** |
| **325,388** | **30,407** | **4,427** | **5,309** | **30,316** | **38,098** | **433,945** | **10,902** | **444,847** |
| - | - | - | - | - | (227,180) | (227,180) | (2,298) | (229,478) |
| - | (6,082) | - | - | - | - | (6,082) | (290) | (6,372) |
| - | - | (3,432) | - | - | - | (3,432) | - | (3,432) |
| - | (6,082) | (3,432) | - | - | - | (9,514) | (290) | (9,804) |
| - | (6,082) | (3,432) | - | - | (227,180) | (236,694) | (2,588) | (239,282) |
| - | - | - | - | 7,797 | - | 7,797 | - | 7,797 |
| 8,339 | - | - | - | (8,339) | - | - | - | - |
| 552 | - | - | - | (229) | - | 323 | - | 323 |
| 55,499 | - | - | - | - | - | 55,499 | - | 55,499 |
| (3,962) | - | - | - | - | - | (3,962) | - | (3,962) |
| 10,978 | - | - | - | - | - | 10,978 | - | 10,978 |
| - | - | - | - | (78) | - | (78) | - | (78) |
| - | - | - | - | (8,933) | - | (8,933) | - | (8,933) |
| 71,406 | - | - | - | (9,782) | - | 61,624 | - | 61,624 |
| 71,406 | - | - | - | (9,782) | - | 61,624 | - | 61,624 |
| **396,794** | **24,325** | **995** | **5,309** | **20,534** | **(189,082)** | **258,875** | **8,314** | **267,189** |

# CONSOLIDATED CASH FLOW STATEMENT

**For the year ended 30 June 2014**

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers and other debtors (inclusive of goods and services tax) | | **164,836** | 121,998 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(135,727)** | (102,612) |
| Interest and borrowing costs paid | | **(54,610)** | (27,421) |
| Payments for commodity swaps | | **(7,076)** | (2,341) |
| Net income taxes refunded / (paid) | | **-** | 987 |
| **Net cash used in operating activities** | **8** | **(32,577)** | (9,389) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(317)** | (1,818) |
| Proceeds from disposal of property, plant and equipment | | **37** | 183 |
| Payments for software intangible | | **(229)** | (1,475) |
| Payments for exploration and evaluation intangible | | **(5,420)** | (22,328) |
| Payments for exploration and development of oil and gas assets | | **(184,349)** | (156,139) |
| Payments for acquisition of oil and gas assets | | **-** | (2,977) |
| Receipts from Alaskan tax rebate funding | | **57,387** | - |
| Receipts from Alaskan tax credits | | **-** | 3,738 |
| Loans to director's | | **-** | (260) |
| Proceeds from director's loans | | **498** | 12 |
| Net cash transferred (to) / from term deposits held as security for guarantees and bonds or held as investments | | **13,378** | (12,156) |
| Interest received | | **1,212** | 603 |
| **Net cash used in investing activities** | | **(117,803)** | (192,617) |
| **Cash flows from financing activities** | | | |
| Proceeds from Initial Public Offering (IPO) | | **55,499** | - |
| Capitalised payments from IPO | | **(5,622)** | - |
| Proceeds from the exercise of share options | | **11,302** | 3,234 |
| Proceeds from notes issues | | **-** | 439,060 |
| Net proceeds / (repayments) from KeyBank Reserve-based lending facility | | **72,328** | - |
| Proceeds from borrowings | | **-** | 103,397 |
| Repayment of borrowings | | **(36,243)** | (257,047) |
| Repayment of finance lease liabilities | | **(749)** | (713) |
| Payments associated with financing activities | | **(5,492)** | (18,390) |
| Payment for Fortress warrant | | **(9,791)** | - |
| **Net cash from financing activities** | | **81,232** | 269,541 |
| **Net increase / (decrease) in cash and cash equivalents** | | **(69,148)** | 67,535 |
| Cash and cash equivalents at 1 July | | **124,007** | 25,680 |
| Effect of exchange rate fluctuations on cash held | | **(6,143)** | 30,792 |
| **Cash and cash equivalents at 30 June** | **8** | **48,716** | 124,007 |

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended 30 June 2014**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Linc Energy Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 32 Edward Street, Brisbane, Qld 4000. The Group is a for-profit entity and is primarily involved in the exploration for, development and production of conventional oil and gas and coal resources and unconventional syngas through the utilisation of its underground coal gasification technology.

### (a) Basis of preparation

**Statement of Compliance**

The consolidated financial statements of the Company and its subsidiaries (collectively the "Group") are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 8 October 2014. The Directors have the power to amend and reissue the financial report.

**Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Available-for-sale financial assets which are recognised at fair value.
- Financial assets which are initially recognised at fair value.
- Financial liabilities which are initially recognised at fair value.
- Derivatives which are recognised at fair value.

**Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

**Rounding of amounts**

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Basis of preparation**

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

There is a net current liability position at 30 June 2014 which is primarily reflective of the contractual terms of the Convertible Bond (CB) due 10 April 2018 but including an early cash redemption feature at the option of the bond holders on 10 April 2015. The Directors are confident that there are significant options available to Linc management to ensure that cash balances will be maintained positively for at least 12 months from the date of signing the directors' declaration.

The Company and Group currently has a source of operating cash flow from its oil and gas assets in the Gulf Coast and Wyoming and subsequent to year-end entered into a binding Put and Call Option Deed with Adani Group in relation to the Carmichael Royalty for a total consideration of AUD$155 million.

The cash flow forecasts indicate the Company and Group is dependent on the successful negotiations with CB holders to defer the early redemption date of 10 April 2015 out 12 months to 10 April 2016.

The Company has engaged with holders of the CB in order to provide more certainty over the quantum which may or may not be required to be redeemed on 10 April 2015. Based on negotiations with the CB holders to date the directors have a reasonable expectation that an agreement will be reached to extend the redemption date.

If an agreement can't be reached with CB holders, the Company and Group may be required to refinance the Bond, or seek alternate financing. The Company has an established track record of successfully raising new capital or debt facilities as and when required. In addition, the Company has the ability to sell further core or non-core assets including the Company's Umiat and Wyoming conventional

## (a) Basis of preparation (Continued)

**Basis of preparation (Continued)**

oil assets in the USA, or the entire Linc Energy Oil and Gas portfolio in the USA. At the time of writing of this report, the Company is evaluating unsolicited expressions of interest in relation to these assets to ensure the full range of options to remain a going concern are assessed.

The Group also has the ability to reduce the scope of, or delay its current or future exploration, development and commercialisation activities.

In summary, the Directors are satisfied that the use of the going concern assumption is appropriate in the preparation of the financial statements at 30 June 2014.

Should the above options and levers not be subsequently available to the group, the use of the going concern assumption may not be appropriate, and material adjustments may be necessary to the carrying amount and/or classification of asset or liabilities.

**Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with AASB / IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – Income tax
- Note 12 – Intangibles, including carrying value of goodwill, coal-to-liquids technology development costs and exploration and evaluation costs
- Note 14 – Oil and gas assets, including classification of assets and recoverability of assets
- Note 18 – Borrowings, determination of fair value of embedded derivatives
- Note 28 – Contingent assets and liabilities

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 7 – Income tax, including amounts deductible in respect of research and development
- Note 14 – Oil and gas assets, including reserve determination
- Note 19 – Provisions

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1(bb).

**Accounting policies**

Certain comparative amounts in the financial statements have been reclassified to conform to the current year's presentation.

The Group has amended the presentation of finance expenses in the statement of profit or loss and other comprehensive income by separating gains / (losses) on derivative financial instruments and gains / (losses) on revaluation of other financial instruments into other financial instruments expenses. The change in presentation of this disclosure is more relevant for the users of financial statements than that at 30 June 2013, as the true finance expenses were being distorted by non-cash financial instrument expenses. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively.

The Group has also amended the presentation of net foreign exchange gains / (losses) in the statement of profit or loss and other comprehensive income by separating this component from administration and corporate expenses. The change in presentation of this disclosure is more relevant for users of the financial statements than that at 30 June 2013, as the quantum of this item was distorting administration and corporate expenses. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively.

The Group has also amended the presentation of net foreign exchange gains / (losses) in the statement of profit or loss and other comprehensive income by separating this component from administration and corporate expenses. The change in presentation of this disclosure is more relevant for users of the financial statements than that at 30 June 2013, as the quantum of this item was distorting administration and corporate expenses. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively.

## (a) Basis of consolidation

**Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date the on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill at acquisition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

The Group recognises a bargain purchase gain in the profit or loss if the cost of an acquisition is less than the Group's share of the net fair value of the identifiable net assets acquired.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

**Non-controlling interest**

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised. The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

**Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions with the exception of unrealised foreign exchange gains or losses on intercompany receivables and payables, are eliminated in preparing the consolidated financial statements.

## (b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

**Gas sales revenue**

The Group has entered into a gas sales contract with its customer containing a take or pay arrangement. Revenue from the sale of gas is recognised when the gas is delivered to the customer. If the contracted minimum volume of gas is not taken, the customer must pay for the minimum contracted volume.

**Oil sales revenue**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of physical delivery of the goods to the customer. Revenue from oil sales is recognised on the basis of the Group's net interest in a producing field.

## (b) Revenue recognition (Continued)

**Consulting services revenue**

Revenue from consulting services is recognised in the reporting period in which the services are rendered. For fixed price contracts, revenue is measured under the percentage of completion method, based on actual milestones met under the contract conditions as a proportion of the total services to be provided.

**Intellectual property licence revenue**

Revenue from UCG intellectual property licence revenue is recognised in profit or loss over the expected period that services are provided.

## (c) Finance income and finance expenses

Finance income comprises interest income on bank accounts and term deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise of interest expense on borrowings and borrowing costs.

## (d) Other financial instruments expenses

Other financial instruments expenses comprise of gains and losses on derivative financial instruments and unwinding of discounts. All borrowing costs are recognised in profit or loss using the effective interest method.

## (e) Income tax

The income tax benefit/expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and difference arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its and assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

The Company and its wholly owned Australian resident entities are part of a tax consolidated group. As a consequence, all members of the tax consolidated group are treated as a single entity. The head entity within the tax-consolidated group is Linc Energy Ltd.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

## (f) Earnings per share

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

**Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## (g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement generally within 30-90 day terms.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence amounts will not be able to be collected according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit or loss.

Government grants in relation to capital expenditures and investments are recognised initially as an adjustment to the cost of the assets when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant.

## (i) Inventories

**Oil, raw materials and stores**

Oil in tanks, raw materials and stores are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## (j) Intangibles

**Coal-to-liquids development costs**

Costs incurred on coal-to-liquids development projects (relating to the design and testing of the Group's coal-to-liquids technology) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

The coal-to-liquids intangible asset is componentised into UCG technology with a 10 year useful life (7.5 years remaining) and GTL technology which will be amortised once ready for use.

**Exploration and evaluation**

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and the Group continues to hold the rights to the tenement.

Accumulated costs in relation to an abandoned area are written off in full to profit or loss in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are tested for impairment and transferred to development costs or to oil and gas properties depending on the nature of the resource and amortised over the life of the area of interest according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure (see note 1(t)).

## (j) Intangibles (Continued)

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

## (k) Research and development expenditure

The Group classifies the entire coal-to-liquids demonstration facility (pilot plant) and ongoing technology development at the site as research and development expenditure. Costs incurred in constructing the Group's coal-to-liquids demonstration facility have been capitalised and included within intangibles in the statement of financial position (refer note 1(i)). Costs that do not meet the recognition criteria of an intangible asset have been recognised in profit or loss.

## (l) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated using the diminishing value method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings (freehold) | 40 years |
| Motor vehicles | 5 years |
| Office equipment and furniture | 2 to 5 years |
| Plant and equipment | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(o)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

## (m) Oil and gas assets

Oil and gas assets include the initial cost of acquisition, together with the cost of construction, installation or completion of infrastructure facilities such as pipelines or processing plants, transferred exploration and evaluation costs, and the cost of development wells. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Oil and gas assets other than land are depreciated to their residual values on a unit of production basis over the economically recoverable proved and probable hydrocarbon reserves.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(n)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

## (n) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). In relation to oil and gas assets, SAPEX, and coal segments, these are all assessed on an area of interest basis. The clean energy segment is assessed on a cash-generating basis. Non-financial assets other than goodwill that have previously suffered impairment are reviewed for possible reversal at each reporting date.

## (o) Available-for-sale assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. The Group's investments in equity securities are classified as available-for-sale financial assets and recognised at fair value which is determined by reference to the stock exchange closing share price at reporting date. Subsequent to initial recognition, changes in fair value, other than impairment losses, are recognised in other comprehensive income and presented within equity in the available-for-sale reserve. When an investment is disposed of or impaired, the cumulative gain or loss in equity is transferred to profit and loss.

## (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## (q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are incremental costs relating to the facility, are offset against the liability and amortised on an effective interest basis over the term of the facility.

## (r) Compound financial instruments

Compound financial instruments issued by the Group comprise of convertible notes that can be converted to share capital at the option of the holder. The Group can settle the conversion by making a cash payment to the note holder or settle by the issue of shares. The liability component of the note is initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate method. The embedded derivative component is initially measured at fair value and subsequently measured at fair value through profit or loss at the end of each reporting period. Both the note liability and embedded derivative component are recognised as a part of borrowings in the statement of financial position.

## (s) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to commodity price risk and foreign currency risk. The principal derivatives used are commodity oil price swap agreements and put and call options.

The Group records all derivative instruments as either financial assets or financial liabilities at fair value. The Group has not elected to designate its derivative instruments in a hedge relationship and, therefore, recognises all changes in fair value of its derivative financial instruments immediately through finance expenses in profit or loss.

## (t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

If the effect is material, provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance expense.

**Site restoration and rehabilitation**

In accordance with its environmental obligations the Group recognises a provision for the cost of decommissioning its coal-to-liquids demonstration facility, rehabilitating its exploration drill holes and decommissioning and rehabilitating its oil and gas wells, pipelines and processing infrastructure. A provision for decommissioning and/or restoration and the related expense is recognised when an area is disturbed as a result of the Group's activities. A provision for rehabilitation and the related expense is recognised when a drilling program is completed.

Increases in decommissioning and rehabilitation provisions in respect of oil and gas activities are capitalised to oil and gas assets and amortised using the units of production basis over the economically recoverable reserves in the relevant area.

## (u) Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## (v) Employee benefits

**Share-based payments**

Share-based compensation benefits are provided to employees via the Group's Performance Rights Plan and the previous Employee Option Plan. Information relating to these schemes is set out in note 30.

The fair value of rights granted under the Performance Rights Plan and options granted under the Employee Option Plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the rights and / or options (the "vesting period").

The fair value at grant date for performance rights is calculated based on the closing share price of Linc Energy Ltd on grant date. The fair value at grant date for options is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of the dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions, as these are included in assumptions about the number of options that are expected to become exercisable. At each reporting date the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

**Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within twelve months of the reporting date are recognised in other payables or provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**Retirement benefit obligations**

The Group contributes to defined contribution superannuation plans for all employees in accordance with relevant legislation. The Group makes fixed contributions at the current rate of 9.25 per cent of gross salary and the Group's obligations are limited to these contributions. Contributions are recognised as an expense as they become payable.

**Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to future expected wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match the estimated future cash outflows.

## (w) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction.

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, net of any tax effects is recognised as a deduction in equity.

Dividends are recognised as a liability in the period in which they are declared.

## (x) Foreign currency translation

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within other financial instruments expenses. All other foreign exchange gains and losses are presented in the income statement on a net basis within net foreign exchange gains/ (losses).

