

Pawnee Energy Limited



(Formerly Island Sky Australia Ltd)
ABN 73 122 948 805

FINANCIAL REPORT 2014

Pawnee Energy Limited
ABN 73 122 948 805

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Pawnee Energy Limited

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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2014

The Board of Directors of Pawnee Energy Limited has established corporate governance policies and procedures, where practicable, consistent with the revised Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council (**ASX Recommendations**).

The following statement sets out a summary of the Company's corporate governance practices that were in place during the financial year and how those practices relate to the ASX Recommendations.

In ensuring ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company. The Board is, nevertheless, committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company. This statement outlines the main Corporate Governance practices of the Company disclosed under the ASX Recommendations, including those that comply with best practice and which unless otherwise disclosed, were in place during the whole year ended 31 December 2014.

In March 2014, the ASX Corporate Governance Council released the 3rd edition of the *Corporate Governance Principles and Recommendations*, which applies to ASX listed companies in respect of their first full financial year commencing on or after 1 July 2014. Accordingly, the 3rd edition of the Corporate Governance Principles and Recommendations will apply to Pawnee for its financial year ended 31 December 2015. Pawnee will report its compliance against those recommendations in the Company's Corporate Governance Statement for fiscal year 2015.

PRINCIPLE 1 - Lay solid foundations for management and oversight

Recommendation 1.1 – Recommendation followed

The Board is governed by the Corporations Act 2001(Cth), ASX Listing Rules and a formal constitution adopted by the Company in 2007.

The role of the Board is to provide leadership and direction to management and to agree with management the aims, strategies and policies of the Company for the protection and enhancement of long-term shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal control, risk management and financial reporting.

The Board has an established framework for the management of the entity including a system of internal control, a business risk management process and appropriate ethical standards. In fulfilling its responsibilities, the Board is supported by an Audit & Risk Committee to deal with internal control, ethical standards and financial reporting.

The Board had a Managing Director responsible for the day to day management of the Company including management of financial, physical and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board.

After the Company's former US subsidiary, Island Sky Corporation Inc., was partly disposed in October 2012, Mr Groden stepped down as Managing Director, but remained a Director of the Company. The position of Managing Director is currently vacant.

The Board has adopted a formal statement of matters reserved to it in a board charter that details its functions and responsibilities.

Recommendation 1.2 – Recommendation followed

The Board takes overall responsibility for monitoring the composition of the Board and reviewing the performance and compensation of the Company's Executive directors and senior management with the objective of motivating and appropriately rewarding performance.

A Nomination & Remuneration Committee has been established to:

- review when required, the engagement, performance and remuneration of senior executives of the Company;
- recommend to the Board appropriate terms and conditions of engagement.

The Nomination & Remuneration Committee is comprised of the Board as a whole.

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Recommendation 1.3 – Recommendation not followed

During the period no performance evaluation of the senior executives was undertaken.

Recommendation 1.4 – Recommendation followed

The Company Secretary is strictly accountable through the Chairman of the Board.

PRINCIPLE 2 - Structure the board to add value

Recommendation 2.1 – Recommendation followed

The composition of the Board consists of three directors and the Board considers the majority to be independent directors. The Chairman is a non-executive director.

The Audit & Risk Committee currently consists of two directors whereby both directors are Independent directors of the Company.

Recommendation 2.2 – Recommendation followed

The Chairman, Mr Lindh, is an Independent Director. The Chairman became an Independent Director during the prior year when Mr Lindh ceased being an associate of a Company that is a substantial shareholder to the Company.

Recommendation 2.3 – Recommendation not followed

The Company currently does not have someone currently in the role of Chief Executive Officer. Mr Groden stepped down as Managing Director after Island Sky Corporation was partly disposed

Recommendation 2.4 – Recommendation followed

A Nomination & Remuneration Committee has been established, and the Committee has a Charter that sets out its roles and responsibilities, composition and structure.

The Nomination & Remuneration Committee is comprised of the Board as a whole.

Recommendation 2.5 – Recommendation followed

The performance of the Board is reviewed on an ongoing but informal basis. The Chairman also speaks to each Director individually regarding their role as a Director.

Recommendation 2.6 – Recommendation followed

The names of the directors of the Company and terms in office at the date of this Statement together with their skills, experience, expertise and financial interests in the Company are set out in the Directors' Report section of this report.

Mr Lindh and Mr Martin are considered to be independent. Mr Groden is no longer considered to be an independent director because he is the purchaser under the Sale and Purchase Agreement dated 18 June 2012 (approved by shareholders) under which he purchased 75% of the common stock of the Company's US subsidiary Island Sky Corporation Inc, and the balance of the purchase price remains outstanding.

The Company has no relationships with any of the independent directors which the Company believes would compromise the independence of these directors.

All directors are entitled to take such legal advice as they require at any time and from time to time on any matter concerning or in relation to their rights, duties and obligations as directors in relation to the affairs of the Company at the expense of the Company upon seeking permission and being granted it by the Chairman.

The Company's constitution specifies the number of directors must be at least three and at most ten. The Board may at any time appoint a director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive directors is linked to their holding of executive office.

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Composition of skills and experience of the Board (out of 3 directors)

Skills and Experience	
Industry Experience - Resources including oil and gas - Infrastructure - Membership of industry related organisations - Major projects (including mergers and acquisitions)	2
Executive Leadership/Management - Outside directorships - Senior management positions	3
Financial Acumen - Financial literacy	2
Governance and Regulation - Experience in the governance of organisations - Membership of governance industry bodies or organisations	2
Strategy - Experience to analyse information, think strategically and review and challenge management in order to make informed decisions and assess performance against strategy.	2
Risk - Experience in risk management and oversight.	2

PRINCIPLE 3 - Companies should actively promote ethical and responsible decision making

Recommendation 3.1 – Recommendation followed

The Company does have a formal code of conduct. The Company requires all its directors and employees to abide by the standards of behaviour and business ethics in accordance with the law and the code of conduct.

The following standards of behaviour apply:

- Comply with the laws that govern the Company and its operations.
- Act honestly and with integrity and fairness in all dealings with others and each other.
- Avoid or manage conflicts of interest.
- Use Company assets properly and efficiently for the Company's benefit.
- Contribute to the well being of the Company's key stakeholders.
- Seek to be an exemplary corporate citizen.

