ANNUAL REPORT 2014

Real Energy Corporation Limited
ABN 92 139 792 420
ACN 139 792 420

Contents

Managing Director's Report

Dear Shareholder

Real Energy was formed to discover and exploit oil and gas resources which will enable it to achieve an attractive rate of return. The Company's shares were listed on the ASX in December 2013 when we raised $10 million in funds to finance our exploration activities. Our focus has been the Cooper Basin, the most prolific onshore petroleum producing basin in Australia. We have secured one of the largest acreage positions in the Cooper Basin and have so far maintained 100% ownership of our permits.

The Company's main priority has been to confirm the presence of the basin centred gas play which we believe exists in our acreage. We have had a fantastic start to our program with our maiden well, Tamarama 1, showing strong gas readings throughout the Toolachee and Patchawarra formations. This well highlights the potential of basin centred gas in this permit. The well encountered a 165 meter gas column and 81 meters of log interpreted net Permian gas pay. The well is near the south eastern edge of the ATP927P and close to the Coco and Mount Howitt gas fields.

During the December 2013 quarter, Real Energy commenced reprocessing seismic data in ATP927P and ATP917P (two of its three Cooper Basin permits) with the objective of establishing consistent data sets necessary to determine suitable drilling locations and also identify any further prospects for future exploration.

Our geological team has now reviewed all the geological data in the area and believes our acreage contains a continuous basin centred gas play which is laterally extensive over a wide area. The key point about the basin centred gas concept is the trap is not dependent on structure, and gas is generally present in the centre or deeper parts of the basin in particular formations – in our case the Toolachee and Patchawarra – wherever these are found.

This area was interpreted to have potential for the basin centred gas play due to its depth and presence of elevated gas readings and gas recoveries without water in numerous wells drilled here. The wells indicate three key features of deep basin centred gas play:

- The presence of elevated gas readings recorded over the whole Toolachee and Patchawarra sections in numerous wells previously drilled to target the conventional sandstone reservoirs in structural traps;
- The gas is over-pressured and many wells encountered gas column with height in excess of the structural closure;
- There are source rocks within the Toolachee and Patchawarra sequence with good to excellent quality and are in the gas generating windows .

In this drive to find basin centred gas, the Windorah Trough in the Cooper Basin has been overlooked in the past as being too shallow for continuous gas play. However, drilling is now proving that the Windorah Trough can host the basin centred gas play. This allowed Real Energy to pick up a significant acreage position that we believe will be very valuable as the play is proven up.

In the last 12 months Santos, as operator of the adjoining blocks (Beach & Origin as JV partners) to the south and west of ATP927P, is now starting to recognise the potential of the area through increased activity. Real Energy believes it will be able to prove up significant reserves of gas within our acreage.

Corporate

Real Energy is one of the few remaining independent companies with significant exposure to the Cooper Basin, Australia's premier onshore location for oil and gas exploration and production. The Company feels that as a listed entity it is better placed to unlock the potential value it holds here.

The Company has also assembled a Board and management team with the requisite credentials and experience necessary to provide good corporate and financial guidance and lead the company to the next phase of development and maturity.

After a productive year and through prudent use of its working capital, Real Energy finished Financial Year 2014 in a strong financial position with cash at bank of $12.7 million and no net debt. We further strengthened our cash position by raising $5 Million (before costs) by way of a placement at 31 cents per share after financial year's end.

Outlook

As outlined above, Real Energy has taken the decision to focus on exploring and developing its Cooper Basin permits, where the Company believes it holds considerable unlocked value. The Company feels that with continuing demand and high gas prices on the east coast of Australia, it is well placed to leverage its advantage here.

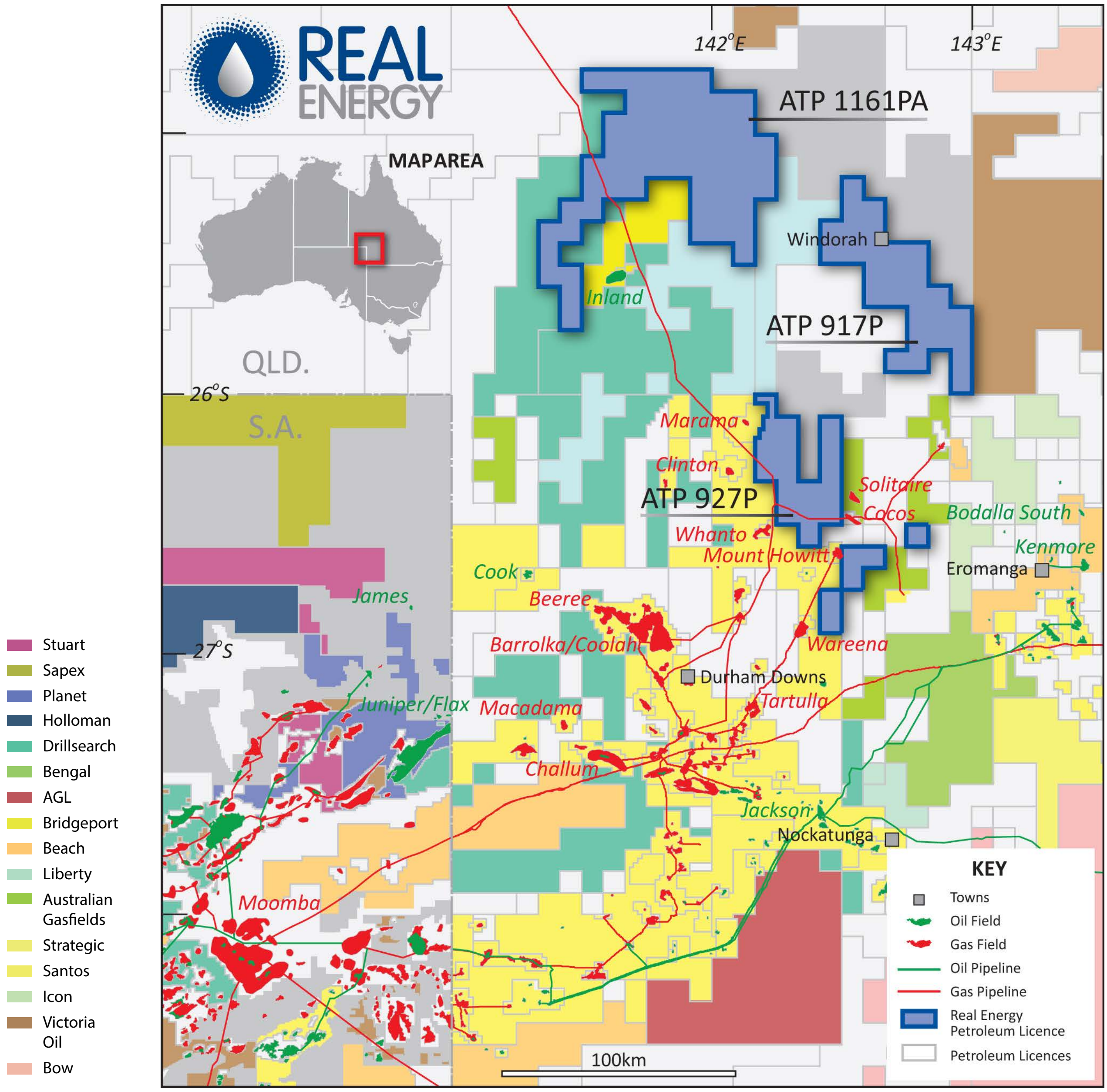
The Cooper Basin is well served by international service providers, as well as infrastructure including gas pipelines to connect to east coast capital cities and also to LNG facilities for export. Real Energy seeks to exploit this opportunity with its basin centred gas play. As I write this report we are drilling our second well Queenscliff 1, and anticipate further promising results to prove up the basin centred gas concept.

The Company is confident that further drilling will further prove its geological concept of gas saturation in the Toolachee and Patchawarra Formations, and thereby enable it to realise the significant potential value it holds with its vast acreage in the Cooper Basin, which we believe is considerably undervalued by comparison to its peers.

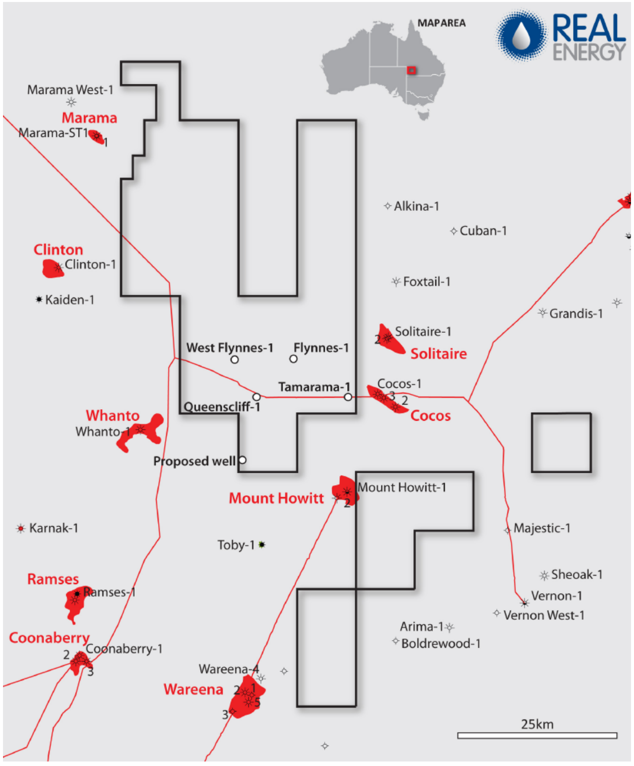
I would like to express my appreciation to shareholders for their support over the last 12 months and believe we have exciting future ahead. I would also like to thank our employees and contractors for the commitment and contribution to Real Energy.

