

MARION
ENERGY
L I M I T E D

ABN 99 000 031 292

ANNUAL
REPORT
2014

Consolidated Financial Statements for the Year Ended 30 June 2014

Contents

| | Page No |
|---|----------------|
| CORPORATE DIRECTORY | 2 |
| CORPORATE GOVERNANCE STATEMENT | 3 |
| DIRECTORS' REPORT | 9 |
| AUDITOR'S INDEPENDENCE DECLARATION | 16 |
| FINANCIAL STATEMENTS | |
| - Consolidated Statement of Profit or Loss and Other Comprehensive Income | 17 |
| - Consolidated Statement of Financial Position | 18 |
| - Consolidated Statement of Changes in Equity | 19 |
| - Consolidated Statement of Cash Flows | 20 |
| - Notes to the Consolidated Financial Statements | 21 |
| DIRECTORS' DECLARATION | 48 |
| INDEPENDENT AUDITOR'S REPORT | 49 |

Corporate Directory

Directors:

Jeffrey Clarke
Karel Louman
Nicholas Stretch
Stephen Watts (Chairman)

Company Secretary (joint):

Peter Collery
Nicholas Stretch

Registered Office:

c/o Nick Stretch Legal
Suite 802, 530 Little Collins Street
Melbourne VIC 3000

Share Registry:

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067

Web Site Address:

www.marionenergy.com.au

For Shareholder information contact:

Share Registry:

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford VIC 3067
Investor Enquiries: 1300 850 505
Telephone: (03) 9415 5000
Facsimile: (03) 9473 2500

Solicitors:

Minter Ellison
525 Collins Street
Melbourne VIC 3000

Bankers:

Australia and New Zealand Banking Group Limited
Commonwealth Bank of Australia Limited

Auditors:

Grant Thornton Audit Pty Ltd
The Rialto, Level 30
525 Collins Street
Melbourne VIC 3000

Stock Exchange Listing:

Australian Stock Exchange
Code: MAE

For information on your company contact:

Registered Office:

c/o Nick Stretch Legal
Suite 802, 530 Little Collins Street
Melbourne VIC 3000
Telephone: (03) 8862 6466
Facsimile: (03) 8862 6614

CORPORATE GOVERNANCE STATEMENT

Corporate Governance

During the 2014 financial year, the Company complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

| Recommendation Ref | Explanation for Departure | Explanation for Departure |
|---------------------------|--|--|
| 2.1 | The majority of the board are not independent directors. | Due to resignations of the independent directors in 2010, the board for the 2014 financial year consisted of two executive directors and two non-executive directors. On 2 September 2013, S Watts, was appointed as a third non-executive director and P Coltery resigned on 28 February 2014. |
| 2.2 | The chair is not an independent director. | When S Watts was appointed as a director on 2 September 2013 he became the independent chair. Prior to this, the chair was not independent due to resignations of the independent directors in 2010. |
| 2.4 | A separate Nomination Committee has not been formed. | The Board consider that the Company is not of a size to justify the formation of a nomination committee. The Board is currently undertaking a review of this position. The Board currently undertakes the process of reviewing the skill base and experience of existing Directors to enable identification of attributes required in new Directors. Where appropriate, independent consultants are engaged to identify possible new candidates for the Board. |
| 3.2, 3.3, 3.4 | A diversity Policy has not been established | It is intended that Policies will be developed following the appointment of new independent Directors in 2014. |
| 4.1, 4.2, 4.3 | There is not currently an audit committee. | There is not currently an audit committee. The Board does not consider the company to be of a size or complexity to justify the formation of separate committees at this time. |
| 8.1 | There is not currently a remuneration committee. | Due to the resignations of the independent directors in 2010, there is not currently a remuneration committee. The Board does not consider the company to be of a size or complexity to justify the formation of separate committees at this time. |

The Board of Directors of Marion Energy Limited is responsible for its corporate governance, that is, the system by which the Company and its subsidiaries ("the Company") are managed. As the Company's activities increase in size, scope and/or nature the Company's corporate governance principles will be reviewed by the Board and amended as appropriate.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. The Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business and the structure of the Board, the Board currently undertakes an active role in furtherance of this objective.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company.

CORPORATE GOVERNANCE STATEMENT

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director and other executives as appropriate and approving their remuneration;
- Appointing and removing the Company Secretary / Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Monitoring the Company's medium term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are continually reviewed and improved as required.

PRINCIPLE 2 – STRUCTURE OF BOARD

2.1 Composition of the Board and New Appointments

The Company currently has four Board members (see Directors' Report for further details). The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

The Board currently comprises two executive directors and two non-executive directors. The Board has assessed the independence status of the directors and has determined that there are currently two independent directors. The Chairman is one of these Board members. The Board believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues.

If the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically and the optimum number and composition of directors required for the Board to properly perform its responsibilities and functions will also reviewed.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director) is subject to reappointment by shareholders not later than the third anniversary following his/her last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director and an executive director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

2.2 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board is able to address the governance aspects of the full scope of the company's activities and to ensure that it adheres to appropriate ethical standards given the size and scope of the Company's activities and operations.

The Board has established a framework for the management of the Company including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards. The Board conducts annual reviews of the performance of the Board.

The Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

CORPORATE GOVERNANCE STATEMENT

2.3 Performance Review

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees during each financial year. An annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include a review by the Board of the Company's financial performance and executive performance.

The Board also conducts an analysis of the Company's prospects and projects including a review of feedback from third parties, including advisors.

In 2014 no independent evaluation was conducted.

2.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

2.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside advisor is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

PRINCIPLE 3 – ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

3.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
- A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

CORPORATE GOVERNANCE STATEMENT

3.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- Respect the law and act in accordance with it;
- Respect confidentiality and not misuse company information, assets or facilities;
- Value and maintain professionalism;
- Avoid real or perceived conflicts of interest;
- Act in the best interests of shareholders;
- By their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- Perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- Exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- Act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify management of that breach. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

3.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with "inside information", and additional trading restrictions on the directors of the Company in order to reduce the risk of insider trading.

"Inside information" is information that:

- Is not generally available; and
- If it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- Trade in the Company's securities;
- Advise others or procure others to trade in the Company's securities; or
- Pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (e.g. even if the employee or Director overhears it or is told in a social setting).

Directors and employees are required to obtain written clearance from an approving officer at least two business days prior to dealing in Company securities. In addition, Directors and employees must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

These restrictions have been developed having regard to the current nature of the Company's activities, being exploration and development. Should the nature of the Company's activities change, then the policy may be amended to restrict trading of securities during certain periods prior to release of financial and operating results,

3.4 Interests of Other Stakeholders

The Company's business objective is to acquire and participate in the development of oil and gas opportunities, with an initial focus on North America. Given the nature of the Company's operations, it is not possible for the Company to conduct its activities without having some impact on the environment. Wherever reasonably possible, the Company adopts practices that minimise environmental impact.

It should also be noted that the Company's operations are subject to various environmental laws and regulations under the relevant government's legislation, including Utah and Oklahoma, USA. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 4 – INTERGRITY IN FINANCIAL REPORTING

4.1 Integrity of Financial Reporting

The Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that:

- The consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

The Board notes that due to its nature, internal control assurance from the Managing Director and CFO can only be reasonable rather than absolute. This is due to such factors such as the need for judgement, the use of testing on a limited basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

4.2 Audit Committee

The Board normally has an Audit Committee comprising independent Directors with the Committee meeting twice a year at a minimum. At present the Board has no Audit Committee however is looking to reconstitute the Committee in the near future.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

PRINCIPLE 5 - DISCLOSURE

5.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the board of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on the ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- (a) A reasonable person would not expect the information to be disclosed or it is material but due to a specific valid commercial reason is not to be disclosed; and
- (b) The information is confidential; or
- (c) One of the following applies:
 - i) It would breach a law or regulation to disclose the information;
 - ii) The information concerns an incomplete proposal or negotiation;
 - iii) The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
 - iv) The information is generated for internal management purposes;
 - v) The information is a trade secret;
 - vi) It would breach a material term of an agreement, to which the company is a party, to disclose the information;
 - vii) The information is scientific data that release of which may benefit the company's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board and, in his role as Company Secretary, is also responsible for all communications with ASX.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1 Approach to Risk Management and Internal Control

The identification and effective management of risk, including calculated risk taking, is viewed as an essential part of the Company's approach to creating long-term shareholder value. The risk management process is based on the Australian/New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management). Strategic and operational risks are reviewed at least annually as part of the annual strategic planning, business planning, forecasting and budgeting process.

The Company's activities and operations involve exposure to a series of operational risks which it believes to be inherent in the industry in which it operates having regard to its circumstances. These include;

- Fluctuations in commodity prices and exchange rates
- Accuracy of reserve and resource estimates
- Reliance on licences, permits and approvals from governmental authorities
- Acquisition of new business opportunities
- Ability to obtain additional financing
- Changed operating, market or regulatory environments

These risk areas are provided here to assist investors to understand better the nature of the risks faced by the Company and the industry in which it operates. They are not necessarily an exhaustive list.

7.2 Risk Management Roles and Responsibilities

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Company.

PRINCIPLE 8 – REMUNERATION ARRANGEMENTS

The Company's remuneration policy is set out in the Remuneration Report section of the Directors' Report, and also included in the Annual Financial Report.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2014.

Directors

The names of directors in office at any time during or since the end of the year are:

Peter Collery (ceased 28 February 2014)

Nicholas Stretch

Jeffrey Clarke

Stephen Watts (appointed 2 September 2013)

Karel Louman

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated above.

Company Secretary (joint)

The Company Secretary of the Company during the majority of the financial year was Mr Peter Collery who has worked for Marion Energy Limited since December 2004 performing executive roles in the business and was also the Chief Executive Officer of the Company until 28 February 2014. Prior to that Peter has had over 30 years' experience at senior executive level in a number of organisations with extensive exposure to strategic and financial management, mergers and acquisitions, capital markets and corporate regulatory matters. He holds a Bachelor of Business from RMIT, Graduate Diploma of Business from Swinburne University, Graduate Diploma of Applied Finance and Investment from the entity previously known as the Securities Institute of Australia (now known as FINSIA) and Graduate Diploma of Education. Nicholas Stretch was appointed as joint company secretary on 14 February 2014.

Principal Activities

The principal continuing activity of the Consolidated Entity during the year was the management and operation of oil and gas properties in the USA.

There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

Interests Held in Projects

- Clear Creek Project, Utah (Marion 100% working interest, subject to a contingent 25% net profits interest (refer to Note 28);
- Helper Project, Utah (Marion 100% working interest); and
- Jester-Bloomington Project, Oklahoma (Marion 100% working interest).

Operating Results

The consolidated loss of the consolidated entity after providing for income tax amounted to \$18,613,652 (2013: \$46,421,689 profit).

Dividends Paid or Recommended

The Directors do not recommend and have not provided for the payment of a dividend.

Review of Operations

Overview

The 2014 year continued to be very challenging operationally due to capital constraints and suspension from ASX listing on 3 October 2011. This suspension continues.

As a result of a comprehensive study undertaken in 2010, in December 2010 a well workover program was initiated at the Company's Clear Creek, Utah project. This involved targeting up to a total of 16 wells to undergo a workover treatment with up to four stages of work on each well. The program involves the 8 wells drilled by the Company and bringing back onto production up to 8 wells shut in since the 1960's and 1970's due primarily to economic conditions at the time.

The Company was also able to secure permits to utilise two of its wells as water disposal wells at Clear Creek. This initiative will greatly enable the company to vigorously pursue its future workover program but also importantly it will significantly reduce the costs of disposing of water that is recovered from the wells.

The results from the initial workover operations were encouraging even though operations were slower than initially expected. Due to capital constraints the Company reluctantly had to scale back field operations in September 2011 and temporarily suspended production operations. Nonetheless, the results were encouraging and the Company's management firmly believes that completion of the workover program will result in the wells producing at the levels originally anticipated and generating strong revenue and cash flow levels.