Directors are also required to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the Corporations Act 2001, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

Recommendation 3.2 – Recommendation not followed

While the Company embraces the concept of diversity, there is no formal diversity policy as the Board believes that given the size of the Company and the stage of the entity's life, the cost of establishing and managing a formal diversity policy cannot be justified.

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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2014

The Company recognises that each employee brings their own unique capabilities, experiences and characteristics to their work and that the Company values such diversity at all levels of the Company in all that it does. The Company believes in treating people with respect and dignity. The Company strives to create a supportive and understanding environment in which all individuals realise their maximum potential within the Company, regardless of their differences. The Company is committed to employing the best people to do the best job.

Recommendation 3.3 – Recommendation not followed

While the Company does not have a formal diversity policy, the Company has a strong commitment to gender diversity.

Gender diversity will be a strategic focus for the Company in the coming years, particularly with the introduction of recommendations on gender diversity by the ASX Corporate Governance Council.

The current transitional stage in the Company's development does not justify the establishment of measurable objectives.

Recommendation 3.4 – Recommendation followed

For the annual period ending 31 December 2014, the Company provides the following information in relation to employees:

- Percentage of women employees in whole organisation: 0%
- Percentage of women in senior executive positions: 0%
- Percentage of women on the board: 0%

Recommendation 3.5 – Recommendation followed

While the Company does not have a formal diversity policy, it is diverse along many dimensions. Diversity at the Company refers to all the characteristics that make individuals different from each other. It includes characteristics or factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference. The Company believes that the wide array of perspectives that results from such diversity promotes innovation and business success.

PRINCIPLE 4 - Safeguard integrity in financial reporting

Recommendation 4.1 – Recommendation followed

An Audit & Risk Committee has been established by the Company to oversee corporate governance over internal controls, ethical standards, financial reporting, external accounting and compliance procedures.

The main responsibilities of the Audit & Risk Committee include;

- reviewing, assessing and making recommendations to the Board on the annual and half year financial reports and all other financial information published or released to the market by the Company
- overseeing establishment, maintenance and reviewing the effectiveness of the Company's internal controls and ensuring efficacy and efficiency of operations, reliability of financial reporting and compliance with applicable Accounting Standards and ASX Listing Rules
- liaising with and reviewing reports of the external auditor
- reviewing performance and independence of the external auditor and where necessary making recommendations for appointment and removal of the Company's auditor.

Recommendation 4.2 – Recommendation followed

The Audit & Risk Committee consists of two non-executive directors. Both members of the Committee are independent. The Committee is chaired by Mr Martin. It is not practical to have 3 members of the Committee given the current size and structure of the Company.

Recommendation 4.3 – Recommendation followed

The Company's Audit & Risk Committee has a formal documented charter in place, covering Chairman's qualifications, membership, administrative matters, authority, purpose and responsibilities, and specific duties.

Recommendation 4.4 – Recommendation followed

Details of the Audit & Risk Committee members qualifications and attendance at meetings are set out in the Directors' Report section of this report.

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The Committee meets at least twice per annum and reports to the Board. The Managing Director, Company Secretary and external auditor may by invitation attend meetings at the discretion of the Committee.

PRINCIPLE 5 - Make timely and balanced disclosure

Recommendation 5.1 and 5.2 – Recommendations followed

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. The information is made publicly available on the Company's website following release to the ASX.

The Company's has a formal policy for continuous disclosure, which covers disclosure obligations of the Company and individuals, preparation of ASX releases, notifications to the Board prior to ASX releases, lodgement of ASX releases, media releases and management of the policy.

The Company's Managing Director, when that position is operative (and currently the Chairman), has the responsibility for ensuring that all relevant information is released to the market in a timely manner in consultation with the Board. The Company considers this to be a satisfactory protocol given the size and stage of the Company's development.

PRINCIPLE 6 - Respect the rights of shareholders

Recommendation 6.1 and 6.2 – Recommendations followed

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASX Recommendations, information is communicated to shareholders as follows:

- the annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to the other disclosures required by the Corporations Act
- the half yearly financial report lodged with the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders
- notices of all meetings of shareholders
- publicly released documents including full text of notices of meetings and explanatory material made available on the Company's web-site
- disclosure of the Company's corporate governance practices and communications strategy on the entity's web-site.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

PRINCIPLE 7 - Recognise and manage risk

Recommendation 7.1, 7.2 and 7.4 – Recommendations not followed

The Board will regularly review and approve the risk management and oversight of policies of the Company. The risk management and internal control system to manage the Company's material business risks is a responsibility of the Audit and Risk Committee.

Recommendation 7.3 – Recommendation not followed

The Chairman (in place of a Managing Director) and Chief Financial Officer have provided an assurance that the written declarations under s295A of the Corporations Act are founded on a sound system or risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Chairman and Chief Financial Officer gave that assurance at the time the s295A declarations were provided to the Board.

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The Company has not complied with recommendation 7.3 because the position of Managing Director is not currently filled.

PRINCIPLE 8 - Remunerate fairly and responsibly

Recommendation 8.1 – Recommendation followed

The Board has established a Nomination and Remuneration Committee.

Recommendation 8.2 – Recommendation followed

The Board has provided details of the remuneration committee and their attendance at meetings, details of retirement benefit schemes and explained any departures from the recommendations for principle 8 within the Directors report.

Recommendation 8.3 and 8.4 – Recommendations followed

The Remuneration Policy, which sets the terms and conditions of the senior executives, has been approved by the Board. Details of that Policy are set out in the Remuneration Report section of the Directors' Report. Those details distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.

The Company's Corporate Governance Statement covers such matters as Board responsibility, Board composition, performance evaluation, Nomination & Remuneration committee, ethical standards, financial reporting, continuous disclosure, investor relations, risk management and remuneration.

Recommendation 8.4 – Recommendation followed

The Board has provided details of remuneration committee and their attendance at meetings, details of retirement benefit schemes and explained any departures from the recommendations for principle 8 within the Directors report.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

Your Directors present their report on the Company for the financial year ended 31st December 2014.