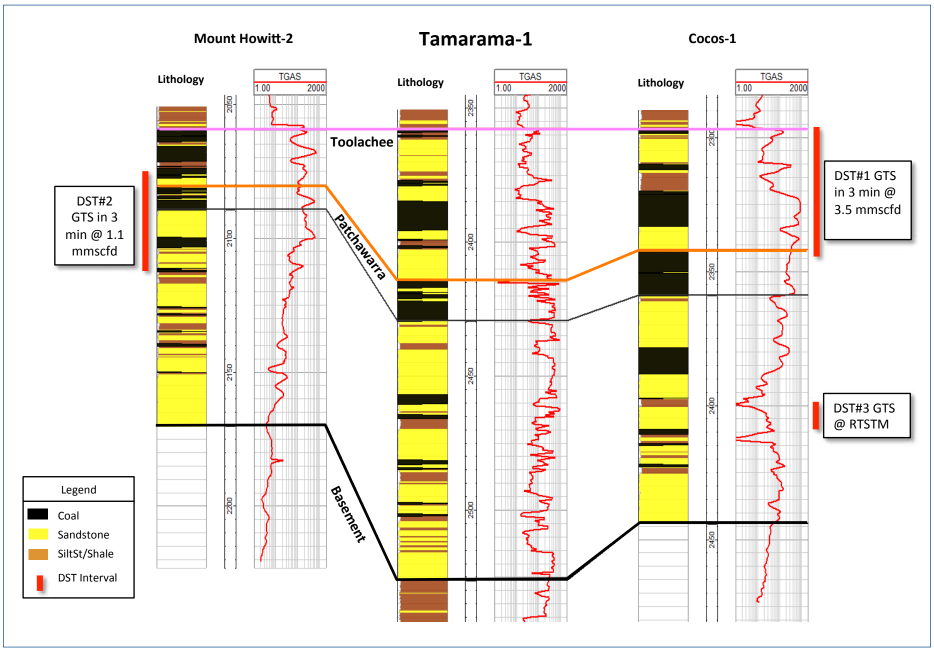
Scott Brown | Managing Director

Real Energy's permits, surrounding fields and infrastructure



A number of conventional oil and gas discoveries have been made around Real Energy's acreage. This means there are **infrastructure and oil field services in proximity** and there is **significant geological knowledge** in the areas in which Real Energy is operating.





The yellow colour in the lithology column represents sandstone, with black representing coal and brown, siltstones and shales. The total gas from the mud log is shown on a logarithmic scale in red. Where there are high gas readings in sandstones, the formation may be gas bearing. Gas readings in Tamarama-1 are comparable to Cocos-1 and Mt Howitt-2 which both flowed gas at commercial rates on testing. The intervals tested in Cocos-1 and Mt Howitt-2 are indicated by the red bars. Abbr – DST = drill stem test; GTS = gas to surface; RTSTM = rate too small to measure; mmscfd millions cubic feet per day.

Directors Report

DIRECTORS REPORT FOR YEAR ENDED 30 JUNE 2014

Your Directors present their report together with the consolidated financial statements of Real Energy Corporation Limited ('the Company') for the financial year ended 30 June 2014.

Operating results

Real Energy is focused on exploration and development of oil and gas acreage in the Cooper Eromanga Basins in South West Queensland. The Company has three 100% owned exploration permits in the Cooper Eromanga Basins covering 8,314 km². The area is the most successful on shore region for oil and gas production in Australia.

Real Energy is planning to drill up to 3 wells in FY15 targeting basin centred gas in the Toolechee and Patchawarra formations. These formations are well known throughout the basin as holding and producing gas.

During the year, the Company successfully raised $10 million through its initial public offering (IPO) resulting in its shares being listed on the Australian Securities Exchange (ASX). The Company issued 40,000,000 ordinary shares during the year as a result of its IPO. The funds will be used to develop Real Energy's assets.

The Company recorded a consolidated loss of $990,306 for the year ended 30 June 2014 (FY2013: $1,038,881 loss).

Financial position

The net assets of the consolidated group have increased by $10,156,112 from 30 June 2013 to $14,851,147 at 30 June 2014. This increase is largely due to the proceeds from share issues raising $10,000,000.

The Company's working capital, being current assets less current liabilities, has improved from $3,520,889 to $12,513,338 in 2014. The directors believe the Company is in a strong and stable financial position to continue its exploration and development activities.

Principal activity

The principal activity of the Company during the financial year ended 30 June 2014 was the exploration and evaluation of oil and gas projects. The principal activity did not change during the financial year.

Dividends

No dividends have been paid or declared or paid by the Company concerning the financial year ended 30 June 2014 (FY2013: $nil).

Significant changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial period under review, not otherwise disclosed in this report or the consolidated accounts.

Events subsequent to balance date

On 8 September 2014, Real Energy commenced drilling its maiden exploration well, Tamarama-1 in ATP 927P in the Cooper Basin. Tamarama-1 is aimed at confirming the presence of gas in the Toolachee and Patchawarra formations and determining reservoir productivity. The well is expected to take approximately two and a half weeks to drill and complete from spud date. If the well is successful it will be cased and suspended for flow testing in early 2015. Subject to results of the Tamarama-1, the Company may drill two additional wells after the completion of Tamarama-1.

Except for the above drilling program, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operation of the consolidated company in future financial years.

Directors

The names and particulars of the qualifications and experience of the directors in office during and since the end of the financial year, unless otherwise stated, are as follows:

Mr Scott Brown – Managing Director

B. Bus (University of Technology, Sydney, Australia)
M. Com (University of New South Wales, Australia)
Member of the Institute of Chartered Accountants and the Petroleum Exploration Society of Australia

Scott is the co founder and Managing Director of Real Energy Corporation Limited with an extensive background in finance and management of public companies including Ardent Resources Limited and Objective Corporation Limited.

Scott was previously Chief Financial Officer of Mosaic Oil NL (Mosaic, ASX: MOS), a listed oil and gas production company with interest in Queensland, New Zealand and offshore WA. During his time at Mosaic, Scott was involved in the acquisition of production properties and the growth of its business and profitability with the companies and was instrumental in putting together a Scheme of Arrangement with AGL Energy Ltd to acquire Mosaic for consideration of $142 million.

Scott was also formerly the CFO and Company Secretary with a number of public companies including Turnbull & Partners Limited, Allegiance Mining NL, FTR Holdings Limited and Garratt's Limited. Scott also worked at accounting firms, Ernst Young and KPMG.

Mr Dang Lan Nguyen (Non – Executive Chairman)

B.Sc. (Baku, Azerbaijan),
M.Sc. - Geology (University of New England, Australia)
Member of the Petroleum Exploration Society of Australia; the American Association of Petroleum Geologists and the Society of Petroleum Engineers

Lan is a professional petroleum geologist and engineer with over 20 years' experience in petroleum exploration, development and production in Australia and internationally including 15 years at Mosaic Oil NL, transforming Mosaic to a successful company as Managing Director with growing production revenues, petroleum reserves/resources and profitability. Lan is credited with the discovery and development of many oil and gas fields in the Surat-Bowen Basins through his innovative introduction of various exploration, drilling and completion technologies to Australia.

Lan is currently a principal/director of Tanvinh Resources Pty Limited and Latradanick Holdings Pty Limited, which provide services to energy and resources companies in Australia and Asia-Pacific region. He is also a Non-executive Director of ASX listed Ardent Resources Limited.

Mr Norm Zillman (Non – Executive Director)

B Sc Geology (University of Queensland, Brisbane, Australia)
B. Sc. Hons. Botany (University of Queensland, Brisbane, Australia)
Member of Australasian Institute of Mining & Metallurgy; Petroleum Exploration Society of Australia

Norm has over 45 years' experience in minerals, petroleum, coal, coal bed methane and geothermal exploration and production in Australia and internationally. His initial experience was as a petroleum geologist with international companies Aquitaine Petroleum in Australia and Papua New Guinea and Union Oil Company of California in Australia and Indonesia.

Norm has occupied the positions of Deputy CEO of Crusader Limited, General Manager Exploration and Production with Beach Petroleum NL and Claremont Petroleum Limited and Manager of the Petroleum Branch of the Queensland Department of Mines and Energy and State Mining Engineer for Petroleum and non-executive co-Chairman of Chinalco Copper Resources Limited (CYU), Non-executive Chairman of Burleson Energy Limited (BUR) and Non-executive Director of Earth Heat Resources Limited (HER).

More recently, Norm has been responsible for a number of successful public resource floats on ASX. He was the inaugural Managing Director and a co-founder of Coal Bed Methane (CBM) company Queensland Gas Company Limited (QGC) being responsible for the initial acquisition of all of its areas, the successful floating on the ASX and the discovery of QGC's first CBM gas field Argyle. He was also the inaugural Chairman and Founder of conventional oil and gas company Great Artesian Oil and Gas Limited. He was also a founder of a number of other ASX listed companies including Blue Energy Limited (BUL), Hot Rock Limited (HRL), Planet Gas Limited (PGS), Bandanna Energy Limited (BND) and Red Gum Resources Limited (RGX).