As a consequence of these capital and operational constraints the Board resolved to pursue a number of strategies aimed at achieving a financial restructuring through targeting a major debt reduction and recapitalisation of the Company. The Company also undertook a major scaling back of its USA office and staffing to a level appropriate to the scale of current operations. In June 2013 the Company successfully completed a major restructuring of its external financing on very advantageous terms which will continue to be of significant value to the company and its shareholders.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

DIRECTORS' REPORT

The Company also commissioned Denver, Colorado based MHA Petroleum Consultants LLC to undertake a new assessment of its Clear Creek reserves in mid 2014. As a result the Company was able to report via ASX Release in August 2014 that its natural gas reserves were as follows: Proved reserves of 126 Bcf. Probable reserves of 68.5 Bcf and possible reserves of 17.3 Bcf with an undiscounted future net cash flow of US\$602 million and a NPV of US\$246 million. In addition, based on a previous independent assessment of the Company's assets resource potential, the potential recoverable resource amounts to 1.2-3.4 Tcfe of natural gas. These assessments highlight the significant assets that the Company has at its Utah projects.

The successful restructuring of the Company's external financing enabled it to also restart and ramp up its well production operations at Clear Creek in the second half of calendar 2013. All the wells are connected to gathering and pipeline infrastructure, therefore successful implementation of this production program would start to generate positive cash flow in the short term.

Once the Clear Creek well program is satisfactorily advanced it is anticipated the Company will, in turn, commence a well production program of its Helper wells.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the financial year:

- The company received a demand for payment from La Jolla Cove Investors on 18 February 2014. This was settled and details can be found under Proceedings on Behalf of the Company

Subsequent Events

There have been a number of capital issues since the end of the 2014 year. These are detailed at Note 16.

On October 31, the wholly owned subsidiary Marion Energy Inc filed for bankruptcy protection under the US Bankruptcy Code after being unable to find replacement funding for TCS II Funding Solutions, LLC ("Castlake"), the principal funder of operations in the US. This regrettable step was rendered necessary to protect the value of the assets of the Company for the benefit of shareholders and creditors. Under US bankruptcy laws, it is likely that the assets will remain under the control of the company during this process, with the end strategy of selling the Clear Creek asset remaining unchanged. The Company has entered into a \$2.55m Facility Agreement with KM Custodians to cover its short-term working capital requirements.

Future Developments

The primary focus of the company for the next twelve months will be on further strengthening the company's balance sheet and capital structure to place it on a sound financial footing with future financial flexibility, on implementing the Clear Creek production program and on undertaking some well workover operations at Helper.

Other than future developments described above, further information on likely developments in the operations of the consolidated entity and the expected results have not been included in this report because the directors believe information of this nature to be commercially sensitive.

Environmental Issues

The consolidated entity's operations are subject to significant environmental regulation under the law of the States of Utah and Oklahoma in the USA. As such, the consolidated entity's interests in mineral properties are subject to State Environmental Regulations and requirements. The consolidated entity adheres to these conditions and the directors are not aware of any contraventions of these requirements and regulations.

Details of the Directors in office during the year and at the date of this report are as follows:

Mr Jeff Clarke – Executive Director

Mr Clarke, born and educated in the United Kingdom, has over 35 years experience worldwide in Oil and Gas Exploration and Production, the majority of which has been in the United States and Canada. Mr Clarke graduated from the University of Wales in 1966 with an Honours Degree in Physics. He is a U.S. citizen.

Mr Clarke has held the position of Chief Executive of several exploration companies and was for ten years Chief Executive of a NASDAQ listed company.

Mr Peter Coltery – Managing Director (ceased 28 February 2014) & Joint Company Secretary

Mr Coltery has over 30 years experience as Chief Executive Officer, Chief Financial Officer, Company Secretary and Director. He previously held these positions with Coho Australia Limited, Freshmark Limited, Queensland Diagnostic Imaging Pty Ltd and Ergon Energy Limited and has over fourteen years experience in the resource industry. Mr Coltery has extensive experience in strategic and financial management, corporate regulatory matters, mergers and acquisitions and capital markets transactions.

Mr Coltery has a Bachelor of Business, Graduate Diploma of Business, Graduate Diploma in Applied Finance and Investment, and Diploma of Education. He is a member of the Institute of Chartered Accountants in Australia, Fellow of the Australian Society of Certified Practising Accountants, Fellow of the Institute of Company Directors and a Fellow of the Securities Institute of Australia.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

DIRECTORS' REPORT

Mr Karel Louman – Executive Director & CFO

Mr Louman was born and educated in the Netherlands and has a Masters Degree in Business Administration from Nyenrode University. He had 15 years of experience as an oil and gas banker prior to joining Marion.

In 1992 he moved to the US to open an office in Dallas, Texas for MeesPierson, a Dutch merchant bank which at the time was a wholly owned subsidiary of ABN Amro with the North American Exploration and Production industry as its main focus. Mr Louman has gained international experience in the debt and capital markets as well as in the financial and strategic advisory area.

Mr Nicholas Stretch – Non Executive Director & Joint Company Secretary

Mr Stretch has many years experience as legal practitioner and director. For the 2007-2008 years Nick was elected chairman of ASX listed coal seam gas explorer, Blue Energy Ltd. During this time he oversaw the implementation of a number of corporate governance and investor relations processes for that company.

Mr Stretch has Bachelors of Law and Commerce from Melbourne University. He is a member of the Law Institute of Victoria and is a director of Nick Stretch Legal Pty Ltd where he provides corporate and commercial law services. Prior to this, in his career as a solicitor in private practice, he held a number of senior management positions in a major Australian law firm including that of Victorian and National Chairman.

Mr Stephen Watts – Non Executive Director & Independent Chairman

Mr Watts has considerable finance and general corporate experience in the resources and broader corporate sectors and has 25 years business experience advising businesses of all sizes on finance, taxation and general business matters with a highly regarded reputation for specialist advice in mining, mining services and the oil and gas sectors across a number of Australian states

Mr Watts is a non executive director of Altima Resources, a Canadian based publicly listed company which is involved in oil and gas exploration and production and is a director of a number of large private companies. Mr Watts is also a direct participant in a number of Canadian oil and gas wells.

Mr Watts is a Chartered Accountant and a partner in Adelaide Chartered Accounting firm, Tilbrook Rasheed Pty Ltd. He graduated from Adelaide University in 1987 with a Bachelor of Economics degree and is a member of the Institute of Chartered Accountants in Australia and Fellow of the Taxation Institute of Australia.

Meetings of Directors

During the financial year, four meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

| | DIRECTORS' MEETINGS | |
|--------------------------------------|---------------------------|-----------------|
| | Number eligible to attend | Number Attended |
| J Clarke | 16 | 15 |
| P Coltery (ceased 28 February 2014) | 2 | 2 |
| K Louman | 16 | 15 |
| N Stretch | 16 | 16 |
| S Watts (appointed 2 September 2013) | 14 | 14 |

There are currently no Board Committees formally constituted due to the lack of independent members of the Board. The Board intends this to be a temporary situation, which would be addressed by the appointment of new non-executive directors.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Marion Energy Limited and for the executives receiving the highest remuneration.

Names and positions held of Key Management Personnel (KMP) in office at any time during the financial year:

Company Directors

| | |
|---|---|
| Jeffery Clarke | Director — Executive Director |
| Peter Coltery (ceased 28 February 2014) | Director — Managing Director and Joint Company Secretary |
| Karel Louman | Director — Executive Director and Chief Financial Officer |
| N Stretch (appointed 8 May 2013) | Director — Non Executive Director |
| S Watts (appointed 2 September 2013) | Director – Non Executive Director and Chairman |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

Remuneration Policy

The remuneration for the Company's KMP has been developed by the Board taking into account:

- The size of the Company;
- The size of the management team for the Company;
- The nature and stage of development of the Company's current operations.

In addition to the above general factors, the Board has also placed emphasis on the following specific issues in determining the remuneration policy for KMP:

- The Company is currently focused on undertaking exploration, appraisal and development activities;
- Risks associated with small cap resource companies whilst exploring and developing projects;
- The Company does not expect to be undertaking profitable operations until sometime after the successful commercialisation, production and sales of gas from one or more of its current projects

Remuneration Policy for Executives

The Company's remuneration policy is to provide a fixed remuneration component and a performance based component (including options, see below). The Board believes that this remuneration policy is appropriate given the considerations discussed in the section above and is appropriate in aligning KMP objectives with shareholder and business objectives.

Fixed Remuneration

Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits. The Australian based executive director received superannuation guarantee contributions as required by the government, which was 9.25%, and did not receive any other retirement benefits.

Fixed remuneration is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative remuneration externally and internally and where appropriate, external advice and policies and practices.

Performance Based Remuneration – Long Term Incentive

The Board may issue incentive shares and options as a key component of the incentive portion of remuneration, in order to attract and retain the services of executives and to provide an incentive linked to the performance of the Company. The Board considers that for each executive who may receive shares and options in the future, their experience in the resources industry will greatly assist the Company in progressing its projects to the next stage of development and the identification of new projects. As such, the Board believes that the number of incentive shares and options to be granted to executives will be commensurate to their value to the Company.

The Board has a policy of granting incentive shares and options to executives at prices at or above market share price at the time of agreement to grant. As such, incentive options granted to executives will generally only be of benefit if the executives perform to the level whereby the value of the Company increases sufficiently to warrant exercising the incentive options granted. As such it is considered the performance of the executives and the performance and value of the Company are closely related.

Remuneration Policy for Non Executive Directors

The Board Policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting with this level currently set a level not to exceed \$500,000. To align shareholder interests with those of Directors, Directors are encouraged to hold shares in the Company and may in certain circumstances receive incentive options in order to secure their services.

Options Issued as part of Remuneration for the Year Ended 30 June 2014

Options may be issued to directors and executives as part of their remuneration. The options are issued to the majority of directors and executives of Marion Energy Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders. There were no such options issued to directors during the year ended 30 June 2014 (2013: none).

Service Contracts

On 2 April 2012, service contracts were executed for executive directors P Collery and K Louman. The key terms of these contracts are:

- 3 year duration expiring 21 April 2015;
- Base salary of US\$360,000 per annum, plus superannuation where applicable;
- Eligible for an annual incentive bonus at a minimum of 30% of the base salary payable within 60 days of the end of each calendar year, subject to terms and conditions mutually agreed between the executive and the company;
- Eligible for a stock incentive award at the start date, being options over the company's ordinary

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

shares, with an exercise price being that offered to existing shareholder in the forthcoming rights issue, subject to escrow for a period of 12 months. The number of options issued to be agreed between the executive and the company and subject to formal shareholder approval; and

— Paid vacation leave of 4 weeks per annum.

In addition, P Collery was entitled to an A\$12,000 allowance for a motor vehicle and club and/or professional association membership, exclusive of any fringe benefits tax payable by the company.

The termination clauses under these contracts provide for:

— A 30 day notice period by executive, or no notice period for the company for any reason; and
 — If the company terminates without good reason, or the executive terminates with good reason, the contracts provide for a termination payment equal to 2.99 times the base salary within 30 days, up to a maximum of A\$950,000.

No annual incentive awards or stock incentive awards contemplated under these draft service contracts were granted to executives directors in the year ended 30 June 2014.

There were no written agreements in place with the other directors, J Clarke, S Watts and N Stretch.

Details of Remuneration for Year

The remuneration for each director of the consolidated entity receiving remuneration during the year was as follows:

| | Short-term benefits | | Post Employ -ment | Long-term Benefits | Share based payment | | Total | Unpaid Remuneration ¹ |
|------------------------|------------------------|----------------------|----------------------|-----------------------|------------------------|---------|-----------|----------------------------------|
| | Salary & Fees | Non-cash benefits | Super- annuation | Long Service Leave | Shares | Options | | |
| | \$ | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2014 | | | | | | | | |
| J Clarke | 381,384 | 33,538 | - | | - | - | 414,922 | 19,875 |
| P Collery | 230,354 | - | 21,308 | | - | - | 251,662 | 133,601 |
| K Louman | 381,384 | 53,601 | - | | - | - | 434,985 | 76,931 |
| N Stretch ² | 50,000 | - | - | | - | - | 50,000 | 4,167 |
| S Watts ³ | 54,167 | - | - | | - | - | 54,167 | 21,667 |
| | 1,097,289 | 87,139 | 21,308 | | - | - | 1,205,736 | 256,241 |

No element of remuneration provided during the year ended 30 June 2014 related to performance.

