NEW STANDARD ENERGY LIMITED
ACN 119 323 385

Financial Report
for the Half Year Ended 31 December 2014

NEW STANDARD ENERGY LIMITED
(ACN 119 323 385)

CORPORATE DIRECTORY

Board of Directors
Arthur Dixon AM (Non-Executive Chairman)
Philip Thick (Managing Director)
Sam Willis (Executive Director)
Kip Ferguson III (Non-Executive Director)
Greg Channon (Non-Executive Director)
Jeff Swanson (Non-Executive Director)

Joint Company Secretaries
David Hansen-Knarhoi
Mark Clements

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Auditors
BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Legal Advisors
Murcia Pestell Hillard
MPH Building
23 Barrack Street
PERTH WA 6000

Share Registry
Computershare Investor Services Pty Ltd
Level 2
45 St Georges Terrace
Perth WA 6000

ASX Code: NSE
OTCQX Code: NWSTF

CONTENTS

Competent Person: *The information in this report is based on information reviewed by Mr Greg Carlsen (MSc) who is a Petroleum Geologist and Geophysicist with more than 36 years' experience in the industry. Mr Carlsen is Exploration Manager at New Standard Energy and consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

DIRECTOR'S REPORT

The Directors of New Standard Energy Ltd (Company) submit herewith the financial report for the half year ended 31 December 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

BOARD OF DIRECTORS

The names and details of the Directors of the Company that were in office during the period and until the date of this report are as follows:

Arthur Dixon AM	(Non-Executive Chairman)
Phil Thick	(Managing Director)
Sam Willis	(Executive Director)
Chris Sadler	(Non-Executive Director - resigned March 3rd 2015)
H C Kip Ferguson III	(Non-Executive Director)
Greg Channon	(Non-Executive Director)
Jeff Swanson	(Non-Executive Director)

Directors were in office for the entire period unless otherwise stated.

REVIEW OF OPERATIONS

During the half year period the Company's growth plans, and in particular the focus on developing the Eagle Ford operations in Atascosa County, Texas, were severely impacted by the rapid decline in world oil prices and the associated effect on the oil industry's commercial landscape. The size and pace of the macro shift in world oil markets largely caught the industry by surprise and the Company has reacted quickly to this change by focusing on the following activities:

- maintaining and maximizing existing production;
- deferring expenditure and managing its capital commitments across its entire portfolio whilst retaining and protecting the assets in the portfolio to the extent possible;
- reducing operational and corporate costs and overheads; and
- sourcing additional funding essential for it to continue to develop and maintain its portfolio of assets and to ensure it is adequately funded to contend with the current business environment.

Eagle Ford Operations

New Standard's production wells at the Atascosa Project, Texas produced an average of 450 barrels of oil equivalent per day (**Boepd**) during the half year period which, combined with hedges averaging around US$78 per barrel, provided important revenue to the Company. As announced on March 03, this production continued post year end at an average rate of 250-300 Boepd whilst additional production is to be expected from the Peeler Ranch-5H well post workover. Furthermore, two additional wells (Lagunillas #3H and Peeler #7H) were successfully drilled in the fourth quarter of 2014 however they have yet to be hydraulically fractured and tied into production.

In light of the continued pressure on global oil prices, New Standard continues to push back operational activity, including the hydraulic fracture and completion of the two most recent wells, as far as possible, while meeting its commitments to retain its acreage position. Drilling and completion costs continue to fall dramatically and further deferral of this capital expenditure should enable New Standard to take advantage of these lower costs in the future.

Australian Portfolio

During the period, New Standard successfully secured Santos Ltd (**Santos**) as a farm-in partner for PEL 570 in the Cooper Basin, South Australia. Pursuant to the transaction, Santos agreed a cash consideration of $7.5m together with a commitment from Santos to meet 75% of the remaining expenditure commitments associated with the $42.5m earn-in obligations on PEL 570 over the remaining 4 years of the initial permit life. Santos also became operator of the joint venture.