Mr Michael Mager (Non – Executive Director) (appointed 16 December 2013)

A.B. (Harvard University, United States)
MPhil (University of Cambridge, United Kingdom)

Michael is a partner at Ridge Road Partners, an investment firm based in New York. Michael was previously a partner and fund manager at Ward Ferry Management, one of Asia's leading alternative asset management firms. Michael led its commodity investments, focusing on oil, gas, gold and bulk commodities, and co-managed one of Ward Ferry's three funds.

Michael is an investor with experience supporting the development and growth of successful companies. He has extensive contacts on both the operating and financial sides of the natural resources industry. Michael graduated from Harvard College with an A.B. and is a CFA charterholder. He also holds an MPhil in Economic and Social History from the University of Cambridge.

Company Secretary

Mr Ron Hollands

B. Bus (University of Technology, Sydney, Australia) & MBA (MGSM, Australia) Grad. Dip Corporate Governance (CSA)
Member of the Institute of Chartered Accountants

Ron is also currently the CFO and Company Secretary of Wentworth Holdings Limited (WWM), a listed investment company. He is a Chartered Accountant with over 20 years' experience in accounting, corporate finance and company secretarial matters. His career includes working in professional accounting firms and acting as Company Secretary and/or CFO for a number of companies in a range of industries. He also holds a Certificate of Public Practice and is registered tax agent.

Indemnifying of Officers

During the financial year the Company paid premiums to insure all directors and officers of the Company against possible claims brought against the individual while performing services for the Company and against expenses relating thereto, other than conduct involving a wilful breach of duty in relation to the Company.

Proceedings on behalf of the Company

No person has applied to the Court for leave 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 of those proceedings. The Company was not a party to any such proceedings during the year.

Remuneration Report

Remuneration policy

The board's policy for determining the nature and amount of remuneration for Key Management Personal (KMP) of the consolidated entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors was developed by the remuneration committee and approved by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The remuneration committee reviews executive package annually by reference to the consolidated entity's performance and comparable information from industry sectors and other listed companies in similar industries. The objective of this policy is to secure and retain the services of suitable individuals capable of contributing to the consolidated entities strategic objectives.

The directors and executive directors receive a superannuation guarantee contribution required by the government, which is currently 9.25% in FY2014 and 9.5% from 1 July 2014.

The board policy is to remunerate non-executive directors at market rate for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and review their remuneration annually base on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

The remuneration for each KMP of the Company during the year was as follows:

FY2014	Cash remuneration		Non cash remuneration	Total
	Short term remuneration		Long term remuneration	
KMP	Salaries/fees*	Super contribution	Share based payment	
	$	$	$	$
Scott Brown	301,533	26,182	98,392	426,107
Lan Nguyen**	204,225	3,746	-	207,971
Norm Zillman	36,000	-	24,598	60,598
Michael Mager***	19,500	-	-	19,500
Ron Hollands	9,949	-	-	9,949
Total	**571,207**	**29,928**	**122,990**	**724,125**

* Fees payable inclusive of director fees and consultant fees. ** Consultant services were provided based on normal commercial terms and conditions
*** Michael Mager appointed on 16 December 2013.

Share based payments represent the value amortised within the reporting period as an expense for options that are granted to the specified directors.

FY2013	Cash remuneration		Non cash remuneration	Total
	Short term remuneration		Long term remuneration	
KMP	Salaries/fees*	Super contribution	Share based payment	
	$	$	$	$
Scott Brown	293,174	26,386	-	319,560
Lan Nguyen**	160,500	3,240	-	163,740
Norm Zillman	36,000	-	-	36,000
Andrew Young***	44,274	3,985	-	48,259
Ron Hollands	16,421	-	-	16,421
Total	**550,369**	**33,611**	**-**	**583,980**

* Fees payable inclusive of director fees and consultant fees. ** Consultant services were provided based on normal commercial terms and conditions. *** Andrew Young resigned 26 March 2013

Director Interest

Directors' beneficial interest in shares and options at the date of this report is:

Directors	Balance at beginning of year		Movement during the year		Balance at end of year	
	Ordinary shares	Options*	Ordinary shares	Options*	Ordinary shares	Options*
Scott Brown	23,454,000	-	2,354,000	10,842,500	25,808,000	10,842,500
Lan Nguyen	19,800,000	-	700,000	5,220,000	20,500,000	5,220,000
Norm Zillman	3,600,000	-	200,000	1,900,000	3,800,000	1,900,000
Michael Mager	360,000	-	-	90,000	360,000	90,000
Total	47,214,000	-	3,254,000	18,052,500	50,468,000	18,052,500

*Options comprised Director Options & Loyalty Options. Director options are exercisable at 30 cents expiring 30 September 2016 and Loyalty Options are exercisable at 30 cents expiring 31 May 2015.

Board committee

To facilitate achieving its objectives, the Board has established 2 sub-committees comprising board members – the audit committee and remuneration committee. Each of these committees has formal terms of reference that outline the committee's roles and responsibilities, and the authorities delegated to it by the Board.

Remuneration committee

The Board has established a Remuneration Committee and its role is set out in a formal charter which is available in the Corporate Governance Statement.

The Remuneration Committee is responsible for the evaluation of the Board, committee and individual Directors' performance. The Chairman of the remuneration Committee is not Chairman of the Board and the Committee consists of two members including one independent Non-executive director and one Non-executive director. They are Michael Mager (Chairman) and Lan Nguyen. It is intended that the Committee will meet at least one time per year, or as frequently as required.

Audit committee

The role of the audit committee is to assist the Board in monitoring the processes and controls associated with the financial reporting function that ensure the integrity of the company's financial statements. The responsibilities of the Committee are set out in a formal charter which is available in the Corporate Governance Statement.

The Audit Committee Charter sets out the policy for the selection, appointment and rotation of external audit engagement partners.

The Committee makes recommendations to the Board regarding the adequacy of the external audit and compliance procedures. The Committee evaluates the effectiveness of the financial statements prepared for Board meetings. The Committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information. The Chairman of the Audit Committee is not Chairman of the Board and the Committee consists of two members including one independent Non-executive director and one Non-executive director. They are Norman Zillman (Chairman) and Lan Nguyen. It is intended that the Committee will meet at least two times per year or as frequently as required.

Meetings of Directors and committees

The number of directors' and committees' meetings of the Company held during the year ended the 30 June 2014 and the numbers of meetings attended by each director are as follows:

Directors	Board Meetings		Audit Committee Meetings		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Scott Brown	7	7	-	-	-	-
Lan Nguyen	7	7	2	2	-	-
Norm Zillman	7	7	2	2	-	-
Michael Mager (Appointed 16 December 2013)	7	4	-	-	-	-

Employees

The company had four (4) employees at 30 June 2014 (FY2013: four).

Environmental Regulations and Performance

The Company has a statutory obligation to protect the environment in areas in which it was and is exploring. During the reporting period the Group did not fail to meet its obligations pursuant to any environmental legislation.

Likely Developments and Expected Results

The Company will continue to undertake its activities described in this report with major emphasis on expanding the Company's business through organic growth.

Further information as to likely developments in the operations of the Company and the expected results of those operations in future years have not been included in this report because, in the opinion of the Directors, it would prejudice the interests of the Company.

Share Options

During the year the Company issued 5,000,000 options to Directors. These options are subject to Employee Share Options Plan rules, and can be exercised upon the payment of 30 cents each and expire on 30 September 2016. And, there are 4,000,000 options issued to the Lead Manager of the issue at the price of 34 cents each and they expire on 12 December 2016. Those options are unlisted and subject to escrow.

Pursuant to the Company Prospectus dated 14 October 2013 and Supplementary Prospectus dated 21 October 2013, the Company issued 20,000,000 Loyalty Options to the shareholders who subscribed new shares at IPO and were registered as shareholder on 11 April 2014. A total of 17,588,256 Loyalty Option met this condition and are listed on the ASX under the code ASX: RLEO.

These options will expire on 31 May 2015 and can be exercised at 30 cents each.

Non-audit services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporation Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reason:

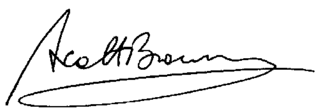
- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principal relating to auditor independence in accordance with *APES 110: Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standard Board.

Auditor's independence declaration

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 53 of the financial report.

Signed in accordance with a resolution of the Board of Directors.

Sydney, 25 September 2014



Scott Brown

Managing Director

To ensure the Company operates effectively and in the best interest of shareholders, having regard to the nature of the Company's activities and its size, the Company has endorsed the ASX Corporate Governance (Council) Corporate Governance Principles and Recommendations (ASX Principles). The Company aims to follow the best practice recommendations for listed companies to the extent that it is practicable.

Set out below are the fundamental corporate governance practices of the Company and the extent to which the Company complies with ASX Principles.

The Company has adopted Recommendation 1.1 to disclose the functions reserved to the Board and those delegated to Senior Executives.

The Board's role is to govern Real Energy rather than to manage it. In governing Real Energy, the Directors must act in the best interests of Real Energy as a whole. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of Real Energy. Each candidate will confirm that they have the necessary time to devote to their Company Board position prior to appointment. In addition, non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of Real Energy. It is required to do all things that may be necessary to be done in order to carry out the objectives of Real Energy.