¹ Due to the Company's financial constraints, the directors have not been paid the full amount due to them for the year ended 30 June 2014. The amounts set out in the Unpaid Remuneration column have been included in the total of remuneration, benefits and share based payments.

² Payable to an entity related to N Stretch.

³ Payable to an entity related to S Watts

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

| | Short-term benefits | | Post Employ-ment | Long-term Benefits | | Share based payment | Total | Unpaid Remuneration ¹ |
|------------------------|---------------------|-------------------|------------------|--------------------|-------|---------------------|-----------|----------------------------------|
| | Salary & Fees | Non-cash benefits | Super-annuation | Long Service | Leave | Shares Options | | |
| | \$ | \$ | \$ | | | \$ | \$ | \$ |
| 2013 | | | | | | | | |
| J Clarke | 350,501 | 35,343 | 9,736 | - | - | - | 395,580 | 213,452 |
| P Collery | 372,572 | - | 34,386 | 6,540 | - | - | 413,498 | 395,998 |
| K Louman | 350,501 | 36,616 | 9,736 | - | - | - | 396,853 | 194,723 |
| N Stretch ² | 8,333 | - | - | - | - | - | 8,333 | 8,333 |
| | 1,081,907 | 71,959 | 53,858 | 6,540 | - | - | 1,214,264 | 812,506 |

No element of remuneration provided during the year ended 30 June 2013 related to performance.

¹ Due to the Company's financial constraints, the directors have not been paid the full amount due to them for the year ended 30 June 2013. The amounts set out in the Unpaid Remuneration column have been included in the total of remuneration, benefits and share based payments.

² Payable to an entity related to N Stretch

The table below sets out information about the consolidated entity's earnings and movements in shareholder wealth for the five years to 30 June 2014.

| | Note | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------------|-----------|--------------|------------|-------------|--------------|--------------|
| Revenue | | 101,275 | 3,037 | 251,446 | 232,514 | 849,842 |
| Net Profit/(loss) before tax | | (18,613,652) | 46,421,689 | (9,591,519) | (15,122,432) | (18,436,842) |
| Net profit/(loss) after tax | | (18,613,652) | 46,421,689 | (9,591,519) | (15,122,432) | (18,436,842) |
| Share price at start of year | | - | - | 0.016 | 0.02 | 0.28 |
| Share price at end of year | | - | - | - | 0.016 | 0.02 |
| Dividends | | - | - | - | - | - |
| Return of capital | | - | - | - | - | - |
| Basic earnings per share (cents) | 24 | (15.3) | 38.9 | (9.0) | (21.0) | (48.0) |
| Diluted earnings per share (cents) | 24 | (15.3) | 38.9 | (9.0) | (21.0) | (48.0) |

END OF AUDITED REMUNERATION REPORT

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services during the year by the auditor are outlined in Note 23 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person, or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 23 to the financial statements do not compromise the external auditors independence, based on advice received from the Audit Committee, for the following reasons.

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct, APES 110 Code of Ethics for Professional Accountants, issued by the Accounting Professional & Ethical Standards Board.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 16.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

Indemnifying Officers or Auditor

During the financial year the consolidated entity paid indemnity insurance premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct whilst acting in the capacity of Director of the consolidated entity, other than conduct involving a wilful breach of duty in relation to the consolidated entity.

Shares

During the year the company issued 73,072,217 shares on 18 March 2014 to repay the debt to La Jolla Cove with an issue price of \$0.006. Additionally, a 10:1 consolidation was completed on 30 June 2014.

Since the reporting date, the following shares were issued

- 18 July 2014, 27,000,000 ordinary shares at \$0.06
- 5 August 2014, 20,540,831 ordinary shares at \$0.06
- 18 September 2014, 470,000 ordinary shares at \$0.06
- 27 October 2014, 17,740,941 ordinary shares at \$0.03

Options

During the year the company did not issue any options, however a 10:1 consolidation was completed on 30 June 2014, to reflect the 10:1 share consolidation completed on the same date.

Since the reporting date, the following options were issued:

- 18 July 2014, 19,220,586 listed options at \$0.15 expiring 15 months after issue, 22,105,541 unlisted options at \$0.03 expiring 2 years from relisting, 5,073,483 unlisted options at \$0.06 expiring 2 years from relisting and 12,634,361 unlisted options at \$0.00 expiring 13 months after issue.
- 5 August 2014, 9,170,033 unlisted options at \$0.10 expiring on 31 July 2016
- 18 September 2014, 9,800,000 at \$0.06 expiring 2 years from relisting

No options were granted to Directors during the year.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of any other body corporate. At the date of this report a total of 80,556,529 unquoted options and 19,220,586 quoted options are on issue.

Directors' Shareholdings

The following table sets out each director's relevant interest in shares and options of the company or a related body corporate as at the date of this report.

| | Number of Fully Paid Ordinary Shares | Number of Options |
|-----------|---|----------------------|
| J Clarke | 10,345,382 | 6,319,596 |
| N Stretch | - | - |
| K Louman | 9,972,616 | 2,930,555 |
| S Watts | 4,330,142 | 1,973,540 |

The holdings of S Watts are held indirectly. The options consist of 797,449 unlisted options with an exercise price of \$0.06, expiring 2 years from relisting, 426,091 listed options with an exercise price of \$0.15 expiring 15 months from date of issue and 750,000 unlisted options with an exercise price of \$0.10 expiring on 31 July 2016.

Proceedings on Behalf of the Company

The company reached agreement with La Jolla Cove Investors and an amount of USD\$395,101.38 was paid on 14 March 2014 which comprised USD\$340,359 of principal and USD\$54,742 of interest.

Other than for the above matter no person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.298 (2) of the Corporations Act 2001.



Stephen Watts

Director

Dated this 19th day of November 2014.

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Marion Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Adrian Nathanielsz
Partner – Audit & Assurance

Melbourne, 19 November 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Consolidated Entity | |
|---|------|---------------------|--------------|
| | | 2014 \$ | 2013 \$ |
| Revenue | 3 | 101,275 | 3,037 |
| Gain arising from forgiveness of debt and discount of payables | 30 | - | 62,925,767 |
| Total | | 101,275 | 62,928,804 |
| Salaries and employee benefits expense | 4 | (1,248,938) | (1,516,609) |
| Production expenses | 4 | (1,723,522) | (381,924) |
| Depreciation and amortisation expense | 4 | (30,894) | (30,362) |
| Legal and professional fees | | (1,857,192) | (1,641,910) |
| Travel expense | | (96,274) | (51,150) |
| Office rent expense | | (42,368) | (40,088) |
| Other office expenses | | (183,112) | (6,332) |
| Increase in royalty payable resulting from measurement on a realisation basis | | (5,847,984) | - |
| Secretarial and listing expenses | | (397) | (1,740) |
| Insurance expense | | (197,851) | (115,713) |
| Plant and equipment written off | | (2,546) | (160,020) |
| Exchange loss | | (56,409) | (41,120) |
| Finance costs | | (7,424,229) | (12,513,112) |
| Other expenses | | (3,211) | (7,035) |
| Profit/(Loss) before income tax expense | | (18,613,652) | 46,421,689 |
| Income tax expense | 5 | - | - |
| Profit/(Loss) attributable to members of the company | | (18,613,652) | 46,421,689 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | (3,106,627) | 4,972,909 |
| Other comprehensive income for the period | | (3,106,627) | 4,972,909 |
| Total comprehensive income for the period, net of tax | | (21,720,279) | 51,394,598 |
| Profit/(Loss) per share | | | |
| Basic earnings per share (cents per share) | 24 | (15.3) | 38.9 |
| Diluted earnings per share (cents per share) | 24 | (15.3) | 38.9 |

The accompanying notes form part of these financial statements.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

| | Note | Consolidated Entity | |
|--------------------------------------|-------------|----------------------------|--------------------|
| | | 2014 | 2013 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 232,404 | 8,603,372 |
| Plant and equipment | 11 | 69,285 | - |
| Oil and gas properties | 12 | 167,728,769 | - |
| Trade and other receivables | 7 | 251,224 | 9,020 |
| Other | 10 | 1,126,584 | 181,884 |
| TOTAL CURRENT ASSETS | | 169,408,266 | 8,794,276 |
| NON-CURRENT ASSETS | | | |
| Financial assets | 8 | - | - |
| Plant and equipment | 11 | - | 6,837 |
| Oil and gas properties | 12 | - | 167,940,048 |
| Other | 10 | - | 1,070,766 |
| TOTAL NON-CURRENT ASSETS | | - | 169,017,651 |
| TOTAL ASSETS | | 169,408,266 | 177,811,927 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 20,231,144 | 7,593,425 |
| Borrowings | 14 | 34,978,172 | 1,225,491 |
| Provisions | 15 | 662,933 | 157,353 |
| TOTAL CURRENT LIABILITIES | | 55,872,249 | 8,976,269 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | - | 9,093,175 |
| Borrowings | 14 | - | 27,442,224 |
| Provisions | 15 | - | 703,210 |
| TOTAL NON-CURRENT LIABILITIES | | - | 37,238,609 |
| TOTAL LIABILITIES | | 55,872,249 | 46,214,878 |
| NET ASSETS | | 113,536,018 | 131,597,049 |
| EQUITY | | | |
| Issued capital | 2, 16 | 213,084,239 | 212,645,805 |
| Reserves | 2, 18 | (574,961) | (689,148) |
| Accumulated losses | | (98,973,260) | (80,359,608) |
| TOTAL EQUITY | | 113,536,018 | 131,597,049 |

The accompanying notes form part of these financial statements.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2014**

| Note | Issued Capital \$ | Option Reserve \$ | Capital Profits Reserve \$ | Foreign Currency Translation Reserve \$ | Accu- mulated losses \$ | Total \$ |
|--|----------------------------------|----------------------------------|---|--|--|---------------------|
| Consolidated Entity | | | | | | |
| Balance at 30 June 2012 | 212,645,805 | 14,400,481 | 277,610 | (20,340,148) | (126,781,297) | 80,202,451 |
| Other comprehensive income | - | - | - | 4,972,909 | - | 4,972,909 |
| Profit attributable to members of consolidated entity | - | - | - | - | 46,421,689 | 46,421,689 |
| Total comprehensive income for the year | - | - | - | 4,972,909 | 46,421,689 | 51,394,598 |
| Balance at 30 June 2013 | 212,645,805 | 14,400,481 | 277,610 | (15,367,239) | (80,359,608) | 131,597,049 |
| Other comprehensive income | - | - | - | (3,106,627) | - | (3,106,627) |
| Profit attributable to members of consolidated entity | - | - | - | - | (18,613,652) | (18,613,652) |
| Total comprehensive income for the year | - | - | - | (3,106,627) | (18,613,652) | (21,720,279) |
| Equity issued | 438,434 | 3,220,814 | | | | 3,659,248 |
| Balance at 30 June 2014 | 213,084,239 | 17,621,295 | 277,610 | (18,473,866) | (98,973,260) | 113,536,018 |

The accompanying notes form part of these financial statements.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014**

| | Note | Consolidated Entity | |
|--|-------------|----------------------------|---------------------|
| | | 2014 | 2013 |
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 95,062 | 2,155 |
| Payments to suppliers and employees | | (4,455,288) | (5,450,301) |
| Interest received | | 6,213 | 882 |
| Interest and other costs of finance paid | | (61,650) | (6,571,826) |
| Net cash used in Operating Activities | 20a | <u>(4,415,663)</u> | <u>(12,019,090)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Expenditure on oil and gas projects | | (3,903,582) | (823,875) |
| Expenditure on plant and equipment | | (65,058) | - |
| Deposit guarantees (acquired) / realised | | 10,611 | (503,534) |
| Net cash used in investing activities | | <u>(3,958,029)</u> | <u>(1,327,409)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from share issues | | 438,434 | - |
| Proceeds from borrowings | | 250,000 | 26,577,904 |
| Repayment of borrowings | | <u>(438,434)</u> | <u>(5,751,435)</u> |
| Net cash provided by financing activities | | <u>250,000</u> | <u>20,826,469</u> |
| Net increase in cash held | | <u>(8,123,692)</u> | <u>7,479,970</u> |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (247,275) | 903,539 |
| Cash and cash equivalents at 1 July | | <u>8,603,372</u> | <u>219,863</u> |
| Cash and cash equivalents at 30 June | 6 | <u>232,404</u> | <u>8,603,372</u> |

The accompanying notes form part of these financial statements.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 1: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

Standards Affecting Presentation and Disclosure

Standards and Interpretations in Issue not yet Adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

AASB 9 - Financial Instruments as Applicable to Periods Beginning on or After 1 January 2017

Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9. These include the requirements relating to:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted. The current effective date requires the amendments to be adopted for the entity's year ending 30 June 2018.