Post the transaction the parties have the following working interests in PEL 570:

Party name	Pre deal PEL 570 equity	Post deal PEL 570 equity
New Standard Energy	52.5%	17.5%
Drillsearch Energy (Ambassador)	47.5%	47.5%
Santos Ltd	nil	35%

The joint venture had not agreed a work program and budget for PEL 570 at 31 December 2015 and those discussions continue between the parties.

The Western Australian portfolio had minimal work conducted on it during the period with the primary focus on ensuring the permits were kept in good standing and work commitments managed accordingly. The Company has been pursuing the farm-out or partial sell down of the Western Australian assets during the period in conjunction with Miro Advisors and this work continues into 2015.

CORPORATE AND FINANCE

The Company ended the period ended 31 December 2014 with a cash balance of $4.9 million ($7.4 million including unpresented cheques) and receivables of an additional $3.1 million. As outlined in the most recent quarterly reports (released 31 January, 2015), most of this was committed to funding costs primarily associated with developing the Atascosa Project, of which the majority was incurred prior to 31 December 2014.

Ongoing funding for the Company remains a primary focus and the Company has been (and continues to be) investigating various funding options and opportunities essential for the ongoing development, management and maintenance of its assets.

Negotiations on a number of potential funding alternatives including (but not limited to) equity injections, partnerships, joint ventures, farm-ins and asset sales or swaps have been underway for some time, and although many are continuing, none have yet reached a stage where they are sufficiently finalised or binding as to warrant specific disclosure. Concluding one or more of these negotiations shortly is essential for the future funding of the Company.

As part of this process, New Standard has continued to engage with the provider of its Enhanced Debt Facility, Credit Suisse, on the various funding alternatives currently being pursued. The Company's lenders remain supportive regarding the provision of interim funding alternatives as the Company progresses discussions on potential transactions and opportunities.

In response to the falling oil price environment, New Standard has delivered substantial cuts to operational and corporate costs and overheads. The Company reduced its workforce by 60 per during the period ended 31 December 2014, and since then has continued to aggressively manage administration costs by cutting its workforce to a total of just four employees across Australia and the United States.

The Company's Directors have also agreed to suspend all directors' fees until market conditions improve and the Managing Director has agreed to reduce his salary by 50 per cent in line with these changes.

EVENTS SUBSEQUENT TO REPORTING DATE

Mr Chris Sadler, who has moved to New York, has offered his resignation as a Director in March to focus on his other business activities.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration under s.307C of the Corporations Act 2001 in relation to the review of the half-year is included on page 6.

Signed in accordance with a resolution of the Directors.

Arthur Dixon AM

Chairman

16 March 2015

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PO Box 700 West Perth WA 6872
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DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF NEW STANDARD ENERGY LIMITED

As lead auditor for the review of New Standard Energy Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of New Standard Energy Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2015

DIRECTORS' DECLARATION

The Directors of the Company declare that:

The financial statements and notes set out on pages 10 to 24 are in accordance with the Corporations Act of 2001 and:

i. Comply with Accounting Standard AASB 134 *Interim Financial Reporting,* Corporations Regulations 2001 and other mandatory professional reporting requirements;
ii. Give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
iii. In the Directors' opinion, there are reasonable grounds to believe that New Standard Energy Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed on behalf of the Directors by:

Arthur Dixon AM

Chairman

16 March 2015

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of New Standard Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of New Standard Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of New Standard Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of New Standard Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of New Standard Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent on continued financial support of its financiers, potential funding alternatives including equity injections, partnerships, joint ventures, farm-ins and asset sales or swaps. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 16 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2014

	Note	31-Dec-14 $'000	31-Dec-13 $'000
Continuing operations			
Revenue and other income	2	3,948	776
Production and lease operating expenses		(1,860)	-
Depletion, depreciation and accretion expenses		(2,318)	-
Administrative expenses		(3,810)	(2,777)
Share based payments	11	(123)	(158)
Impairment of exploration and evaluation and development expenditure	3	(22,114)	-
Interest expense		(853)	-
Fair value gain on hedging instruments entered into for cash flow hedges		1,344	-
Loss on investment in associate		-	(730)
Loss before income tax expense		**(25,786)**	**(2,889)**
Income tax benefit		8,524	3,913
Profit / (loss) for the period from continuing operations		(17,262)	1,024
Profit / (loss) for the period from discontinued operations	9	264	-
Profit/(loss) attributable to owners of the Parent entity		**(16,998)**	**1,024**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of available for sale financial assets		(146)	-
Exchange differences on translation of foreign operations	8(c)	5,782	134
Other comprehensive income for the period		**5,636**	**134**
Total comprehensive income / (loss) for the period		**(11,362)**	**1,158**
Total comprehensive income for the period is attributable to:			
Owners of the Company		(11,362)	1,158