Without intending to limit the general role of the Board, the principal functions and responsibilities of the Board include the following:

- formulation and approval of the strategic direction objectives and goals of the Company;
- the prudential control of the Company's finances and operations and the monitoring of the financial performance of the Company;
- the resourcing, reviewing and monitoring of executive management;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed; and
- the establishment and maintenance of appropriate ethical standards.

The Board generally holds meetings every two months however additional meetings may be called as required.

In carrying out its governance role, the main task of the Board is to oversee the performance of Real Energy. The Board is committed to Real Energy's compliance with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body.

The responsibilities of the Real Energy Board are those responsibilities delegated by the Real Energy Board to Board Committees and management and are set out in the Board Charter. Details of the charter are available on the Company's website under the "Corporate Governance" section.

Independent professional advice and access to Company information

Each Director has the right of access to all Real Energy information and to Real Energy's executives. Further, the Board collectively and each director, subject to informing the Chairman, has the right to seek independent professional advice from a suitably qualified adviser, at Real Energy's expense, to assist them to carry out their responsibilities. Where appropriate, a copy of this advice is to be made available to all other members of the Board.

Where the Board considers that particular expertise or information is required, which is not available from within their members, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Relationship with management

The Company has adopted Recommendation 1.2 for evaluating the performance of senior executives.

The Board has delegated responsibility for the day-to-day operations of Real Energy to senior executives as set out in the Board Charter. It is the role of senior executives to manage Real Energy in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

Performance review/evaluation

The Company has adopted recommendation 1.3 by implementing evaluations of senior executives.

Senior executive key performance indicators are set annually, with performance appraised by the Board, and reviewed in detail by the Remuneration Committee at the end of the financial year.

Principle 2:
The Board is structured to add value

Composition of the Board and details of Directors

The Real Energy Board will comprise Lan Nguyen (Non-executive Chairman), Scott Brown (Managing Director and Chief Executive Officer), Norm Zillman (Non-executive Director) and Michael Mager (Non-executive Director).

The Company has adopted Recommendation 1.2 by having three independent Directors on the Board which constitutes a majority of the Board.

All incumbent Directors bring an independent judgment to bear in Board deliberations. The Company recognises the importance of Non-executive Directors and the external perspective and advice that Non-executive Directors can offer. It is the approach and attitude of each non-executive Director which determines independence and this must be considered in relation to each Director, while taking into account all other relevant factors. Determination of the independence of Directors is made with reference to the factors set out in the relationships affecting independent status in the ASX Principles.

The Company considers that Norman Zillman (appointed 28 February 2011) and Michael Mager (appointed 16 December 2013) are independent Directors.

Regular assessment of independence

An Independent Director, in the view of the Company, is a Non-executive Director who:

- is not a substantial shareholder of the Company or an Officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with a service provider;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which would, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The composition of the Board is reviewed periodically with regards to the optimum number and skills of Directors required for the Board to properly perform its responsibilities and functions.

Chairman and Managing Director

The Company follows Recommendation 2.2. The office of Chair is held by Lan Nguyen, a Non-executive Director.

The Chairman leads the Board and has responsibility for ensuring the Board receives accurate, timely and clear information to enable Directors to perform their duties as a Board.

The Managing Director is responsible and accountable to the Board for the Company's management. Scott Brown is the Managing Director of the Company and performs the role of Chief Executive Officer. Therefore, the Company follows Recommendation 2.3.

Remuneration Committee

The Company follows Recommendation 2.4.

The Board has established a Remuneration Committee (Committee) and its role is set out in a formal charter which is available on the Company's website under "Corporate Governance" section.

The Remuneration Committee is responsible for the evaluation of the Board, committees and individual Directors' performance. The Chairman of the Remuneration Committee is not Chairman of the Board and the Committee consist of two members including one independent Non-executive director and one Non-executive director as disclosure in Directors' report.

Performance review and evaluation

The Company follows recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the Board, and disclosure requirements under Principle 2.

It is the policy of the Board to ensure that the Directors and executives of the Company are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. The performance of executives is monitored by the Remuneration Committee. The performance of individual Directors is monitored by the Chairman. The Chairman also speaks to Directors individually regarding their role as a Director.

Induction and education

The Company has a policy of providing each new Director or officer with a copy of the following documents:

- Audit and Risk Committee Charter;
- Remuneration Committee Charter;
- Code of Conduct;
- Continuous Disclosure Policy; and
- Share Trading Policy.

Access to information

Each Director has access to Board papers and all relevant documentation.

Skills knowledge and experience

Directors are appointed based on the specific corporate and governance skills and experience required by the Company. The Board consists of a relevant blend of personal experience in accounting and finance, law, financial and investment markets, financial management and public company administration, and, Director-level business or corporate experience required by the Company.

Nomination and appointment of Real Energy Directors

The Board acts as a nomination committee. Members of the Board have been brought together to provide a blend of qualifications, skills and domestic and international experience within the oil and gas industry.

The Constitution provides that Directors are subject to retirement by rotation, by order of length of appointment. Retiring Directors are eligible for re-election by shareholders at the general meeting of the Company.

Evaluation of Real Energy Board performance

The Board will evaluate its performance and that of its members on a regular basis at least annually.

Principle 3:
The Board promotes ethical and responsible decision making

The Company follows Recommendation 3.1.

Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of Real Energy have agreed to keep confidential information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Company code of conduct and ethics

As part of its commitment to recognising the legitimate expectations of stakeholders and promoting practices necessary to maintain confidence in the Company's integrity, Real Energy has an established Code of Conduct to guide compliance with legal, ethical and other obligations to legitimate stakeholders and the responsibility and accountability required of the Company's personnel for reporting and investigating unethical practices or circumstances where there are beaches of the Code. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This Code governs all Real Energy's commercial operations and the conduct of Directors, employees, consultants, contactors and all other people when they represent Real Energy. This Code also governs the responsibility and accountability required of the Company's personnel for reporting and investigating unethical practices.

The Board, management and all employees of Real Energy are committed to implementing this Code and each individual is accountable for such compliance. A copy of the Code is given to all employees, contractors and relevant personnel, including Directors, and is available on the Company's website under the "Corporate Governance" section.

Diversity policy

The Company follows Recommendation 3.2.

A Diversity Policy has been established which provides for a work/life balance designed to aid female participation in its workforce through flexible working hours and part-time employment.

The Company hires staff who are competent in the role irrespective of gender and currently employs females from a variety of cultural backgrounds and industries. In respect of its operations the Company has a preference for the employment of local citizens both male and female.

The Company does not follow Recommendations 3.3 and 3.4 because of the changing and casual nature of most of its workforce and the nature of mining work does not permit the Company to demonstrate meaningful measurable objectives for achieving specific proportions of its workforce who are male or female at any particular time. The Board is confident that adherence to the Diversity Policy will ensure that all female candidates for employment will be considered for positions on merit irrespective of gender pursuant to its diversity policy.

Trading in Real Energy shares

Under law, (and under Real Energy's Share Trading Policy), dealing in Real Energy shares is subject to the overriding prohibition on trading while in possession of insider information.

In addition, Real Energy's Share Trading Policy prohibits Directors from taking advantage of their position or information acquired, in the course of their duties, and the misuse information for personal gain or to cause detriment to the Company.

Directors, senior executives and employees are required to advise Real Energy's Company Secretary of their intentions prior to undertaking any transaction in Real Energy securities. If an employee, officer or Director is considered to possess material non-public information, they will be precluded from making a security transaction until after the time of public release of that information.

Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

Details of the policy are available on the Company's website under the "Corporate Governance" section.

Conflict of interest

To ensure that Directors are at all times acting in the best interests of the Company, Directors must:

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

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

Related party transactions

Related party transactions include any financial transaction between a Director and the Company as defined in the Corporations Act or the ASX Listing Rules. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction. The Company also discloses related party transactions in its financial statements as required under relevant Accounting Standards.

Publicly available information

The Company has adopted recommendation 3.5 by making publicly available on the Company's website, the Share Trading Policy, Continuous Disclosure Policy and Code of Conduct on the Company's website under the "Corporate Governance" section.

Principle 4:
The Board safeguards integrity in financial reporting

Audit Committee

The Board follows Recommendations 4.1, 4.2, 4.3 and 4.4.

The Board has established an Audit Committee to assist the Board. The responsibilities of the Committee are set out in a formal charter which is available on the Company's website under the "Corporate Governance" section.

The Audit Committee Charter sets out the policy for the selection, appointment and rotation of external audit engagement partners.

The Committee makes recommendations to the Board regarding the adequacy of the external audit and compliance procedures. The Committee evaluates the effectiveness of the financial statements prepared for Board meetings. The Committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information. The Chairman of the Audit Committee is not Chairman of the Board and the Committee consists of two members including one independent Non-executive director and one Non-executive director. They are Norman Zillman (Chairman) and Lan Nguyen. It is intended that the Committee will meet at least four times per year, or as frequently as required.

Auditor

A D Danieli Audit Pty Ltd has been appointed as the auditor of Real Energy. The appointment, removal and remuneration (not including amounts paid for special or additional services provided by the auditor) of the auditor is subject to Shareholder approval.