Statement of Compliance

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

The financial report includes the consolidated financial statements of the Group.

Australian Accounting Standards compliance ensures that the financial statements comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 19 November 2014.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The Group is a for-profit entity for the purpose of preparing financial statements.

The wholly-owned subsidiary Marion Energy, Inc. filed for bankruptcy protection under the US Bankruptcy Code on 31 October 2014, after being unable to find replacement funding for the TCS II Funding Solutions, LLC ("Castlake") facility. While Castlake have provided debtor-in-possession funding of US\$500,000 to the subsidiary in November 2014, they have filed a challenge in court to the bankruptcy protection. This hearing is scheduled for the first week in December 2014. On the premise that this challenge will be unsuccessful, the directors intend to lodge a plan to realise the Clear Creek asset in an orderly state over the short-term.

Should the challenge be successful or the plan not be approved, it is likely that Castlake will enforce its security held over the Clear Creek asset. Accordingly, the Company at present has no other realistic alternative to pursue except for the realisation of assets in the short-term.

Accordingly, the financial report has not been prepared on a going concern basis, but rather has been prepared on a realisation basis.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial report therefore includes the necessary adjustments to the recoverability and classification of recorded assets and the amount and classification of liabilities on the basis that the Group will not continue as a going concern.

a. Principles of Consolidation

A controlled entity is any entity Marion Energy Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a 30 June financial year-end and are listed in Note 9 to the financial statements.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the company.

b. Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax Consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Marion Energy Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c. Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. No revaluation has been made as this also represents the fair value.

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

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the estimated useful lives of the improvements.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

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

| Class of Fixed Asset | Depreciation Rates | |
|------------------------|--------------------|-----------|
| | 2014 | 2013 |
| Leasehold improvements | - | - |
| Plant and equipment | 14% - 20% | 14% - 20% |

d. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the fair value of the assets or if lower, the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis, except where another systematic basis is more representative, over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease whichever is shorter. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

e. Investments in Associates and Subsidiaries

Subsequent to initial recognition, investments in associate companies are recognised in the consolidated financial statements by applying the equity method of accounting and the cost method as included in the parent entity information in Note 29.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

f. Interests in Joint Ventures

Interests in the joint ventures are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report. Subsequent to initial recognition investments in joint ventures are measured at cost as included in the parent entity information in Note 29.

g. Exploration and Evaluation Expenditure

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

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

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to the operational activities in a particular area of interest.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any).

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

h. Oil and Gas Properties

Development expenditure is recognised at cost less accumulated depletion and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field on a units-of-production basis.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

i. Provision for Site Restoration Costs

A provision for site restoration costs is recognised when there is a present obligation as a result of exploration, development or production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of dismantling and removal of oil and gas plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the oil and gas permits.

j. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k. Foreign Currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Marion Energy Limited, and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

l. Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Contributions are made by the consolidated entity to externally managed employee accumulation superannuation funds and are charged as expenses when incurred.

m. Cash

Cash and cash equivalents include cash on hand, deposits held at call within banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

For the purpose of the statement of cash flows, cash includes:

- Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- Investments in money market instruments with less than 14 days to maturity.

n. Revenue

Revenue from the sale of oil and gas is recognised upon the delivery of goods to customers.

Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised by reference to the stage of completion of the contract. The stage of completion for time and material contracts is recognised at the rates agreed for the delivery of the service as labour hours are delivered and the direct expenses incurred. All revenue is stated net of the amount of goods and services tax (GST).

o. Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost as included in the parent entity financial information in Note 29.

Other financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity investments", "available-for-sale" financial assets, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets "at fair value through profit or loss".

Available-for-Sale Financial Assets

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment 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.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

p. Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

q. Earnings per Share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

r. Contributed Equity

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

s. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

t. Comparative Figures

When the presentation or classification of items in the financial report is amended, comparative amounts are reclassified unless the reclassification is impractical.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

u. Share Based Payments

Equity settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes methodology. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

v. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

w. Non-current Assets held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

x. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 2, 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 circumstances, 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

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

Carrying Amount of Oil and Gas Properties

As at the date of the accounts, the oil & gas properties are anticipated to be sold in the next 12 months. These were valued by MHA Petroleum Consultants at approximately \$299m as at 1 July 2014 based on a discounted cashflow analysis of estimated future production and using a discount rate of 10%. Based on estimated sale costs of \$10m and an exit fee of approximately \$48m which will become payable to KM Custodians Pty Ltd upon disposal of the Clear Creek assets, which would give a carrying value of \$241m for the oil and gas properties. This exit fee payable to KM Custodians Pty Ltd, which was agreed to as part of a facility entered into post reporting period end, is calculated based on 20% of the equity in the group following sale of the Clear Creek asset and therefore will move in relation to the sale price achieved. Given that the eventual sale price remains uncertain, management is of the opinion that \$167,728,769, being development expenditure (at cost) less accumulated depletion and impairment losses represents the most appropriate measure for the oil and gas properties' carrying value.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The oil and gas properties are recognised at cost less accumulated amortisation and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs are amortised over the estimated economic life of the field on a units-of-production basis. Changes in factors such as estimates of proven and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis. Management is confident that the carrying amount of oil and gas properties will be recovered in full on successful development and achievement of full production estimates. This situation will be closely monitored, and adjustments made to carrying amounts in future periods if future developments indicate that such adjustments are appropriate.

| | Consolidated Entity | |
|--|---------------------|-------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| NOTE 3: REVENUE | | |
| Operating activities | | |
| — Sale of gas | 46,409 | - |
| — Interest received – other unrelated persons | 6,213 | 882 |
| — Other revenue | 48,653 | 2,155 |
| | <u>101,275</u> | <u>3,037</u> |
| NOTE 4: EXPENSES | | |
| Expenses include the following items whose disclosure is relevant in explaining the financial performance of the entity: | | |
| Cost of production: | | |
| — Lease operating expenses | 1,723,522 | 381,924 |
| | <u>1,723,522</u> | <u>381,924</u> |
| Finance costs: | | |
| — External | 7,364,817 | 5,592,459 |
| — Accretion expense | 35,552 | 29,990 |
| — Facility maintenance fees | 23,860 | 6,890,663 |
| | <u>7,424,229</u> | <u>12,513,112</u> |
| Salaries & Employee expense: | | |
| Defined contribution superannuation benefits | 21,308 | 53,858 |
| Other employee benefits | 93,605 | 258,668 |
| Remuneration | 1,134,025 | 1,204,083 |
| | <u>1,248,938</u> | <u>1,516,609</u> |
| Depreciation and amortisation of non-current assets: | | |
| — Plant and equipment | 30,894 | 30,362 |
| — Depreciation of producing oil and gas properties | - | - |
| | <u>30,894</u> | <u>30,362</u> |
| Rental expense on operating leases | - | 53,821 |
| Minimum lease payments | - | 3,699 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 5: INCOME TAX EXPENSE

The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

| | Consolidated Entity | |
|--|---------------------|--------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Profit/(Loss) from operations | (18,613,652) | 46,421,689 |
| Income tax expense/(benefit) calculated at 30% | (5,584,096) | 13,926,507 |
| Effect of expenses that are not deductible in determining taxable income | 126,649 | (2,349,128) |
| Effect of expenses that are deductible in determining taxable income | (1,108,935) | 1,241,909 |
| Effect of oil and gas expenditure capitalised but deductible in determining taxable income | (1,188,726) | (538,540) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (596,782) | 1,885,959 |
| Sub total | (8,351,890) | 14,166,707 |
| Effect of tax (gains)/losses and tax offsets not recognised as deferred tax assets | 8,351,890 | (14,166,707) |
| | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law. An effective corporate tax rate of 35% has been used for the US subsidiary. There has been no change in the corporate tax rate when compared with the previous year.

Management does not believe it is appropriate to recognise the deferred tax assets as the activities of the consolidated entity have not reached a stage of maturity that enables their recovery to be probable.

The movement in the amounts of each type of unrecognised deferred tax assets between the beginning and end of the current financial year was as follows:

| | Capital Losses | Provision for Diminution | Operating Losses | Other Temporary Differences | Total |
|---------------------------------------|----------------|--------------------------|------------------|-----------------------------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at the beginning of year | 3,037,463 | 1,892,079 | 60,810,711 | 2,117,160 | 67,857,413 |
| Adjustments during the year: | | | | | |
| - Amount that relates to current year | - | - | 8,351,890 | (1,109,881) | 7,242,009 |
| Balance at the end of year | 3,037,463 | 1,892,079 | 69,162,601 | 1,007,279 | 75,099,422 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 5: INCOME TAX EXPENSE (CONT'D)

| | Consolidated Entity | |
|---|---------------------|---------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Deferred tax liabilities | | |
| The movement in the carrying amounts of each type of deferred tax liability between the beginning and end of the financial year was as follows: | | |
| Balance at the beginning of year | 42,508,603 | 41,880,306 |
| Adjustments during the year: | | |
| Amount that relates to current year | 1,188,726 | 538,540 |
| Amount that relates to prior year | - | - |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 198,121 | 89,757 |
| Balance at the end of year | <u>43,895,450</u> | <u>42,508,603</u> |
| Deferred income tax | | |
| Deferred income tax relates to the following: | | |
| Deferred Tax Liabilities | | |
| Oil and Gas Properties | 43,895,450 | 42,508,603 |
| Deferred Tax Assets used to offset | <u>(43,895,450)</u> | <u>(42,508,603)</u> |
| Deferred Tax Liabilities | <u>-</u> | <u>-</u> |
| Deferred Tax Assets | | |
| Total deferred tax assets at year end | 72,366,517 | 69,057,412 |
| Deferred tax assets used to offset deferred tax liabilities | <u>(43,895,450)</u> | <u>(42,508,603)</u> |
| Deferred tax assets not brought to account | <u>(28,471,067)</u> | <u>(26,548,809)</u> |
| | <u>-</u> | <u>-</u> |
| The following deferred tax assets have not been brought to account as assets: | | |
| Temporary differences | 2,899,359 | 4,009,239 |
| Tax losses – revenue | 22,534,245 | 19,502,107 |
| Tax losses – capital | 3,037,463 | 3,037,463 |
| | <u>28,471,067</u> | <u>26,548,809</u> |

The benefit of deferred tax assets not brought to account will only be brought to account if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- The conditions for deductibility imposed by tax legislation continue to be complied with; and
- No changes in tax legislation adversely affect the Company in realising the benefit.