	Cents Per Share	Cents Per Share
Earnings/(loss) per Share for profit/(loss) from continuing		
Operations attributable to the ordinary shareholders of the Company		
Basic earnings/(loss) per share (cents per share)	(4.40)	0.34
Diluted earnings/(loss) per share (cents per share)	(4.40)	0.32

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 31 DECEMBER 2014

	Note	31-Dec-14	30-Jun-14
		$'000	**$'000**
Current Assets			
Cash and cash equivalents		4,888	8,626
Trade and other receivables		3,057	2,862
Available for sale financial assets		243	-
Derivative financial instruments		1,219	48
Other assets		189	204
Total Current Assets		**9,596**	**11,740**
Non-Current Assets			
Derivative financial instruments		651	120
Exploration and evaluation and development expenditure	3	27,347	54,409
Oil and Gas properties	4	50,656	36,892
Investment in associate		-	390
Property, plant and equipment		493	709
Deferred tax asset		1,694	12,931
Other assets		676	181
Total Non-Current Assets		**81,517**	**105,632**
Total Assets		**91,113**	**117,372**
Current Liabilities			
Trade and other payables		6,792	8,132
Borrowings	6	595	139
Total Current Liabilities		**7,387**	**8,271**
Non-Current Liabilities			
Borrowings	6	14,471	9,186
Deferred tax liability		224	19,645
Total Non-Current Liabilities		**14,695**	**28,831**
Total Liabilities		**22,082**	**37,102**
Net Assets		**69,031**	**80,270**
Equity			
Issued capital	7	67,011	67,011
Reserves	8	6,598	840
Retained earnings / (Accumulated losses)		(4,579)	12,418
Total Equity		**69,031**	**80,269**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2014

	Issued Capital	Retained Earnings / (Accumulated Losses)	Share Based Payment Reserve	Available for Sale Financial Assets Reserve	Foreign Currency Translation Reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 July 2014	67,011	12,418	4,163	-	(3,323)	80,269
Loss for the period	-	(16,998)	-	-	-	(16,997)
Unrealised profit on translation of foreign operations	-	-	-	-	5,782	5,782
Unrealised loss on available for sale financial assets	-	-	-	(146)	-	(146)
Total comprehensive income / (loss)	-	(16,998)	-	(146)	5,782	(11,362)
Transactions with owners in their capacity as owners;						
Share based payments	-	-	123	-	-	123
Equity as at 31 December 2014	67,011	(4,579)	4,286	(146)	2,459	69,031
Equity as at 1 July 2013	53,627	14,459	3,964	-	(924)	71,126
Profit for the period	-	1,024	-	-	-	1,024
Unrealised profit on translation of foreign operations	-	-	-	-	134	134
Total comprehensive income / (loss)	-	1,024	-	-	134	1,158
Transactions with owners in their capacity as owners;						
Share based payments	-	-	158	-	-	158
Equity as at 31 December 2013	53,627	15,483	4,122	-	(790)	72,442