**Group companies**

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the Statement of Financial Position
- Income and expenses are translated at the exchange rate at the date of the transaction (or an average annual rate where not materially different), and
- All resulting exchange differences are recognised as a separate component of equity.

## (y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## (z) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as available-for-sale securities and financial assets at fair value through profit and loss) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price, while the current ask price is used for financial liabilities. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that assets or liability.

## (aa) Critical accounting estimates, judgements and assumptions

Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Actual results may differ from those estimates, judgements and assumptions.

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

**Impairment of assets**

In the absence of quoted market prices, estimates of the recoverable amounts of assets are based on the present value of future cash flows. For oil and gas assets, expected future cash flows are based on reserves, future production profiles, commodity prices and costs.

**Exploration and evaluation**

The Group currently capitalises exploration costs. The Group's policy for exploration and evaluation assets is set out in note 1(j) and requires certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessments of whether economic quantities of reserves have been found. Estimates and assumptions may change as new information becomes available. If, after capitalising expenditure, management concludes that it is unlikely to recover expenditure through future exploitation or sale, then the relevant capitalised amount will be written off profit or loss.

**Income tax – research and development**

The Group provides for the amount of tax payable on its estimated assessable income for the year. A significant component in determining the amount payable is the estimate of research and development expenditure deductible in respect of current and prior years.

**Oil and gas assets – reserve estimation**

The amount of proved and probable reserves is reassessed at each reporting date for the purposes of assessing possible impairment of assets and calculating depletion of acquired oil and gas assets and capitalised exploration, evaluation and development costs. Reserves are determined by independent third party reserve certification consultants and conform to guidelines issued by the Society of Petroleum Engineers. Estimated reserve quantities incorporate assumptions about future development and production costs and expected oil commodity prices. These estimates can change from period to period due to changes in these assumptions and as additional geological data is generated through drilling operations.

## (aa) Critical accounting estimates, judgements and assumptions (Continued)

**Provision for site restoration**

The Group has provided for site restoration costs to allow for any necessary decommissioning and rehabilitation work at its coal-to-liquids technology development sites in Chinchilla and Wyoming, in the event of cessation of all activities at these sites. This provision is based on the Directors' best estimate of the costs of this work, which is consistent with estimates submitted to and approved by the relevant regulatory authorities in each jurisdiction.

The Group has also provided for the costs associated with rehabilitating disturbance caused by its exploration drilling in prior years. This provision is based on quotes received from third parties to undertake the required work. The Group has also provided for the costs associated with rehabilitation and decommissioning in respect of its US oil production activities. Increases in the provision are capitalised to Oil & Gas Assets and amortised over the life of the field using the units of production method based on economically recoverable reserves.

## (bb) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make strategic decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## (cc) New accounting standards and interpretations adopted

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- AASB 10 / IFRS 10 Consolidated Financial Statements (2011) (see (i))
- AASB 11 / IFRS 11 Joint Arrangements (see (ii))
- AASB 12 / IFRS 12 Disclosure of Interests in Other Entities (see (iii))
- AASB 13 / IFRS 13 Fair Value Measurement (see (iv))
- AASB 19 / IAS 19 Employee Benefits (2011) (see (v))
- Annual Improvements to Australian Accounting Standards 2009–2011 Cycle (see (vi))

The nature and the effect of the changes are further explained below.

## (i) Subsidiaries

As a result of AASB 10 / IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 / IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 require the Group consolidate investees that it controls on the basis of de facto circumstances. There was no impact on the statement of financial position or the profit or loss associated with the initial application of this standard.

## (ii) Joint arrangements

As a result of AASB 11 / IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11 / IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. There was no impact on the statement of financial position or the profit or loss associated with the initial application of this standard.

## (v) Interests in other entities

As a result of AASB 12 / IFRS 12, the Group has expanded its disclosures about interests in subsidiaries.

### (iv) Fair value measurement

AASB 13 / IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard. There was no impact on the statement of financial position or the profit or loss associated with the initial application of this standard.

### (v) Employee Benefits

As a result of AASB 19 / IAS 19, the definition of short-term and other long-term employee benefits have been amended to affecting the measurement of the obligations. Under the amended standard, the distinction between short-term and other long-term employee benefits depends on when the benefit is expected to be wholly settled. Previously, the distinction was based on timing of contractual settlement. The adoption of the amendments resulted in the Group reclassifying some employee benefits from short-term to other long-term and they have been remeasured accordingly. There was no significant impact on the statement of financial position or the profit or loss associated with the initial application of this standard.

### (vi) Segment information

The amendment to AASB 34 / IAS 34 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. There was no impact on the segment disclosure with the initial application of this amendment to the standard.

### (vii) Summary of quantitative impacts

There is no quantitative impact resulting from the above changes in accounting policies on the Group's financial position, comprehensive income and cash flows.

### (dd) New accounting standards and interpretations not yet adopted

AASB 118 / IFRS 15 Revenue from Contracts with Customers was issued by the International Accounting Standards Board in May 2014 and becomes mandatory for the Group's 2018 financial statements. It will be adopted for that period. AASB 118 / IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is currently being assessed for the impact, if any, on the Group's future financial results.

## 2. REVENUE AND OTHER INCOME

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Revenue from continuing operations** | | |
| Oil and gas sales revenue - USA | **141,627** | 118,258 |
| Clean Energy: Syngas sales revenue - Uzbekistan | **2,637** | 2,267 |
| Clean Energy: Consulting revenue | **1,670** | 3,845 |
| Clean Energy: Intellectual property revenue | **2,456** | - |
| | **148,390** | 124,370 |
| **Other income includes:** | | |
| Sundry income | **439** | 143 |
| | **439** | 143 |

# 3. EXPENSES

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Profit / (loss) before income tax includes the following specific expenses:** | | |
| Cost of sales | | |
| Oil and gas lease operating expenses | **20,492** | 15,511 |
| Other oil and gas production expenses | **-** | 8 |
| Royalties and production taxes | **8,270** | 6,870 |
| Work over expenses | **7,679** | 5,884 |
| Depletion and accretion expense of oil & gas assets | **73,864** | 29,253 |
| Production costs – Uzbekistan | **2,074** | 1,855 |
| **Total cost of sales** | **112,379** | 59,381 |
| | | |
| Depreciation and amortisation | | |
| Depreciation | | |
| Buildings | **11** | 12 |
| Motor vehicles | **453** | 422 |
| Office equipment and furniture | **876** | 959 |
| Plant and equipment | **1,317** | 1,189 |
| Oil and gas field infrastructure, plant and equipment | **1,527** | 1,344 |
| **Total depreciation** | **4,184** | 3,926 |
| | | |
| Amortisation | | |
| Coal-to-liquids technology development | **1,808** | 1,808 |
| Software | **920** | 1,069 |
| Total amortisation | **2,728** | 2,877 |
| **Total depreciation and amortisation** | **6,912** | 6,803 |
| | | |
| Employee benefits expenses | | |
| Salaries and wages | **33,485** | 32,016 |
| Contributions to defined contribution superannuation plans | **2,003** | 2,143 |
| Other employee costs | **3,441** | 3,329 |
| Increase in provision for employee entitlements | **1,082** | 436 |
| Share-based payments | **9,203** | 13,363 |
| **Total employee benefits expenses** | **49,214** | **51,287** |
| | | |
| Net (gain) / loss on disposal of non-current assets | **(9)** | 196 |
| Research and development expenditure | **546** | 18,461 |

# 4. OTHER EXPENSES

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Impairment expense – oil and gas assets[1] (note 14) | **34,390** | 16,774 |
| Impairment expense – available-for-sale assets (note 15) | **-** | 6,856 |
| Impairment expense – intangible assets[2] (note 12) | **5,469** | - |
| Gladstone Port Corporation – port capacity[3] | **4,988** | 9,692 |
| **Total other expenses** | **44,847** | **33,322** |

*1 On 23 September 2014, Haas Petroleum Engineering Services, Inc. issued a reserve report effective 1 July 2014 estimating Proved (1P) reserves of 9.9 million barrels of oil (MMbo) and 3.7 billion cubic feet of natural gas (BCFG) (equating to 10.5 million barrels of oil equivalent) and prospective reserves of 3.3 million barrels of oil and 7.9 billion cubic feet of natural gas (equating to 4.6 million barrels of oil equivalent). The total valuation of the Gulf Coast asset amounts to USD$594,761,000 in which USD$416,576,000 can be attributed to 1P NPV10% reserves and USD$178,185,000 to prospective NPV10% reserves. An impairment test was conducted on the oil and gas assets held as at 30 June 2014 and certain assets were identified as being impaired due to their net book values being higher than the discounted reserves valuation. Consequently oil and gas assets were reduced by $5,471,000 (USD$5,022,000) and an impairment expense recognised in profit and loss.*

*On the 24 April 2014, Haas Petroleum Engineering Services, Inc. issued a reserves report effective 1 March 2014 estimating Proved (1P) reserves of 11.1 million barrels of oil (MMbo) and 3.1 billion cubic feet of natural gas (BCFG) (equating to 11.6 million barrels of oil equivalent) with a 1P NPV10% of USD$489,060,000. The decrease relative to the previous report was due primarily to a decrease in PDP reserves due to the decline in activity during the year. An impairment test was conducted on the oil and gas assets held as at 31 March 2014 and certain assets were identified as being impaired due to their net book values being higher than the discounted reserves valuation. Consequently oil and gas assets were reduced by $28,919,000 (USD$26,545,000) and an impairment expense recognised in profit and loss.*

*2 The Group purchased 122,174 acres of oil and gas leases in Cook Inlet from GeoPetro. These tenements were broken into two blocks: Trading Bay block and Point MacKenzie block. When the Group purchased the acreage, the leases were already well into their primary term. During 2012, The Group drilled the exploratory Lea #1 well which was unsuccessful and subsequently during the current financial year, the Group also relinquished the lease. These factors have driven the decision to impair the full value of the Lea #1 well and the lease in the accounts which total $5,469,000 (USD$5,020,000).*

*3 The Company and Gladstone Port Corporation (GPC) are currently negotiating for the transfer of the Port contract. A letter was received from GPC for the contract period end 30 June 2014 stating that GPC has on sold 2.0Mt of the Company's liability for the period (from a total of 3Mt) as well as further mitigated any liability until 30 November 2014. The expense of $4,988,000 reflects the portion that has been mitigated during the year.*

# 5. DISCOUNT ON SALE OR RECEIVABLE

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Alaskan tax rebate funding | **13,982** | - |
| **Total discount on sale of receivable** | **13,982** | - |

During the first half of the financial year, the company sold its rights to certain oil and gas production tax credits pursuant to Alaska Statute 43.55.023 amounting to $32,597,000 (USD$29,537,000). The net proceeds from this transaction were $26,729,000 (USD$24,656,000). This resulted in a discount on the sale of the receivable of $5,868,000 (USD$4,880,000).

During the second half of the financial year, the company sold its future rights to certain oil and gas production tax credits pursuant to Alaska Statute 43.55.023 amounting to a total of $38,772,000 (USD$35,650,000). The net proceeds from this transaction were $30,658,000 (USD$28,178,000). This resulted in a discount on the sale of the receivable of $8,114,000 (USD$7,473,000).

# 6. FINANCE INCOME, FINANCE EXPENSES AND OTHER FINANCIAL INSTRUMENTS EXPENSES

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Finance income recognised in profit and loss** | | |
| Interest income on cash and cash equivalents | 1,205 | 632 |
| Interest income on loans | 19 | 44 |
| **Total finance income** | **1,224** | 676 |
| **Finance expenses recognised in profit and loss** | | |
| Interest and borrowing costs paid or payable | (70,303) | (47,579) |
| **Total finance expenses** | **(70,303)** | (47,579) |
| **Net finance costs** | **(69,079)** | (46,903) |
| **Other financial instruments expenses recognised in profit and loss** | | |
| Net gain / (loss) on foreign currency options | **(958)** | 958 |
| Net gain / (loss) on commodity swaps | **(13,822)** | (4,329) |
| Net change in unrealised foreign exchange gain / (loss) on convertible notes | **5,013** | (20,092) |
| Net change in fair value of embedded derivatives from convertible notes at fair value through profit or loss | **(19,707)** | 39,811 |
| **Total other financial instruments expenses** | **(29,474)** | 16,348 |
| **Recognised in other comprehensive income** | | |
| Net change in fair value of available-for-sale financial assets, net of transaction costs and tax | **(3,432)** | 6,596 |

# 7. INCOME TAX

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| **(a) Income tax expense / (benefit)** | | |
| The major components of income tax expense are: | | |
| **Current income tax** | | |
| Current income tax charge | **20,174** | (34,379) |
| Adjustments in respect of current income tax of previous years | **1,713** | 515 |
| **Deferred income tax** | | |
| Relating to origination and reversal of temporary differences | **(18,475)** | 9,646 |
| Adjustments in respect of deferred tax on previous years | **-** | 2,057 |
| **Income tax expense / (benefit) reported in the statement of comprehensive income** | **3,412** | (22,161) |
| **(b) Amounts charged or credited directly to equity** | | |
| Deferred income tax related to items charged / (credited) directly to equity: | | |
| Contributed equity | **(1,698)** | - |
| Available-for-sale investment reserve | **(1,471)** | 2,827 |
| **Income tax expense / (credit) reported in equity** | **(3,169)** | 2,827 |
| **(c) Numerical reconciliation between aggregate tax expense / (benefit) recognised in the statement of comprehensive income and income tax expense / (benefit) calculated per the statutory income tax rate** | | |
| A reconciliation between tax expense / (benefit) and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Accounting profit / (loss) before tax | **(226,066)** | (85,986) |
| **At the parent entity's statutory income tax rate of 30% (2013: 30%)** | **(67,820)** | (25,796) |
| Amounts not deductible / (taxable) in calculating taxable income: | | |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Share-based payments (equity settled) | **2,761** | 4,009 |
| Under/over provision from prior years | **(20,369)** | 4,552 |
| Research and development | **164** | 5,538 |
| Foreign tax rate differential | **(5,008)** | (1,071) |
| Research and development tax incentive | **(219)** | (7,384) |
| Finance costs | **(10,312)** | (8,141) |
| Other | **2,795** | (1,275) |
| Tax losses (not previously) / not recognised | | |
| Current year | **101,420** | 7,407 |
| Prior year | **-** | - |
| **Income tax (benefit) / expense from continuing operations** | **3,412** | (22,161) |

Deferred income tax at 30 June relates to the following:

### (i) Deferred tax assets

| | | |
|---|---|---|
| Temporary differences attributable to: | | |
| Share issue expenses | **3,249** | 151 |
| Provisions | **2,143** | 1,563 |
| Accruals | **221** | 228 |
| Property, plant and equipment | **15,827** | 9,334 |
| Borrowing costs | **-** | - |
| Other | **7,021** | 5,733 |
| Deferred income | **5,263** | - |
| Research and development tax offset | **22,237** | 22,077 |
| Tax losses | **82,191** | 118,994 |
| Unrealised FX | **609** | - |
| **Total deferred tax assets** | **138,761** | 158,080 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | **(138,761)** | (157,003) |
| **Net deferred tax assets** | **-** | 1,077 |

### (ii) Deferred tax liabilities

| | | |
|---|---|---|
| Temporary differences attributable to: | | |
| Exploration capitalised | **100,042** | 120,938 |
| Accrued revenue | **-** | 1 |
| Investments | **42,034** | 28,310 |
| Finance costs | **(3,343)** | 4,667 |
| Unrealised foreign exchange | **-** | 3,959 |
| Other | **28** | 22 |
| Total deferred tax liabilities | **138,761** | 157,897 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | **(138,761)** | (157,003) |
| **Net deferred tax liabilities** | **-** | **894** |

### (d) Unrecognised tax losses

At 30 June 2014, we do not recognise our tax losses in Australia of $43,900,000 (2013: nil) and in the USA USD$54,210,000 (2013: USD$13,800,000).