Directors

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

David John Lindh
Richard Jay Groden
Neville Wayne Martin

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

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Mr Nicholas Lee

Principal Activities

The principal activity of the company was to retain a 25% interest in Island Sky Corporation, which markets and develops a USA Patented, high capacity, energy efficient air-to-water making machine which draws water vapour from the air and converts it into drinking water.

During 2014 the Company sought to expand its activities to enter the oil and gas business in the USA, by partnering with existing operators in the industry to invest in projects that offered suitable returns. That transition was not successfully completed and the Company is now reviewing other opportunities (see further details in 'Review of Operations').

Operating Results

The loss for the year after income tax amounted to \$1,288,994 (2013 loss of \$519,188). The current year loss includes the provision for doubtful debt associated with the amount receivable from the sale of Island Sky Corporation.

Dividends Paid or Recommended

No dividends were paid or declared for payment in the financial year.

Review of Operations

Following the sale of a 75% interest in the Company's USA air to water machine subsidiary in June 2012, the Company has been investigating various other business opportunities. In November 2013, the Company lodged a prospectus seeking to raise capital to enable a transition to a USA focused oil and gas exploration company. The Company was unsuccessful in raising the required capital and since that time there has been a significant downturn in oil prices and softening of the market's enthusiasm for such ventures. The Board has therefore examined opportunities in other areas but has not at this stage identified anything suitable.

The Company continues to hold a 25% interest in Island Sky Corporation and is working closely with that company to receive the balance of the purchase price under the Stock Purchase Agreement executed on 18 June 2012.

The Company's shares continue to be suspended by the Australian Securities Exchange pending re-compliance with the ASX Listing Rules.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

Financial Position

The net assets/(liabilities) of the company have decreased by \$1,288,994 since 31 December 2013 to (\$707,728) at 31 December 2014.

The financial position of the Company shows that it will require additional capital to continue its operation.

Significant Changes in State of Affairs

There no significant changes in the state of affairs of the Company during the financial year, other than mentioned in this report.

Matters Subsequent to the End of the Financial Year

Between the reporting date and the date of this report, the following significant events occurred:

Since the reporting date and the date of this report, Mr Lindh has injected \$19,000 and Mr Martin has injected \$20,030 in cash in the form of unsecured personal loans to the company, in order to allow it to make payments to trade and other payables.

Other than as noted above, there were no events that have occurred subsequent to the financial statement that would materially affect the financial report.

Likely Development and Expected Results of Operations

The Directors are investigating alternative business opportunities following the unsuccessful attempt in 2013 to transition to a US focused oil and gas exploration company.

Environmental Issues

The Company's operations are not subject to significant environmental regulations.

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Personnel	Position
David John Lindh	Independent Non-Executive Chairman
Richard Jay Groden	Independent Non-Executive Director
Neville Wayne Martin	Independent Non-Executive Director
Nicholas Lee	Company Secretary – resigned 20 March 2015
Jonathan Lindh	Company Secretary – appointed 20 March 2015

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

David John Lindh - LLB (University of Adelaide), OAM - Chairman

Member of Audit & Risk Committee and Chairman of Nomination & Remuneration Committee

Mr Lindh is a consultant in corporate and commercial matters, with over 30 years experience both as a lawyer and a company director. Mr Lindh was Chairman of ASX listed Centrex Metals Limited (appointed 23 March 2001 and resigned 21 January 2010) and was a non-executive director of ASX listed Bass Strait Oil Company Ltd until 16 December 2014. Mr Lindh is also a director of various private companies and is a consultant with the Adelaide law firm, Minter Ellison. Mr Lindh has been a director of listed public companies over a long period of time and has significant experience with initial public offerings.

Mr Lindh is an Australian citizen and is aged 69 years.

Richard Jay Groden - B. Arts (University of Florida) - Independent Non-Executive Director

Member of Nomination & Remuneration Committee

Mr Groden is one of the two founders of Island Sky and has played an integral part in the development of the Island Sky technology, products and business plan. He is the former president and CEO of Groden-Stamp Construction Inc. a specialist construction company involved with historic renovations of hotels and office buildings. Mr Groden has served on the Miami Shores Code Enforcement Board and the Metro Dade County Historic Preservation Board, is a former President and Chairman for the Dade Heritage Trust, and a member of the National Trust for Historic Preservation. Mr Groden has been involved in the development of the Island Sky technology since 1998.

Mr Groden is a citizen of the USA and is aged 61 years.

Neville Wayne Martin - LLB (University of Adelaide) - Independent Non-executive Director

Chairman of Audit & Risk Committee and Member of Nomination & Remuneration Committee

Mr Martin is a consultant with the law firm Minter Ellison and has over 40 years' experience in corporate and commercial law. He is a former director of Stuart Petroleum Limited and Austin Exploration Limited (both listed at the time on the ASX), and was also Chairman of Adelaide Energy Limited (was ASX listed) from September 2005 to November 2011. He is currently a non-executive director of ASX listed company Sundance Energy Australia Limited and he is also a director of several unlisted public companies.

Mr Martin is an Australian citizen and aged 66 years.

Nicholas Lee B.Com CA – Former Company Secretary

Mr Lee is a chartered accountant with over 10 years' experience in public practice and commerce.

Jonathan Lindh LLB B Int. St. (University of Adelaide) – Current Company Secretary

Mr Lindh has over 10 years' legal and corporate advisory experience. He holds a Bachelor of Laws, a Bachelor of International Studies and post-graduate qualifications in corporate finance and corporate governance. Jonathan is also company secretary of an unlisted mineral exploration company.

Mr Lindh is an Australian citizen and aged 33 years.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

Since December 2013, 3 meetings of Directors were held. Attendances by each Director during the year were as follows:

Meetings of Directors

	Number eligible to attend	Number attended
<i>David Lindh</i>	3	3
<i>Richard Groden</i>	3	3
<i>Neville Martin</i>	3	3

Audit & Risk Committee meetings

	Number eligible to attend	Number attended
<i>Neville Martin</i>	2	2
<i>David Lindh</i>	2	2
<i>Richard Groden</i>	2 (by invitation)	2 (by invitation)

There was 1 Remuneration Committee meeting held and no Nomination Committee meeting held during the year.