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2014

	Note	31-Dec-14	31-Dec-13
		$'000	$'000
Cash Flows From Operating Activities			
Receipts from customers		5,651	-
Payments to suppliers and employees		(6,673)	(2,877)
Interest received		50	802
Interest and other costs of finance paid		(1,218)	(7)
Other Income		-	47
Net cash used in operating activities		**(2,190)**	**(2,035)**
Cash Flows From Investing Activities			
Payments for oil and gas properties		(8,595)	-
Payment for exploration, evaluation and development		(3,902)	(5,392)
Reimbursement of exploration expenditure		-	6,031
Payments for purchase of equity investments		-	(1,004)
Payments for plant and equipment		-	(64)
Proceeds from sale of plant and equipment		50	-
Proceeds from sale of exploration assets	9	6,973	-
Net cash used in by investing activities		**(5,474)**	**(429)**
Cash Flows From Financing Activities			
Proceeds from borrowings		3,628	-
Repayment of borrowings		(131)	(37)
Net cash flows (used in)/provided by financing activities		**3,497**	**(37)**
Net decrease in cash and cash equivalents		(4,167)	(2,501)
Cash and cash equivalents at beginning of the financial period		8,626	41,536
Exchange rate adjustments		429	27
Cash and cash equivalents at the end of the financial period		**4,888**	**39,062**

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

Notes to and Forming Part of the Consolidated Financial Statements for the 6 months ended 31 December 2014

1. Statement of Compliance

The half-year financial statements are general purpose financial statements prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. These half-year financial statements do not include notes of the type normally included in annual financial statements and shall be read in conjunction with the most recent annual financial statements for the year ended 30 June 2014 and any public announcements made by New Standard Energy Limited (Company) during the half-year reporting period with the continuous disclosure requirements of the Corporations Act 2001.

Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost as modified by the revaluation of certain financial assets. Cost is based on the fair values of the consideration given in exchange for assets. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with the Class Order, amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those adopted and disclosed in the Company's annual financial statements for the financial year ended 30 June 2014. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by the Company and its controlled entities during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Going Concern

The Directors believe that the consolidated entity will continue as a going concern. As a result the financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

During the period the consolidated entity incurred a net loss after income tax of $16,998,154 (per Statement of Profit or Loss) and incurred net cash outflows from operating and investing activities of $7,664,114 (per Statement of Cash Flow).

Ongoing funding for the Company remains a primary focus and the Company has been (and continues to be) investigating various funding options and opportunities essential for the ongoing development, management and maintenance of its assets. Negotiations on a number of potential funding alternatives including (but not limited to) equity injections, partnerships, joint ventures, farm-ins and asset sales or swaps have been underway for some time, and although many are continuing, none have yet reached a stage where they are sufficiently finalised or binding as to warrant specific disclosure. Concluding one or more of these negotiations shortly is essential for the future funding of the Company.

As part of this process, New Standard has continued to engage with the provider of its Enhanced Debt Facility, Credit Suisse, on the various funding alternatives currently being pursued. The Company's lenders remain supportive regarding the provision of interim funding alternatives as the Company progresses discussions on potential transactions and opportunities.

However, should the consolidated entity be unsuccessful in securing additional funding, the consolidated entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of assets and liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

Impairment of assets

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the profit or loss.

Revenue Recognition

Revenue from the sale of oil and gas related products are recognised when the significant risks and rewards of ownership has transferred to the buyer and can be measured reliably. In the case of oil, this is usually at the time of lifting. Interest income is recognised in profit or loss as it accrues and takes into account the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Revenue is recognised net of any royalty interests which held by 3rd parties to which the Company collects such revenue on their behalf.

Critical accounting judgements and key source of estimation uncertainty

In the application of the Group's accounting policies, (which are described in Note 1 of the most recent annual financial statements for the year ended 30 June 2014), management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty and significant judgements

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty and significant judgements at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Carrying value of exploration and development expenditure</u>

The recoverability of the carrying amount of the exploration and evaluation assets is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

The ultimate recoupment of costs carried forward for development assets is dependent either upon the successful development and commercial exploitation, or sale, of the respective areas of interest. If the asset is successfully developed it will be transferred and reclassified as a production asset. The production asset will then be accounted within Oil and Gas properties to which its carrying value will be depleted as production value is extracted from the asset.

<u>Determination of hydrocarbon reserves</u>

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates, capital costs and production and operating costs for future cash flows. The Company uses independent, external and specialist consultants to evaluate our reserves to help reduce the risk associated with these assumptions. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the profit and loss.

Notes to and Forming Part of the Consolidated Financial Statements for the 6 months ended 31 December 2014

Determination of fair values on intangible assets acquired in business combinations

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value management uses estimates about expected future cash flows generated from the use or eventual sale (less costs) of the asset.