### (e) Franking credits

At 30 June 2014 the Australian tax consolidated group has 18,190,166 (2013: 18,190,166) imputation credits available for use in future periods resulting from payments of Australian federal income tax in 2012/13.

# 8. CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Cash at bank and on hand | **48,716** | 124,007 |
| | **48,716** | 124,007 |
| | | |
| **Reconciliation of profit / (loss) after income tax to net cash outflow from operating activities** | | |
| Profit / (loss) for the year | **(229,478)** | (63,825) |
| | | |
| Finance income | **(1,224)** | (41,446) |
| Interest expense | **1,048** | 20,229 |
| Financial instruments expenses | **38,519** | 1,988 |
| Net foreign exchange (gain) or loss on convertible notes | **(5,013)** | 20,092 |
| Net (gain) or loss on sale of non-current assets | **(10)** | 296 |
| Net discount on sale of receivable | **13,982** | - |
| Net (gain) or loss on purchase of oil and gas assets | **-** | (628) |
| Net (gain) or loss on foreign exchange | **2,617** | (4,903) |
| Depreciation, amortisation, accretion and depletion | **80,776** | 36,056 |
| Bad debt expense | **-** | 526 |
| Non cash employee benefits (share-based payments) | **8,654** | 13,348 |
| Recognition of deferred tax on items directly in equity | **1,698** | (2,828) |
| Impairment on available-for-sale-financial assets | **-** | 6,856 |
| Impairment on oil and gas assets | **34,390** | 16,774 |
| Impairment on intangible assets | **5,469** | - |
| Financing activities in profit and loss | **(5,468)** | - |
| | | |
| Changes in operating assets | | |
| Decrease / (increase) in trade and other receivables | **19,041** | (4,298) |
| Decrease / (increase) in prepayments | **(2,293)** | 31 |
| Decrease / (increase) in inventories | **3** | 86 |
| Increase / (decrease) in trade and other payables | **(15,085)** | 10,332 |
| Increase / (decrease) in deferred revenue | **17,544** | - |
| (Decrease) / increase in other provisions | **2,070** | 329 |
| (Increase) / decrease in deferred tax assets | **19,319** | (120,460) |
| (Decrease) / increase in deferred tax liabilities | **(19,136)** | 102,056 |
| | | |
| **Net cash outflow from operating activities** | **(32,577)** | (9,389) |

# 9. TRADE AND OTHER RECEIVABLES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **14,916** | 13,583 |
| Alaskan tax credits (a) | **-** | 32,597 |
| Alaskan tax funding rebate (b) | **-** | - |
| Other receivables (c) | **986** | 1,817 |
| Prepayments | **2,845** | 717 |
| Deposits (d) | **1,974** | 1,812 |
| **Total current trade and other receivables** | **20,721** | 50,526 |
| **Non-current** | | |
| Deposits (e) | **7,970** | 9,934 |
| Term deposits (f) | **5,215** | 17,020 |
| Loans to related parties (g) | **-** | 498 |
| Other receivable | **662** | 648 |
| **Total non-current trade and other receivables** | **13,847** | 28,100 |

*None of the trade and other receivables are impaired or past due but not impaired. Due to the short-term nature of current receivables, their carrying amount is assumed to approximate their fair value. The fair values of non-current receivables are consistent with their carrying amounts. The Group's exposure to credit and market risks is discussed in note 26.*

*(a) During the year ended 30 June 2013, the Company qualified for certain oil and gas production tax credits pursuant to Alaska Statue 43.55.023 amounting to $32,597,000 (USD$29,537,000). A receivable was recognised as the amount of the credit was reasonably estimable and receipt was probable. The credit was recorded as a reduction to the related assets with the receipt of funds in August 2013.*

*(b) During the year ended 30 June 2014, the Company sold its future rights to certain oil and gas production tax credits pursuant to Alaska Statute 43.55.023, amounting to $38,772,000 (USD$35,650,000).*

*(c) Current other receivables are amounts generally arising from Business Activity Statement refunds, VAT refunds, accrued interest on deposits and amounts receivable from employees.*

*(d) Current deposits relate to funds held in escrow.*

*(e) Non-current deposits relate to security held in relation to mining tenements. These deposits are returned on relinquishment of a tenement subject to satisfactory compliance with environmental and other regulatory requirements. Funds also held in this account relate to normal trade deposits for example, rental bonds on property leases.*

*(f) Term deposits are held by banking institutions as security against guarantees and credit card facilities of the Group. These funds are not available for general use as working capital.*

*(g) Loans made to related parties are detailed in note 31. All loans were repaid in the year ended 30 June 2014.*

# 10. INVENTORIES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Raw materials and stores – at cost** | **2,857** | 2,935 |

# 11. AVAILABLE-FOR-SALE ASSETS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Listed equity security** | **9,258** | - |

The Company is currently seeking advice surrounding the block sale of one of its listed investments, which is intended to occur within the next twelve month, before 30 June 2015. Refer to note 1 (o) for details on the determination of fair value.

# 12. INTANGIBLES

| Group | Coal-to-liquids technology development (b) $'000 | Exploration and evaluation (a) $'000 | Software $'000 | Goodwill $'000 | Technology licences $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | | |
| **Cost** | | | | | | |
| Opening balance | **85,053** | **235,070** | **3,783** | **1,292** | **197** | **325,395** |
| Additions (at cost) | **-** | **6,584** | **589** | **-** | **-** | **7,173** |
| Disposals | **-** | **(15)** | **-** | **-** | **-** | **(15)** |
| Exchange rate movements | **-** | **(1,711)** | **(22)** | **-** | **-** | **(1,733)** |
| **Closing balance** | **85,053** | **239,928** | **4,350** | **1,292** | **197** | **330,820** |
| **Amortisation and impairment losses** | | | | | | |
| Opening balance | **(52,452)** | **-** | **(1,452)** | **-** | **(197)** | **(54,101)** |
| Amortisation | **(1,808)** | **-** | **(920)** | **-** | **-** | **(2,728)** |
| Impairment Loss (c) | **-** | **(5,469)** | **-** | **-** | **-** | **(5,469)** |
| Exchange rate movements | **-** | **139** | **16** | **-** | **-** | **155** |
| **Closing balance** | **(54,260)** | **(5,330)** | **(2,356)** | **-** | **(197)** | **(62,143)** |
| **Closing net book amount** | **30,793** | **234,598** | **1,994** | **1,292** | **-** | **268,677** |
| **Year ended 30 June 2013** | | | | | | |
| **Cost** | | | | | | |
| Opening balance | 85,053 | 210,349 | 3,629 | 1,292 | 197 | 300,520 |
| Additions (at cost) | - | 19,251 | 819 | - | - | 20,070 |
| Disposals | - | - | (710) | - | - | (710) |
| Exchange rate movements | - | 5,470 | 45 | - | - | 5,515 |
| Closing balance | 85,053 | 235,070 | 3,783 | 1,292 | 197 | 325,395 |
| **Amortisation and impairment losses** | | | | | | |
| Opening balance | (50,644) | - | (968) | - | (197) | (51,809) |
| Amortisation | (1,808) | - | (1,069) | - | - | (2,877) |
| Impairment Loss | - | - | - | - | - | - |
| Disposals | - | - | 613 | - | - | 613 |
| Exchange rate movements | - | - | (28) | - | - | (28) |
| Closing balance | (52,452) | - | (1,452) | - | (197) | (54,101) |
| Closing net book amount | 32,601 | 235,070 | 2,331 | 1,292 | - | 271,294 |

*(a) The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Costs are transferred to oil and gas assets or to other development assets once oil or coal reserves are certified and the Group commences development of the resource.*

*(b) Amortisation of the coal-to-liquids technology development is included within technology development expenses and intangible software amortisation included within administration and corporate expenses in the statement of comprehensive income.*

*(c) The Group purchased 122,174 acres of oil and gas leases in Cook Inlet from GeoPetro for $1,109,909. These tenements were broken into two blocks: Trading Bay block and Point MacKenzie block. When the Group purchased the acreage the leases were already well into their primary term. During 2012, the Group drilled the exploratory Lea #1 well which was unsuccessful and subsequently during the current financial year, the Group also relinquished the lease. These factors have driven the decision to impair the full value of the Lea #1 well and the lease in the accounts which total $5,469,000 (USD$5,020,000).*

## Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units identified according to reportable business segment and region of operation:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Asia** | | |
| Syngas | 1,292 | 1,292 |
| **Total** | **1,292** | **1,292** |

**Recoverable amount of Goodwill with an indefinite life**

The recoverable amount of Goodwill is determined based on fair value less costs to sell. Fair value is determined as the amount for which the underlying asset (equity securities of JSPC Yerostigaz) could be exchanged between willing parties in an arm's length transaction.

UCG technology and know-how has become increasingly sought after by Governments and corporations around the world during recent years. This is demonstrated by the commercial agreement with Exxaro Resources in South Africa for $20,000,000 in IP licence revenue and YakutMinerals in Russia. Further UCG project opportunities are being investigated. As UCG becomes more accepted as an economically and environmentally viable production process for energy and petroleum products, the value of companies and their personnel with UCG technology and experience is increasing.

The investment in Yerostigaz represents a controlling stake in a commercially operating UCG business. The controlling stake provides access to a pool of UCG technical specialists and to 50 years of accumulated knowledge and UCG intellectual property of Yerostigaz. It also restricts competitors of the Group from accessing the technology, providing the Group with both a valuable competitive advantage and a valuable product in itself in terms of the ability to generate revenue through consulting and other commercial avenues which further supports a fair value in excess of the carrying value of the goodwill.

The Directors' believe that the recoverable amount of Yerostigaz exceeds the carrying value of goodwill.

# 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings $'000 | Motor vehicles $'000 | Office equipment and furniture $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | |
| **Cost** | | | | | |
| Opening balance | **4,773** | **2,900** | **4,909** | **13,034** | **25,616** |
| Additions | **-** | **203** | **506** | **103** | **812** |
| Disposals | **-** | **(123)** | **(29)** | **-** | **(152)** |
| Exchange rate movements | **(5)** | **(47)** | **(76)** | **(215)** | **(343)** |
| **Closing balance** | **4,768** | **2,933** | **5,310** | **12,922** | **25,933** |
| **Accumulated depreciation** | | | | | |
| Opening balance | **(79)** | **(1,273)** | **(2,146)** | **(4,312)** | **(7,810)** |
| Depreciation charge | **(11)** | **(453)** | **(876)** | **(1,317)** | **(2,657)** |
| Disposals | **-** | **87** | **12** | **-** | **99** |
| Exchange rate movements | **-** | **19** | **33** | **111** | **163** |
| **Closing balance** | **(90)** | **(1,620)** | **(2,977)** | **(5,518)** | **(10,205)** |
| **Closing net book amount** | **4,678** | **1,313** | **2,333** | **7,404** | **15,728** |
| **Year ended 30 June 2013** | | | | | |
| **Cost** | | | | | |
| Opening balance | 4,759 | 2,892 | 4,784 | 11,854 | 24,289 |
| Additions | - | 383 | 348 | 866 | 1,597 |
| Disposals | - | (512) | (612) | (65) | (1,189) |
| Exchange rate movements | 14 | 137 | 389 | 379 | 919 |
| **Closing balance** | 4,773 | 2,900 | 4,909 | 13,034 | 25,616 |
| **Accumulated depreciation** | | | | | |
| Opening balance | (67) | (1,022) | (1,374) | (2,984) | (5,447) |
| Depreciation charge | (12) | (422) | (959) | (1,189) | (2,582) |
| Disposals | - | 225 | 314 | 20 | 559 |
| Exchange rate movements | - | (54) | (127) | (159) | (340) |
| **Closing balance** | (79) | (1,272) | (2,146) | (4,312) | (7,810) |
| **Closing net book amount** | 4,694 | 1,627 | 2,763 | 8,722 | 17,806 |

**Leased assets**

Assets held under finance leases have a net book value of $1,482,000 (2013: $1,747,000).

# 14. OIL AND GAS ASSETS

| Group | Undeveloped $'000 | In development $'000 | Producing $'000 | Field infrastructure, plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | |
| **Cost** | | | | | |
| Opening balance | **84,473** | **67,525** | **450,721** | **18,963** | **621,682** |
| Additions(net of rebates) | **4,410** | **115,871** | **6,077** | **-** | **126,358** |
| Transfers | **(75)** | **(134,922)** | **134,997** | **-** | **-** |
| Provision for closure costs | **-** | **-** | **(164)** | **-** | **(164)** |
| Disposals | **-** | **(292)** | **(135)** | **-** | **(427)** |
| Exchange rate movements | **(2,565)** | **(1,504)** | **(13,555)** | **(576)** | **(18,200)** |
| **Closing balance** | **86,243** | **46,678** | **577,941** | **18,387** | **729,249** |
| **Accumulated depreciation, depletion** | | | | | |
| Opening balance | **-** | **-** | **(63,504)** | **(2,640)** | **(66,144)** |
| Accumulated depreciation, depletion | **-** | **-** | **(71,641)** | **(1,527)** | **(73,168)** |
| Impairment | **-** | **-** | **(34,390)** | **-** | **(34,390)** |
| Exchange rate movements | **-** | **-** | **5,443** | **119** | **5,562** |
| Closing balance | **-** | **-** | **(164,092)** | **(4,048)** | **(168,140)** |
| **Closing net book amount** | **86,243** | **46,678** | **413,849** | **14,339** | **561,109** |
| | | | | | |
| **Year ended 30 June 2013** | | | | | |
| **Cost** | | | | | |
| Opening balance | 67,975 | 2,973 | 308,136 | 17,047 | 396,131 |
| Additions (net of rebates) | 9,028 | 57,186 | 103,202 | - | 169,416 |
| Transfers | (158) | 7,032 | (6,874) | - | - |
| Provision for closure costs | - | - | 15,168 | - | 15,168 |
| Disposals | (9) | - | (3,561) | - | (3,570) |
| Exchange rate movements | 7,637 | 334 | 34,650 | 1,916 | 44,537 |
| **Closing balance** | 84,473 | 67,525 | 450,721 | 18,963 | 621,682 |
| **Accumulated depreciation, depletion** | | | | | |
| Opening balance | - | - | (10,535) | (1,015) | (11,550) |
| Accumulated depreciation, depletion | - | - | (29,253) | (1,344) | (30,597) |
| Impairment | - | - | (16,774) | - | (16,774) |
| Exchange rate movements | - | - | (6,942) | (281) | (7,223) |
| **Closing balance** | - | - | (63,504) | (2,640) | (66,144) |
| **Closing net book amount** | 84,473 | 67,525 | 387,217 | 16,323 | 555,538 |

# 14. OIL AND GAS ASSETS (CONTINUED)

### Impairment of oil and gas assets

On 23 September 2014, Haas Petroleum Engineering Services, Inc. issued a reserve report effective 1 July 2014 estimating Proved (1P) reserves of 9.9 million barrels of oil (MMbo) and 3.7 billion cubic feet of natural gas (BCFG) (equating to 10.5 million barrels of oil equivalent) and prospective reserves of 3.3 million barrels of oil and 7.9 billion cubic feet of natural gas (equating to 4.6 million barrels of oil equivalent). The total valuation of the Gulf Coast asset amounts to USD$594,761,000 in which USD$416,576,000 can be attributed to 1P NPV10% reserves and USD$178,185,000 to prospective NPV10% reserves. An impairment test was conducted on the oil and gas assets held as at 30 June 2014 and certain assets were identified as being impaired due to their net book values being higher than the discounted reserves valuation. Consequently oil and gas assets were reduced by $5,471,000 (USD$5,022,000) and an impairment expense recognised in profit and loss.