The Company has made multiple capital raisings over the past five years and increased share capital significantly. Under Australian Income Tax Law, the availability of losses to be claimed against assessable income is subject to a continuity of ownership test. This test will determine the Available Fraction of losses that may be claimed in any one year. This Available Fraction may result in allowable tax losses not being able to be wholly offset against taxable income in a particular income tax year. This may result in income tax being paid in a year when there are still tax losses to be claimed.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 6: CASH AND CASH EQUIVALENTS

| | Consolidated Entity | |
|--------------------------|---------------------|------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Cash at bank and in hand | 232,404 | 8,603,372 |
| | <u>232,404</u> | <u>8,603,372</u> |

The effective interest rate on US short-term bank deposits was 0.0% (2013: 0.0%) these deposits are at call with floating interest rates.

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is as follows:

| | | |
|---------------------------|----------------|------------------|
| Cash and cash equivalents | 232,404 | 8,603,372 |
| | <u>232,404</u> | <u>8,603,372</u> |

NOTE 7: TRADE AND OTHER RECEIVABLES

| | | |
|------------------------------------|----------------|--------------|
| Trade Receivables (a) | 175,514 | 114,081 |
| Employee advances (b) | 5,306 | - |
| Goods and services tax recoverable | 131,764 | 9,020 |
| Other receivables (c) | 52,721 | - |
| Allowance for impairment (d) | (114,081) | (114,081) |
| | <u>251,224</u> | <u>9,020</u> |

| | | |
|-----------------------------------|------------------|------------------|
| Allowance for impairment | | |
| Carrying amount – opening balance | (114,081) | (114,081) |
| Additional allowance made | - | - |
| Reversal of previous allowance | - | - |
| Carrying amount – closing balance | <u>(114,081)</u> | <u>(114,081)</u> |

- (a) Trade receivables are on normal commercial arrangement and are paid 60 days after volume verification by the purchaser.
- (b) Employee advances are repaid in accordance with signed promissory notes.
- (c) Other receivables are non-interest bearing and have payment terms between 30 and 60 days.
- (d) An allowance has been made for balances more than 180 days overdue that are considered uncollectible.

NOTE 8: OTHER FINANCIAL ASSETS

NON-CURRENT

Available for sale financial assets:

| | | |
|-----------------------------------|-----------|-----------|
| Investment in US unlisted company | 192,744 | 192,744 |
| Provision for impairment | (192,744) | (192,744) |
| | <u>-</u> | <u>-</u> |

NOTE 9: SUBSIDIARIES

| | Country of Incorporation | Percentage Owned | |
|--|-----------------------------|---------------------|------|
| Company: Marion Energy Limited | | 2014 | 2013 |
| Subsidiaries of Marion Energy Limited: | | | |
| Brisa Pty Limited ¹ | Australia | 100% | 100% |
| Marion Energy Inc | USA | 100% | 100% |
| OEL Operating (USA) Inc | USA | 100% | 100% |

The financial year of all Subsidiaries is the same as that of the company. Marion Energy Inc and OEL Operating (USA) Inc are audited by BDO USA, LLP. All Australian based companies are audited by Grant Thornton Australia. The tax consolidated group includes all Australian based entities.

¹ During the 2008 year deregistration of this subsidiary was initiated. The deregistration process is ongoing and is expected to be completed without giving rise to any losses for the group.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

| | Consolidated Entity | |
|-----------------------|---------------------|-----------|
| | 2014 | 2013 |
| | \$ | \$ |
| NOTE 10: OTHER ASSETS | | |
| CURRENT | | |
| Prepayments | 98,698 | 181,884 |
| Deposits | 1,027,886 | |
| NON-CURRENT | | |
| Deposits | - | 1,070,766 |

Deposits of US\$645,680 have been made with Indemco to support guarantees made by the Indemco on behalf of Marion Energy Inc. for contractors' indemnity. A US\$323,000 bond has been lodged with the US Bureau of Land Management covering Federal leases in Utah. Refer to Note 28 for details of guarantees and commitments.

| NOTE 11: PLANT AND EQUIPMENT | Plant and Equipment | Total |
|--|---------------------|-----------|
| | \$ | \$ |
| Gross carrying amount | | |
| Balance at 30 June 2012 | 422,492 | 422,492 |
| Disposals and write off | (312,594) | (312,594) |
| Net foreign currency exchange differences | 3,042 | 3,042 |
| Balance at 30 June 2013 | 112,940 | 112,940 |
| Disposals, additions and write off | 9,324 | 9,324 |
| Net foreign currency exchange differences | (1,100) | (1,100) |
| Balance at 30 June 2014 | 121,164 | 121,164 |
| Accumulated depreciation / amortisation and impairment | | |
| Balance at 30 June 2012 | (224,983) | (224,983) |
| Disposals and write off | 152,574 | 152,574 |
| Depreciation expense | (30,362) | (30,362) |
| Net foreign currency exchange differences | (3,332) | (3,332) |
| Balance at 30 June 2013 | (106,103) | (106,103) |
| Disposals, additions and write off | 73,898 | 73,898 |
| Depreciation expense | (30,894) | (30,894) |
| Net foreign currency exchange differences | 11,220 | 11,220 |
| Balance at 30 June 2014 | (51,879) | (51,879) |
| Net book value 30 June 2013 | 6,837 | 6,837 |
| Net book value 30 June 2014 | 69,285 | 69,285 |

| | Consolidated Entity | |
|---------------------------------|---------------------|-------------|
| | 2014 | 2013 |
| | \$ | \$ |
| NOTE 12: OIL AND GAS PROPERTIES | | |
| Producing projects at cost | | |
| Producing projects | 169,490,226 | 169,752,991 |
| Less: accumulated depreciation | (1,761,457) | (1,812,943) |
| Total producing projects | 167,728,769 | 167,940,048 |

The oil & gas properties were assessed for impairment during the year. Further details are disclosed in Note 2 (x).

Movements in Carrying Amounts

The movement in the carrying amounts for each class of oil and gas properties between the beginning and the end of current financial year were as follows:

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 12: OIL AND GAS PROPERTIES (CONT'D)

| | Producing Projects | Property, Plant and Equipment | Total |
|---|-----------------------|----------------------------------|-------------|
| | \$ | \$ | \$ |
| Balance at the beginning of year | 144,729,743 | 23,210,305 | 167,940,048 |
| Additions | 3,129,156 | 717,432 | 3,846,588 |
| Amortisation / depreciation | (9,453) | - | (9,453) |
| Net foreign currency exchange differences | (3,488,899) | (559,515) | (4,048,414) |
| Carrying amount at the end of year | 144,360,547 | 23,368,222 | 167,728,769 |

NOTE 13: TRADE AND OTHER PAYABLES

| | Note | Consolidated Entity 2014 \$ | 2013 \$ |
|--------------------------------------|------|-----------------------------------|------------|
| CURRENT | | | |
| Trade payables | (a) | 373,703 | 125,369 |
| Accrued interest on bank loan | | - | - |
| Facility fees payable on bank loan | | - | - |
| Royalty payable | (b) | 15,916,808 | 975,649 |
| Sundry payables and accrued expenses | | 3,940,633 | 6,492,407 |
| | | 20,231,144 | 7,593,425 |
| NON-CURRENT | | | |
| Royalty payable | (b) | - | 9,093,175 |
| | | - | 9,093,175 |
| | | 20,231,144 | 16,686,600 |

- (a) The average credit period on outstanding purchases of goods is currently 29 days. No interest is charged on trade payables. At 30 June 2014 no trade payables were past due.
- (b) The company has assigned a royalty interest equal to 25% of the Net Profits generated from the sale of Subject Hydrocarbons produced at Clear Creek to PF Energy Investments B.V. The total amount payable under the agreement is US\$15,000,000. The amount payable has been measured at amortised cost using an effective interest rate of 12% with the cash flows based on the most recent reserve report (refer Note 28(c)).
- If, as is expected, the Group sells its interest in Clear Creek within the next 12 months, it will be required to pay 50% of the excess over US\$75,000,000 under the royalty agreement, subject to the cap of US\$15,000,000. Therefore, as the maximum amount payable is US\$15,000,000 at a sale price at or above US\$105,000,000 (an amount which is less than the most recent valuation), the full US\$15,000,000 has been included.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

| | Note | Consolidated Entity 2014 \$ | 2013 \$ |
|-----------------------------|-------|-----------------------------------|-------------------|
| NOTE 14: BORROWINGS | | | |
| CURRENT | | | |
| Secured liabilities: | | | |
| Lease liability | 17 | - | 4,684 |
| Bank loan | 14(a) | - | - |
| Priority funding facility | 14(b) | - | - |
| TCS facility | 14(d) | 33,630,782 | - |
| Unsecured liabilities: | | | |
| Convertible Note | 14(c) | - | 378,807 |
| Convertible Note | 14(c) | 1,097,390 | 842,000 |
| Short term Shareholder loan | 14(e) | 250,000 | - |
| | | <u>34,978,172</u> | <u>1,225,491</u> |
| NON-CURRENT | | | |
| Secured Liabilities: | | | |
| TCS facility | 14(d) | - | 27,442,224 |
| Lease liability | 17 | - | - |
| | | <u>-</u> | <u>27,442,224</u> |

- (a) On 24 June 2013 the group settled the fully drawn secured loan facility provided by PF Energy Investments BV, a subsidiary of ABN Amro. This settlement resulted in the payment of US\$3,000,000 (A\$2,920,845) and the forgiveness of the balance of the loan and accumulated interest and charges (refer Note 30 for details of debt forgiveness).
- (b) On 24 June 2013 the group settled the Priority Funding Facility through the payment of US\$2,903,500 (A\$2,826,891).
- (c) The Group's convertible note facilities are as follows:
- The Group entered into a convertible note agreement with La Jolla Cove Investors on 27 October 2010 to subscribe for convertible notes for up to a total amount of US\$6 million. La Jolla Cove Investors made a demand for payment and on March 2014 this was settled by payment of \$395,101 after raising funds through the issuing of 73,072,217 shares at A\$0.006 (A\$438,434).
 - In June and July 2013 unsecured convertible notes were issued raising a total of A\$1,100,000 to fund the cost of relisting on the ASX and to provide working capital. At 30 June 2014 A\$1,097,390 of this facility had been received.
- The term of the convertible notes is one year. The conversion date is twelve months after the date of issue, being 2 August 2014.
- The note holders will be able to convert all of the original principal amount of the notes into fully paid ordinary shares at \$0.06 per share. If fully converted this would result in the issue of 18,333,333 ordinary shares.
- On conversion to shares the note holders will acquire an option to further ordinary share at \$0.1 per share on the basis of an option to one share for each two shares issued on conversion of the original convertible notes. If fully converted this would result in the issue of a further 9,166,666 ordinary shares. These options will expire two years from date of issue.
- The original convertible notes incur interest at the rate of 12% on the principal outstanding. Interest will be paid monthly with the dollar equivalent of the interest amount paid in the form of shares at a price of \$0.06 per share.
- (d) On 24 June 2013, MEI entered into a loan agreement with TCS II Funding Solutions LLC (TSC), receiving cash funding of US\$25,000,000 (A\$27,442,224). The facility has a maturity date of 24 June 2016 and is subject to a non-default interest rate of 20%, and a default interest rate of 25%. Interest is paid-in-kind by capitalising into the principal of the loan quarterly. TCS holds a first registered charge over all the assets of the wholly owned subsidiary, Marion Energy Inc. which includes the Clear Creek and Helper oil & gas assets, and holds a charge over all the assets of the wholly-owned subsidiary OEL Operating (USA) Inc. which includes the Jester-Bloomington oil & gas assets.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 14: BORROWINGS (CONT'D)

The TCS agreement specifies a number of positive and negative covenants, including target production volumes for the Clear Creek project and target financial results & financial restrictions for MEI. These have been breached, resulting in the company filing for US bankruptcy protection. Therefore, the facility has been reclassified as a current liability. The current default interest rate applicable to the borrowing is 25%. In addition, the agreement specifies that any capital raising performed by Marion Energy Limited can only be used in connection with the Clear Creek development plan, for expenses in the United States and Australia in the ordinary course of business and for limited expenditures at the Helper and Oklahoma projects. However the Group may also invest up to US\$3,000,000 in other projects, so long as the ratio of 'NPV of Proved Developed Producing Resources' to 'Total Indebtedness' is greater than 3:1 for 4 consecutive fiscal quarters.