REMUNERATION REPORT – AUDITED

This Report details the nature and amount of remuneration for each key management person of Pawnee Energy Limited.

Remuneration policy

(a) Principles used to determine the nature and amount of remuneration

The following summary refers to the Company's policy regarding remuneration. Most of the remuneration policies are not in operation pending a transition to a new business structure.

The remuneration policy of Pawnee Energy Limited has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The Board of Pawnee Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between Directors, Executives and Shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and other key management of the entity is as follows:

- The remuneration policy, setting the terms and conditions for the Executive Directors and other key management, was approved by the Board. The Nomination & Remuneration Committee may seek professional advice from independent external consultants. No advice has been sourced during the year.
- Under the policy, all Executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Nomination & Remuneration Committee reviews executive packages from time to time by reference to the Company's performance, executive performance and comparable information from industry sectors.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

REMUNERATION REPORT – CONT

The performance of Directors is measured against criteria agreed annually and is based predominantly on the forecast growth of the Company's profits and shareholders' value. The Board may exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel and Directors are also entitled to participate in the employee option arrangements.

Under the policy, the key management personnel and Directors are entitled to receive a superannuation guarantee contribution required by the government, which is currently 9% in Australia and 7.5% in the USA, and do not receive any other retirement benefits. The key management personnel have the option to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and key management personnel is valued at the cost to the company and expensed. Shares given to Directors and executives are valued as the difference between the market price of those shares and the amount paid by the Director or key management personnel. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Nomination & Remuneration Committee determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The current maximum aggregate remuneration of Non-Executive Directors has been set at \$500,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as Directors. The maximum aggregate amount of fees can only be increased with prior approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the consolidated group. However, to align Directors' interests with Shareholder interests, the Directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Company performance, Shareholder wealth and Director and key management personnel remuneration

The remuneration policy has been tailored to increase goal congruence between Shareholders, Directors and key management personnel. The issue of options to the Directors and key management personnel encourages the alignment of personal and Shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

REMUNERATION REPORT – CONT

(b) Details of Remuneration

	Appointed as Director	Appointed as key management Personnel of company
<i>David Lindh (Chairman)</i>	12 April 2007	n/a
<i>Richard Groden</i>	17 January 2007	n/a
<i>Neville Martin</i>	17 January 2007	n/a

(c) Remuneration

Directors	Short-term Benefits	Share-based payment	Post-employment Benefits	Total	Performance Related
	Salary & fees	Options	Superannuation		
2014	\$	\$	\$	\$	%
<i>David Lindh⁽¹⁾</i>	80,000	-	-	80,000	-
<i>Richard Groden⁽³⁾</i>	20,000	-	-	20,000	-
<i>Neville Martin⁽²⁾</i>	40,000	-	-	40,000	-
	140,000	-	-	140,000	-

(1) Director fees were accrued during the 2014 year; however Mr Lindh did not receive any payment for 2014 director fees during the year. Mr Lindh had outstanding director fees for prior periods of \$43,400.

(2) Director fees were accrued during the 2014 year; however Mr Martin did not receive any payment for 2014 director fees during the year. Mr Martin had outstanding director fees for prior periods of \$20,000.

(3) Director fees were accrued during the 2014 year; however Mr Groden did not receive any payment for 2014 director fees during the year.

Shareholdings

Number of Shares held by Key Management Personnel

	Balance on 1.1.2014	Received	Options Exercised	Net Change Other	Balance 31.12.2014
<i>David John Lindh*</i>	19,863,562	-	-	(19,466,291)	397,271
<i>Richard Jay Groden**</i>	13,096,913	-	-	(12,834,975)	261,938
<i>Neville Wayne Martin***</i>	13,761,333	-	-	(13,486,106)	275,227
Total	46,721,808	-	-	(45,787,372)	934,436

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2014

REMUNERATION REPORT – CONT

Number of Shares held by Key Management Personnel

*397,271 shares are held by Davan Nominees Pty Ltd. Mr Lindh is a Director and shareholder of Davan Nominees Pty Ltd.

**Included in the above are 240,000 shares held in joint names of Richard Jay Groden and Susan Groden. Also included are 15,888 shares held in Rhythm & Blues Holdings Inc, a company associated with Richard Groden.

***178,046 shares are held by Houmar Nominees Pty Ltd as trustee for the Martin Superannuation Fund. Mr Martin is a Director and shareholder of Houmar Nominees Pty Ltd and a beneficiary of the Martin Superannuation Trust. Mr Martin is a potential beneficiary of Chaffey Consulting Pty Ltd, which as trustee for Minter Ellison Investment Trust holds 649 shares on behalf of Mr Martin. Stansbury Petroleum Investments Pty Ltd, a company associated with Mr Martin holds 400 shares.

(d) Service Agreements

There were no service agreements in place during the 2014 year.

END OF REMUNERATION REPORT

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has not given an indemnity or entered into an agreement to indemnify the directors and office holders of the Company and no insurance premiums have been paid.

Options

At the date of this Report there are no unissued ordinary shares of Pawnee Energy Limited under option.

Proceedings on Behalf of Company

No person has applied to the court under section 237 of the Corporation Act 2001 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 part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

No fees for non-audit services were paid/payable to the External Auditors during the year ended 31 December 2014.

Auditor's Independence Declaration

The lead Auditor's Independence Declaration for the year ended 31 December 2014 has been received and can be found on the following page of the Directors' Report.