Units of production depletion of oil and gas assets

Oil and gas properties are depleted using the method units of production over the total proved and undeveloped reserves. This results in a depletion charge proportional to the depletion of the anticipated remaining production.

The economic life of the well, which is assessed annually, has regard to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the depletion rate could be impacted to the extent that actual production in the future is different from the current forecast production based on total proved reserves, or future capital expenditure estimates.

Deferred tax balances

The Group has carried forward losses which have been recognised as deferred tax assets as it is probable that the company will derive future assessable income of a nature and amount sufficient to enable the benefit to be realised.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model.

Rehabilitation and decommissioning obligations

The Group estimates the future rehabilitation costs of production facilities, wells and pipelines at different stages of the development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of restoration activities, the future removal technology available and liability specific discount rates to determine the present value of these cash flows.

Impact of New or Revised Accounting Standards

There were no new standards issued since 30 June 2014 that have been applied by the Company. The 30 June 2014 annual report disclosed that the Company anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2014.

2. Revenue and other income

	31-Dec-14	31-Dec-13
	$'000	$'000
Revenue:		
Oil and Gas sales revenue (net of royalties)	3,898	-
Interest revenue	50	719
Other income consisted of the following items:		
Gain on investments	-	42
Other income	-	15
Total Revenue	**3,948**	**776**

3. Exploration, Evaluation and Development Expenditure

	31-Dec-14	30-Jun-14
	$'000	$'000
Balance at beginning of period	54,409	39,814
Acquisition from business combination	-	8,129
Acquisition of exploration assets	-	6,400
Disposal of exploration assets	(6,709)	-
Revenue offset	(187)	(287)
Expenditure incurred	1,857	6,791
Expenditure impaired[(1)]	(22,114)	-
Foreign exchange movement	1,891	(407)
Expenditure recovered[(2)]	(1,800)	(6,031)
Balance at end of period	**27,347**	**54,409**

The exploration expenditure incurred during the period relates to the Company's oil and gas permits and application areas in Australia and Texas, USA.

The Board assesses the carrying value of all capitalised exploration expenditure for potential impairment at each reporting date by evaluating the conditions specific to the Company and to the particular asset that may lead to impairment. These conditions may include situations where substantive expenditure has been incurred on exploration for and evaluation of resources which has not led to the discovery of commercially viable quantities of resources or situations where insufficient data exists to conclude that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The ultimate recoupment of exploration expenditure carried forward is dependent on successful development and exploitation, or alternatively sale, of the respective area of interest.

[(1)] During the half-year period the Company recognised a non-cash impairment charge of $22.1 million relating to the carried forward capitalised exploration expenditure associated with its exploration assets based in Western Australia. This charge reflects the steps and measures followed pursuant to the Australian Accounting Standards (AASB6) when testing for impairment indicators. This charge has been recognised in the profit and loss component of the statement of comprehensive income.

[(2)] During January 2015 the Company received a Research & Development Tax Concession claim of approximately $1,800,000 net of costs relating to applicable works undertaken in the year ended 30 June 2014.

4. Oil and Gas Properties

	31-Dec-14 $'000	30-Jun-14 $'000
At cost	54,053	37,805
Accumulated depletion	(3,397)	(913)
Net carrying value	**50,656**	**36,892**

A reconciliation of movements in oil and gas properties during the period is as follows:

At cost		
Opening balance	37,804	-
Acquisitions from business combination	-	23,291
Additions	8,197	15,457
Foreign exchange movement	8,052	(943)
Closing balance	**54,053**	**37,805**
Accumulated depletion		
Opening balance	(913)	-
Depletion	(2,484)	(913)
Closing balance	**(3,397)**	**(913)**

5. Fair Value of Financial Instruments

Financial assets / financial liabilities	Fair value as at 31/12/2014 $'000	Fair value as at 30/06/2014 $'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Available for sale financial assets	243	-	Level 1	Quote bid prices in an active market
Investment in Associate	-	390	Level 1	Quote bid prices in an active market
Derivatives	1,870	168	Level 2	Valuation based on quoted market data

Except as detailed in the above table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

6. Borrowings

	31-Dec-14	30-Jun-14
Current	**$'000**	**$'000**
Credit facility	534	78
Finance lease-vehicle	61	61
	595	**139**
Non-current		
Credit facility	14,440	9,125
Finance lease-vehicle	31	61
	14,471	**9,186**

(a) Credit facility

On 28 May 2014 the Group entered into a credit agreement with the bank Credit Suisse which provides borrowings that is subject to achieving certain oil and gas reserve levels. The facility is a secured reserve based lending facility which provides funding against oil and gas reserves that have been certified by an independent reserves engineer.