- (e) The shareholder loans bear an interest rate of 12% p.a. and have a maturity date of 16 August 2014.

NOTE 15: PROVISIONS

| | Note | Consolidated Entity | |
|---|-------|---------------------|----------------|
| | | 2014 | 2013 |
| | | \$ | \$ |
| CURRENT | | | |
| Employee benefits | 15(a) | - | 157,353 |
| Restoration of operating locations | 15(b) | 662,933 | - |
| | | <u>662,933</u> | <u>157,353</u> |
| NON-CURRENT | | | |
| Employee benefits | 15(a) | - | 55,402 |
| Restoration of operating locations | 15(b) | - | 647,808 |
| | | <u>-</u> | <u>703,210</u> |
| Consolidated Entity | | | |
| | | 2014 | 2013 |
| | | \$ | \$ |
| (a) Aggregate employee benefits liability | | <u>-</u> | <u>212,755</u> |

(b) Restoration of operating locations

Site restoration costs include the dismantling and removal of oil and gas plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the oil and gas permits.

| | Consolidated Entity | |
|---|---------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Movements in Provisions | | |
| NON-CURRENT | | |
| Restoration of operating locations | | |
| Carrying amount – opening balance | 647,808 | 548,032 |
| Provision adjustments | 34,647 | 29,990 |
| Revision to previous estimates | - | - |
| Net foreign currency exchange differences | (19,522) | 69,786 |
| Carrying amount – closing balance | <u>662,933</u> | <u>647,808</u> |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 16: ISSUED CAPITAL

| | Note | Consolidated Entity | |
|----------------------------|------|---------------------|-------------|
| | | 2014 \$ | 2013 \$ |
| Fully paid ordinary shares | 16a | 213,084,239 | 212,645,805 |

| | 2014 \$ | 2013 \$ | 2014 No. | 2013 No. |
|--|-------------|-------------|-----------------|---------------|
| a. Ordinary shares | | | | |
| Number of shares on issue at the beginning of reporting period | 212,645,805 | 212,645,805 | 1,194,464,080 | 1,194,464,080 |
| Shares issued during year | | | | |
| — 18 March 2014 (a) | 438,434 | - | 73,072,217 | - |
| — 30 June 2014 (b) | - | - | (1,140,782,667) | - |
| — Less transaction costs | - | - | - | - |
| Number of ordinary shares on issue at reporting date | 213,084,239 | 212,645,805 | 126,753,630 | 1,194,464,080 |

(a) On 18 March 2014 the company issued 73,072,217 shares at \$0.006 per share to raise funds for the repayment of the LJC convertible note.

(b) On 30 June 2014, the shares of the company were consolidated on a 10:1 basis.

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

| | Consolidated Entity | |
|--|---------------------|---------------|
| | 2014 No. | 2013 No. |
| b. Options | | |
| Options on issue at beginning of reporting period | 38,500,000 | 445,075,372 |
| — Options lapsed on 1 July 2012 | - | (10,000,000) |
| — Options lapsed on 18 September 2012 | - | (7,000,000) |
| — Options lapsed on 10 December 2012 | - | (389,575,372) |
| — Options issued on 10 May 2013, approved 19 June 2014 | 179,231,112 | - |
| — Options consolidated on 30 June 2014 | (195,958,001) | - |
| Options on issue at reporting date | 21,773,111 | 38,500,000 |

Terms of the options on issue as at 30 June 2014 are:

| | | |
|-----|--|-------------------------|
| (a) | Weighted average remaining contractual life of outstanding options at 30 June: | 730 days from relisting |
| (b) | Weighted average exercise price of options | |
| | (a) At beginning of period | \$0.006 |
| | (b) Granted during the period | \$0.005 |
| | (c) At end of period | \$0.05 |
| | (d) Exercisable at end of period | \$0.05 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 16: ISSUED CAPITAL (CONT'D)

The following options are fully vested:

- 3,750,000 unlisted options are exercisable at \$0.06 on or before 31 December 2014
- 100,000 unlisted options are exercisable at \$7.00 on or before 14 November 2014
- 4,344,997 unlisted options are exercisable at \$0.03 on or before the second anniversary of the company's relisting
- 13,578,114 unlisted options are exercisable at \$0.06 on or before the second anniversary of the company's relisting

The company sought and was given approval, at the EGM in June 2014, to issue :

- 19,220,586 listed options at \$0.15 expiring 15 months after issue
- 22,105,541 unlisted options at \$0.03 expiring 2 years from relisting
- 5,073,483 unlisted options at \$0.06 expiring 2 years from relisting
- 12,634,361 unlisted options at \$0.00 expiring 13 months after issue.
- 9,170,033 unlisted options at \$0.10 expiring on 31 July 2016
- 9,800,000 at \$0.06 expiring 2 years from relisting

A 10:1 consolidation of shares and options was completed on 30 June 2014

8,000,000 options exercisable at \$0.80, issued in relation to Clear Creek were formally extinguished on 23 December 2013.

NOTE 17: CAPITAL AND LEASING COMMITMENTS

| | | Consolidated Entity | |
|--|----|---------------------|-------|
| | | 2014 | 2013 |
| | | \$ | \$ |
| a. Finance Lease Commitments | | | |
| Payable | | | |
| — Not later than 1 year | | - | 4,684 |
| — Later than 1 year but not later than 5 years | | - | - |
| Minimum lease payments | | - | 4,684 |
| Less future finance charges | | - | - |
| Present value of minimum lease payments | | - | 4,684 |
| Included in the financial statements as: | | | |
| Current borrowings | 15 | - | 4,684 |
| Non-current borrowings | 15 | - | - |
| Total Lease Liability | | - | 4,684 |

b. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

| | | | |
|--|--|---------|-------|
| Payable | | | |
| — Not later than 1 year | | 103,137 | 2,385 |
| — Later than 1 year but not later than 5 years | | 434,491 | - |
| | | 537,628 | 2,385 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 18: RESERVES

| | Consolidated Entity | |
|--|---------------------|---------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Foreign Currency Translation Reserve | (18,473,866) | (15,367,239) |
| Option Reserve | 17,621,295 | 14,400,481 |
| Capital Profits Reserve | 277,610 | 277,610 |
| | <u>(574,961)</u> | <u>(689,148)</u> |
| Foreign Currency Translation Reserve | | |
| Balance at the beginning of the year | (15,367,239) | (20,340,148) |
| Translation of foreign operations and intercompany loans | (3,106,627) | 4,972,909 |
| Balance at end of financial year | <u>(18,473,866)</u> | <u>(15,367,239)</u> |
| Option Reserve | | |
| Balance at the beginning of the year | 14,400,481 | 14,400,481 |
| Recognition of share based payments | 3,220,814 | - |
| Balance at end of financial year | <u>17,621,295</u> | <u>14,400,481</u> |
| Capital Profits Reserve | | |
| Balance at the beginning of the year | 277,610 | 277,610 |
| Balance at end of financial year | <u>277,610</u> | <u>277,610</u> |

Capital Profits Reserve

The capital profits reserve records non-taxable profits on sale of investments.

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Option Reserve

The option reserve records items recognised on valuation of share options.

NOTE 19: SEGMENT REPORTING

(a) Products & Services from which Reportable Segments derive their Revenue

The Group identifies its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating decision maker in order to allocate resources to the segment and to its performance.

The Group's reportable segment is as follows:

— Gas development, production and sales in Oklahoma and Utah, USA.

Information regarding this segment is presented below.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 19: SEGMENT REPORTING (CONT'D)

(b) Segment Revenues and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

| | Segment Revenue | | Segment Profit/(Loss) | |
|--|-----------------|------|-----------------------|--------------|
| | Gas Sales | | | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| | 46,409 | - | (10,456,701) | (2,278,545) |
| | 46,409 | - | (10,456,701) | (2,278,545) |
| Interest received | | | 6,213 | 882 |
| Other income | | | 48,653 | 2,155 |
| Gain on debt forgiveness | | | - | 62,925,767 |
| Corporate expenses | | | (787,588) | (1,715,458) |
| Finance costs | | | (7,424,229) | (12,513,112) |
| Loss before tax | | | (12,765,668) | 46,421,689 |
| Income tax expense | | | - | - |
| Consolidated revenue & profit or (loss) for the period | 46,409 | - | (18,613,652) | 46,421,689 |

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment loss represents the loss earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(c) Segment Assets and Liabilities

| | 2014 | 2013 |
|-------------------------------|-------------|-------------|
| | \$ | \$ |
| Segment Assets | | |
| Gas assets | 169,112,859 | 177,389,363 |
| Other – Corporate assets | 295,407 | 422,564 |
| Total segment assets | 169,408,266 | 177,811,927 |
| Unallocated assets | - | - |
| Consolidated assets | 169,408,266 | 177,811,927 |
| Segment Liabilities | | |
| Gas liabilities | 44,935,436 | 38,391,105 |
| Other – Corporate liabilities | 5,088,828 | 7,823,773 |
| Total segment liabilities | 50,024,264 | 46,214,878 |
| Unallocated liabilities | - | - |
| Consolidated liabilities | 50,024,264 | 46,214,878 |

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than tax assets (see note 5). Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments;
- All liabilities are allocated to reportable segments other than 'other financial liabilities', current and deferred tax liabilities, and 'other' liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

(d) Other Segment Information

| | Depreciation & Amortisation | | Additions to Non-current Assets | |
|-------------------|-----------------------------|--------|---------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Gas | 28,705 | 22,348 | 3,787,739 | 1,305,955 |
| Other - Corporate | 2,189 | 8,014 | - | - |
| Total | 30,894 | 30,362 | 3,787,739 | 1,305,955 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 19: SEGMENT REPORTING (CONT'D)

(e) Revenue from Major Products and Services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

| | 2014 | 2013 |
|-------|--------|------|
| | \$ | \$ |
| Gas | 46,409 | - |
| Total | 46,409 | - |

(f) Geographical information

The Group operates in two principal geographical areas – Australia (country of domicile), and the United States of America (USA).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

| | Revenue from External Customers | | Non-current Assets | |
|-----------|---------------------------------|------|--------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Australia | - | - | - | 4,735 |
| USA | 46,409 | - | 168,825,940 | 169,012,916 |
| Total | 46,409 | - | 168,825,940 | 169,017,651 |

(g) Information about Major Customers

Included in revenues arising from direct sales of gas of \$46,409 (2013: \$Nil) (see 19 (e) above) are revenues of approximately \$46,409 (2013: \$Nil) which arose from sales to the Group's largest customer.

| | Consolidated Entity | |
|--|---------------------|------|
| | 2014 | 2013 |
| | \$ | \$ |

NOTE 20: CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax

| | | |
|--|--------------|--------------|
| Profit/(loss) after income tax | (12,765,668) | 46,421,689 |
| Non-cash flows | | |
| — Amortisation and depreciation | 66,446 | 60,352 |
| — (Profit) / loss on disposal of plant and equipment | 2,546 | 160,020 |
| — Exchange loss | 372,036 | 41,120 |
| — Interest expense capitalised into loan balance | 7,327,027 | - |
| — Gain on forgiveness of debt | - | (62,925,767) |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| — (Increase)/decrease in trade and term receivables | (242,204) | 86,090 |
| — (Increase)/decrease in prepayments | 78,030 | 261 |
| — Increase/(decrease) in trade payables and accruals | 924,232 | 4,106,549 |
| — Increase/(decrease) in provisions | (178,108) | 30,596 |
| Cash flow used in operating activities | (4,415,663) | (12,019,090) |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 20: CASH FLOW INFORMATION (CONT'D)

(b) Financing Facilities

| | Consolidated Entity | |
|--|---------------------|-------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Secured bank loan facilities with a maturity date of 24 June 2016 and which may be extended by mutual agreement: | | |
| Amount used | 33,630,782 | 27,442,224 |
| Amount unused | - | - |
| | <u>33,630,782</u> | <u>27,442,224</u> |

The Group has access to secured US\$ financing facilities at reporting date as indicated above (refer Note 14).