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



David Lindh, Director

Dated this 19th June 2015

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
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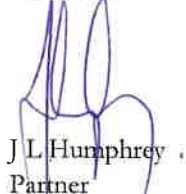
**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PAWNEE ENERGY LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Pawnee Energy Limited for the year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J.L. Humphrey
Partner

Adelaide, 19 June 2015

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Pawnee Energy Limited

ABN 73 122 948 805

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

	Note	2014 \$	2013 \$
Other income	2	37,084	63,573
Administration	2	(80,103)	(120,974)
Professional fees	2	(44,488)	(244,632)
Other expenses	2	(145,656)	(216,811)
Provision for Doubtful Debts	2	(1,054,929)	-
Finance costs		(902)	(347)
(Loss) before income tax		(1,288,994)	(519,188)
Income tax expense	3	-	-
(Loss) / Profit for the year		(1,288,994)	(519,188)
Other comprehensive income			
<i>Items that may subsequently be reclassified to profit or loss</i>		-	-
Total comprehensive loss for the year		(1,288,994)	(519,188)
Profit attributable to:			
Members of the company		(1,288,924)	(519,188)
Total comprehensive income attributable to members of the company:		(1,288,924)	(519,188)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share from continuing operations (cents per share)	5	(17.3)	(8.63)
Diluted earnings per share from continuing operations (cents per share)	5	(17.3)	(8.63)

The accompanying notes form part of these financial statements.

Pawnee Energy Limited
ABN 73 122 948 805

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 \$	2013 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	580	35,013
Trade and other receivables	8	1,252	1,021,221
TOTAL CURRENT ASSETS		<u>1,832</u>	<u>1,056,234</u>
NON-CURRENT ASSETS			
Investment in associate	9	-	-
TOTAL NON-CURRENT ASSETS		<u>-</u>	<u>-</u>
TOTAL ASSETS		<u>1,832</u>	<u>1,056,234</u>
CURRENT LIABILITIES			
Trade and other payables	10	709,560	474,968
TOTAL CURRENT LIABILITIES		<u>709,560</u>	<u>474,968</u>
TOTAL LIABILITIES		<u>709,560</u>	<u>474,968</u>
NET ASSETS		<u>(707,728)</u>	<u>581,266</u>
EQUITY			
Issued capital	11	12,739,687	12,739,687
Reserves	12	-	82,626
Retained losses		(13,447,415)	(12,241,047)
TOTAL EQUITY		<u>(707,728)</u>	<u>581,266</u>

The accompanying notes form part of these financial statements.

Pawnee Energy Limited

ABN 73 122 948 805

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital Ordinary	Share Based Payment Reserve	Retained Losses	Total
	\$	\$	\$	\$
Balance at 1 January 2013	12,315,716	82,626	(11,721,859)	676,483
Shares issued during the year	423,971			(423,971)
Total profit or loss	-	-	(519,188)	(519,188)
Total comprehensive income for the year	-	-	-	-
Balance at 31 December 2013	12,739,687	82,626	(12,241,047)	581,266
Transfer of expired options to retained losses	-	(82,626)	82,626	-
Total profit or loss	-	-	(1,288,994)	(1,288,994)
Total comprehensive income for the year	-	-	-	-
Balance at 31 December 2014	12,739,687	-	(13,447,415)	(707,728)

The accompanying notes form part of these financial statements.

Pawnee Energy Limited
ABN 73 122 948 805

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(180,958)	(70,740)
Interest received		193	339
Finance costs		(668)	-
Net cash (used in) operating activities	14	<u>(181,433)</u>	<u>(70,401)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposit paid for oil and gas licences in the USA		-	(113,895)
Net cash (used in by investing activities		<u>-</u>	<u>(113,895)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	175,421
Proceeds from Director Loans		147,000	-
Net cash provided by financing activities		<u>147,000</u>	<u>175,421</u>
Net (decrease) in cash held		(34,433)	(8,875)
Cash at beginning of financial year		35,013	43,888
Effect of exchange rates on cash holdings in foreign currencies		-	-
Cash at end of financial year	7	<u>580</u>	<u>35,013</u>

The accompanying notes form part of these financial statements.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the financial statements and notes of Pawnee Energy Limited (formerly Island Sky Australia Limited).

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of Australian Accounting Standards Board and the Corporations Act 2001. The company is a for-profit company for the purpose of preparing these financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated. Pawnee Energy Limited is a for-profit company for the purpose of preparing financial statements.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities

Accounting Policies

Income Tax

The income tax expense (revenue) for the year comprises of current income tax expense (income) and deferred tax expense (income).

Current income tax expense charges to the profit and loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity. Deferred tax assets and liabilities are ascertained based on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables.

Trade and Other Payables

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

Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

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

Derecognition

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

Classification and Subsequent Measurement

(i) **Loans 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 using the effective interest rate method.

(ii) **Financial Liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(iii) **Fair Value**

Fair value is determined based on the 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.

(iv) **Impairment**

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of profit or loss and other comprehensive income

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Impairment of Non-financial Assets

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

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.

Contributed Equity

Ordinary Shares are classified as equity with incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue

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

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

All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax (GST)

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

Comparative Figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgments

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 externally and within the company.

Key Estimates — Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings per Share

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

Associates and Joint Ventures

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Company's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

The carrying amount of the investments in associates is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company.

Unrealised gains and losses on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Functional and presentation currency translation

The financial statements are presented in Australian dollars (AUD), which is also the functional currency of the company.

Foreign currency transactions and balances

Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

New and Amended Standards Adopted

The accounting policies applied by the Company in the Financial Statements are the same as those applied by the Company in its financial report as at and for the year ended 31 December 2013. In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period as shown below.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [Effective from 1 July 2013]

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

The Standard amends AASB 124 Related Party Disclosures to remove the individual Key Management Personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.

As a result of these amendments, the Company has transferred certain individual Key Management Personnel disclosures relating to shareholdings, options / rights holdings, loans and other transactions from the notes to the financial statements to the remuneration report.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [Effective 1 January 2014]

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The adoption of these amendments has not had a material impact on the Company as the amendments merely clarify the existing requirements in AASB 132.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets [Effective 1 January 2014]

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets. The adoption of these amendments has not had a material impact on the Company as they are largely of the nature of clarification of existing requirements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

The accounting standards that have not been adopted early for the year ended 31 December 2014, but will be applicable to the Company in future reporting periods, are detailed below. Apart from these standards, other accounting standards that will be applicable in future periods have been reviewed, however they have been considered to be insignificant to the Company.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

AASB 9 Financial Instruments (December 2014); AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014); AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)

Effective from 1 January 2018

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a) financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows;
- b) allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- c) introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments;
- d) financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases; and
- e) where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: the change attributable to changes in credit risk are presented in other comprehensive income; and the remaining change is presented in profit or loss.
- f) If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enables entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2018.