On the 24 April 2014, Haas Petroleum Engineering Services, Inc. issued a reserves report effective 1 March 2014 estimating Proved (1P) reserves of 11.1 million barrels of oil (MMbo) and 3.1 billion cubic feet of natural gas (BCFG) (equating to 11.6 million barrels of oil equivalent) with a 1P NPV10% of USD$489,060,000. The decrease relative to the previous report was due primarily to a decrease in PDP reserves due to the decline in activity during the year. An impairment test was conducted on the oil and gas assets held as at 31 March 2014 and certain assets were identified as being impaired due to their net book values being higher than the discounted reserves valuation. Consequently oil and gas assets were reduced by $28,919,000 (USD$26,545,000) and an impairment expense recognised in profit and loss.

An impairment loss is recognised at reporting date when the balance of an asset's carrying amount exceeds its recoverable amount. The carrying amount of the asset is based upon cost incurred less accumulated depletion. For the purposes of assessing impairment, assets are grouped on a field basis which is the lowest reasonable level for which there are separately independent and identifiable cash inflows from assets or a group of assets.

The recoverable amount is based upon a third-party qualified persons report issued to the Company. The reserve report is derived from the analysis of remaining proven reserves (1P) at a forward strip pricing rate which combines future price predictions from three well-known oil and gas valuation companies.

In calculating impairment, the recoverable amount is based upon the estimated future cash flows at a discount rate of 10%.

# 15. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Listed securities** | | |
| Equity securities | **2,058** | 16,220 |

The carrying amount of listed securities is equal to their fair value. The fair value of listed securities has been calculated using prices quoted on the Australian Securities Exchange and AIM London Stock Exchange at balance date or the last trading date during the period. The Group's exposure to risk is discussed in note 26.

At 30 June 2014, one of the listed securities was reclassified to available-for sale current assets as the Company is expected to sell the investment within the next twelve months.

At 30 June 2013, two of the listed securities were considered impaired as their fair values have declined significantly below their acquisition cost. An impairment of $6,856,000 was reclassified from equity within the available-for-sale reserve to the statement of profit or loss and other comprehensive income and is included as part of other expenses.

# 16. OTHER FINANCIAL ASSETS

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| **Current** | | |
| Foreign currency options | - | 958 |
| **Non-current** | | |
| Commodity swap contracts (oil hedges) | - | 30 |

# 17. TRADE AND OTHER PAYABLES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **50,919** | 82,504 |
| Accrued employee related costs | **139** | 142 |
| Accrued taxes | **1,249** | 1,577 |
| Accrued interest payable | **9,413** | 9,455 |
| Other payables | **411** | 419 |
| **Non-current** | | |
| Other payables | **1,124** | 1,281 |
| | **1,124** | 1,281 |

# 18. BORROWINGS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| **Secured** | | |
| Finance lease liabilities | **551** | 537 |
| **Total secured current borrowings** | **551** | **537** |
| **Unsecured** | | |
| Convertible notes (refer to note D below) | | |
| convertible note component | **162,108** | - |
| embedded derivative component | **35,036** | - |
| Underwriter option (refer to note D below) | **-** | 1,095 |
| **Total unsecured current borrowings** | **197,144** | 1,095 |
| **Total current borrowings** | **197,695** | 1,632 |
| | | |
| **Non-current** | | |
| **Secured** | | |
| Asset based lending facility (refer to note A below) | **-** | 37,645 |
| Reserve based lending facility (refer to note B below) | **73,105** | - |
| Senior secured notes (refer to note C below) | **263,160** | 268,917 |
| Finance lease liabilities | **113** | 734 |
| **Total secured non-current borrowings** | **336,378** | 307,296 |
| **Unsecured** | | |
| Convertible notes (refer to note D on next page) | | |
| convertible note component | **-** | 155,115 |
| embedded derivative component | **-** | 14,234 |
| Equipment funding loan | **648** | 778 |
| **Total unsecured non-current borrowings** | **648** | 170,127 |
| **Total non-current borrowings** | **337,026** | 477,423 |
| **Total borrowings** | **534,721** | 479,055 |

**Terms and debt repayment schedule**

Terms and conditions of outstanding liabilities were as follows:

| In thousands of dollars $'000 | Currency | Cash interest rate at 30 June 2014 | Year of maturity | Face value 2014 | Carrying amount 2014 | Face value 2013 | Carrying amount 2013 |
|---|---|---|---|---|---|---|---|
| Secured finance lease liabilities | **AUD** | **7.01%** | **2015-2016** | **381** | **367** | 792 | 736 |
| Secured finance lease liabilities | **USD** | **6.92%** | **2013-2015** | **319** | **297** | 579 | 535 |
| Asset based lending facility | **USD** | **4.25%** | **2016** | **-** | **-** | 38,323 | 37,645 |
| Reserve based lending facility | **USD** | **3.39%** | **2016** | **73,105** | **73,105** | - | - |
| Senior secured notes | **USD** | **12.50%** | **2017** | **281,346** | **263,160** | 290,157 | 268,917 |
| Unsecured convertible notes | **USD** | **7.00%** | **2015-2018** | **177,301** | **162,108** | 204,752 | 155,115 |
| Underwriter option | **USD** | **-** | **2014** | **-** | **-** | 1,095 | 1,095 |
| Convertible notes - embedded derivative component | **USD** | **-** | **2015-2018** | **35,036** | **35,036** | 14,234 | 14,234 |
| Equipment funding loan | **USD** | **12.00%** | **2016** | **784** | **648** | 941 | 778 |
| **Total interest bearing liabilities** | | | | **568,272** | **534,721** | 550,873 | 479,055 |

The fair values of current and non-current borrowings approximate their carrying amounts, except for the Senior Secured Notes which had a fair value at 30 June 2014 of $311,591,000 (USD$293,488,000) (2013: $316,996,000 (USD$289,513,000)) and the Unsecured Convertible Notes which had a fair value of $203,100,000 (USD$191,300,000) (2013: $177,137,000 (USD$161,780,000)). Lease liabilities are finance leases for the purchase of plant, equipment and motor vehicles. The Group's exposure to interest rate risk is discussed in note 26.

## A. Asset Based Lending Facility

On 24 October 2013, Linc Energy Resources, Inc. (LER), paid the outstanding balance of $36,243,000 (USD$35,000,000) on the Asset Based Credit Facility to Wells Fargo Bank, NA. This Credit Facility was cancelled after payment.

## B. Reserve Based Lending Facility

On 24 October 2013, LER entered into a new reserve-based credit facility (the Credit Facility) with Key Bank, NA. The borrowing base under the facility was USD$65,000,000 with an accordion feature up to USD$75,000,000. Redetermination of the borrowing base occurs semi-annually, on 1 April and 1 October. The Credit Facility matures on 24 October 2016.

Any borrowings under the Credit Facility are collateralised by LER's oil and gas properties, personal property and the equity interests of LER. LER has entered into crude oil hedging transactions with Key Bank. LER's obligations under the hedging contracts with Key Bank are secured by the Credit Facility.

Initial drawings under the Credit Facility were used to repay the Asset Based Lending facility (see above).

On 31 January 2014, LER entered into the First Amendment to the Credit Agreement and increased the borrowing base of the facility to USD80,000,000.

During the period net drawings were $72,328,000 (USD$68,857,000). At 30 June 2014, the Company has $11,830,000 (USD $11,143,000) in available credit under the Credit Facility.

Subsequent to the year end, the Company fully repaid and cancelled the facility using proceeds from the new First Lien Notes facility. (see Senior secured notes below)

## C. Senior Secured Notes

On 12 October 2012, Linc USA GP and Linc Energy Finance (USA), Inc. wholly owned subsidiaries of Linc Energy Ltd, issued $258,209,000 (USD$265,000,000) of 12.5% Senior Secured Notes (the Notes) due 31 October 2017. The Notes were issued at 96.402% of their face amount, resulting in net proceeds of $248,918,000 (USD$255,500,000) before discounts and fees.

The interest on the Notes is payable on 30 April and 31 October of each year, and began on 30 April 2013. The Notes contain covenants, representations and warranties including limitations on distributions to the Group's non US entities. The Notes are redeemable by the Group at any time on or after 30 April 2015, at the redemption prices set forth in the Notes indenture.

Subsequent to the year end, on 13 August 2014, Linc USA GP and Linc Energy Finance (USA), Inc., issued USD$125,000,000 of 9.625% First Lien Senior Secured Notes due 31 October 2017 (the First Lien Senior Notes). The First Lien Notes have been used to repay the Key Bank Reserve based lending facility (see above) and will facilitate the full year drilling and recompletion program for the 2015 financial

year. The First Lien Notes are a separate instrument from the existing Senior Secured Notes on terms which are different but structured on a similar basis (refer to note 34, Subsequent Events for details of the First Lien Note terms).

## D. Convertible Notes

On 10 April 2013, Linc Energy Ltd raised $190,142,000 (USD$200,000,000) through the issue of Unsecured Convertible Notes (the Notes) due 10 April 2018.

The Notes are convertible into ordinary shares of Linc Energy Ltd at the election of note holders at any time on or after 21 May 2013 and ten days prior to 10 April 2018 and are non-callable by Linc Energy for a period of two years. The conversion right of a note holder may be settled in shares or in cash, at our option. The Company may make an election to settle in cash by making payment to the relevant note holders of the cash amount in lieu of delivering or issuing specific amount of shares to such note holders.

The note holders may redeem all or some of their notes on 10 April 2015 at their principal amount, together with interest accrued. The Company may redeem in whole but not in part the notes on any date on or after 10 April 2015 at their principal amount together with accrued but unpaid interest subject nto the ordinary shares trading at a specific level above the conversion price for a specified period of days.

The Notes bear cash interest at 7% per annum, payable semi-annually in arrears on 10 April and 10 October of each year and began on 10 October 2013.

The convertible note trust deed was amended upon listing on the Singapore stock exchange. Upon amendment on 18 December 2013, the convertible note and embedded derivative financial instruments were required to be revalued to fair value based on an updated conversion price of S$2.13 with any gain or loss on modification recognised through profit and loss as it was deemed a substantial modification.

The Company has also granted Credit Suisse (Hong Kong) Limited an upsize option to purchase up to an additional $54,747,000 (USD$50,000,000) in principal amount of the Notes, on or before 10 May 2014. The option was valued at inception using a Monte-Carlo valuation tool at a fair value of $6,655,000 (USD$7,000,000) and forms part of current borrowings. The option is subsequently re-valued each reporting period to fair value with any change recognised as part of other financial instruments expenses in profit and loss. The option was not exercised by Credit Suisse during the period and therefore the option has been revalued to nil at 10 May 2014.

| Convertible Note – Summary of Movements | 2014 $000 | 2013 $000 |
|---|---|---|
| Opening balance | **155,115** | - |
| Proceeds from note issue | **-** | 190,142 |
| Notes issue fees | **-** | (12,136) |
| Recognise embedded derivative | **-** | (48,486) |
| Unwind of notes | **10,259** | 1,856 |
| Amortisation of fees | **750** | 3,646 |
| Gain / loss on modification | **997** | - |
| Difference relating to exchange rate fluctuations | **(5,013)** | 20,093 |
| Carrying amount | **162,108** | 155,115 |

| Embedded Derivative Liability – Summary of Movement | Notes derivative 2014 $000 | Underwriter option derivative 2014 $000 | Notes derivative 2013 $000 | Underwriter option derivative 2013 $000 |
|---|---|---|---|---|
| Opening Balance | **14,234** | 1,095 | - | - |
| Embedded derivative recognised on inception | **-** | - | 48,486 | 6,655 |
| Gain / loss on modification recognised in fair value through profit and loss | **27,900** | 2,286 | - | - |
| Fair value through profit and loss adjustment (excluding tax) | **(7,098)** | (3,381) | (34,252) | (5,560) |
| Closing fair value balance | **35,036** | **-** | 14,234 | 1,095 |

In accordance with AASB 39 / IAS 39 Financial Instruments, financial instruments are required to be re-valued to fair value at the end of each reporting period and all movements are recognised within other financial instrument expenses in profit and loss. All movements are non-cash and do not form part of the statement of cash flows.

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

| | Future minimum lease payments 2014 $'000 | Interest 2014 $'000 | Present Value of minimum lease payments 2014 $'000 | Future minimum lease payments 2013 $'000 | Interest 2013 $'000 | Present Value of minimum lease payments 2013 $'000 |
|---|---|---|---|---|---|---|
| Less than one year | **579** | **28** | **551** | 768 | 73 | 695 |
| Between one and five years | **121** | **8** | **113** | 604 | 27 | 577 |
| | **700** | **36** | **664** | 1,372 | 100 | 1,272 |

# 19. PROVISIONS

| Group | Exploration drilling rehabilitation $'000 | Decommissioning and site restoration $'000 | Oil & gas rehabilitation $'000 | Employee entitlements $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2013** | **100** | **3,011** | **39,333** | **3,182** | **45,626** |
| Provisions utilised during the period | **-** | **-** | **(1,235)** | **-** | **(1,235)** |
| Provisions recognised during the period | **-** | **1,256** | **6,196** | **1,082** | **8,534** |
| Effect of exchange rate movements | **-** | **-** | **(1,196)** | **(18)** | **(1,214)** |
| **Balance at 30 June 2014** | **100** | **4,267** | **43,098** | **4,246** | **51,711** |
| | | | | | |
| **Current** | **100** | **-** | **4,974** | **3,119** | **8,193** |
| **Non-current** | **-** | **4,267** | **38,124** | **1,127** | **43,518** |

**Exploration drilling rehabilitation**

The current site rehabilitation provision relates to rehabilitation work at the Group's exploration drilling sites in the Eromanga Basin in North Queensland.

**Decommissioning and site restoration**

The non-current site restoration provision allows for the decommissioning and restoration of the Group's coal-to-liquids technology development facility at Chinchilla on cessation of all activity at that site.

**Oil and gas rehabilitation**

The provision relates to the cost of rehabilitating and decommissioning oil field assets and infrastructure such as wells, pipelines and processing facilities.

**Employee entitlements**

The current employee entitlements provision relates to accrued wages at 30 June 2014 and accrued leave entitlements. The non-current provision relates to accrued long term leave entitlements.

# 20. DEFERRED REVENUE

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **Current** | | |
| Intellectual Property Licence deferred revenue | **4,211** | - |
| | | |
| **Non-current** | | |
| Intellectual Property Licence deferred revenue | **13,333** | - |
| **Total deferred revenue** | **17,544** | - |

# 21. OTHER FINANCIAL LIABILITIES

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **Current** | | |
| Commodity swap contracts (oil hedges) | **5,766** | 2,691 |
| | | |
| **Non-current** | | |
| Commodity swap contracts (oil hedges) | **2,785** | - |
| **Total other financial liabilities** | **8,551** | **2,691** |

# 22. SHARE CAPITAL

| | 2014 Number | 2013 Number | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| **Share capital** | | | | |
| Ordinary shares – fully paid | **587,918,909** | 519,468,416 | **396,794** | 325,388 |
| | | | | |
| **Movements:** | | | | |
| **Ordinary shares** | | | | |
| Opening Balance | **519,468,416** | 509,952,685 | **325,388** | 310,606 |
| Shares issued from initial public offering (IPO) and over allotment | **51,850,000** | - | **55,499** | - |
| Costs of IPO, net of tax | **-** | - | **(3,962)** | - |
| Shares issued from call option | **10,750,000** | - | **10,978** | - |
| Shares issued on exercise of options (a) | **351,198** | 3,266,797 | **552** | 5,226 |
| Shares issued on vesting of performance rights (b) | **5,499,295** | 6,248,934 | **8,339** | 9,556 |
| **Closing Balance** | **587,918,909** | 519,468,416 | **396,794** | 325,388 |

(a) Information relating to the Linc Energy Ltd Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 30.

