



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

FINANCIAL REPORT 2013

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Pawnee Energy Limited

ABN 73 122 948 805

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

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 revised Corporate Governance Principles and Recommendations issued by the Australian Securities Exchange Corporate Governance Council (**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 2013.

PRINCIPLE 1 - Lay solid foundations for management and oversight

Recommendation 1.1 – Recommendation followed

The Board is governed by the Corporations Act 2001, 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 Island Sky Corporation was partly disposed, Mr Groden stepped down as Managing Director, but remained being a Director of the Company.

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.

Recommendation 1.3 – Recommendation followed

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

**CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2013**

PRINCIPLE 2 - Structure the board to add value

Recommendation 2.1 – Recommendation followed

The composition of the Board consists of three 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 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, Mr Martin and Mr Groden are considered to be independent.

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.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

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.

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. Female participation is reflected in the organisation.

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.

Recommendation 3.4 – Recommendation followed

For the annual period ending 31 December 2013, the Company provides the following information in relation to employees:

- Percentage of women employees in whole organisation: 25%
- 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.

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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

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.

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.

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.

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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2013

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 of 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.

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 and 8.3 – 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.

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 2013

Your Directors present their report on the Company for the financial year ended 31st December 2013.

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 and at the date of this report:

Ms Rajita Alwis

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.

However, during 2013 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 is not complete at this stage; (see further details in 'Review of Operations').

Operating Results

The loss for the year after income tax amounted to \$519,188 (2012 profit of \$2,823,583). The prior year included a once off gain from the sale of its subsidiary and the deconsolidation of that entity from the Group.

Dividends Paid or Recommended

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

Review of Operations

During 2013, the Company prepared a prospectus for a possible capital raising, but has delayed this at the current time, and continues to maintain its 25% interest in Island Sky Corporation.

During 2013 the Company embarked on a change of direction to enter the oil and gas business in the USA, factors behind this decision being the strong commodity price outlook for crude oil, low sovereign risk of the USA, attractive economics of the oil & gas sector, contacts of the proposed directors within this industry and the ability to attract the experienced proposed directors to support growth.

In November 2013 the Company embarked on a capital raising of between \$5m - \$6m which would have funded entry into suitable projects, however this was not completed and the Company is continuing its search for suitable oil & gas projects to invest in at the current time.

The Company's shares are currently suspended by the Australian Securities Exchange pending re-compliance with the listing rules.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

Financial Position

The net assets of the company have decreased by \$95,217 since 31 December 2012 to \$581,266 at 31 December 2013.

The group's working capital, being current assets less current liabilities, has increased \$859,587 since 31 December 2012 to \$581,266 at 31 December 2013, as a result of debts extinguished to related parties through the issue of shares as approved at the EGM.

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:

The consolidation of each 50 shares held by shareholders into 1 share (approved by shareholders at the General Meeting held 21 November 2013), took effect on 10th January 2014.

Following the inability of the Company to secure a further extension to the completion dates under the Tiger Acquisition Agreement and the Pawnee Option Agreement (referred to in the Company's Prospectus dated 27 November 2013) and the failure to reach the Minimum Subscription by the Closing Date under the Prospectus, the Company:

- did not proceed with the acquisition of the Tiger Leases under the Tiger Acquisition Agreement;
- did not exercise its option to acquire an interest in the Pawnee Leases; and
- withdrew the Offer under the Prospectus.

Since the reporting date and the date of this report, Mr Lindh and Mr Martin have each injected \$25,000 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 continuing to search for suitable oil & gas projects and potential business partners in the USA in line with the Company's new direction. Additional capital may be sought when a suitable project is identified and suitably appraised.

Environmental Issues

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

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

Key Management Personnel

David John Lindh

Richard Jay Groden

Neville Wayne Martin

Rajita Alwis

Position

Independent Non-Executive Chairman

Independent Non-Executive Director

Independent Non-Executive Director

Company Secretary

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

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 Enterprise Energy Ltd from 5 February 2004 to 3 October 2008 and ASX listed Primary Resources Ltd from 9 November 2005 to 13 June 2008. 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 68 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 60 years.