AASB 15 Revenue from Contracts with Customers; AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 [Effective from 1 January 2017]

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related interpretations and:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expands and improves disclosures about revenue.

The Company is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2017.

AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles) [Effective from 1 July 2015]

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to *IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle*. Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2010-2012 Cycle*:

- a) clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a Company entity); and
- b) amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles) [Effective from 1 July 2015]

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2011-2013 Cycle* clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

When these amendments are first adopted for the year ending 31 December 2015, there will be no material impact on the entity.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [Effective from 1 January 2016]

The amendments to AASB 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should:

- apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.

When these amendments are first adopted for the year ending 31 December 2016, there will be no material impact on the transactions and balances recognised in the financial statements.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2: (LOSS) FOR THE YEAR FROM OPERATIONS

	2014 \$	2013 \$
The following revenue and expense items are relevant in explaining the financial performance for the annual period from continuing operations:		
Other income		
Interest from Bank deposits	182	339
Interest from long term receivable	36,888	63,237
Other	14	-
Total interest revenue	<u>37,084</u>	<u>63,576</u>
Administration		
— Travel, accommodation and entertaining	-	21,232
— Office expenses	80,103	99,742
Total administration costs	<u>80,103</u>	<u>120,974</u>
Provision for Doubtful Debts		
— Provision for impairment of receivable	1,054,929	-
Total Doubtful Debts	<u>1,054,929</u>	<u>-</u>
Professional Fees:		
— Accounting and audit fees	16,000	37,750
— Legal	157	102,400
— Corporate advisory fees	9,325	69,000
— Other consulting fees	19,006	35,482
Total professional fees	<u>44,488</u>	<u>244,632</u>
Other Expenses		
— Salaries, director fees and other related costs	145,656	100,627
— Write off of deposits paid for oil and gas licences in the USA	-	116,184
	<u>145,656</u>	<u>216,811</u>

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 3: INCOME TAX EXPENSE

	2014 \$	2013 \$
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
	-	-
The prima facie tax on (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) from ordinary activities before income tax at 30% (2013: 30%)	(386,698)	(155,756)
	<hr/>	<hr/>
Add/(Less):		
Tax effect of:		
— Other non-allowable items	-	-
	<hr/>	<hr/>
	(386,698)	(155,756)
Deferred tax assets recognised direct to equity and not meeting the recognition criteria of AASB 112		-
Tax effect of tax losses not brought into accounts as they do not meet the recognition criteria	386,698	155,756
	<hr/>	<hr/>
Income tax attributable to entity	-	-
	<hr/>	<hr/>

NOTE 4: AUDITORS' REMUNERATION

	2014 \$	2013 \$
Remuneration of the auditor of the company for:		
— auditing or reviewing the financial report	16,000	23,750
— Investigating Accountants Report for prospectus	-	14,000
— taxation services	-	3,000
	<hr/>	<hr/>
	16,000	40,750
	<hr/>	<hr/>

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 5: EARNINGS PER SHARE

	2014 \$	2013 \$
Reconciliation of earnings to loss from operations		
Earnings used in the calculation of basic and diluted EPS from operations	(1,288,994)	(519,188)
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS.	7,428,250	6,012,266
In accordance with AASB 133 there were no dilutive securities.		

In January 2014, as previously approved by shareholders, the Company completed a 50:1 share consolidation, resulting in a reduction in the issued ordinary shares. The comparative information has been adjusted to reflect a consistent consolidation.

NOTE 6: KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration

Detailed remuneration disclosures have been included in the Remuneration Report included in the directors report.

Detailed disclosures related to key management personnel are included in the remuneration report

NOTE 7: CASH AND CASH EQUIVALENTS

	2014 \$	2013 \$
Cash at bank and in hand	580	35,013
	580	35,013

The effective interest rate on short-term bank deposits was 1.55% (2013: 1.775%); these deposits have an average maturity of 30 days.

Reconciliation of cash

Cash at the end of the financial period as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	580	35,013
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Pawnee Energy Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 8: TRADE AND OTHER RECEIVABLES

		2014	2013
		\$	\$
CURRENT			
Receivable from related party	(a)	1,054,929	1,018,040
Provision for Doubtful Debts	(b)	(1,054,929)	-
Workcover		133	616
GST Receivable		1,119	2,565
Total Receivables		<u>1,252</u>	<u>1,021,221</u>

- (a) On 15 June 2012 the Company signed a Stock Purchase Agreement (SPA) with Mr Richard Groden to sell 933,077 shares in Island Sky Corporation for \$1,154,929. \$100,000 was received following shareholders' approval of the SPA, with the balance \$1,054,929 payable within 2 years after the SPA was approved. As the receivable is interest free a discount of 6.6% was applied against the balance to reflect the time value of money. This discount will unwind over the term of the receivable.

A breakdown of the receivable as at 31 December 2014 from the related party is as follows:

<u>Consideration for 933,077 shares:</u>	<u>1,154,929</u>
<u>Less: Deposit paid</u>	<u>(100,000)</u>
	<u>1,054,929</u>

The Company entered into a Stock Pledge and Security Agreement with Mr Richard Groden to secure the remaining payment of \$1,054,929 to the Company by granting a first priority senior lien and security interest in the 933,077 shares in Island Sky Corporation.

- (b) As at the date of lodgement the balance of the receivable had not been received and discussions with Mr Groden are continuing to arrange payment. A provision for doubtful debts has been recognised to in accordance with the company's accounting policies.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 9: INVESTMENT IN ASSOCIATE

	2014	2013
	\$	\$
Investment in associate		
Unlisted investments		
— Shares – Island Sky Corporation	116,800	116,800
— Provision for impairment	(116,800)	(116,800)
Investment in associate	-	-

Investments in associates

The company holds a 25% voting power and equity interest in Island Sky Corporation which manufactures and distributes water-making machines. The investment is accounted for under the equity method. The associate has a reporting date of 31 December.

The shares are not publicly listed on a stock exchange and hence published price quotes are not available.

NOTE 10: TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
CURRENT		
Trade payables	322,964	195,627
Sundry payables and accrued expenses	386,596	279,341
	709,560	474,978

All amounts are short-term in nature. The carrying values are considered to be a reasonable approximation of fair value.