(b) Information relating to the Linc Energy Ltd Performance Rights Plan, including details of rights granted, vested and lapsed during the financial year and rights outstanding at the end of the financial year, is set out in note 30.

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and then proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder 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. The Company does not have authorised capital and ordinary shares have no par value.

No dividends were declared or paid in the reporting period. (2013: No dividend declared or paid)

### Capital risk management

The Group's objectives when managing its ordinary share capital are to ensure its ability to continue as a going concern and to maintain an optimal capital structure and cost of capital appropriate to the stage of development of the Group's business.

There are no externally imposed capital requirements on Linc Energy Ltd, however the Company's subsidiary located in Uzbekistan, JSPC Yerostigaz is intermittently subject to government mandated recapitalisation programs for foreign controlled companies. Linc Energy fully participates in these recapitalisations to ensure it maintains or increases its ownership interest in the company. There were no recapitalisations this reporting period (2013: $Nil).

### Shares issued on exercise of call option

10,750,000 shares were issued during the year as a result of Genting Strategic Investments (Singapore) Pte Ltd exercising their call option pursuant to a Call Option Agreement dated 11 December 2013. The total cash received by the Group was $10,977,642.

### Shares issued on exercise of employee share options

351,198 shares were issued during the year as a result of the exercise of employee share options (2013: 3,266,797). The total cash received by the Group from the exercise of options was $323,873 (2013: $3,234,316). Since the end of the financial year no shares have been issued as a result of the exercise of employee share options.

### Shares issued on vesting of performance rights

5,499,295 shares were issued during the year as a result of vested performance rights (2013: 6,248,934). No consideration was received. Since the end of the financial year 2,424,383 shares have been issued as a result of the vesting of performance rights.

## 23. RESERVES

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Share-based payments reserve | **20,534** | 30,316 |
| Other reserves | **5,309** | 5,309 |
| Available-for-sale reserve | **995** | 4,427 |
| Foreign currency translation reserve | **24,325** | 30,407 |
| | **51,163** | 70,459 |

### Nature and purposes of reserves

**Share-based payments reserve**

The share-based payment reserve is used to recognise the fair value of options granted to employees and suppliers. It also recognises the fair value of performance rights issued to employees but not yet vested.

**Other reserves**

The other reserve represents amounts recognised directly in equity in respect of transactions with other shareholders in Group companies. In 2010, Linc Energy Ltd increased its interest in subsidiary JSPC Yerostigaz from 73% to 91.6% through the purchase of new shares with a total cost of $521,601. The transactions with other shareholders amount in the other reserve balance represents the relative transfer of value to / from the non-controlling interest as a result of the transaction.

The other reserve account also contains the remaining balance transferred from the convertible note reserve following the termination of the convertible note facility and the redemption of all outstanding notes. This amount will remain in other reserves indefinitely.

**Available-for-sale reserve**

The available-for-sale reserve represents changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets. The amounts will only be recognised in profit and loss when the associated assets are sold or impaired.

**Foreign currency translation**

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(x). The reserve is recognised in profit and loss when the net investment is disposed of.

# 24. EARNINGS PER SHARE

| | 2014 Cents | 2013 Cents |
|---|---|---|
| **Basic earnings per share** | | |
| Profit (loss) attributable to the ordinary equity holders of the Company | **(41.21)** | (12.40) |
| **Diluted earnings per share** | | |
| Profit (loss) attributable to the ordinary equity holders of the Company | **(41.21)** | (12.40) |
| | **Number** | **Number** |
| **Weighted average number of ordinary shares** | | |
| Issued shares at 1 July | **519,468,416** | 509,952,685 |
| Effect of shares issued during the period | **31,864,845** | 4,759,783 |
| Weighted average number of ordinary shares at 30 June | **551,333,261** | 514,712,468 |
| **Weighted average number of ordinary shares (diluted)** | | |
| Weighted average number of ordinary shares at 30 June | **551,333,261** | 514,712,468 |
| Effect of conversion of share options on issue | **-** | - |
| Effect of conversion of share rights on issue | **-** | - |
| Weighted average number of ordinary shares (diluted) at 30 June | **551,333,261** | 514,712,468 |
| | **2014 $'000** | **2013 $'000** |
| **Profit / (loss) from continuing operations attributable to ordinary shareholders (basic)** | **(227,180)** | **(63,805)** |
| **Profit / (loss) from continuing operations attributable to ordinary shareholders (diluted)** | **(227,180)** | **(63,805)** |

**Impact of transactions subsequent to year end.**

Subsequent to the end of the financial year, the Company issued 2,424,383 shares from the vesting of performance rights. The Company also granted a further 579,972 rights under the Performance Rights Plan to new and existing employees of the Group. These ordinary share transactions and potential ordinary share transactions would have changed the number of ordinary shares and potential ordinary shares outstanding at the end of the financial year if those transactions had occurred before the end of the reporting period.

# 25. COMMITMENTS AND OPERATING LEASES

## Capital expenditure

The company has no Capital commitments (2013: $5,319,000) payable within one year of balance date, relating to contractual expenditure for exploration and evaluation.

## Operating lease commitments as lessee

Lease commitments contracted but not recognised as liabilities are for non-cancellable operating leases of office premises and office equipment. All finance leases have been recognised in both Current and Non-Current Liabilities. Refer to note 18 for further details.

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities payable:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Within one year | **1,753** | 1,369 |
| Later than one year but not later than five years | **3,887** | 1,171 |
| Later than five years | **2,077** | 686 |
| | **7,717** | 3,226 |

The Group leases a number of office premises under operating leases. Leases typically run for between two and six years with an option to renew for a similar term or continue on a month to month basis. The leases generally provide for additional rental payments that are based on CPI or market reviews with minimum escalation rates.

## Tenement commitments

Tenement commitments relate to rent, expenditure commitments and work program commitments contained in the agreements.

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | **9,105** | 3,614 |
| Later than one year but not later than five years | **26,814** | 26,025 |
| Later than five years | **1,783** | 386 |
| | **37,702** | 30,025 |

Tenement commitments are not contractual obligations and may be subject to negotiation, deferment or modification. Failure to meet tenement activity or spending commitments within permitted timeframes may result in the relinquishment of parts of, or all of, a tenement.

## Port commitments

Port commitments that relate to the take or pay arrangement with Gladstone Port Corporation contracted for at the reporting date but not recognised as liabilities and payable:

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | **8,981** | 14,537 |
| Later than one year but not later than five years | **55,337** | 55,585 |
| Later than five years | **105,545** | 115,447 |
| | **169,863** | 185,569 |

# 26. FINANCIAL INSTRUMENTS

## Overview

Overall responsibility for financial risk management rests with the Audit and Risk Management Committee of the Board of Directors. This committee has responsibility for ensuring the effectiveness of the organisation's financial risk management system, including the approval of associated policies. The Finance group is responsible for the development of policy and the implementation of practices and processes for the management of financial risk.

## Credit risk

Credit risk is the risk of financial loss to the Group should a counterparty default on its contractual obligations and mainly arises from cash and cash equivalents, deposits with banks and financial institutions and trade and other receivables. This risk is managed by depositing funds with credible and independently rated institutions with a minimum S&P credit rating of AA and maximum thresholds for the proportion of investable funds to be held with any one institution. None of the trade and other receivables or other financial assets are deemed to be impaired.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | | Carrying amount | |
|---|---|---|---|
| | | 2014 | 2013 |
| | Note | $'000 | $'000 |
| Cash and cash equivalents | 8 | **48,716** | 124,007 |
| Trade and other receivables | 9 | **34,568** | 78,626 |
| Other financial assets | 16 | **-** | 988 |
| | | **83,284** | 203,621 |

The maximum exposure to credit risk for cash and cash equivalents at the reporting date held by geographic region was:

| | Carrying amount | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Australia | **41,700** | 118,330 |
| USA | **6,610** | 5,293 |
| Europe | **304** | 348 |
| Asia | **55** | 36 |
| Africa | **47** | - |
| Total cash and cash equivalents | **48,716** | 124,007 |

The majority of cash and cash equivalents $41,489,000 (2013: $118,314,000) is being held by two of the Big Four Banks in Australia who have AA credit ratings.

The maximum exposure to credit risk for trade and other receivables at the reporting date held by geographic region was:

| | Carrying amount | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Australia | **8,403** | 19,049 |
| USA | **24,880** | 58,889 |
| Europe | **699** | 384 |
| Asia | **576** | 304 |
| Africa | **10** | - |
| Total trade and other receivables | **34,568** | 78,626 |

Trade and other receivables is predominately comprised of US receivables of $24,880,000 primarily from oil and gas revenue which is paid in the following month after delivery.

There are no known significant past due or impaired assets as at 30 June 2014 (2013: Nil).

## Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

**Foreign currency risk**

The Group is exposed to foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of the Group companies. The establishment and settlement of foreign exchange transactions requires senior finance management approval to minimise exposures to currency fluctuations.

At 30 June 2014 the Group held a material amount of cash and cash equivalents. The distribution of this cash, by currency, is set out in the table below:

| | Carrying amount | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Australian Dollar | **16,188** | 19,741 |
| US Dollar | **18,911** | 103,877 |
| Singapore Dollar | **13,248** | - |
| South African Rand | **47** | - |
| Pounds Sterling | **181** | 314 |
| Uzbekistan Soms | **14** | 36 |
| Polish Zloty | **127** | 39 |
| Total cash and cash equivalents | **48,716** | 124,007 |

A portion of the Group's available-for-sale financial assets are also exposed to foreign currency risk. $9,899,000 (2013: $14,803,000) of the balance represents investments in companies listed on the London Stock Exchange AIM which are denominated in Pounds Sterling.

The Group is also exposed to foreign currency risk on borrowings that are denominated in a currency other than the functional currency. The convertible notes issued in April 2013 are denominated in USD whereas the functional currency is AUD.

# 26. FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June 2014, a 10% change in the foreign currency rates would have increased/(decreased) the convertible notes and embedded derivative and decreased/ (increased) profit and loss by the amounts shown below, assuming all other variables remain constant:

| | Profit or loss | |
|---|---|---|
| | 10% Increase $'000 | 10% Decrease $'000 |
| **2014** | | |
| Borrowings - convertible note component | **16,211** | **(16,211)** |
| Borrowings - embedded derivatives | **2,760** | **(1,911)** |
| Net sensitivity | **18,971** | **(18,122)** |
| **2013** | | |
| Borrowings - convertible note component | 15,512 | (15,512) |
| Borrowings - embedded derivatives | 1,752 | (1,861) |
| Foreign currency options | 5,627 | (1,421) |
| Net sensitivity | 22,891 | (18,794) |

Movement of a 10% increase / decrease in foreign currency exchange rates would have no impact on equity (2013: Nil).

**Equity price risk**

The Group is exposed to equity securities price risk. This arises from the investments in listed companies held by the Group and classified on the statement of financial position as available-for-sale assets. To manage its price risk arising from investments in equity securities, the Group only invests in equity securities approved by the Board of Directors and where the investment provides a strategic advantage to the Group.

At 30 June 2014 the Group held equity securities in a number of listed companies. Changes in the value of these securities are recognised in the available-for-sale reserve in equity. A 5% increase in the value of the investments would have the effect of increasing the available-for-sale reserve in equity by $518,000 (2013: $353,000). A 5% decrease in the value of the investments would have the effect of reducing profit and loss by $50,000 (2013: $64,000).

**Commodity price risk**

The Group periodically enters into derivative instruments such as swap agreements in an attempt to moderate the effects of fluctuations in commodity prices on the Group's cash flow and to manage exposure to commodity price risk. The Group's commodity derivative instruments generally serve as effective economic hedges of commodity price exposure; however, the Group has elected not to designate its derivatives as hedging instruments. As such, the Group recognises all changes in fair values of its derivative instruments as unrealised gains or losses in profit and loss.

Fair value is calculated using industry-standard models that generally discount projected cash flows to present value using a proprietary discount curve based on published market data.

| | Oil (NYMEX WTI) | |
|---|---|---|
| Commodity swaps | Barrels | Weighted Average Hedged price per barrel (USD) |
| Financial year 2015 | 436,464 | 89.19 |
| Financial year 2016 | 253,612 | 87.10 |
| Financial year 2017 | 110,400 | 87.50 |

# 26. FINANCIAL INSTRUMENTS (CONTINUED)

The table below summarises the location and fair value amounts of the Group's derivative instruments reported as assets and liabilities in the consolidated statement of financial position.

| United States | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Other financial asset | **-** | 30 |
| Other financial liability | **(5,766)** | - |
| **Non-current** | | |
| Other financial liability | **(2,785)** | (2,691) |
| **Total** | **(8,551)** | (2,661) |

The Group recognised realised losses of $7,697,000 (USD$7,065,000) and unrealised losses of $6,126,000 (USD$5,623,000) in profit and loss.

**Interest rate risk**

Interest rate risk occurs with respect to cash and deposits and borrowings to the extent they are subject to movements in floating interest rates. Cash is usually placed on deposit at fixed interest rates for periods of between 30 and 180 days. At 30 June 2014, the majority of cash held by the Group was held at floating interest rates.

At 30 June 2014, a change in interest rates would have increased/(decreased) financial assets and liabilities and profit and loss by the amounts shown below, assuming all other variables remain constant:

| | Profit or loss | |
|---|---|---|
| | 100bp Increase $'000 | 100bp Decrease $'000 |
| **2014** | | |
| Financial assets | **292** | **(292)** |
| Financial liabilities | **(731)** | **731** |
| Borrowings - embedded derivatives | **3,079** | **(2,336)** |
| Net cash flow sensitivity | **2,640** | **(1,897)** |
| **2013** | | |
| Financial assets | 653 | (653) |
| Financial liabilities | (376) | 376 |
| Borrowings - embedded derivatives | 876 | (766) |
| Net cash flow sensitivity | 1,153 | (1,043) |

Movement of 100 basis points would have no impact on equity at 30 June 2014 or 30 June 2013.

**Interest rate risk exposure**

The following table sets out the Group's exposure to interest rate risk and the effective weighted average interest rates at the end of the reporting period:

| Group | Weighted average effective interest rate per cent | Floating interest rate $'000 | Fixed interest rate $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1.00% | 28,475 | - | 20,241 | 48,716 |
| Trade and other receivables | 0.51% | 716 | 11,237 | 22,615 | 34,568 |
| | **0.79%** | **29,191** | **11,237** | **42,856** | **83,284** |
| Financial Liabilities | | | | | |
| Trade and other payables | 1.71% | - | 10,789 | 52,466 | 63,255 |
| Lease liabilities | 6.97% | - | 664 | - | 664 |
| Unsecured equipment funding loan | 12.00% | - | 648 | - | 648 |
| Reserve based lending facility | 3.39% | 73,105 | - | - | 73,105 |
| Senior secured notes | 14.86% | - | 263,160 | - | 263,160 |
| Unsecured convertible notes | 7.76% | - | 162,108 | - | 162,108 |
| | **9.83%** | **73,105** | **437,369** | **52,466** | **562,940** |
| **2013** | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 0.66% | 64,093 | 54,195 | 5,719 | 124,007 |
| Trade and other receivables | 0.92% | 1,191 | 22,266 | 55,169 | 78,626 |
| | **0.76%** | **65,284** | **76,461** | **60,888** | **202,633** |
| Financial Liabilities | | | | | |
| Trade and other payables | - | - | - | 95,378 | 95,378 |
| Lease liabilities | 6.97% | - | 1,272 | - | 1,272 |
| Unsecured equipment funding loan | 12.00% | - | 778 | - | 778 |
| Asset based lending facility | 4.25% | 37,645 | - | - | 37,645 |
| Senior secured notes | 14.86% | - | 268,917 | - | 268,917 |
| Unsecured convertible notes | 13.19% | - | 155,115 | - | 155,115 |
| | **11.13%** | **37,645** | **426,082** | **95,378** | **559,105** |

**Liquidity risk**

Liquidity risk exists with respect to the ability of the organisation to meet obligations associated with its financial liabilities that are settled by cash. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation. Treasury management including regular monitoring of cash and expenditure levels is undertaken to minimise funding issues.