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

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

Neville 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 64 years.

Rajita Shamani Alwis B.Com CA – Company Secretary

Ms Alwis is a chartered accountant with over 10 years experience in public practice and commerce. Ms Alwis is also company secretary for other ASX Listed entities as well as a company secretary and chief financial officer for numerous private companies.

Ms Alwis is an Australian citizen and is aged 35 years.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

Since December 2012, 6 meetings of Directors were held. Attendances by each Director during the year were as follows:

Meetings of Directors

	Number eligible to attend	Number attended
David Lindh	6	6
Richard Groden	6	6
Neville Martin	6	6

Audit & Risk Committee meetings

	Number eligible to attend	Number attended
Neville Martin	4	4
David Lindh	4	4
Richard Groden	4 (by invitation)	4 (by invitation)

There were no Nomination Committee and Remuneration Committee meetings 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. Some parts of the policy are not active pending the completion of the transition to an oil and gas company and the appointment of suitable executives.

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 consolidated group, 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 economic 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.

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.

**DIRECTORS' REPORT
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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.

The key management personnel and Directors 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 majority of 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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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		
2013	\$	\$	\$	\$	%
<i>David Lindh</i> ⁽¹⁾	40,000	-	3,700	43,700	-
<i>Richard Groden</i>	20,000	-	-	20,000	-
<i>Neville Martin</i> ⁽²⁾	20,000	-	-	20,000	-
	80,000	-	3,700	83,700	-

- (1) Director fees were accrued during the 2013 year; however Mr Lindh did not receive any payment for 2013 director fees during the year. Mr Lindh had outstanding director fees for prior periods of \$42,100, which were satisfied during the year by a share issue.
- (2) Director fees were accrued during the 2013 year; however Mr Martin did not receive any payment for 2013 director fees during the year. Mr Martin had outstanding director fees for prior periods of \$24,996 which were satisfied during the year by a share issue.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

REMUNERATION REPORT – CONT

Directors	Short-term Benefits	Share-based payment	Post-employment Benefits	Total	Performance Related
	Salary & fees	Options	Superannuation		
2012	\$	\$	\$	\$	%
David Lindh ⁽³⁾	-	-	-	-	-
Richard Groden	-	-	-	-	-
Neville Martin ⁽⁴⁾	-	-	-	-	-
	-	-	-	-	-

(3) No director fees were accrued during the 2012 year. Mr Lindh did not receive any payment for 2012 director fees during the year. Mr Lindh had outstanding director fees for the 2011 and 2010 year which Mr Lindh loaned to the company. The company paid a portion of these outstanding fees during the 2012 year totaling \$73,575.

(4) No director fees were accrued during the 2012 year. Mr Martin did not receive any payment for 2012 director fees during the year. Mr Martin had outstanding director fees for the 2011 and 2010 year which Mr Martin loaned to the company. The company paid a portion of these outstanding fees during the 2012 year totaling \$24,996.

Shareholdings

Number of Shares held by Key Management Personnel (pre the consolidation of shares which occurred on 10 January 2014)

	Balance on 1.1.2013	Received****	Options Exercised	Net Change Other	Balance 31.12.2013
David John Lindh*	12,719,600	7,143,962	-	-	19,863,562
Richard Jay Groden**	13,096,913	-	-	-	13,096,913
Neville Wayne Martin***	9,519,758	4,241,575	-	-	13,761,333
Total	35,336,271	11,385,537	-	-	46,721,808

Number of Shares held by Key Management Personnel

*19,663,562 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 12,000,000 share held in joint names of Richard Jay Groden and Susan Groden. Also included are 794,391 shares held in Rhythm & Blues Holdings Inc, a company associated with Richard Groden.