The base interest rate payable on the loan is 13 percent per annum, with only 7 percent being paid in cash and 6 percent accrued to the loan for the period of the first six months of the loan, after which the full interest amount will be payable in cash. The maturity date of the loan is 30 months after the completion date (28 May 2014). The credit facility requires the Group to maintain certain financial ratios and covenants, and limits the amount of indebtedness the Group can incur. As at 31 December 2014 the Group has only drawn down US$12.3M, and is in compliance with its financial ratios and covenants. There are no current events of default under the agreement.

(b) Finance leases

Finance leases have been taken out on the purchase of four vehicles. These vehicles have been separated into current and non-current liabilities as required by AASB117.

7. Issued Capital

	31-Dec-14		30-Jun-14	
	Shares	**$'000**	**Shares**	**$'000**
Ordinary shares				
Issued and fully paid	386,169,603	67,011	386,169,603	67,011

	31-Dec-13		30-Jun-13	
	Shares	**$'000**	**Shares**	**$'000**
Ordinary shares				
Issued and fully paid	305,331,847	53,627	305,331,847	53,627

There were no movements in the issued capital of the Company in either the current or prior half year periods.

Notes to and Forming Part of the Consolidated Financial Statements for the 6 months ended 31 December 2014

8. Reserves

	31-Dec-14 $'000	30-Jun-14 $'000
Available for Sale Financial Assets Reserve	(146)	-
Share based payments reserve	4,286	4,163
Foreign currency translation reserve	2,459	(3,323)
	6,598	**840**

(a) Movements in available for sale financial assets reserve

Balance at beginning of period	-	-
Impairment of financial assets available for sale	(146)	-
Balance at end of period	**(146)**	**-**

Nature and purpose of reserve

The available for sale investments revaluation reserve represents the unrealised gain or loss on the market value of available for sale financial assets

(b) Movements in share based payments reserve

Balance at the beginning of period	4,163	3,964
Add: Issue of options / rights		
- Directors	57	131
- Employees	66	68
Balance at the end of period	**4,286**	**4,163**

Nature and purpose of reserve

The share based payments reserve represents the value of shares and options issued to employees and directors.

(c) Movements in foreign currency translation reserve

Balance at the beginning of period	(3,323)	(924)
Unrealised gain on translation of foreign operation	5,782	(2,399)
Balance at the end of the period	**2,459**	**(3,323)**

Nature and purpose of reserve

The foreign currency translation reserve represents the unrealised gain or loss upon translation of subsidiaries with a different functional currency.

9. Disposal of Subsidiary

During September 2014, the Group disposed of Outback Energy Hunter Pty Ltd, which held exploration assets located in the Cooper Basin, South Australia.

The following were the results of the business for the half year

	3 months ended 30-Sep-14 $'000	6 months ended 31-Dec-13 $'000
Revenue	-	-
Operating expenses	(1)	-
Loss before income tax	(1)	-
Income tax expense /(credit)	-	-
Loss after income tax	**(1)**	**-**

The net assets of Outback Energy Hunter Pty Ltd at the date of disposal were as follows:

	30-Sep-14 $'000
Net assets disposed	6,709
Costs associated with disposal	527
	7,236
Gain on disposal	264
Total Consideration	7,500
Satisfied by cash, and net cash inflow arising on disposal	6,973

A gain of $264,081 was recognised on the disposal of Outback Energy Hunter Pty Ltd, no tax charge or credit arose on the transaction.