Details of trade and other payables to related parties are outlined in Note 17.

NOTE 11: ISSUED CAPITAL

	2014	2013
	\$	\$
a. Ordinary Shares		
At the beginning of the year	12,739,687	12,315,716
Shares issued during the year – pursuant to EGM notice	-	423,971
Sale of subsidiary – previously accounted for as a reverse acquisition	-	-
At the end of the year	12,739,687	12,739,687

	2014	2013
	No.	No.
At the beginning of the year	371,412,496	285,701,996
Shares issued during the year	-	85,710,500
Share consolidation during the period	(363,984,156)	-
At the end of the year	7,428,340	371,412,496

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 11: ISSUED CAPITAL – CONT

In January 2014, as previously approved by shareholders, the Company completed a 50:1 share consolidation, resulting in a reduction in the issued ordinary shares.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

c. Unlisted Options	2014 Unlisted Options	
	2014	2013
	No.	No.
At the beginning of the year	5,000,000	5,000,000
Options issued during the year		
Effect of Share Consolidation during the period	(4,900,000)	-
Options Expired during the period	(100,000)	-
At the end of the reporting period	-	5,000,000

(i) The unlisted options had an exercise price of \$0.25 and expired on 4 August 2014.

d. Unlisted Options	2014 A Class Options	
	2014	2013
	No.	No.
At the beginning of the year	300,000	300,000
Options issued during the year		
Effect of Share Consolidation during the period	(294,000)	-
Options Expired during the period	(6,000)	-
At the end of the reporting period	-	300,000

(i) The unlisted options had an exercise price of \$20.00 and expired on 30 April 2014

Capital Management

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues

Pawnee Energy Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 12: RESERVES

Share Based Payment Reserve

The share based payments reserve records items recognised as expenses on valuation of employee share options.

NOTE 13: OPERATING SEGMENTS

Identification of reportable segments

Following the disposal of the company's operating subsidiary Island Sky Corporation (based in the USA), the directors are of the view that there is no longer distinguishable operating segments which require disclosure.

NOTE 14: CASH FLOW INFORMATION

	2014 \$	2013 \$
Reconciliation of Cash Flow from Operations with (Loss) after Income Tax		
(Loss) after income tax from continuing operations	(1,288,994)	(519,188)
Loss after income tax from discontinued operations	-	-
Non-cash flows adjustments		
Write off of deposits paid for oil and gas licences	-	116,184
Share based payments	-	252,550
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/Decrease in trade and term receivables	1,019,969	(63,330)
Increase/(Decrease) in trade payables and accruals	87,592	143,383
Cashflow from operating activities	<u>(181,433)</u>	<u>(70,401)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 15: SHARE-BASED PAYMENTS

There were no share based payments during the 2014 year.

Pawnee Energy Ltd Employee Option Plan

The Company has established a Share Option Plan (the 'Plan') with the following key features:

(a) Eligibility

The Board may issue Options under the Plan to any officer or employee of the Company (Eligible Employee).

(b) General Terms of the Options

Options will be issued free of charge. Each Option is to subscribe for one Share and, when issued, the Shares will rank equally with other Shares. The Options are not transferable. Quotation of the Options on the ASX will not be sought but the Company will apply to the ASX for official quotation of Shares issued on the exercise of Options. Options may be granted subject to conditions specified by the Board, which must be satisfied, before the Option can be exercised.

(c) Exercise of Options

Subject to satisfaction of the Conditions of Exercise of Options, Options may be exercised at any time within 5 years of the date of grant (provided however that the number of Options the Eligible Employee may exercise during any period of 12 consecutive months shall not exceed that number of Options that equals one third of the total number of Options issued to the Eligible Employee under the Plan [whether or not exercised prior to the time of calculation]). Options lapse upon termination of the Eligible Employee's employment by the Company and, unless the terms of the offer of the Option specified otherwise each Option lapses 5 years after the date upon which it was granted.

(d) Exercise Price

The exercise price per Share for an option will be the amount determined by the Board at the time of the grant of the Option.

(e) New Issue of Securities

Option holders will not be entitled to participate in any new issue of securities in the Company unless they exercise their Options prior to the record date for the determination of entitlements to the new issue.

(f) Bonus Issues

If the Company makes a bonus issue of securities to ordinary shareholders, each unexercised Option will, on exercise, entitle its holder to receive the bonus securities as if the Option had been exercised before the record date for the bonus issue.

(g) Rights Issues

If the Company makes a pro-rata rights issue of Shares for cash to its ordinary shareholders, the exercise price of the unexercised Options will be adjusted to reflect the diluting effect of the issue.

(h) Capital Reorganisations

If there is any reorganisation of the capital of the Company, the number of Options and their exercise price will be adjusted in accordance with the Listings Rules.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(i) Limit on Number of Options

The maximum number of Options on issue under the Plan must not at any time exceed 5% of the total number of Shares on issue at that time.

Options granted to key management personnel are as follows:	Number	Weighted average exercise price
Options outstanding as at 31 December 2012	5,300,000	\$0.03
Options exercisable as at 31 December 2012	5,300,000	\$0.03
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options outstanding as at 31 December 2013	5,300,000	\$0.03
Options exercisable as at 31 December 2013	5,300,000	\$0.03
Granted	-	-
Forfeited	-	-
Exercised	-	-
Effect of share consolidation	(5,194,000)	-
Expired	(106,000)	-
Options outstanding as at 31 December 2014	-	-
Options exercisable as at 31 December 2014	-	-

NOTE 16: EVENTS AFTER THE REPORTING DATE

Between the reporting date and the date of this report, there have been no significant events.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 17: RELATED PARTY TRANSACTIONS