Principle 5:
The Board makes timely and balanced disclosure

The Board follows Recommendations 5.1 and 5.2.

Continuous disclosure

Real Energy appreciates the importance of timely and adequate disclosure to the market, and is committed to making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information.

Once listed, Real Energy will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the Listing Rules, Real Energy will be required to disclose to the ASX any information concerning Real Energy which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the shares. The Board has designated Real Energy's Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX.

The Board has established a written policy for ensuring compliance with ASX Listing Rule disclosure requirements and accountability at senior executive level for that compliance. A copy of the Real Energy Continuous Disclosure Policy is available on the Company's website under "Corporate Governance" section.

Principle 6:
The Company respects the rights of shareholders

The Company follows Recommendations 6.1 and 6.2.

Shareholder communication

Real Energy respects the rights of its Shareholders and to facilitate the effective exercise of those rights, Real Energy communicates with its Shareholders continually and periodically and encourages shareholder participation at annual general meetings. Periodic ASX announcements include quarterly reports, the half-year report, annual report and annual general meeting presentations. Copies of all ASX announcements and reports are made available on the Company's website. Shareholders are encouraged to provide an email address to receive electronic copies of all announcements and reports. The independent external auditor attends the Annual General Meeting to respond to questions from Shareholders on the conduct of the audit and the preparation and content of the audit report.

Principle 7:
The Company recognises and manages risk

The Company follows Recommendations 7.1, 7.2, 7.3 and 7.4.

The Board has accepted the role of identifying, assessing, monitoring, managing and mitigating wherever possible, any significant risks applicable to Real Energy and its operations. It has not established a separate committee to deal with these matters as the Directors consider the Board members as a whole are best able to consider risk management of a mining and exploration company in view of their respective qualifications, knowledge and experience in the industry. The Audit Committee is charged with the responsibility of financial risk management.

The Company is committed to the identification, monitoring and management of material business risks of its activities. The Board has in place a number of policies that aim to manage specific risks that have been identified. The Company's personnel are responsible for adhering to the Occupational Health and Safety Policy as part of the risk management process. Further, the Board is aiming to develop an overall policy for the oversight and management of material business risks accommodating its present and future stages of development.

The Board assumes ultimate responsibility for the oversight and management of material business risks and satisfies itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control to manage the Company's material business risks. The Company has implemented management reporting on the Company's key risks. The Board oversees the adequacy and content of risk reporting from management.

The Board will receive on an annual basis an assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

The Company follows Recommendations 8.1, 8.2, 8.3 and 8.4.

Remuneration committee

The Board has established a Remuneration Committee. The Committee consists of Non-executive Directors Michael Mager (Chairman) and Lan Nguyen.

The primary role of this Committee is to assist the Real Energy Board in overseeing the remuneration of the senior executives.

The Committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external advisers. It is intended that the Committee will meet at least once per year, or as frequently as required.

Remuneration of Non-executive Directors

Non-executive Director remuneration is adopted by Shareholders at the Annual General Meeting. The salary and emoluments paid to officers is approved by the Board. The Managing Director has entered into a Directors' Service Agreement for a term not exceeding three years. Consultants are engaged as required pursuant to consultancy agreements. The Company ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Company. All salaries of Directors and Statutory Officers are disclosed in the Annual Report of the Company each year. Details of the Remuneration Committee Charter are available on the Company's website.

Auditors Independence Declaration

A D Danieli Audit Pty Ltd
Authorised Audit Company
ASIC Registered Number 339233
Audit & Assurance Services

Level 14, 275 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

ABN: 56 136 616 610

Ph: (02) 9290 3099
Fax: (02) 9262 2502

Email: add3@addca.com.au
Website: www.addca.com.au

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF REAL ENERGY CORPORATION LIMITED
A.B.N 92 139 792 420
AND CONTROLLED ENTITIES

We declare that, to the best of our knowledge and belief during the year ended 30 June 2014, there have been:

i. No contraventions of the auditor independence requirements as set out in the Corporation Act 2001 in relation to the audit; and

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

A D DANIELI AUDIT PTY LTD

Sam Danieli
Director
25 September 2014

Liability limited by a scheme approved under Professional Standards Legislation

COVER OF EXCELLENCE

Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2014

	Notes	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Continuing operations			
Revenue	2(i)	557,190	298,866
Depreciation & amortisation expenses		(12,562)	(11,947)
Exploration written-off	8	(368)	(61,983)
Share based payments	13	(122,990)	(7,567)
Employee benefits & expenses		(626,734)	(763,360)
Other operating expenses	2(ii)	(784,842)	(495,890)
Total Expenses		**(1,547,496)**	**(1,337,747)**
Profit/(loss) from continuing activities before income tax		(990,306)	(1,038,881)
Income tax expense	3	-	-
Profit/(Loss) from continuing activities after income tax	15	(990,306)	(1,038,881)
Total changes in equity other than those resulting from transactions with owners as owners		(990,306)	(1,038,881)
Earnings per share		**Cents**	**Cents**
Basic loss per share	17	(0.68)	(0.92)
Diluted loss per share	17	(0.68)	(0.92)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Assets			
Current Assets			
Cash & cash equivalents	4	12,742,576	5,782,311
Other assets	5	14,753	552
Trade & other receivables	6	361,070	72,265
Total Current Assets		13,118,399	5,855,128
Non Current Assets			
Property, plant & equipment	7	27,091	35,891
Exploration oil & gas properties	8	2,316,876	1,140,255
Total Non Current Assets		2,343,967	1,176,146
Total Assets		**15,462,366**	**7,031,274**
Liabilities			
Current Liabilities			
Trade & other payables	9	522,782	266,049
Provisions	10	82,279	68,190
Other financial Liabilities	11	-	2,000,000
Total Current Liabilities		605,061	2,334,239
Non Current Liabilities			
Provisions	10	6,158	2,000
Total Non Current Liabilities		6,158	2,000
Total Liabilities		**611,219**	**2,336,239**
Net Assets		**14,851,147**	**4,695,035**
Equity			
Equity contribution	12	19,062,500	7,062,500
Accumulated costs of equity	12	(1,969,391)	(776,898)
Reserves	14	365,093	26,182
Accumulated losses	15	(2,607,055)	(1,616,749)
Total Equity		**14,851,147**	**4,695,035**

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

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

Consolidated Group	Contributed equity $	Fund Raising Costs $	Accumulated losses $	Reserves $	Total $
Opening Balance 1 July 2012	7,040,000	(253,750)	(577,868)	18,615	6,226,997
Loss for the financial period	-	-	(1,038,881)	-	(1,038,881)
Transactions with shareholders					
Issue of shares	22,500	(523,148)	-	-	(500,648)
Share based payments	-		-	7,567	7,567
Balance as 30 June 2013	**7,062,500**	**(776,898)**	**(1,616,749)**	**26,182**	**4,695,035**
Loss for the financial period	-	-	(990,306)	-	(990,306)
Transactions with shareholders					
Issue of shares	12,000,000	(1,192,493)	-	-	10,807,507
Share based payments	-	-	-	338,911	338,911
Balance as 30 June 2014	**19,062,500**	**(1,969,391)**	**(2,607,055)**	**365,093**	**14,851,147**

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

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

	Notes	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Cash flow from operating activities			
Payments to suppliers & employees		(1,029,185)	(1,086,883)
Net cash provided by operating activities	**24**	**(1,029,185)**	**(1,086,883)**
Cash flow from investing activities			
Interest received	2	362,694	298,865
Deposits paid/refund		-	102,200
Purchases of property, plant & equipment		(3,761)	(4,573)
Payments for exploration & evaluation assets	8	(1,176,990)	(318,548)
Net cash provided by/(used in) investing activities		**(818,057)**	**77,944**
Cash flow from financing activities			
Proceeds from the issue of shares	12	10,000,000	22,500
Fund raising expenses		(1,192,493)	(523,148)
Net cash provided by /(used in) financing activities		**8,807,507**	**(500,648)**
Net increase/(decrease) in cash held		6,960,265	(1,509,587)
Cash & cash equivalents at the beginning of the year		5,782,311	7,291,898
Cash & cash equivalents at the end of 30 June 2014	**4**	**12,742,576**	**5,782,311**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

A. Basis of preparation

This consolidated financial statement is general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Standards Board and the Corporations Act 2001.

The financial information has been prepared on an accruals basis under the historical cost convention and, except where stated, does not take into account current valuations of non current assets.

Non Current assets are re-valued from time to time as considered appropriate by the Directors and are not stated at amounts in excess of their recoverable amounts. Except where stated, recoverable amounts have been determined using undiscounted cash flows.

(i). Compliance with IFRS

The consolidated financial statements of Real Energy Corporation Limited also comply with International Financial Report Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii). Comparison figures

Comparative information has been disclosed in respect of the previous period for amounts reported in the financial statements. Where the presentation of items in the financial statements is amended, the comparative amounts have been reclassified where practical.

(iii). Adoption of new and amended accounting standards

In the current year, the Company have reviewed all the new and revised standards and interpretation issued by the AASB that are relevant to the group operations and effective for annual reporting periods on or after 1 July 2013. The Company adopted all mandatory new and amended Standards and interpretations.

It has been determined by the Company that there is no impact, material or otherwise of the new and revised standards and interpretations on the group and, therefore, no changes in necessary to the group accounting policies.