# 26. FINANCIAL INSTRUMENTS (CONTINUED)

**Maturities of financial liabilities**

The tables below analyse the contractual maturities of the Group's financial liabilities (including estimated interest payments) at the reporting date.

| Group | Carrying amount $'000 | Contractual cash flows $'000 | < 1 year $'000 | 1 to 2 years $'000 | 2 to 3 years $'000 | > 3 years $'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Trade and other payables | 63,255 | 63,740 | 62,616 | 1,124 | - | - |
| Lease liabilities | 665 | 699 | 578 | 105 | 16 | - |
| Unsecured equipment funding loan | 648 | 784 | - | 784 | - | - |
| Reserve based lending facility | 73,105 | 78,764 | 2,477 | 76,287 | - | - |
| Senior secured note | 263,160 | 404,676 | 35,168 | 35,265 | 35,168 | 299,075 |
| Convertible note[1] | 162,108 | 271,791 | 227,201 | 14,864 | 14,864 | 14,862 |
| Other financial liabilities | 8,551 | 8,551 | 5,766 | 2,785 | - | - |
| | **571,492** | **829,005** | **333,806** | **131,214** | **50,048** | **313,937** |
| **2013** | | | | | | |
| Trade and other payables | 95,378 | 95,378 | 94,097 | 1,281 | - | - |
| Lease liabilities | 1,272 | 1,372 | 768 | 599 | 5 | - |
| Unsecured equipment funding loan | 778 | 941 | - | - | 941 | - |
| Asset based lending facility | 37,645 | 43,674 | 1,629 | 1,629 | 1,629 | 38,787 |
| Senior secured note | 268,917 | 453,619 | 36,270 | 36,270 | 36,369 | 344,710 |
| Convertible note[1] | 155,115 | 295,631 | 15,329 | 234,315 | 15,329 | 30,658 |
| Other financial liabilities | 2,691 | 2,691 | 2,691 | - | - | - |
| | **561,796** | **893,306** | **150,784** | **274,094** | **54,273** | **414,155** |

[1] *The contractual cash flows contain the embedded derivative. From April 2015 the convertible notes can be settled in either cash or shares.*

**Fair Value Hierarchy**

The fair value of financial assets and liabilities approximate their carrying values. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset of liability that are not based on observable market data (unobservable inputs).

| Group | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| **2014** | | | | |
| Available-for-sale investments | 11,316 | - | - | 11,316 |
| Other financial liabilities | - | (8,551) | - | (8,551) |
| Borrowings – Embedded derivatives | - | - | (35,036) | (35,036) |
| | **11,316** | **(8,551)** | **(35,036)** | **(32,271)** |
| **2013** | | | | |
| Available-for-sale investments | 16,220 | - | - | 16,220 |
| Other financial assets | - | 988 | - | 988 |
| Other financial liabilities | - | (2,691) | - | (2,691) |
| Borrowings – Embedded derivatives | - | - | (15,329) | (15,329) |
| | **16,220** | **(1,703)** | **(15,329)** | **(812)** |

The Group has embedded derivatives as part of the convertible notes issued in April 2013 and subsequently modified in December 2013. In order to determine the fair value of the embedded derivatives, management used a Monte-Carlo valuation model. Key assumptions adopted for the valuation included: a coupon rate of 7%, initial conversion price of S$2.13, volatility of Linc assets (USD) at 65%, risk free interest rate (USD) of 1.22%, asset default threshold of $300 million and share price and foreign exchange spot rate inputs.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

| Embedded Derivative Liability – Summary of Movement | Notes derivative 2014 $'000 | Underwriter option derivative 2014 $'000 | Notes derivative 2013 $'000 | Underwriter option derivative 2013 $'000 |
|---|---|---|---|---|
| Opening Balance | 14,234 | 1,095 | - | - |
| Embedded derivative recognised on inception | - | - | 48,486 | 6,655 |
| Gain / loss on modification recognised in fair value through profit and loss | 27,900 | 2,286 | - | - |
| Fair value through profit and loss adjustment (excluding tax) | (7,098) | (3,381) | (34,252) | (5,560) |
| Closing fair value balance | 35,036 | - | 14,234 | 1,095 |

The underwriter embedded derivative lapsed in May 2014.

**Level 3 fair values sensitivity analysis**

For the fair values of embedded derivatives, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effect:

| Group | Profit or Loss (excluding tax) Increase $000 | Profit or Loss (excluding tax) Decrease $000 |
|---|---|---|
| **2014** | | |
| Change of 10c in share price | **3,185** | **(1,062)** |

# 27. OPERATING SEGMENTS

## Reportable segments

The Group's has four reportable segments, each being led by a divisional president. The reportable segments are:

- Oil and Gas – exploration, development and production of traditional oil and gas assets in North America.
- Coal – acquisition, exploration and development of the Group's significant coal resources.
- Clean Energy – development and commercialisation of Coal-to-Liquids (CTL) processes through the combined utilisation of Underground Coal Gasification (UCG) and Gas to Liquids (GTL) technologies.
- Shale oil (SAPEX) – exploration of the Group's petroleum exploration tenements in South Australia.

The divisional presidents are accountable for their division's financial performance and maintain regular contact with the chief operating decision maker (CODM). The Group's Chief Executive Officer who is the chief operating decision maker reviews internally generated management reports on at least a monthly basis.

Information regarding the results of each reportable segment is included in the table below.

| | Oil & Gas | | Coal | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **$000** | **$000** | **$000** | **$000** |
| External revenues | **141,627** | 118,259 | **-** | - |
| Interest revenue | **17** | 14 | **1** | - |
| Finance expenses | **(42,761)** | (29,286) | **-** | - |
| Depreciation, amortisation & depletion | **(76,368)** | (31,325) | **-** | - |
| Reportable segment profit / (loss) before income tax | **(87,952)** | (4,785) | **(9,246)** | (13,600) |
| Material non-cash items of income or expense: | | | | |
| Bargain purchase gain on acquisition of oil & gas assets | **-** | 628 | **-** | - |
| Share-based payment expense | **-** | - | **-** | - |
| Impairment expense | **(34,390)** | (16,774) | **-** | - |
| Reportable segment non-current assets | **574,018** | 563,342 | **43,932** | 40,518 |
| Total reportable segment assets | **593,680** | 616,980 | **43,986** | 41,487 |
| Goodwill | **-** | - | **-** | - |
| Capital expenditure (net of rebates) | **126,706** | 169,416 | **3,400** | 13,141 |

## Geographical Segments

The worldwide operations of the Group are managed from the Brisbane head office, but the group's operations are located in five principal locations: Australia, United States of America, Asia, Europe and South Africa. In Australia, the Group operates in Queensland and South Australia. In North America the Group operates in Colorado, Wyoming, Montana, Texas and Alaska. In Asia, the Group operates in Singapore and Uzbekistan. In Europe the Group operates from a regional base in London, with subsidiaries established in Poland and Hungary. In South Africa, the Group operates from Johannesburg.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Revenues | Non-Current Assets | Revenues | Non-Current Assets |
| | $'000 | $'000 | $'000 | $'000 |
| Australia | **-** | **228,499** | - | 252,253 |
| USA | **141,627** | **626,682** | 118,259 | 632,816 |
| Asia | **2,658** | **2,504** | 2,459 | 2,251 |
| Europe | **564** | **3,712** | 153 | 2,745 |
| South Africa | **3,466** | **22** | 3,274 | - |
| Canada | **75** | **-** | 225 | - |
| | **148,390** | **861,419** | 124,370 | 890,065 |

In the USA, all oil produced from the Glenrock fields in Wyoming is currently delivered to and sold to a third party refiner. On the Gulf Coast (Texas and Louisiana) oil is sold to two third party refineries. In Asia, all syngas produced at Yerostigaz is currently sold to the Angren power station which is a State-owned utility company.

| Clean Energy | | Shale Oil (SAPEX) | | Corporate/unallocated | | Total | |
|---|---|---|---|---|---|---|---|
| 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **6,763** | 6,111 | **-** | - | **-** | - | **148,390** | 124,370 |
| **-** | - | **10** | 10 | **1,196** | 652 | **1,224** | 676 |
| **-** | - | **-** | - | **(27,542)** | (18,293) | **(70,303)** | (47,579) |
| **(3,060)** | (3,049) | **-** | (2) | **(1,348)** | (1,680) | **(80,776)** | (36,056) |
| **(27,217)** | (20,430) | **(1,463)** | (1,485) | **(100,188)** | (45,686) | **(226,066)** | (85,986) |
| | | | | | | | |
| **-** | - | **-** | - | **-** | - | **-** | 628 |
| **-** | - | **-** | - | **(9,203)** | (13,363) | **(9,203)** | (13,363) |
| **(5,469)** | - | **-** | - | **-** | (6,856) | **(39,859)** | (23,630) |
| **92,777** | 107,883 | **136,870** | 135,479 | **13,822** | 42,843 | **861,419** | 890,065 |
| **96,714** | 109,615 | **136,907** | 135,516 | **71,684** | 164,893 | **942,971** | 1,068,491 |
| **1,292** | 1,292 | **-** | - | **-** | - | **1,292** | 1,292 |
| **2,471** | 5,922 | **1,390** | 399 | **529** | 563 | **134,496** | 189,441 |

# 28. CONTINGENT ASSETS AND LIABILITIES

## Contingent assets

**Adani (Carmichael) Royalty**

On 3 August 2010, Linc Energy announced that it had entered into a contract with Adani Mining Pty Ltd ("Adani"), a subsidiary of Adani Enterprises of India, to sell the non-core Galilee coal exploration tenement for $500,000,000. As part of this transaction Linc are also entitled to receive $2.00 per tonne, indexed to inflation from the date of sale, for the first 20 years of production from the tenement.

Subsequent to the reporting date, the Company entered into a binding Put and Call Option Deed in relation to the royalty with the Adani Group to sell the future rights to the royalty to Adani for a total consideration of $155,000,000. Further details are contained in note 34, Subsequent events.

## Contingent liabilities

**Acquisition of Powder River Basin coal leases from Gastech Inc.**

On 24 December 2009 the Group announced that it had acquired an additional 81,268 acres of Powder River Basin (Wyoming) and Williston Basin (Montana) coal lease tenements from Gastech Inc. and Wold Oil Properties Inc respectively. Gastech Inc. retains a royalty interest in an amount equal to one quarter of the coal production royalties payable to the State of Wyoming under the Wyoming leases, but not greater than 2%.

**Department of Environment and Heritage Protection Notice**

In April 2014 the Company was served a Complaint and Summons from the Department of Environment and Heritage Protection ("DEHP") in Queensland charging the Company with four indictable offences of wilfully and unlawfully causing serious environmental harm during the operation of its UCG Demonstration Facility at Chinchilla on a date or dates unknown between July 2007 and February 2012. The Company considers these allegations to be without merit, although there can be no assurance that the Company will not be found guilty of the offences. In the event that the Company is found guilty, the maximum aggregate financial penalty under the EPA for the potential offences is approximately $9,200,000 although the Company considers that the more likely potential implications are that it may have to pay a nominal fine, undertake some form of rehabilitation and engage in regular compliance monitoring and reporting to DEHP, which should not have a material impact on the Company's operations.

The directors are not aware of any other contingent assets or liabilities. As at 30 June 2014, the maximum amount quantifiable in relation to litigation and associated legal fees that had not already been provided or accrued for in the financial statements was $Nil (2013: $Nil).

# 29. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

| Entity | Balance Date | Country of incorporation | Class of shares | 2014 % | 2013 % |
|---|---|---|---|---|---|
| JSPC Yerostigaz | 31 December[1] | Uzbekistan | Ordinary | 91.6 | 91.6 |
| Better Air LLC | 31 December[1] | Uzbekistan | Ordinary | 100 | 100 |
| SAPEX Limited | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Carbon Solutions Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Energy Operations Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| New Emerald Coal Ltd (formerly Teresa Coal Pty Ltd) | 30 June | Australia | Ordinary | 100 | 100 |
| New Emerald Coal Operations Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| New Emerald Coal 1 Pty Ltd | 30 June | Australia | Ordinary | 100 | - |
| New Emerald Coal 2 Pty Ltd | 30 June | Australia | Ordinary | 100 | - |
| New Pentland Coal Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Energy (Africa) Pty Ltd (formerly Linc Energy Property Pty Ltd) | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Energy GP1 Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Energy GP2 Pty Ltd | 30 June | Australia | Ordinary | 100 | 100 |
| Linc Energy Operations (Africa) Proprietary Limited | 28 February | Africa | Ordinary | 100 | 100 |
| Linc USA GP | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy Finance (USA), Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy (USA) Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Clean Energy, Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy (Wyoming), Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy (Montana), Inc | 30 June | USA | Ordinary | - | 100 |
| Linc Energy (Alaska), Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy Operations Inc. | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy Resources, Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy Lousiana, LLC | 30 June | USA | Ordinary | - | 100 |
| Linc Energy Petroleum (Wyoming), Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Gulf Coast Petroleum, Inc | 30 June | USA | Ordinary | 100 | 100 |
| Pean Insula, LLC | 30 June | USA | Ordinary | 100 | 100 |
| Diasu Holdings, LLC | 30 June | USA | Ordinary | 100 | 100 |
| Diasu Oil & Gas, Inc | 30 June | USA | Ordinary | 100 | 100 |
| Linc Energy Petroleum Lousiana, LLC | 30 June | USA | Ordinary | 100 | 100 |
| Linc Alaska Resources, LLC | 30 June | USA | Ordinary | 100 | 100 |
| Renaissance Umiat, LLC | 30 June | USA | Ordinary | 84.5 | 84.5 |
| Linc Energy (Europe) Ltd | 30 June | United Kingdom | Ordinary | 100 | 100 |
| Linc Energy Operations Ltd | 30 June | United Kingdom | Ordinary | 100 | 100 |
| Linc Energy (Africa) Ltd (formerly Linc Energy (UK) Ltd) | 30 June | United Kingdom | Ordinary | 100 | 100 |
| Linc Energy (Poland) (sp.z.o.o.) | 30 June | Poland | Ordinary | 100 | 100 |
| Linc Energy (Poland Holding Company) sp.z.o.o. | 30 June | Poland | Ordinary | 100 | - |
| Linc Energy (Singapore) Pte. Ltd | 30 June | Singapore | Ordinary | 100 | - |
| Linc Energy (Asia) Pte Ltd | 30 June | Singapore | Ordinary | - | 100 |
| Linc Energy (Asia) 2 Pte Ltd | 30 June | Singapore | Ordinary | - | 100 |

*[1] Companies incorporated in Uzbekistan must have a balance date of 31 December.*

*KPMG LLP is the auditor of all significant Australian incorporated subsidiaries and the parent. Other member firms of KPMG International are auditors of significant foreign-incorporated subsidiaries. Subsidiaries noted audited by KPMG LLP and the member firms of KPMG International are not considered significant as defined under the Singapore Exchange Limited Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.*

# 30. SHARE-BASED PAYMENTS

## Employee option plan

The establishment of the Linc Energy Ltd Employee Option Plan was approved by Shareholders at the 2005 Annual General Meeting. This plan was replaced by the Performance Rights Plan with effect from the 2009 Annual General Meeting. However the option plan continues to operate until all outstanding options have expired. Options were granted at the discretion of the Board in accordance with the rules of the plan and all staff employed by the Company or its subsidiaries were eligible to participate in the plan.