NOTE 21: ECONOMIC DEPENDENCY

The USA subsidiaries, Marion Energy Inc, and OEL Operating (USA) Inc are reliant on the company, Marion Energy Limited, for funding for their oil and gas properties.

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key Management Personnel Compensation

The aggregate compensation made to key management personnel of the company and the Group is set out below.

| | Consolidated Entity | |
|------------------------------|---------------------|------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Short-term employee benefits | 1,162,713 | 1,153,866 |
| Post-employment benefits | 21,308 | 53,858 |
| Other long term benefits: | | |
| — Long service benefits | - | 6,540 |
| — Share based benefits | - | - |
| | <u>1,184,021</u> | <u>1,214,264</u> |

Due to the Company's financial constraints, the directors have not been paid the full amount due to them for the year ended 30 June 2014. As at 30 June 2014 the total amount that remains unpaid is A\$2,757,365 (2013: A\$2,370,395) and these amounts have been accrued by the group as due and payable.

(b) Options and Rights Holdings

Number of options held by key management personnel

| 2014 | Balance 1.7.13 | Granted | Net Change Other ¹ | Balance 30.6.14 | Total Vested 30.6.14 | Total Exercisable |
|-----------|-------------------|--------------------|----------------------------------|--------------------|----------------------|-------------------|
| | No. | No. | No. | No. | No. | No. |
| P Collery | - | - | - | - | - | - |
| J Clarke | - | - | - | - | - | - |
| N Stretch | 12,846,072 | 135,781,145 | (135,049,102) | 13,578,115 | - | - |
| S Watts | 945,089 | - | (945,089) | - | - | - |
| K Louman | - | - | - | - | - | - |
| Total | <u>13,791,161</u> | <u>135,781,145</u> | <u>(135,994,191)</u> | <u>13,578,115</u> | <u>-</u> | <u>-</u> |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

(b) Options and Rights Holdings (cont)

| 2013 | Balance 1.7.12 | Granted | Net Change Other ¹ | Balance 30.6.13 | Total Vested 30.6.13 | Total Exercisable |
|-----------|-------------------|---------|----------------------------------|--------------------|----------------------|-------------------|
| | No. | No. | No. | No. | No. | No. |
| P Collery | 33,806,800 | - | (33,806,800) | - | - | - |
| J Clarke | 35,108,800 | - | (35,108,800) | - | - | - |
| K Louman | 33,484,400 | - | (33,484,400) | - | - | - |
| Total | 102,400,000 | - | (102,400,000) | - | - | - |

¹These options lapsed on 10 December 2012.

(c) Shareholdings

Number of Shares held by key management personnel

| | Balance 1.7.12 | Net Change Other | Balance 30.6.13 | Net Change Other | Balance 30.6.14 |
|-----------|-------------------|---------------------|-----------------|------------------|-----------------|
| | No. | No. | No. | No. | No. |
| P Collery | 10,448,818 | - | 10,448,818 | (9,403,936) | 1,044,882 |
| J Clarke | 13,453,818 | - | 13,453,818 | (12,108,436) | 1,345,382 |
| K Louman | 9,726,151 | - | 9,726,151 | (8,753,536) | 972,615 |
| S Watts | 26,501,413 | - | 26,501,413 | (23,851,272) | 2,650,141 |
| N Stretch | - | - | - | - | - |
| Total | 60,130,200 | - | 60,130,200 | (54,117,180) | 6,013,020 |

Net Change Other refers to shares purchased, consolidated or sold during the financial year or, in the case of the resignation of a director, the holding at the date of resignation.

NOTE 23: AUDITORS' REMUNERATION

| | Consolidated Entity | |
|---|---------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Remuneration of Grant Thornton Audit Pty Ltd as auditor of the company and subsidiaries: | | |
| — auditing or reviewing the financial report | 80,000 | 104,000 |
| — auditing Australian subsidiaries | - | - |
| Remuneration of Deloitte Touche Tohmatsu as auditor of the company and subsidiaries: | | |
| — auditing or reviewing a prior year financial report | 1,066 | 1,500 |
| Remuneration of BDO USA, LLP as auditor for Marion Energy Inc. and OEL Operating (USA) Inc. | | |
| — auditing or reviewing the financial report of subsidiaries | 94,837 | 51,132 |
| | <u>175,903</u> | <u>156,632</u> |

NOTE 24: EARNINGS PER SHARE

| | | |
|---|---------------------|--------------------|
| Basic earnings per share from continuing operations (cents) | (15.3) | 38.9 |
| Diluted earnings per share from continuing operations (cents) | (15.3) | 38.9 |
| a. Reconciliation of earnings to net loss | | |
| Net profit/(loss) | (18,613,652) | 46,421,689 |
| Earnings used in the calculation of basic and dilutive EPS | <u>(18,613,652)</u> | <u>46,421,689</u> |
| b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | | |
| | <u>121,528,466</u> | <u>119,446,408</u> |
| Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS | 121,528,466 | 119,446,408 |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 24: EARNINGS PER SHARE (CONT'D)

c. Classification of securities

As at 30 June 2014, the Company has on issue 21,673,111 options (2013: 38,500,000 options) over unissued capital as the Group has generated losses these potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted EPS.

NOTE 25: EVENTS AFTER BALANCE SHEET DATE

There has not been any matter, or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years other than those disclosed below:

The US subsidiary, Marion Energy Inc filed for US bankruptcy protection on October 31 following the end of a forbearance agreement with Castle Lake.

NOTE 26: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties include:

i. Director-related Entities:

There have been no transactions with Director related entities for the year ended 30 June 2014 or 30 June 2013 with the exception of:

- Mr N Stretch, who is a director of the Company, provided legal services to the Company during the year at a total cost of \$187,428. \$152,487 amount was due and payable as at 30 June 2014 and was paid subsequent to 30 June 2014, with the remaining \$34,941 paid during the 2014 year.
- Mr S Watts, who is a director of the Company, provided accounting services to the Company during the year at a total cost of \$25,000. At 30 June 2014, no invoice had been raised, but an accrual has been recorded.

ii. Other Director Related Transactions

There were no other director related transactions during the year with the exception of:

- As disclosed in Note 22 not all the directors remuneration entitlements have been paid during the year ended 30 June 2014. As at 30 June 2014 the total amount that remains unpaid is A\$2,757,365 (2013: A\$2,370,395) and these amounts have been accrued by the Group as due and payable.

NOTE 27: FINANCIAL INSTRUMENTS

a. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2013.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 14, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in Notes 6, 16 and the Statement of Changes in Equity.

The Group operates in the USA, through subsidiary companies established in that market. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to invest in Oil and Gas projects in the US to fulfil its strategy of becoming a substantial gas producer, as well as to make the routine outflows of tax, dividends and repayment of maturing debt.

The Group's policy is to fund its operations in the markets and currency where its business activities are predominant, using a variety of capital market issues in Australia and borrowing facilities in the US, to meet anticipated funding requirements.

Gearing Ratio

The Board reviews the capital structure on a continuing basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on these decisions the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 27: FINANCIAL INSTRUMENTS (CONT'D)

The gearing ratio at year end was as follows:

| | Consolidated 2014 \$ | 2013 \$ |
|---------------------------|----------------------------|-------------------|
| Financial Assets: | | |
| Debt (i) | 34,978,172 | 28,667,715 |
| Cash and cash equivalents | (232,404) | (8,603,372) |
| Net debt | <u>34,745,768</u> | <u>20,064,343</u> |
| Equity (ii) | 119,359,109 | 131,597,049 |
| Net debt to equity ratio | 29.1% | 15.2% |

i Debt is defined as long- and short-term borrowings, as detailed in note 15.

ii Equity includes all capital and reserves.

b. Categories of Financial Instruments

Financial Assets:

| | | |
|---------------------------|----------------|------------------|
| Loans and receivables | 251,224 | 9,020 |
| Cash and cash equivalents | <u>232,404</u> | <u>8,603,372</u> |

Financial Liabilities:

| | | |
|----------------|-------------------|-------------------|
| Amortised cost | <u>51,476,004</u> | <u>36,261,140</u> |
|----------------|-------------------|-------------------|

c. Financial Risk Management Objectives

The Board co-ordinates access to domestic and international markets, monitors and manages the financial risks related to the operations of the Group. These risks will include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

d. Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 27 (e)) and interest rates (refer note 27 (f)). The Group does not enter into derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

e. Foreign Currency Risk Management

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the US Dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates a decrease in profit or loss where the Australian Dollar strengthens against the US Dollar. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | US\$ Impact | |
|------------------|-------------------|-------------------|
| | Consolidated | |
| | 2014 | 2013 |
| | \$ | \$ |
| Other equity (a) | <u>15,219,438</u> | <u>11,633,100</u> |

(a) This is attributable to the exposure on the intercompany advances denominated in AUD in the United States subsidiary, Marion Energy Inc.

The Group's sensitivity to foreign currency has increased during the current period due to the increased level of investment in oil and gas projects in the US subsidiaries, Marion Energy Inc and OEL Operating (USA) Inc.

f. Interest Rate Risk Management

The company and the Group are exposed to interest rate risk as the Group borrows funds in US\$ at floating interest rates.

The company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 27: FINANCIAL INSTRUMENTS (CONT'D)

Interest Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's:

- Net loss would increase by \$367,000 and decrease by \$367,000 (2013: increase by \$274,000 and decrease by \$274,000). This is mainly attributable to the Group's net exposure to interest rate movement on its cash and cash equivalents and on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the decrease in variable rate debt instruments and an increase in cash and cash equivalents.

g. Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, who apply an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate equity reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and Interest Risk Tables

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate | 1 - 3 months | 3 – 12 months | 1 – 5 years | 5+ years |
|--------------------------|--|-------------------|------------------|-------------------|-------------|
| | % | \$ | \$ | \$ | \$ |
| 2014 | | | | | |
| Trade and other payables | - | 4,307,336 | - | - | - |
| Finance lease liability | - | - | - | - | - |
| Borrowings | 20 | 34,978,172 | - | - | - |
| | | <u>39,285,508</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 2013 | | | | | |
| Trade and other payables | - | 6,617,776 | - | - | - |
| Finance lease liability | 2.0 | 1,170 | 3,514 | - | - |
| Borrowings | 19.5 | 1,344,575 | - | 27,496,929 | - |
| | | <u>7,963,521</u> | <u>4,702</u> | <u>27,496,929</u> | <u>-</u> |

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

| | | | | | |
|---------------------------|---|------------------|----------------|----------|----------|
| 2014 | | | | | |
| Receivables | - | - | 251,224 | - | - |
| Cash and cash equivalents | - | 232,404 | - | - | - |
| | | <u>232,404</u> | <u>251,224</u> | <u>-</u> | <u>-</u> |
| 2013 | | | | | |
| Receivables | - | - | 9,020 | - | - |
| Cash and cash equivalents | - | 8,603,371 | - | - | - |
| | | <u>8,603,371</u> | <u>9,020</u> | <u>-</u> | <u>-</u> |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 28: CONTINGENT LIABILITIES AND COMMITMENTS

a. Guarantees

A controlled entity, Marion Energy Inc. has provided a contractors indemnity guarantee for US\$645,680 (A\$685,144). Marion Energy Inc. has lodged a US\$323,000 (A\$342,742) bond with the US Bureau of Land Management covering Federal leases in the State of Utah. These bonds are required for operations but also cover plugging of wells and land reclamation required in lease areas.

b. Exploration Commitments

The Consolidated Entity is not subject to any minimum exploration expenditure or activity requirements.

c. Contingent Liabilities

In accordance with the Prospectus dated 17 December 2004 the company may become liable to make a payment of US\$500,000 to the Executive Directors when the Group achieves a net gas production level of 3 million cubic feet of gas per day for two consecutive months.