The Company also reviewed all new standards and interpretations that have been issued but not yet effective for the held year ended 30 June 2014. As a result of this review the directors determined that there is no impact, material or otherwise of the new and revised standards and interpretations on the group and, therefore, no change is necessary to the group accounting policies.

(iv). Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both external and within the company. Actual results may differ from these estimates.

B. Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of all entities controlled by Real Energy Corporation Limited (''Parent Entity") as at 30 June 2014. Controlled entity is the entity over which the Parent Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Entity controls another entity.

C. Going concern

This financial report has been prepared on a going concern basis, which contemplates the continuity of business activities and the realisation of assets and payments of liabilities in the normal course of business.

The directors believe the Company will be able to pay its debts as and when they fall due and to fund near term anticipated activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

D. Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control. The business combination will be accounted for form the date that control is attained, whereby the fair value of the identifiable assets acquired and liability (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

E. Plant & equipment

Each class of property, plant and equipment is carried at cost or fair value less, any accumulated depreciation.

Plant and equipment is measured on a cost basis. The carrying value of property, plant and equipment is reviewed annually to ensure that it is not in excess of the net recoverable amount.

Depreciation

Plant and equipment are depreciated over their estimated useful life using the straight line method. The principal depreciation rates used are:

- Furniture & Fittings 15%
- Office equipments 25%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

F. Trade receivables and payables

(i) Trade debtors

Trade debtors are carried at amounts due less any allowance for doubtful debts. An allowance is raised for any doubtful debts based on a review of all outstanding amounts at the reporting date. Bad debts are written off during the period in which they are identified.

(ii) Payables

These are unpaid amounts for goods and services provided to the Company prior to the end of the financial year. Payables are unsecured and are settled within the time agreed with suppliers.

G. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and service tax (GST) except:

(i) Where the amount of GST incurred is not recoverable from the relevant taxation authority.

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities is classified as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

H. Cash and cash equivalents

For the purposes of the Statement of cash flows, cash includes:

(i) cash on hand and cash on deposit with banks or financial institutions, net of bank overdrafts; and

(ii) investments in money market instruments with less than 180 days to maturity.

All intercompany transactions and balances are eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Parent Entity.

I. Employee benefits

Liabilities for wages and salaries, and annual leave are recognised, and are measured as the amount unpaid at the reporting date at the remuneration rate expected to apply at the time of settlement, including allowances for on costs if applicable, in respect of employees' services up to that date.

A liability for long service leave is recognised, and measured as the present value of future payments to be made in respect of services provided by employees up to the reporting date. Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred. The Company does not operate any defined benefit superannuation plan.

J. Leases

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.

K. Capital risk management

The consolidated entity and Real Energy's objective is to safeguard its ability to continue as a going concern and to maintain a conservative capital structure so that management can focus on running its core business together with being an attractive company for shareholders and potential investors.

The Company will consider the most appropriate use of debt and equity to maximise its returns while maintaining a low risk capital structure.

L. Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Once an area of interest enters a development phase, historical capitalised exploration expenditure is transferred to capitalised development expenditure.

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

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

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

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

NOTE 1. Summary of significant accounting policies (continued)

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

M. Share based payments

When goods or services received are acquired in a share based payment transaction, they are recognised as expenses or assets, as determined by the nature of the goods or services received, over the vesting period attached the equity instrument acquired in the transaction. A corresponding increase is recognised in equity.

The goods or services are measured by reference to the fair value of goods or services received, or where this is not possible, indirectly, by reference to the equity instrument acquired. The fair value of the equity instrument is measured at grant date.

N. Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the Income Statement is matched with the profit from ordinary activities after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

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

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset only where a legally enforceable right of set off exists and the deferred tax assets and liabilities relate to the same taxable entity.

Deferred tax assets are not brought to account unless it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

O. Contributed equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

P. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Interest revenue is recognised using the effective interest rate method taking into account rates applicable to the financial assets.

Q. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

R. Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or less, unless the asset is carried at a revalued amount in accordance with another standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

S. Options issued

There were 5,000,000 options issued to Directors on the 24 September 2013. The options cannot be transferred, sold or otherwise exchanged to another party and it can be exercised upon payment of 30 cents each and expire on 30 September 2016. And there are 4,000,000 options issued to the Lead Manager for completion of the company IPO on 12 December 2013 at the price of 34 cents each and expire on 12 December 2016. Those options are unlisted and subject to escrow.

Pursuant to the Company Prospectus dated 14 October 2013 and Supplementary Prospectus dated 21 October 2013, the Company issued 20,000,000 Loyalty Options with a condition that the holders still be a registered shareholder on 11 April 2014. A total of 17,588,256 Loyalty Options met this condition and are listed on the ASX under the code ASX: RLEO. These options will expire on 31 May 2015 and can be exercised at 30 cents each.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

T. Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sells the assets (i.e. Trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, expect where the instrument is classified "at fair value through profit or loss", in which cash transaction costs are recognised as expenses in profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financially asset or financial liability. Revisions to expect future net cash flows will necessitate and adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Company does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(ii) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

(iv) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using the probability-weighted discounted cash flow approach. The probability has been based on:

(i) The likelihood of the guaranteed party defaulting during the next reporting period;
(ii) The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
(iii) The maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

NOTE 1. Summary of significant accounting policies (continued)

U. Critical accounting estimates and judgements

Key estimate

(i) Impairment

The company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgements

(i) Exploration and evaluation expenditure

The company capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

V. New accounting standards for application in future periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Company, together with an assessment of the potential impact of such pronouncements on the Company when adopted in future periods, are discussed below:

(i) AASB 9: Financial Instruments and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

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

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Company's financial statements.

(iii) Interpretation 21: Levies (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to impact the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1. Summary of significant accounting policies (continued)

(iv) AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to impact the Company's financial statements.

(v) AASB 2013-4: Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to AASB 139: Financial Instruments: Recognition and Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to impact the Company's financial statements.

(vi) AASB 2013-5: Amendments to Australian Accounting Standards – Investment Entities (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: Consolidated Financial Statements to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to impact the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
NOTE 2.		
(i) Revenue		
Interest revenue	362,694	298,866
Development & Research tax offset refund	194,496	-
Total	557,190	298,866
(ii) Other operating expenses		
- Advertising and marketing fees	(94,015)	(968)
- Consultant fees	(143,215)	(121,878)
- Listing fee	(117,767)	-
- Rent expenses	(95,638)	(109,019)
- Travel and accommodation expenses	(95,610)	(94,977)
- Other expenses	(238,597)	(169,048)
Total	(784,842)	(495,890)
NOTE 3. Income tax		
Prima facie income tax expense on the profit/(losses) from ordinary activities at 30%	(297,092)	(311,664)
Add previous year's loss	(485,024)	(173,360)
Tax losses not brought to account	(782,116)	(485,024)
NOTE 4. Cash & cash equivalents		
Cash at bank	12,742,576	5,782,311
NOTE 5. Other assets		
Prepayment – Insurance & others	14,753	552
Total	14,753	552
NOTE 6. Trade & other receivables		
GST refund & other receivables	69,902	31,543
Interest & other receivables	291,168	40,722
Total	361,070	72,265

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
NOTE 7. Plant and equipment		
Furniture and fittings	2,918	2,918
Less accumulated depreciation	(881)	(464)
Total furniture and fittings	2,037	2,454
Office equipment	50,611	46,850
Less accumulated depreciation	(25,557)	(13,413)
Total office equipment	25,054	33,437
Closing balance at 30 June 2014	**27,091**	**35,891**

NOTE 8. Exploration oil & gas properties

Opening balance	1,140,255	883,690
Expenditure incurred during the year	1,176,990	318,548
Exploration written off during the year	(369)	(61,983)
Closing balance at 30 June 2014	2,316,876	1,140,255

On 17 March 2014, the Queensland Government granted the transfer of the tenements of ATP927P & ATP 917P from Drillsearch Energy and Circumpacific Energy to Real Energy. The Company is in negotiation for land access and cultural heritage clearance for ATP 927P in order to process its proposed exploration drilling program in FY2015.

Real Energy was advised on 21 May 2012 that is was the preferred tenderer for ATP1161PA. The Company has accepted the Queensland Governments offer in respect of ATP1161PA. The grant of ATP1161PA is subject to Native Title and conditions imposed by the Queensland Government. The Company expects these conditions to meet in due course. Activities to date in ATP1161PA at costs of $18,043 were for the preparation works required for this tenement under the Right to Negotiate process.

NOTE 9. Trade & other payables

Trade creditors	460,344	255,549
Sundry creditors	62,438	10,500
Total	522,782	266,049

NOTE 10. Provisions

Current provision		
Current leave provision	82,279	68,190
Sub total	82,279	68,190
Non-current provision		
Non-current leave provision	3,160	-
Other provision – make good provision	2,998	2,000
Sub total	6,158	2,000
Total provision	88,437	70,190

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $

NOTE 11. Other financial liabilities

Convertible Notes	-	2,000,000

Notes have been converted to 14,400,000 of ordinary shares on 14 October 2013 as all required conditions was subsequently met on lodgement of Prospectus to ASX. And there was no interest applied to the notes prior to conversion.