10. Commitments For Expenditure

Exploration Permits and Oil and Gas Leases – Commitments for Expenditure

The minimum work commitments are estimates only and are indicative of the cost associated with meeting the underlying work commitments but do not form part of the commitments themselves. Minimum expenditure commitments outlined below may be subject to renegotiation and with approval may otherwise be mitigated or reduced by sale, farm out, deferral or relinquishment. Discussions are currently underway regarding various deferrals and/or defray in relation to some or all of these commitments, and as a result the Company may not be required to meet all of the commitments outlined below:

	31-Dec-14	30-Jun-14
	$'000	$'000
Not longer than 1 year	39,955	47,500
Longer than 1 year and not longer than 5 year	66,025	134,380
Longer than 5 years	-	-
	105,980	**181,880**

Australian Exploration Permits

In order to maintain current rights of tenure to Australian exploration permits and tenements, the Group is required to meet the minimum expenditure requirements established with the Western Australian Department of Mines and Petroleum (DMP) and the South Australian Department of State Development (DSD). In relation to the Western Australian assets, the Company is in broad based discussions with the DMP in relation to a mixture of work commitment variations, revisions and deferrals in addition to potential relinquishment of some or all of various permits. As a result up to $44m of the above commitment over the next 5 years is currently under review and may not need to be met in full in terms of quantum or timing as presented above.

US Exploration Permits

In order to maintain current rights to leases held in the US, the Group is required to meet certain periodic drilling obligations until the lease reaches held by production (HBP) status. Current discussions are underway with various parties in relation to lease terms, joint venture, farm-out or acquisition of some or all of the assets in the US. As a result up to $79m of the above commitment over the next 5 years is currently under review and may not need to be met in full in terms of quantum or timing as presented above.

Leases

The Company entered into a 5 year operating lease agreement effective 1 December 2012 for the corporate head offices at Level 2, 7 Ventnor Ave, West Perth, and this agreement contains a break clause after 3 years which would reduce the total amount payable if exercised. The lease obligation is not provided for in the consolidated statement of financial position but is to be incurred as outlined below.

	31-Dec-14	30-Jun-14
	$'000	$'000
Not longer than 1 year	238	238
Longer than 1 year and not longer than 5 years	456	574
Longer than 5 years	-	-
	694	**812**

11. Share Based Payments

Expenses arising from share-based payment transactions

	31-Dec-14	31-Dec-13
	$'000	$'000
Options issued to directors	16	48
Incentive rights issued to directors	42	23
Options issued to employees	24	33
Incentive rights issued to employees	41	54
	123	**158**

The fair value of share based payment issued during the half year ended 31 December 2014 has been determined using the following assumptions:

	Options	Options	Performance Rights	Retention Rights
Issue date	**6-Aug-14**	**6-Aug-14**	**16-Dec-14**	**16-Dec-14**
Assumptions				
Fair value at measurement date	$0.047	$0.044	$0.024	$0.038
Share price at grant date	$0.120	$0.120	$0.046	$0.050
Exercise price	$0.167	$0.187	$0.000	$0.000
Expected volatility	75%	75%	75%	75%
Expiry Date	5-Aug-17	5-Aug-17	14-Sep-17	14-Sep-17
Risk free interest rate	2.74%	2.74%	2.26%	2.26%

The fair value of the options is calculated at the date of grant using the Black-Scholes Model

During the period the following options, performance and retention rights were issued.

Type	Number	Exercise Price	Vesting Date
Option	500,000	$0.167	5-Aug-15
Option	500,000	$0.187	5-Aug-15
Performance Rights	7,860,000	$0.000	14-Sep-17
Retention Rights	890,000	$0.000	14-Sep-17

During the period, performance rights and retention rights were granted to executives as part of their remuneration packages. On the vesting date the performance rights will be tested against absolute TSR criteria, and the retention rights tested against tenure criteria. Only those rights that satisfy the criteria will vest, and the remainder will immediately lapse.