Under an agreement dated 24 June 2013, MEI has assigned to PF Energy a royalty interest equal to 25% of the Net Profits generated from the sale of Subject Hydrocarbons produced from the Land and the Leases in the Clear Creek project. The Net Profits are essentially the gross sales from the wells, less operating expenditure directly attributable to those wells (i.e. it does not include general & administrative expenditure), however allows for any carry-forward Net Losses from prior quarters to be recouped commencing with the September 2013 quarter.

The total amount payable to PF Energy from the NPRI shall be capped at a maximum amount of US\$15,000,000. Payments of NPRI are due within 45 days of each quarter end for 25% standing to the credit of the Net Profits account for that quarter.

KM Custodians Pty Ltd provided cash advance to the Company post reporting period end of \$2,350,428. Under this facility agreement, the Company must pay an exit fee equal to 20% of the equity in the Company (after disposal) if the Clear Creek asset or subsidiary, Marion Energy Inc, is disposed, or if not disposed, 20% of the fair value of the Group on a going concern basis as at the termination date of 30 September 2015.

NOTE 29: PARENT ENTITY DISCLOSURES

| | Consolidated 2014 \$ | 2013 \$ |
|----------------------------|----------------------------|--------------------|
| Financial Position: | | |
| Current Assets | 295,407 | 417,828 |
| Non Current Assets | 177,581,055 | 177,364,363 |
| Total Assets | <u>177,876,462</u> | <u>177,782,191</u> |
| Current Liabilities | 5,088,828 | 7,768,371 |
| Non Current Liabilities | - | 55,402 |
| Total Liabilities | <u>5,088,828</u> | <u>7,823,773</u> |
| Issued Capital | 213,084,239 | 212,645,805 |
| Retained Earnings | (58,195,509) | (57,365,478) |
| Reserve – Option | 17,621,295 | 14,400,481 |
| Reserve – Capital Profits | 277,610 | 277,610 |
| Total Equity | <u>172,787,635</u> | <u>169,958,418</u> |
| Financial Performance: | | |
| Loss for the year | (830,031) | (4,982,795) |
| Other Comprehensive Income | - | - |
| Total Comprehensive Income | <u>(830,031)</u> | <u>(4,982,795)</u> |

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

NOTE 30: FORGIVENESS OF DEBT AND DISCOUNT OF PAYABLES

On 24 June 2013 the Group entered into a restructuring of its financing arrangements with its wholly owned subsidiary Marion Energy Incorporated ("MEI"), entering into a number of agreements with PF Energy Investments B.V. regarding the repayment and forgiveness of the debt facility and the assignment of a net profits royalty interest. The details of these arrangements can be found at Note 31 of the 2013 Financial Report.

NOTE 31: COMPANY DETAILS

The registered office of the company is:

— Marion Energy Limited
c/o Nick Stretch Legal
Suite 802, 530 Little Collins Street, Melbourne, Victoria, 3000

The principal place of business is:

Marion Energy Limited
— Suite 802, 530 Little Collins Street, Melbourne, Victoria, 3000

Marion Energy Limited (ABN 99 000 031 292) and Controlled Entities

DIRECTORS' DECLARATION

In the opinion of the directors of Marion Energy Limited:

- a. The consolidated financial statements and notes of Marion Energy Limited are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its 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 (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. There are reasonable grounds to believe that Marion Energy Limited will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the managing director and chief financial officer for the financial year ended 30 June 2014.

Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors

On behalf of the Directors



Stephen Watts
Director

Adelaide

19th November 2014

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report To the Members of Marion Energy Limited

Report on the financial report

We have audited the accompanying financial report of Marion Energy Limited (the "Entity"), which comprises the consolidated statement of financial position as at 30 June 2014, 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 then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Entity 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 Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on conducting the audit in accordance with Australian Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Basis for disclaimer of auditor's opinion

The Company's wholly owned subsidiary, Marion Energy, Inc. ("MEI") filed a voluntary petition seeking to reorganise under chapter 11 of the US federal bankruptcy laws on 31 October 2014. That filing is currently the subject of a challenge by MEI's major financier, TCS Funding Solutions LLC, with the court hearing scheduled for early December 2014.

Although MEI is currently operating as debtor-in-possession under the jurisdiction of the Bankruptcy Court in the US, this event and circumstances relating to this event, including expiry of forbearance by its major financier on 31 October 2014, the Company's significant losses and accumulated deficit indicate that the most likely outcomes for the Company are:

- (i) sale of the MEI's major oil & gas property assets under a plan approved by the Court whilst under chapter 11; or
- (ii) the secured financier invoking its security over the assets of MEI should the current court challenge be successful or a plan not be approved under chapter 11.

We have been unable to obtain sufficient, appropriate audit evidence supporting the realisation value of the oil & gas properties which will be achieved under either an organised sale under an approved plan whilst MEI is the subject of chapter 11 or through the creditor enforcing their security over the assets. As the oil & gas properties are pervasive, we are unable to obtain all the information and explanations we require in order to form an opinion on the financial report.

Disclaimer of auditor's opinion

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 11 to 14 of the directors' report for the year ended 30 June 2014. The Directors of the Entity are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Marion Energy Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Adrian Nathanielsz
Partner - Audit & Assurance

Melbourne, 19 November 2014

ASX ADDITIONAL INFORMATION FOR 30 JUNE 2014 ANNUAL REPORT

Substantial Shareholders

| Shareholder | Number of shares held |
|-----------------------|----------------------------|
| KM Custodians Pty Ltd | 34,745,532 ordinary shares |
| Jeffrey Clarke | 10,345,382 ordinary shares |
| Karel Louman | 9,871,100 ordinary shares |

Voting Rights

Ordinary Shares: At shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options: The Company's options have no voting rights.

Distribution of Equity Securities

MAE: Fully Paid Ordinary Shares

| Range | Total holders | Units |
|------------------|---------------|--------------------|
| 1 - 1,000 | 2,556 | 847,901 |
| 1,001 - 5,000 | 1,131 | 3,103,037 |
| 5,001 - 10,000 | 421 | 3,257,001 |
| 10,001 - 100,000 | 959 | 33,606,124 |
| 100,001 + | 245 | 151,691,915 |
| Rounding | | |
| Total | 5,312 | 192,505,978 |

MAE: Listed Options

| Range | Total holders | Units |
|------------------|---------------|-------------------|
| 1 - 1,000 | 6 | 4,078 |
| 1,001 - 5,000 | 65 | 237,803 |
| 5,001 - 10,000 | 49 | 445,600 |
| 10,001 - 100,000 | 138 | 5,344,479 |
| 100,001 + | 33 | 13,188,626 |
| Rounding | | |
| Total | 291 | 19,220,586 |

MAE: Unlisted Options

| Range | Total holders | Units |
|------------------|---------------|-------------------|
| 1 - 1,000 | 0 | 0 |
| 1,001 - 5,000 | 3 | 8,334 |
| 5,001 - 10,000 | 9 | 72,506 |
| 10,001 - 100,000 | 63 | 2,855,853 |
| 100,001 + | 43 | 79,215,520 |
| Rounding | | |
| Total | 118 | 82,152,213 |

Top 20 Holders

MAE: Fully Paid Ordinary Shares

| Rank | Name | Units | % of Units |
|---|--|-------------------|--------------|
| 1. | KM CUSTODIANS PROPRIETARY LIMITED | 34,745,532 | 18.05 |
| 2. | MR JEFFREY CLARKE | 10,345,382 | 5.37 |
| 3. | MR KAREL LOUMAN + MRS TING HUI LOUMAN | 9,871,100 | 5.13 |
| 4. | MR PETER THOMAS COLLERY | 9,119,882 | 4.74 |
| 5. | MR STEPHEN WATTS + MRS SARAH WATTS <S AND S WATTS SUPER FUND A/C> | 3,120,000 | 1.62 |
| 6. | ODYSSEY ENERGY LIMITED | 2,750,000 | 1.43 |
| 7. | NAZDALL PTY LTD | 2,278,334 | 1.18 |
| 8. | PARK END LTD | 1,467,750 | 0.76 |
| 9. | SMART STEP LIMITED | 1,400,000 | 0.73 |
| 10. | NETHERIDGE PTY LIMITED | 1,344,000 | 0.70 |
| 11. | STEDA NOMINEES PTY LTD <STEDA SUPER FUND A/C> | 1,286,932 | 0.67 |
| 12. | MR ALEXANDER GORDON SCOTT GEMMELL + MRS WENDY MARGARET GEMMELL <AGS GEMMELL S/F PENSION A/C> | 1,160,000 | 0.60 |
| 13. | WELLS RETIREMENT PTY LTD <D WELLS SUPER FUND A/C> | 1,148,492 | 0.60 |
| 14. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 1,128,937 | 0.59 |
| 15. | PRIDHAM SUPERANNUATION PTY LTD <PRIDHAM SUPERANNUATION A/C> | 1,125,881 | 0.58 |
| 16. | CITICORP NOMINEES PTY LIMITED | 1,044,970 | 0.54 |
| 17. | MR JOHN TZIMAS + MRS HELEN TZIMAS | 1,000,000 | 0.52 |
| 18. | MR RICHARD CROPLEY | 950,843 | 0.49 |
| 19. | MR ANDREW GEORGE MACKAY + MRS JENNIFER GRACE MACKAY <MACKAY SUPER FUND A/C> | 941,516 | 0.49 |
| 20. | MR PETER CHARLES MOREY + MRS VALMAI ANN MOREY <MOREY SUPER FUND A/C> | 907,609 | 0.47 |
| Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL) | | 87,137,160 | 45.26 |

MAE: Listed Options

| Rank | Name | Units | % of Units |
|------|---|-----------|------------|
| 1. | MR JEFFREY CLARKE | 1,755,440 | 9.13 |
| 2. | MR PETER THOMAS COLLERY | 1,690,340 | 8.79 |
| 3. | MR KAREL LOUMAN | 1,500,000 | 7.80 |
| 4. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 1,028,572 | 5.35 |
| 5. | J & J BANDY NOMINEES PTY LTD <J & J BANDY SUPER FUND A/C> | 810,000 | 4.21 |

| | | | |
|--|--|-------------------|--------------|
| 6. | HARDMAN BROTHERS PTY LTD | 575,000 | 2.99 |
| 7. | JAMIE BREW GOLF SERVICES P/L <BREW FAMILY A/C> | 490,914 | 2.55 |
| 8. | SMART STEP LIMITED | 440,000 | 2.29 |
| 9. | GOFFACAN PTY LTD <KMM FAMILY A/C> | 435,250 | 2.26 |
| 10. | MR STEPHEN CHARLES STUART WATTS <WATTS FAMILY A/C> | 364,091 | 1.89 |
| 11. | R & I INSTRUMENT & GEAR CO | 350,000 | 1.82 |
| 12. | LINK TRADERS (AUST) PTY LTD | 284,091 | 1.48 |
| 13. | KARANTZIAS INVESTMENTS PTY LTD <KARANTZIAS FAMILY A/C> | 271,000 | 1.41 |
| 14. | HOLTEX PTY LTD <BUCKERIDGE S/F A/C> | 250,000 | 1.30 |
| 15. | D J & C NOMINEES PTY LTD | 238,750 | 1.24 |
| 16. | NAZDALL PTY LTD | 225,001 | 1.17 |
| 17. | MR SERGIO CAPITANO | 200,000 | 1.04 |
| 18. | MR STEVEN JOHN DIGGERMAN | 193,000 | 1.00 |
| 19. | WHITECLIFFS REAL ESTATE PTY | 192,500 | 1.00 |
| 20. | AC COLLINS PTY LTD | 176,251 | 0.92 |
| Totals: Top 20 holders of LISTED OPTIONS EXPIRING 19/10/15 @ \$0.15 | | 11,470,200 | 59.68 |

Current on-market Buy Back

There was no current on-market buy back.

Escrowed Securities

No escrowed securities.

Unquoted Equity Securities

A total of 82,152,213 unquoted options were on issue. Of the unquoted options 19,936,206 were issued to Nick Stretch Legal Pty Ltd and 30,611,613 to KM Custodians Pty Ltd.