NOTE 12. Issued capital/shares

FY2014	No. of shares	Contributed Equity $
Existing shares at beginning of the year	112,959,000	7,062,500
Share converted on 14 October 2013	14,400,000	2,000,000
Share issued initial public offer on 12 December 2013	40,000,000	10,000,000
Balance at end of 30 June 2014	167,359,000	19,062,500
Accumulated share raising costs		(1,969,391)
Balance at end of 30 June 2014		**17,093,109**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

FY2013	No. of shares	Contributed Equity $
Existing shares at beginning of the year	62,530,000	7,040,000
Share issued on 26 Sep 2012	225,000	22,500
Share issued on 26 Apr 2013	50,204,000	-
Balance at end of 30 Jun 2013	112,959,000	7,062,500
Accumulated share raising costs		(776,898)
Balance at end of 30 June 2013		**6,285,602**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 13. Share base payments

There were 5,000,000 options issued to Directors on the 24 September 2013. The options cannot be transferred, sold or otherwise exchanged to another party and it will lapse if you do not exercise the options before 30 September 2016. Pursuant to the Prospectus dated 14 October 2013 and supplementary Prospectus dated 21 October 2013, there were 4,000,000 options issued to the Lead Manager on the 14 December 2013 for the successes of Initial Public Offer. Options granted are valued by independent analyser by using the Black-Scholes pricing model using the following inputs:

	For Director options	For Lead Manager options
Stock price now (P)	12.5 cents	22 cents
Exercise price of option (EX)	30 cents	30 cents
Number of periods to exercise in years (t)	3 years	3 years
Compounded risk – free internet rate (rf)	2.62 %	2.62 %
Standard deviation (annualised Ð)	90.93 %	90.93 %

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Share based payments	338,911	7,567

NOTE 14. Reserves

Movement in share based payment reserve		
Opening balance	26,182	18,615
Amount expensed during the year	338,911	7,567
Closing balance	365,093	26,182

NOTE 15. Reserves

Accumulated losses at beginning of the year	(1,616,749)	(577,868)
Net profit/(loss) for the year	(1,206,229)	(1,038,881)
Accumulated losses at end of 30 June 2014	(2,822,978)	(1,616,749)

NOTE 16. Auditor's remuneration

Remuneration of the auditor of the consolidated entities for:		
Annual audit	12,160	14,102
Half year review	7,500	-
Other services - IAR for Prospectus	7,435	14,890
Total	27,095	28,992

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 17. Earinings per shares

	No. of shares	No. of shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	145,283,384	112,959,000

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Net profit after income tax attributable to shareholders	(990,306)	(1,038,881)

	Cents	Cents
Earnings per share	(0.68)	(0.92)
Diluted earnings per share	(0.68)	(0.92)

NOTE 18. Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Company's KMP for the year ended 30 June 2014.

The totals of remuneration paid to KMP if the Company during the year are as follows:

Short term employee benefits	517,207	550,369
Share based payments	122,990	-
Other long term benefits	29,928	33,611
Total KMP compensation	724,125	583,980

Short term employee benefits
These amounts include fees and benefits paid to the non-executive Chairman and non-executive directors as well as salary and paid leave benefits to executive directors and other KMP.

Other long term benefits
These amounts represent superannuation paid during the year.

Share based payments
These amounts represent the expense related to the participation of KMP in equity settled benefit schemes as measured by the fair value of the options granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 19. Interest in subsidiary

The consolidated financial statements include the financial statements of Real Energy Corporation Limited and its controlled entity.

Company	Place of Incorporation	Region where business carried on	Principal Activities
Real Energy Queensland Pty Ltd	Australia	Queensland	Oil & gas exploration
Queensland Oil Pty Ltd	Australia	Queensland	Oil & gas exploration

Company	% of issued shares acquired	Consideration paid $	Net tangible assets acquired $
Real Energy Queensland Pty Ltd (incorporated 8 Aug 2011)	100%	2	2
Queensland Oil Pty Ltd (acquired 26 Jun 2014)	100%	2	2

The Company acquired Queensland Oil Pty Ltd on 25 June 2014 under its development strategy and intercompany transaction and balances between Company and its controlled entity are eliminated.

NOTE 20. Related Party transactions

Disclosures relating to key management personnel compensation are set out in the Remuneration Report.
No other transactions have occurred during the period with key management personnel.

NOTE 21. Capital & leasing commitments

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Operating lease commitments – Office lease		
Not later than one year	45,730	107,783
Later than one year but not later than two years	-	45,730
Later than two years but not later than five years	-	-
Later than five years	-	-
	45,730	153,513
Petroleum lease commitments		
Not later than one year	6,000,000	-
Later than one year but not later than two years	10,000,000	-
Later than two years but not later than five years	12,200,000	-
Later than five years	-	-
	28,200,00	-

NOTE 21. Capital & leasing commitments (continued)

The commitments have combined the approved initial work program for permits of ATP 917P & ATP 927P. There are outstanding work commitments carried over to the subsequent permit year as the initial works have not been completed due to the insufficient time after the transfer of the permits granted by Queensland Government from Drillsearch and Circumpacific to Real Energy in March 2014.

On the 8 July 2014, the Queensland Government introduced the extension to work program periods for the tenements by two years which allows the Company to amend its work programs or relinquishment requirements across projects without further terms and conditions. The Company has applied for the extension in order to gain the flexibilities on its exploration work programs. And confirmation for the extension has been received for ATP 917P from the Queensland Government on the 9 September 2014.

NOTE 22. Financial risk management

The Company's activities expose it to a variety of financial risks, market risk (including interest rate risk, commodity price risk, equity price risk and currency risk), credit risk and liquidity risk. This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and their management of capital.

The Company at present does not use derivative financial instruments and did not have any derivative instruments during the year ended 30 June 2014 (2013: nil).

The Company uses different methods to measure different types of risk to which it is exposed. Risk management is carried out by the Company under policies approved by the Board of directors. The Board meets on a regular basis and analyses and discusses the current economic climate and forecasts and provides written principles for overall risk management. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the financial performance of the Company.

Financial risk exposures and management

(a) Market risks

(i) Foreign exchange risk

The Company has minimal exposure to foreign exchange risk.

(ii) Price risk

The Company did not have any exposure to investment or commodity price risk.

(iii) Interest rate risk – cash flow and fair value interest rate risk

The Company does not have any borrowings and therefore no significant exposure to interest rate risk other that interest it receives on surplus cash invested on deposit. The Company invests in short term deposits and the interest return will be affected by the market rates at the time.

All other assets and liabilities in the form of receivables and payables are non-interest bearing. The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

Below is a table of impact of a 1% movement in the interest rate on the funds invested when all other variables are held constant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Interest rate risk	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Impact on average cash and cash equivalent:		
Interest rate +1%	102,271	64,757
Interest rate -1%	(102,271)	(64,757)
Impact on equity:		
Interest rate +1%	102,271	64,757
Interest rate -1%	(102,271)	(64,757)

(b) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statement of financial position and notes to the financial statements.

(c) Net fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The net fair values of the financial assets and financial liabilities approximate their carrying values.

No financial assets and financial liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through credit facilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and matching maturity profiles of financial assets and liabilities.

(e) Capital management

The Board's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital, reserves and accumulated losses as disclosed in the statement of changes in equity.

The Company's Board reviews the capital structure on an annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Company may balance its overall capital structure through new share issues or borrowings.

The Company's overall strategy remains unchanged at 30 June 2014.

NOTE 23. Parent information

(i) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	30-Jun-2014 $	30-Jun-2013 $
Assets		
Current assets	13,047,840	5,824,021
Non-current assets	2,421,609	1,249,424
Total assets	**15,469,449**	**7,073,445**
Liabilities		
Current liabilities	535,158	2,303,132
Non-current liabilities	8,945	2,000
Total liabilities	**544,103**	**2,305,132**
Equity		
Issued capital	17,093,391	6,285,602
Reserves	365,093	26,182
Accumulated losses	(2,532,856)	(1,543,471)
Total Equity	**14,925,346**	**4,768,313**
Total loss	**989,383**	**976,898**
Total comprehensive loss	**989,383**	**976,898**

(ii) Guarantees

The parent entity has held a bank guarantees for the office promise of $69,828 and entered a bank guarantees for its corporate credit card facilities of $20,000 during the year ended 30 June 2014.

(iii) Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

(iv) Contractual commitments

At 30 June 2014, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (FY2013: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 24. Reconciliation of cash flow from operations with loss after income tax

	Consolidated 30-Jun-2014 $	Consolidated 30-Jun-2013 $
Profit/(loss) of the year	(990,306)	(1,038,881)
Amortisation and depreciation	12,562	11,947
Share based payments	338,911	7,567
Interest income	(554,297)	(300,714)
Changes in assets and liabilities that involve recognition in the Income Statement		
Decrease/(increase) in receivables	(45,264)	23,082
Decrease/(increase) in prepayments	(14,201)	28,698
Increase/(decrease) in written-off	368	61,983
Increase/(decrease) in payables	204,795	93,769
Increase/(decrease) in provisions	18,247	25,666
Cash flow from operations	(1,029,185)	(1,086,883)

NOTE 25. Subsequent events note

Other than the following, the directors are not aware of any significant events since the end of the reporting period.

On 8 September 2014, Real Energy commenced drilling its maiden exploration well, Tamarama-1 in ATP 927P in the Cooper Basin. Tamarama-1 is aimed at confirming the presence of gas in the Toolachee and Patchawarra formations and determining reservoir productivity. The well is expected to take approximately two and a half weeks to drill and complete from spud date. If the well is successful it will be cased and suspended for flow testing in early 2015. Subject to results of the Tamarama-1, the Company may drill two additional wells after the completion of Tamarama-1.