The table below outlines the options and rights issued during the period ending 31 December 2014

Name	Grant Date	Type of Incentive Rights	Number of Incentive Rights	Fair Value of each Incentive Right ($)	Vesting Date
Mr M Gracey	6/08/2014	Options	500,000	0.05408	5/08/2015
	6/08/2014	Options	500,000	0.05075	5/08/2015
	16/12/2014	Performance Rights	960,000	0.01500	14/09/2017
	16/12/2014	Retention Rights	240,000	0.03750	14/09/2017
Mr G Carlsen	16/12/2014	Performance Rights	1,040,000	0.01500	14/09/2017
	16/12/2014	Retention Rights	260,000	0.03750	14/09/2017
Mr D Hansen-Knarhoi	16/12/2014	Performance Rights	960,000	0.01500	14/09/2017
	16/12/2014	Retention Rights	240,000	0.03750	14/09/2017
Mr P Bird	16/12/2014	Retention Rights	150,000	0.03750	14/09/2017
Mr S Willis	16/12/2014	Performance Rights	1,200,000	0.02900	14/09/2017
Mr P Thick	16/12/2014	Performance Rights	3,700,000	0.02900	14/09/2017
Total			9,750,000		

12. Segment Reporting

The segment information provided to the Managing Director for the reportable segments for the half year ended 31 December 2014 and the prior comparative period are as follows:

Australia
The Group currently operates within 3 geological basins, being the Canning, Carnarvon and Cooper.

United States
The Group currently operates within Atascosa and Colorado counties in Texas.

	Australia		**United States**		**Unallocated**		**Total**	
	31-Dec-14 $'000	**31-Dec-13 $'000**	**31-Dec-14 $'000**	**31-Dec-13 $'000**	**31-Dec-14 $'000**	**31-Dec-13 $'000**	**31-Dec-14 $'000**	**31-Dec-13 $'000**
Sales revenue	-	-	3,898	-	-	-	3,898	-
Production costs	-	-	(1,860)	-	-	-	(1,860)	-
General and administration costs	(2,911)	(3,665)	(677)	-	-	-	(3,588)	(3,665)
Depletion, depreciation and accretion expenses	(170)	-	(2,148)	-	-	-	(2,318)	-
Impairment expense	(22,114)	-	-	-	-	-	(22,114)	-
Fair value adjustment	-	-	1,344	-	-	-	1,344	-
Reportable segment profit / (loss)	**(25,195)**	**(3,665)**	**557**	**-**	**-**	**-**	**(24,638)**	**(3,665)**
Other income	314	-	-	-	-	776	314	776
Other costs	-	-	(853)	-	(609)	-	(1,462)	-
Net profit / (loss) before tax	**(24,881)**	**(3,665)**	**(296)**	**-**	**(609)**	**776**	**(25,786)**	**(2,889)**

	Australia		**United States**		**Unallocated**		**Total**	
	31-Dec-14 $'000	**30-Jun-14 $'000**	**31-Dec-14 $'000**	**30-Jun-14 $'000**	**31-Dec-14 $'000**	**30-Jun-14 $'000**	**31-Dec-14 $'000**	**30-Jun-14 $'000**
Segment assets								
Exploration assets	13,559	43,964	11,931	8,762	-	-	25,490	52,726
Development assets	-	-	1,858	1,682	-	-	1,858	1,682
Oil and gas properties	-	-	50,656	36,269	-	-	50,656	36,269
Plant and equipment	493	-	-	-	-	710	493	710
Other assets	5,817	-	6,799	4,822	-	21,163	12,616	25,985
Total assets	**19,869**	**43,964**	**71,244**	**51,535**	**-**	**21,873**	**91,113**	**117,372**
Segment liabilities								
Borrowings	92	-	14,974	9,606	-	-	15,066	9,606
Other liabilities	437	-	6,579	4,887	-	22,610	7,016	27,497
Total liabilities	**529**	**-**	**21,553**	**14,493**	**-**	**22,610**	**22,082**	**37,103**
Net assets	**19,340**	**43,964**	**49,691**	**37,042**	**-**	**(737)**	**69,031**	**80,269**

13. Contingent Liability

The Company has no contingent liabilities.

14. Dividends

The Company has not declared nor paid a dividend for the period.

15. Events after reporting date

Mr Chris Sadler, who has moved to New York, has offered his resignation as a Director in March to focus on his other business activities.