	2014	2013
	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Other Related Parties transactions		
During the year the Company received services from the Adelaide Equity Partners Group for the provision of Corporate Advisory Services, Company Secretarial, Accounting and Administration Services, rent, occupancy costs and reimbursable expenses. Mr Lindh is a Director of this Company.	36,550	65,520
During the year, the Company used the services of Minter Ellison for the provision of legal services. Mr Martin and Mr Lindh are both consultants to Minter Ellison.	157	100,000
During the year the Company recognised an amount payable to Mr Martin for director's fees.	40,000	20,000
During the year the Company recognised an amount payable to Mr Lindh for director's fees.	80,000	43,700
During the year the Company recognised an amount payable to Mr Groden for director's fees	20,000	20,000
Issued shares to Mr Lindh to extinguish previously accrued director's fees	-	42,100
Issued shares to Mr Martin to extinguish previously accrued director's fees	-	24,996
Issued shares to Adelaide Equity Partners Limited to extinguish amounts owing. Mr Lindh is a director of Adelaide Equity Partners Limited	-	185,454
Other Related Parties Balances		
Amount payable to Minter Ellison, of which, Mr Martin and Mr Lindh are both consultants.	70,160	100,000
Amount payable to Adelaide Equity Partners Limited, of which, Mr Lindh is a Director and shareholder.	14,905	14,300
Amount payable to AE Administrative Services Pty Ltd, of which, Mr Lindh is an associate of this company.	141,643	102,043
Amount receivable from Mr Groden for disposal of subsidiary (refer Note 8).	1,054,929	1,018,040
Amount provided for as doubtful in respect of the above receivable (refer Note 8)	(1,054,929)	-
Amount payable at year end to Mr Martin for accrued director's fees and capital injected as unsecured loans	133,000	20,000
Amount payable at year end to Mr Lindh for accrued director's fees and capital injected as unsecured loans	198,358	44,358
Amount payable at year end to Richard Groden for accrued director's fees	40,000	20,000

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18: FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable and payable. The main risks the company is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Treasury Risk Management

The Board of the company meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies. The Board of the company regularly analyse interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Foreign Currency Risk

The company will be exposed to fluctuations in foreign currencies arising from sales and purchase of goods and services in currencies other than the company's functional currency. The company potentially may have sales in foreign locations which will require risk management policies to be implemented to minimise the foreign currency risk.

Interest Rate Risk

The company had no long term financial assets or liabilities upon which it earns or pays interest. Cash is held in an interest yielding cheque account and on short-term call deposits where the interest rate can vary from day to day.

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. It is the policy of the company to keep surplus cash in high yielding deposits. For further details on interest rate risk refer below.

Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages liquidity risk by monitoring forecast cash flows.

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management monitors credit risk on an ongoing basis by maintenance of procedures. Such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties.

Provision for Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.

Pawnee Energy Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18: FINANCIAL INSTRUMENTS - CONT

Interest Rate Risk

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Total	
	2014	2013	2014	2013
		\$	\$	
Financial Assets:				
Cash and cash equivalents	1.55%	1.8%	580	35,013
Total Financial Assets			580	35,013
	Floating Interest Rate Within 1 Year		Non-Interest Bearing	
	2014	2013	2014	2013
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	580	30,913	-	4,100
Receivables	-	-	1,252	1,021,221
Total Financial Assets	580	30,913	1,252	1,025,321
Financial Liabilities				
Trade and sundry payables	-	-	709,560	474,968
Total Financial Liabilities	-	-	709,560	474,968

Net Fair Values

Aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the financial statements at balance date. Fair values are materially in line with carrying values.

	2014		2013	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	580	580	35,013	35,013
Receivables	1,252	1,252	1,021,221	1,021,221
	1,832	1,832	1,056,234	1,056,234
Financial Liabilities				
Other liabilities and payables	709,560	709,560	474,968	474,968
	709,560	709,560	474,968	474,968
Net financial assets	(707,728)	(707,728)	581,266	581,266

Pawnee Energy Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 18: FINANCIAL INSTRUMENTS - CONT

Sensitivity analysis

Interest rate sensitivity analysis

At 31 December 2014, the effect on profit/loss and equity as a result of changes in the interest rate, with all other variables remaining constant is immaterial to the company's operations.

Financial Instrument Composition and maturity analysis

The table below reflects the undiscounted contracted settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

Trade and sundry payables are expected to be paid as follows:

	2014	2013
	\$	\$
Less than 6 months	496,692	308,625
6 months to 1 year	212,868	166,343
1 to 5 years	-	-
Over 5 years	-	-
	<hr/>	<hr/>
	709,560	474,968

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company had no contingent assets or liabilities at 31 December 2014 or 31 December 2013.

NOTE 20: COMMITMENTS

The Company had no commitments as at 31 December 2014 (2013: nil).

NOTE 21: GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of going concern. The Company incurred a loss of \$1,288,994 during the year and has net liabilities of \$707,728 at 31 December 2014.

The Company remains reliant upon the continued financial support of the directors for the provision of working capital through interest free loans, the collection of the amount receivable from the sale of its subsidiary and/or additional further capital raisings to continue as a going concern. We understand that once a suitable business is found to be acquired the company will seek to raise the additional capital required through a disclosure document.

If the continued financial support of the directors is not forthcoming, the collection of the proceeds from the sales of Island Sky Corporation is not recovered and/or additional funds are not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the Annual Financial Report. No allowance for such circumstances has been made in the Annual Financial Report.

Pawnee Energy Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 22: COMPANY DETAILS

The registered office of the company is:

Pawnee Energy Limited

Level 3

100 Pirie Street

Adelaide SA 5000

Telephone (08) 8232 2550

Facsimile (08) 8232 2540

Pawnee Energy Limited

ABN 73 122 948 805

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 17 to 41, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 31 December 2014 and of the performance for the period ended on that date of the Company;
2. A declaration as required by Section 295A of the Corporations Act has been received.
3. in the Directors' 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.



David Lindh OAM

Chairman

Dated this 19th day of June 2015



Neville Martin

Director

Dated this 19th day of June 2015

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAWNEE ENERGY LIMITED

Report on the financial report

We have audited the accompanying financial report of Pawnee Energy Limited (the "Company"), which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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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 Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

- a the financial report of Pawnee Energy Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 21 in the financial report which indicates that the company incurred a net loss from continuing operations of \$1,288,994, a cash outflow of \$181,433 from operating activities and has net liabilities of \$707,728.

These conditions, along with other matters as set forth in Note 21, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Pawnee Energy Limited for the year ended 31 December 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 19 June 2015