As determined by the Board, a minimum continuous period of employment (usually twelve months) with the Company or any of its subsidiaries must be served prior to the first exercise date, which falls on 31st December annually. The option exercise price was set at the discretion of the Board, but was generally the ten day volume weighted average price (VWAP) of Linc Energy Ltd shares traded on the ASX following commencement of employment with the Group. Subject to ongoing employment by the Company or any of its subsidiaries, options are exercisable over three consecutive years from the initial exercise date, with one-third of the total options awarded exercisable each year.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The assessed fair value at grant date was independently determined using a Black-Scholes option pricing model that took into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

No options were granted during the reporting period.

| Financial year of grant 2014 | Expiry date | Exercise price range $ | Balance at start of year Number | Granted Number | Exercised or transferred Number | Forfeited[1] Number | Balance at end of year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| 30 Jun 2010 | 31 Dec 14 | 1.45 to 1.79 | 573,331 | - | (66,666) | (303,333) | 203,332 | 203,332 |
| 30 Jun 2009 | 31 Dec 14 | 0.59 to 3.16 | 1,119,194 | - | (32,866) | (1,008,328) | 78,000 | 78,000 |
| 30 Jun 2008 | 31 Dec 13 | 0.60 to 2.55 | 486,999 | - | (251,666) | (235,333) | - | - |
| **Total** | | | **2,179,524** | **-** | **(351,198)** | **(1,546,994)** | **281,332** | **281,332** |
| Weighted average exercise price $ | | | 1.86 | 0.00 | 0.92 | 2.05 | 1.99 | 1.99 |

[1] *Forfeited includes options that have lapsed or cancelled due to termination.*

| Financial year of grant 2013 | Expiry date | Exercise price range $ | Balance at start of year Number | Granted Number | Exercised or transferred Number | Forfeited[1] Number | Balance at end of year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| 30 Jun 2010 | 31 Dec 14 | 1.45 to 1.79 | 2,672,164 | - | (163,333) | (1,935,500) | 573,331 | 573,331 |
| 30 Jun 2009 | 31 Dec 14 | 0.59 to 3.16 | 3,564,662 | - | (777,133) | (1,668,335) | 1,119,194 | 1,119,194 |
| 30 Jun 2008 | 31 Dec 13 | 0.60 to 2.55 | 2,663,331 | - | (2,046,333) | (129,999) | 486,999 | 486,999 |
| 30 Jun 2007 | 31 Dec 12 | 0.25 to 0.60 | 279,998 | - | (279,998) | - | - | - |
| **Total** | | | **9,180,155** | **-** | **(3,266,797)** | **(3,733,834)** | **2,179,524** | **2,179,524** |
| Weighted average exercise price $ | | | 1.52 | 0.00 | 0.99 | 1.79 | 1.86 | 1.86 |

[1] *Forfeited includes options that have lapsed or cancelled due to termination.*

During the year 351,198 (2013: 3,266,797) options were exercised. The weighted average share price at the dates of exercise was $0.92 (2013: $0.99).

## Performance Rights Plan

The establishment of the Linc Energy Employee Performance Rights Plan was approved by Shareholders at the 2009 Annual General Meeting. Under the Plan, the Board may from time to time invite a full time employee or executive director of the Company or any wholly owned subsidiary or controlled entity of the Company whom the Board decides in its absolute discretion is eligible to be invited to receive a grant of Rights in the Plan, to participate in the Plan and grant the eligible employee a right to acquire fully paid ordinary shares in the Company on conversion of the right as part of the eligible employee's remuneration.

Rights typically vest in either three or four equal tranches over a period of three and half to four and half years with the first tranche vesting twelve months from the successful completion of an employee's six month probation period. The number of Rights granted to an employee is determined at the discretion of the Board and is generally based on a formula taking into account an employee's base salary and the Company's share price at the time of grant. Rights are granted to employees at no cost but may include non-market-based performance conditions. Rights automatically convert to shares on the vesting dates provided all vesting conditions have been met.

The fair value of the rights is determined based on Linc's closing share price at the date of grant.

Rights granted under the plan carry no dividend or voting rights until they convert to ordinary shares. 4,579,974 Performance Rights were granted during the period (2013: 9,123,603).

Share rights were issued to a fixed term contractor during a previous financial year, with the option to be settled via equity or cash. The second tranche vested during the period and were cash settled.

## Performance rights granted

Set out below is a summary of performance rights granted during the year:

| Financial year of grant 2014 | Balance at start of year Number | Granted Number | Vested and converted into equity Number | Vested and paid in cash Number | Forfeited[1] Number | Balance at end of year Number |
|---|---|---|---|---|---|---|
| 30 Jun 2014 | - | 2,887,555 | (1,139,818) | - | (285,212) | 1,462,525 |
| 30 Jun 2013 | 7,859,004 | 1,671,945 | (1,716,314) | (8,392) | (1,283,327) | 6,522,916 |
| 30 Jun 2012 | 3,161,164 | 20,474 | (841,302) | - | (742,053) | 1,598,283 |
| 30 Jun 2011 | 2,267,666 | - | (1,657,930) | - | (110,263) | 499,473 |
| 30 Jun 2010 | 152,135 | - | (143,932) | - | (8,203) | - |
| **Total** | **13,439,969** | **4,579,974** | **(5,499,296)** | **(8,392)** | **(2,429,058)** | **10,083,197** |

[1] *Forfeited rights are due to employees ceasing employment.*

| Financial year of grant 2013 | Balance at start of year Number | Granted Number | Vested and converted into equity Number | Vested and paid in cash Number | Forfeited[1] Number | Balance at end of year Number |
|---|---|---|---|---|---|---|
| 30 Jun 2013 | - | 9,113,366 | (1,095,010) | (8,392) | (150,960) | 7,859,004 |
| 30 Jun 2012 | 4,808,501 | 10,237 | (807,522) | - | (850,052) | 3,161,164 |
| 30 Jun 2011 | 5,520,243 | - | (2,891,617) | - | (360,960) | 2,267,666 |
| 30 Jun 2010 | 1,684,647 | - | (1,454,785) | - | (77,727) | 152,135 |
| **Total** | **12,013,390** | **9,123,603** | **(6,248,934)** | **(8,392)** | **(1,439,699)** | **13,439,969** |

[1] *Forfeited rights are due to employees ceasing employment.*

**Expenses arising from share-based payment transactions**

Expenses arising from share-based payment transactions recognised during the period totalled $9,203,000 (2013: $13,363,000).

# 31. RELATED PARTY TRANSACTIONS

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Key management personnel compensation** | | |
| Short-term employee benefits | **6,647,071** | 4,581,904 |
| Post-employment benefits | **362,697** | 365,508 |
| Termination benefits | **256,915** | - |
| Long-term benefits | **15,932** | 19,091 |
| Share-based payments | **2,008,674** | 3,496,786 |
| | **9,291,289** | 8,463,289 |

## Loans to key management personnel

On 16 December 2011, a loan of $250,000 was provided to Ken Dark, a Non-Executive Independent Director, for the purposes of exercising options granted under the Employee Share Plan. The loan was provided on commercial terms, with interest calculated monthly at a final rate of 9.83 per cent. The loan was repayable no later than four years from the date of the loan and was secured by a holding lock over the shares. Interest was invoiced to Mr Dark at the end of each month and was then paid by the end of the next calendar month. On 27 November 2013, the total outstanding balance of the loan and all accrued interest was repaid in full (2013: Principle $238,220, Interest $0).

On 22 August 2012, an agreement was entered into to provide a loan of up to $243,350 (£150,000) to Hillgrove Pty Ltd, a company controlled by Managing Director Peter Bond, for the purposes of providing short term funding to PowerHouse Energy Plc. An amendment was made to the original contract, extending the amount of the loan by an additional $16,150 (£10,000). The loan was provided on commercial terms, with interest calculated monthly at a final rate of 9.83 percent. The loan was repayable no later than four years from the date of the loan. Linc Energy retained the right to take over the loan from Hillgrove Pty Ltd. Interest was invoiced to Hillgrove Pty Ltd at the end of each month. On 27 November 2013, the total outstanding balance of the loan and all accrued interest was repaid in full (2013: Principle $259,550 (£160,000), Interest $18,130 (£10,882)).

## Transactions with key management personnel and directors

Directors, Mr. P Bond, Mr. C Ricato, Mr. K Dark, Mr. Lim Ah Doo and Mr. Koh Ban Heng hold positions in other entities that result in them having control or significant influence over the financial and operating policies of those entities. These entities have transacted with the Group in the reporting period. The terms and conditions of the transactions with these entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control of significant influence were as follows:

## Receivable transactions with key management personnel and directors

| Key Management Person | Related party entity | Transaction | Transactions value year ended 30 June 2014 $ | Transactions value year ended 30 June 2013 $ | Balance outstanding as at 30 June 2014 $ | Balance outstanding as at 30 June 2013 $ |
|---|---|---|---|---|---|---|
| **Peter Bond** | Peter Bond | Reimbursement of expenses | **3,314** | 61,932 | **3,314** | - |
| | Bond Bros Contracting Pty Ltd | Reimbursement of expenses | **-** | - | **3,201** | 3,200 |
| **Don Schofield** | Don Schofield | Reimbursement of expenses | **-** | 24,338 | **-** | 26,056 |
| **Ken Dark** | KE & SL Dark | Loan | **8,839** | 24,869 | **-** | 238,220 |
| **Peter Bond** | Hillgrove Pty Ltd | Loan | **10,749** | 20,989 | **-** | 284,708 |

** All Values are GST Inclusive if applicable*

## Payable transactions with key management personnel and directors

| Key Management Person | Related party entity | Transaction | Transactions value year ended 30 June 2014 $ | Transactions value year ended 30 June 2013 $ | Balance outstanding as at 30 June 2014 $ | Balance outstanding as at 30 June 2013 $ |
|---|---|---|---|---|---|---|
| **Peter Bond** | Bond Bros Contracting Pty Ltd | Executive services | **1,650,000** | 1,008,333 | **-** | - |
| | Bond Air Charters Pty Ltd | Chartered flights | **726,943** | 173,201 | **-** | 2,067 |
| | Rough Diamond Media Pty Ltd | Documentary film | **10,054** | 2,914 | **-** | - |
| | Newtron Pty Ltd | Executive Services | **660,000** | - | **-** | - |
| | Australian Syngas Association | Membership | **-** | 44,000 | **-** | - |
| **Craig Ricato** | Executive Management Services Discretionary Trust | Executive services | **1,376,571** | 633,072 | **-** | - |
| **Ken Dark** | KE & SL Dark | Executive services | **208,625** | 166,441 | **17,990** | 14,238 |
| **Lim Ah Doo** | Lim Ah Doo | Executive services | **171,605** | - | **23,616** | - |
| **Koh Ban Heng** | Koh Ban Heng | Executive services | **139,318** | - | **19,173** | - |

** All Values are GST Inclusive if applicable*

# 31. RELATED PARTY TRANSACTIONS (CONTINUED)

**Options over equity instruments**

The movement during the reporting period in the number of options over ordinary shares in Linc Energy Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Name | Expiry date [1] | Exercise price $ | Balance at start of year[3] Number | Granted Number | Exercised Number | Disposed[2] Number | Forfeited/ expired Number | Balance at end of year[4] Number |
|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | |
| J. Van de Velde | 31 Dec 2013 | 3.16 | 100,000 | - | - | - | (100,000) | - |
| C. Fisher | 31 Dec 2013 | 2.49 | 33,333 | - | - | - | (33,333) | - |
| | | | **133,333** | **-** | **-** | **-** | **(133,333)** | **-** |
| Weighted average exercise price $ | | | 2.99 | - | - | - | 2.99 | - |
| 2013 | | | | | | | | |
| C. Ricato | 31 Dec 2012 | 0.70 | 500,000 | - | (500,000) | - | - | - |
| A. Rohner | 31 Dec 2014 | 1.53 | 1,533,333 | - | - | - | (1,533,333) | - |
| K. Terblanche | 31 Dec 2013 | 1.91 | 1,333,333 | - | (360,000) | (150,000) | (666,667) | 156,666 |
| D. Smith | 31 Dec 2013 | 2.98 | 400,000 | - | - | - | (200,000) | 200,000 |
| D. Schofield | 31 Dec 2014 | 0.76 | 666,666 | - | - | (666,666) | - | - |
| J. Van de Velde | 31 Dec 2012 | 0.60 | 200,000 | - | - | (200,000) | - | - |
| J. Van de Velde | 31 Dec 2013 | 3.16 | 100,000 | - | - | - | - | 100,000 |
| | | | **4,733,332** | **-** | **(860,000)** | **(1,016,666)** | **(2,400,000)** | **456,666** |
| Weighted average exercise price $ | | | 1.58 | - | 1.21 | 0.90 | 1.76 | 2.65 |

*[1] Options vest and are exercisable over three consecutive years from the initial exercise date, with one-third of the total options awarded vesting and exercisable at 31 December each year following completion of a minimum service period, usually twelve months. The expiry date disclosed is the expiry date of the third and final tranche of options. Where an employee has been employed for greater than three years, an additional award of options may be granted at the discretion of the Board in the employee's fourth or later year.*

*[2] In accordance with a resolution of the Board, directors and employees may dispose of their vested options to a third party. The third party remains subject to the employee option plan rules in respect of options held and have exercised these options during the period.*

*[3] Or date commenced as a key management person.*

*[4] Or date ceased as a key management person.*

## Rights over equity instruments

The movement during the reporting period in the number of rights to ordinary shares in Linc Energy Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Name | Balance at start of year[1] Number | Number of rights granted as compensation during year Number | Vested during the year Number | Forfeited during the year Number | Unvested balance at end of the year[2] Number |
|---|---|---|---|---|---|
| **2014** | | | | | |
| P. Bond[3] | 11,824 | 3,345 | - | - | 15,169 |
| J. Mathews | 250,000 | - | (125,000) | - | 125,000 |
| S. Jones | 800,000 | - | - | - | 800,000 |
| D. Schofield | - | 200,000 | - | (200,000) | - |
| S. Broussard | 900,000 | - | - | (900,000) | - |
| B. Young | 91,220 | - | (22,805) | - | 68,415 |
| A. Bond | 900,100 | - | (250,100) | - | 650,000 |
| M. Mapp | 1,000,000 | 473,732 | (824,609) | (649,123) | - |
| C. Fisher | 798,000 | - | (223,000) | - | 575,000 |
| | **4,751,144** | **677,077** | **(1,445,514)** | **(1,749,123)** | **2,233,584** |
| **2013** | | | | | |
| P. Bond[3] | - | 11,824 | - | | 11,824 |
| J. Mathews | 375,000 | - | (125,000) | | 250,000 |
| C. Ricato | 750,000 | 354,700 | (1,104,700) | | - |
| K. Terblanche | 666,666 | - | (666,666) | | - |
| D. Smith | 1,000,000 | - | (500,000) | | 500,000 |
| J. Van de Velde | 50,000 | - | (50,000) | | - |
| S. Broussard | 400,000 | 600,000 | (100,000) | | 900,000 |
| A. Bond | 400,000 | 600,100 | (100,000) | | 900,100 |
| M. Mapp | 1,000,000 | - | - | | 1,000,000 |
| S. Jones | - | 800,000 | - | | 800,000 |
| | **4,641,666** | **2,366,624** | **(2,646,366)** | | **4,361,924** |