NOTE 26. Segment Reporting

AASB Operating Segments require operating segments to be identified on the basis of internal reports about the components of the group that are reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. The chief operating decision maker has been identified as the board of Real Energy Corporation Limited. The group operates in one segment, being oil and gas exploration, evaluation and development in Australia. Accordingly, under the management approach outlined only one operating segment has been identified and no further discloser is required in the financial statements.

Segment information:

	For oil & gas exploration, evaluation & developments	
	As at 30-Jun-2014 $	As at 30-Jun-2013 $
Revenue		
- Interest income	362,694	298,866
- R&D Tax offset income	194,496	-
Total Revenue	557,190	298,866
Expenses	(1,534,934)	(1,325,800)
Depreciation & amortisation expenses	(12,562)	(11,947)
Segment results	(990,306)	(1,038,881)
Assets		
Current assets	13,118,399	5,855,128
Plant & equipment	27,091	35,891
Exploration and evaluation assets	2,343,967	1,140,255
Other non current assets	-	-
Total assets	15,462,366	7,031,274
Current liabilities	605,061	2,334,239
Non-current liabilities	6,158	2,000
Net assets	14,851,147	4,695,035

NOTE 27. Company details

The registered office and principal place of the Company is:

Level 3, 32 Walker Street, North Sydney NSW 2060

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 24 to 49, are in accordance with the Corporations Act 2001 and:

(a) comply with Australian Accounting Standards and the Corporations Regulations 2001; which as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

(b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group;

(c) the financial records of the Company for the financial year have been properly maintained in accordance with s286 of the Corporation Act 2001.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2014.

3. In the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Sydney, 25 September 2014

Scott Brown | Managing Director

Independent Auditor's Report

A D Danieli Audit Pty Ltd
Authorised Audit Company
ASIC Registered Number 339233
Audit & Assurance Services

Level 14, 275 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

ABN: 56 136 616 610

Ph: (02) 9290 3099
Fax: (02) 9262 2502

Email: add3@addca.com.au
Website: www.addca.com.au

Independent Auditor's Report
To the Members of
Real Energy Corporation Limited
A.B.N. 92 139 792 420
And Controlled Entities

Report on the Financial Report

We have audited the accompanying financial report of Real Energy Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 30 June 2014, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The director's of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable to preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements,that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

Independence

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

Opinion

In our opinion:

a. The financial report of Real Energy Corporation Limited is in accordance with the Corporations Act 2001, including:

   i. Giving a true and fair view of the company and consolidated entity's financial positions as at 30 June 2014 and of their performance for the year ended on that date; and

   ii. Complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the remuneration report included on pages 12-13 of the attached report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Real Energy Corporation Limited for the year ended 30 June 2014 complies with s 300A of the Corporations Act 2001.

A D Danieli Audit Pty Ltd

Sam Danieli

Director

25 September 2014

Liability limited by a scheme approved under Professional Standards Legislation

Additional Information

Other Information for Shareholders

Additional information required pursuant to the ASX listing rules and not shown elsewhere in this report as follows:

Fully paid ordinary shares of Real Energy Corporation Limited (ASX: RLE).

(a) Distribution of shareholdings at 12 September 2014

Category of holding	Holders	No. of shares	% of capital
1 – 1,000	25	1,642	0.00
1,001 – 5,000	65	227,190	0.14
5,001 – 10,000	99	861,799	0.51
10,001 – 100,000	246	8,683,892	5.19
100,001 – and over	78	157,584,477	94.16
Total	**513**	**167,359,000**	**100.00**

(b) The twenty largest shareholders at 12 September 2014

Shareholder	Holding	%
Mr Scott Brown	18,000,000	10.76
Mr Dang Lan Nguyen	18,000,000	10.76
Sino Portfolio International Limited	13,320,000	7.96
HSBC Custody Nominees (Australia) Limited	12,140,000	7.25
Sculptor Finance (MD) Ireland Limited	10,389,715	6.21
Perfect Action Limited	5,580,000	3.33
Skill Tact Limited	5,400,000	3.23
Aim Resources Investments Limited	5,400,000	3.23
Mr Jackie Au Yeung	4,500,000	2.69
Gold Resources Limited	4,500,000	2.69
Dai Wen Qing	4,320,000	2.58
Sino Portfolio International Limited	4,000,000	2.39
Sculptor Finance (SI) Ireland Limited	3,734,323	2.23
HSBC Custody Nominees (Aust) Limited	2,880,000	1.72
John Wardman & Associates Pty Limited	2,160,000	1.29
ABN AMRO Clearing Sydney Nominees Pty Limited	2,042,233	1.22
Brown Brothers Pty Limited	1,800,000	1.08
Wealth Chain Developments Limited	1,800,000	1.08
Mr Norman Zillman & Mrs Lorraine Zillman	1,800,000	1.08
Mrs Vanessa Elizabeth Brown	1,800,000	1.08
Total	**123,566,271**	**73.86**

Other Information for Shareholders (continued)

Listed Loyalty Options in Real Energy Corporation Limited (ASX: RLEO) exercisable at 30 cents expiring 31 May 2015

(c) Distribution of options holding at 16 September 2014

Category of holding	Option holders	No. of options	% of capital
1 – 1,000	20	300	0.00
1,001 – 5,000	39	176,000	1.00
5,001 – 10,000	68	643,000	3.66
10,001 – 100,000	132	4,586,956	26.08
100,001 – and over	14	12,182,000	69.26
Total	**273**	**17,588,256**	**100.00**

(d) The twenty largest options holders at 16 September 2014

Optionholder	Holding	%
HSBC Custody Nominees (Australia) Limited	6,070,000	34.51
Sino Portfolio International Limited	2,000,000	11.37
Mr Scott Brown	722,500	4.11
Ms Boon Hui Chua	600,000	3.41
ABN AMRO Clearing Sydney Nominees Pty Limited	559,500	3.18
OH Investments Limited	500,000	2.84
Mr John Andrew Rodgers	400,000	2.27
Citicorp Nominees Pty Limited	300,000	1.71
HSBC Custody Nominees (Australia) Pty Limited	200,000	1.14
Mr John Robson	200,000	1.14
Mr Warwick Barnett Bowden	200,000	1.14
Lawrence Crowe Consulting Pty Limited	150,000	0.85
Mr Allan James Lee & Mrs Julie Robyn Lee	150,000	0.85
Tanvinh Resources Pty Limited	130,000	0.74
North of the River Investments Pty Limited	100,000	0.57
Contemporary Accounting Services Pty Limited	100,000	0.57
Mr Samuel Cyril Driver & Mrs Joanne Leonie Driver	100,000	0.57
Tallinvale Pty Limited	100,000	0.57
Bishopstone Pty Limited	100,000	0.57
Mrs Denise Fay Gordon	100,000	0.57
Total	**12,782,000**	**72.67**

Other Information for Shareholders (continued)

Listed Loyalty Options in Real Energy Corporation Limited (ASX: RLEO) exercisable at 30 cents expiring 31 May 2015

(e) Substantial holders

As at 30 June 2014, the Company has the following substantial shareholders:

1) Och-Ziff Holding Corporation holds 26,400,000 fully paid ordinary shares

2) Mr Scott Brown holds 25,802,000 fully paid ordinary shares

3) Mr Dang Lan Nguyen holds 20,500,000 fully paid ordinary shares

4) Sino Portfolio International Limited holds 17,320,000 fully paid ordinary shares

(f) Voting rights

All ordinary shares carry one vote per share without restriction. One a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. There are no voting rights attaching to options.

Schedule of petroleum tenements

Permits	Area (sq Km)	Expiry date	% Interest FY2014	% Interest FY2013
ATP 917P	2,171	30/06/2019	100	100
ATP 927P	1,718	30/09/2017	100	100
ATP 1161PA	4,425	Under application	100	100

Corporate Directory

Real Energy Corporation Limited

Directors

Scott Brown, B.Bus, M.Com
(Managing Director, Chief Executive Officer)

Norman Zillman, B.Sc., B.Sc Hons
(Non-executive Director)

Lan Nguyen, B.Sc., M.Sc.
(Non-executive Chairman and Director)

Michael Mager, A.B., MPhil.
(Non-executive Director)

Company Secretary

Ron Hollands, B.Bus, M.B.A

Registered Office

Level 3, 32 Walker Street NORTH SYDNEY NSW 2060

Australia

ASX Code

RLE

Auditor

A D Danieli Audit Pty Ltd
Level 14, 275 George Street
SYDNEY NSW 2000

Taxation Advisers

BDO
Level 10
1 Margaret Street
SYDNEY NSW 2000

Share Registry

C/O Real Energy Corporation Ltd Link Market Services Ltd
Level 12, 680 George Street
SYDNEY NSW 2000

Corporate Office

Level 3, 32 Walker Street
NORTH SYDNEY NSW 2060
Australia
Tel: +61 (02) 9955 4008

Internet

www.realenergy.com.au

Email

admin@realenergy.com.au

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ACN 139 792 420

Level 3, 32 Walker Street
NORTH SYDNEY NSW 2060
Australia
Tel: +61 (02) 9955 4008
www.realenergy.com.au