*[1] Or date commenced as a key management person.*

*[2] Or date ceased to be a key management person*

*[3] Mr. Bond's rights are held by related parties.*

# 31. RELATED PARTY TRANSACTIONS (CONTINUED)

## Movements in shares

The movement during the reporting period in the number of ordinary shares in Linc Energy Ltd held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Name | Balance at the start of the year[4] Number | Additions Number | Disposals Number | Balance at the end of the year[5] Number |
|---|---|---|---|---|
| **2014** | | | | |
| K. Dark[1] | 2,037,000 | - | (747,000) | 1,290,000 |
| P. Bond[2] | 202,621,028 | - | - | 202,621,028 |
| J. Mathews[3] | 250,000 | 128,000 | - | 378,000 |
| C. Ricato | 2,501,561 | - | (1,501,000) | 1,000,561 |
| D. Schofield | 330,000 | - | - | 330,000 |
| J. Van de Velde | 184,863 | - | - | 184,863 |
| S. Broussard | 100,000 | - | - | 100,000 |
| B. Young | - | 22,805 | - | 22,805 |
| A. Bond | 100,000 | 250,100 | (65,000) | 285,100 |
| M. Mapp | - | 824,609 | (823,877) | 732 |
| C. Fisher | - | 223,000 | (223,000) | - |
| | **207,634,480** | **1,448,514** | **(3,359,877)** | **206,213,089** |
| **2013** | | | | |
| K. Dark[1] | 2,037,000 | - | - | 2,037,000 |
| P. Bond[2] | 202,121,028 | 500,000 | - | 202,621,028 |
| J. Mathews | 125,000 | 125,000 | - | 250,000 |
| C. Ricato | 1,396,861 | 1,104,700 | - | 2,501,561 |
| K. Terblanche | 766,668 | 866,666 | (1,446,893) | 186,441 |
| D. Smith[6] | 500,000 | 500,000 | (786,535) | 213,465 |
| D. Schofield | 500,000 | 666.666 | (836,666) | 330,000 |
| J. Van de Velde | 145,673 | 76,190 | (37,000) | 184,863 |
| S. Broussard | - | 100,000 | - | 100,000 |
| A. Bond | - | 100,000 | - | 100,000 |
| | **207,592,230** | **4,039,222** | **(3,107,094)** | **208,524,358** |

*[1] A portion of Mr. Dark's shares are held by related parties.*

*[2] Mr. Bond's shares are held via Newtron Pty Ltd or its nominees.*

*[3] A portion of Mr. Mathews shares are held by related parties.*

*[4] Or date commenced being a key management person.*

*[5] Or date ceased to be a key management person.*

*[6] Mr. Smith's shares are held via a related party.*

Mr. Lim Ah Doo, Mr. Koh Ban Heng, Mr. S Jones and Mr. S Whitehead do not hold Linc Energy shares.

## Other related party interests

Hillgrove Pty Ltd, a company controlled by Managing Director, Peter Bond owns a 5.45 per cent interest in Powerhouse Energy Group plc, an entity Linc Energy Ltd also holds a 7.73 per cent interest in. Mr. P. Bond is not involved in discussions or board decisions relating to the Company's investment in Powerhouse Energy.

On 6 November 2012, an agreement was entered into with Powerhouse Energy Group plc, granting a license to occupy office space in Linc Energy's London Office. The loan was provided on the basis of PowerHouse being entitled to occupy one desk, for up to ten days per month, along with reasonable access during that period to Linc Energy's photocopying, printing and other administrative facilities. The monthly rent payment of £1,000 will compensate Linc Energy for the provision of such office space and other administrative facilities. Linc Energy will accrue the monthly rent payment until such time as PowerHouse is capitalised in the amount of £2,000,000 or higher,

upon which all rent payments incurred will become due and payable. If any charges outside of the above mentioned are incurred by Linc Energy on behalf of PowerHouse, these charges are invoiced on a monthly basis. At the end of the reporting period the total rent accrued is $36,199 (£20,000).

# 32. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group.

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| **Audit services** | | |
| KPMG Australia | **414,900** | **370,900** |
| **Overseas KPMG firms** | **547,267** | **382,678** |
| | **962,167** | **756,578** |
| **Services other than statutory audit:** | | |
| KPMG Australia: | | |
| IT advisory services | **20,500** | **11,135** |
| Assurance services | **498,736** | **20,000** |
| Other services | **44,775** | **-** |
| | **564,011** | **31,135** |
| Overseas KPMG: | | |
| Assurance services | **291,680** | **-** |

# 33. PARENT ENTITY DISCLOSURE

As at and throughout the financial year ended 30 June 2014 the parent entity of the Group was Linc Energy Ltd:

| | Company | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Result of the parent entity** | | |
| Profit/(loss) for the period | **(114,751)** | (32,502) |
| Other comprehensive income | **(3,432)** | 6,596 |
| **Total comprehensive income / (loss) for the period** | **(118,183)** | (25,906) |
| | | |
| **Financial position of the parent entity at year end** | | |
| Current assets | **53,578** | 120,586 |
| **Total assets** | **627,729** | 705,015 |
| | | |
| Current liabilities | **210,971** | 22,180 |
| **Total liabilities** | **229,701** | 250,426 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | **396,794** | 325,388 |
| Share-based payment reserve | **20,534** | 30,316 |
| Available-for-sale reserve | **995** | 4,427 |
| Other reserves | **5,274** | 5,274 |
| Retained earnings | **(25,569)** | 89,184 |
| **Total Equity** | **398,028** | 454,589 |

**Parent entity contingencies**

The Directors are not aware of any other contingent liabilities other than as set out in note 28.

# 33. PARENT ENTITY DISCLOSURE (CONTINUED)

**Parent entity capital commitments for the acquisition of intangible assets or property, plant and equipment**

As at the balance sheet date the parent entity had no capital commitments for the acquisition of tangible and intangible assets.

**Parent entity guarantees in respect of debts of its subsidiaries**

The parent entity does not guarantee the debts of its subsidiaries (30 June 2013: Nil). The Parent entity has provided a letter of financial support to the Directors of SAPEX Limited, New Emerald Coal Ltd and Linc's US subsidiaries.

# 34. SUBSEQUENT EVENTS

Matters subsequent to the end of the financial year were as follows:

### 9.625% First Lien Senior Secured Notes

On 13 August 2014, the Company's wholly-owned subsidiaries Linc USA GP and Linc Energy Finance (USA), Inc. (the Issuers), issued USD$125,000,000 of 9.625% First Lien Senior Secured Notes due 31 October 2017 (the First Lien Senior Notes). The First Lien Senior Notes were issued at 100% of their face value. The borrowings under the First Lien Senior Notes will be used to fund capital expenditures, repay existing debt and for general corporate purposes.

The First Lien Senior Notes are fully guaranteed and unconditionally, jointly, and severally, by Linc Energy Resources, Inc. and all of the existing and future US domestic subsidiaries of Linc Energy Resources. The interest on the First Lien Senior Notes is payable on 30 April and 31 October of each year, beginning on 31 October 2014. The First Lien Senior Notes contain affirmative and negative covenants that, among other things, limit the Issuers ability to make investments; incur additional indebtedness or issue preferred stock; create liens; sell assets; enter into agreements that restrict dividends or other payments to restricted subsidiaries; consolidate, merge or transfer all or substantially all of the assets of the Issuers; engage in transactions with the Issuers affiliates; pay dividends or make other distributions on capital stock or prepay subordinated indebtedness; and create unrestricted subsidiaries. The First Lien Senior Notes also contains customary events of default. Upon the occurrence of events of default arising from certain events of bankruptcy or insolvency, the First Lien Senior Notes shall become due and payable immediately without any declaration or other act of the holders of the First Lien Senior Notes.

The First Lien Senior Notes are redeemable by the Issuers at any time on or after 30 April 2015, at the redemption prices set forth in the indenture. The First Lien Senior Notes are redeemable by the Issuers prior to 30 April 2015, at the redemption prices plus a "make-whole" premium set forth in the indenture. The Issuers are also entitled to redeem up to 35% of the aggregate principal amount of the First Lien Senior Notes before 30 April 2015 with net proceeds that the Issuers raise in equity offerings at a redemption price equal to 109.625% of the principal amount of the First Lien Senior Notes being redeemed, plus accrued and unpaid interest and an applicable exit premium set forth in the indenture.

### Reserve-based Bank Lending Facility

On 13 August 2014, in conjunction with the raising of capital via the 9.625% First Lien Senior Secured Notes, the Group repaid in full the outstanding balance, including accrued interest, of USD$69,200,000 on the Key Bank Reserve-Based Lending facility. The facility was cancelled on full repayment.

### Carmichael Royalty

On 27 August 2014, the Company entered into a binding Put and Call Option Deed in relation to the Carmichael Royalty with the Adani Group. Under the Deed, the Company will assign, by way of exercising its Put Option, the rights to the future Carmichael Royalty stream in return for total consideration of $155,000,000 to be paid in two instalments. The first instalment of $90,000,000 will be paid between fifty and sixty-five days from post exercise of either the Put of Call option. The second instalment of $65,000,000 must be paid to the Company by no later than 12 months after the Call or Put option is exercised.

# DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2014

In the Directors' opinion:

1. (a) The consolidated financial statements and notes, set out on pages 72 to 126, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance, for the financial year ended on that date; and

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

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

2. The Directors have been given the declarations by the chief executive officer and chief financial officer required by Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

3. The directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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



**Peter Bond**
**Director**
Brisbane
8 October 2014

## Independent auditor's report to the members of Linc Energy Ltd

We have audited the accompanying financial report of Linc Energy Ltd (the Company), which comprises the consolidated statement of financial position, which includes the financial position of the Company, as at 30 June 2014, and 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 year ended on that date, notes 1 to 34, comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' responsibility for the financial report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, *Corporations Act 2001* and the Singapore Exchange SGX Mainboard Rule 1207(5) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements and IAS 1 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we 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. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and the Singapore Exchange SGX Mainboard Rule 1207(5), a true and fair view which is consistent with our understanding of the Group's and the Company's financial position and of the Group's performance.

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 the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's and the Company's financial position as at 30 June 2014 and of the Group's performance for the year 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 note 1(a).

KPMG

**KPMG**



**Matthew McDonnell**
**Partner**
**Brisbane**
**8 October 2014**

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*Liability limited by a scheme approved under Professional Standards Legislation.*

# SHAREHOLDER INFORMATION

The Shareholder information set out below was applicable as at 24 September 2014.

| | Ordinary Shares | | |
|---|---|---|---|
| **Shareholder Information** | **Shares** | **Options** | **Rights** |
| **Equity security holders** | | | |
| Total number of equity security holders | 9,546 | 6 | 171 |
| | | | |
| **Distribution of equity security holders** | | | |
| Analysis of numbers of equity security holders by size of holding: | | | |
| 1 – 999 | 2,631 | - | 3 |
| 1,000 - 10,000 | 5,612 | 2 | 99 |
| 10,001 – 1,000,000 | 1,287 | 4 | 69 |
| 1,000,001 and over | 16 | - | - |

## Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| | Ordinary Shares | |
|---|---|---|
| **Name** | **Number held** | **Percentage of issued shares** |
| 1. DBS Nominees (Private) Limited | 266,398,817 | 45.13% |
| 2. Genting Strategic Investments (Singapore) Pte Ltd | 98,360,000 | 16.66% |
| 3. Raffles Nominees (Pte) Limited | 36,651,821 | 6.21% |
| 4. Citibank Nominees Singapore Pte Ltd | 34,804,044 | 5.90% |
| 5. Phillip Securities Pte Ltd | 23,539,339 | 3.99% |
| 6. HSBC (Singapore) Nominees Pte Ltd | 16,751,608 | 2.84% |
| 7. ABN Amro Clearing Bank N.V | 15,564,730 | 2.64% |
| 8. OCBC Securities Private Limited | 8,549,275 | 1.45% |
| 9. DBS Vickers Securities (Singapore) Pte Ltd | 4,894,107 | 0.83% |
| 10. DBSN Services Pte. Ltd. | 4,783,308 | 0.81% |
| 11. DB Nominees (Singapore) Pte Ltd | 2,490,303 | 0.42% |
| 12. Merrill Lynch (Singapore) Pte Ltd | 1,959,768 | 0.33% |
| 13. BNP Paribas Securities Services Singapore Branch | 1,456,378 | 0.25% |
| 14. Khotam Tadji-Aglaev | 1,301,207 | 0.22% |
| 15. Maybank Kim Eng Securities Pte. Ltd. | 1,229,050 | 0.21% |
| 16. Nomura Singapore Limited | 1,017,000 | 0.17% |
| 17. Sunfield Pte Ltd | 1,000,000 | 0.17% |
| 18. UOB Kay Hian Private Limited | 892,435 | 0.15% |
| 19. Lim Meng Seng | 840,000 | 0.14% |
| 20. Morgan Stanley Asia (Singapore) Securities Pte Ltd | 659,284 | 0.11% |
| | **522,381,267** | **88.62%** |

## Substantial equity security holders

The number of shares held by substantial shareholders and their associates are set out below:

| Name | Ordinary Shares Number held | Percentage of issued shares |
|---|---|---|
| Newtron Pty Ltd (acting in its capacity as trustee of the Peter Bond Family Trust) and its affiliates (including Isny Pty Ltd) | 202,621,028 | 34.32% |
| Genting Strategic Investments (Singapore) Pte Ltd (and its affiliates including Tan Sri Lim Kok Thay, Lim Keong Hui and Parkview Management SDN BHD) | 100,500,000 | 17.03% |
| Credit Suisse AG (and its affiliates including Credit Suisse Investments (UK)) | 81,993,847 | 13.90% |

## Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options and Rights

No voting rights.

## Public Shareholders

Based on the information available as at 24 September 2014, at least 10% of the issued shares of the Company is held by the public and therefore the Company complies with Rules 1207 and 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

## Treasury Shares

As at 24 September 2014, the Company does not hold any treasury shares.

# GLOSSARY OF TERMS

| Acronym | Definition |
|---|---|
| BOPD/BPD/ BOE / BBOE | Barrels of Oil Per Day / Barrels Per Day / Barrels of Oil Equivalent / Billion Barrels of Oil Equivalent |
| EIS | Environmental Impact Statement |
| EL/ELA | Exploration Licence / Exploration Licence Application |
| EOR | Enhanced Oil Recovery |
| EPC | Exploration Permit Coal |
| GTL | Gas to Liquids |
| IPO | Initial Public Offering |
| ISP | Independent Scientific Panel |
| JORC | Joint Ore Reserves Committee |
| JV | Joint Venture |
| LGs | Lower Grandstand |
| LOE | Lease Operating Expenses |
| MLA | Mining Lease Application |
| MMBLS | Million Barrels |
| MoU | Memorandum of Understanding |
| OOIP | Original Oil in Place |
| PEL | Petroleum Exploration Lease |
| PFS | Prefeasibility Study |
| PLa | Petroleum Lease Application |
| SGX | Singapore Exchange |
| UCG | Underground Coal Gasification |
| WDEQ | Wyoming Department of Environmental Quality (USA) |



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