***8,902,308 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 32,450 shares on behalf of Mr Martin. Stansbury Petroleum Investments Pty Ltd, a company associated with Mr Martin holds 20,000 shares.

**** Received pursuant to prior period loan repayment and not as compensation for 2013 year. The issue of the shares was approved at the Board meeting on 30th October 2013.

(d) Service Agreements

There were no service agreements in place during the 2013 year.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2013

REMUNERATION REPORT – CONT

Indemnifying Officers or Auditor

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the Directors against liability for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the company, other than conduct involving a wilful breach of duty in relation to the company. The total premium payable was \$19,868.

Options (pre the consolidation of shares which occurred on 10 January 2014)

At the date of this Report the unissued ordinary shares of Pawnee Energy Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
5 May 2011	30 April 2014	\$0.40	300,000
4 August 2011	4 August 2014	\$0.005	5,000,000
			<hr/>
			5,300,000
			<hr/>

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

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the External Auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the Auditor
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the External Auditors during the year ended 31 December 2013:

	\$
Taxation services	3,000
Independent Accountants report for prospectus	14,000
	<hr/>
	17,000
	<hr/>

Pawnee Energy Limited

ABN 73 122 948 805

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2013**

Auditor's Independence Declaration

The lead Auditor's Independence Declaration for the year ended 31 December 2013 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 31st day of March 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

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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 2013, 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

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 31 March 2014

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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 2013

	Note	Company	Consolidated Group
		2013 \$	2012 \$
Other income	2	63,576	29,219
Occupancy	2	-	(27,923)
Administration	2	(120,974)	(66,778)
Professional fees	2	(244,632)	(140,504)
Other expenses	2	(216,811)	(12,971)
Impairment in investment in associate	2	-	(116,800)
Finance costs	2	(347)	(496)
(Loss) before income tax		(519,188)	(336,253)
Income tax expense	4	-	-
(Loss) for the year from continuing operations		(519,188)	(336,253)
(Loss) / Profit from discontinued operation	3	-	3,159,836
(Loss) / Profit for the year		(519,188)	2,823,583
Other comprehensive income			
Foreign Currency Translation Adjustment (loss)		-	(5,989)
Total comprehensive loss for the year		(519,188)	2,817,594
Profit attributable to:			
Members of the parent entity		(519,188)	2,823,583
Total comprehensive income attributable to members of the parent entity:			
Continuing operations		(519,188)	(342,242)
Discontinuing operations		-	3,159,836
		(519,188)	2,817,594
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)	7	(0.173)	(0.118)
Diluted earnings per share from continuing operations (cents per share)	7	(0.173)	(0.118)
Earnings per share for loss from discontinued operations attributable to the ordinary equity holders of the company:			
Basic earnings per share from discontinued operations (cents per share)	7	-	1.106
Diluted earnings per share from discontinued operations (cents per share)	7	-	1.106

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 2013

	Note	2013 \$	2012 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	35,013	43,888
Trade and other receivables	10	1,021,221	3,274
TOTAL CURRENT ASSETS		<u>1,056,234</u>	<u>47,162</u>
NON-CURRENT ASSETS			
Trade and other receivables	10	-	954,804
Investment in associate	11	-	-
TOTAL NON-CURRENT ASSETS		<u>-</u>	<u>954,804</u>
TOTAL ASSETS		<u>1,056,234</u>	<u>1,001,966</u>
CURRENT LIABILITIES			
Trade and other payables	13	474,968	325,483
TOTAL CURRENT LIABILITIES		<u>474,968</u>	<u>325,483</u>
TOTAL LIABILITIES		<u>474,968</u>	<u>325,483</u>
NET ASSETS		<u>581,266</u>	<u>676,483</u>
EQUITY			
Issued capital	14	12,739,687	12,315,716
Reserves	15	82,626	82,626
Retained losses		(12,241,047)	(11,721,859)
TOTAL EQUITY		<u>581,266</u>	<u>676,483</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 2013

	Share Capital Ordinary	Foreign Currency Translation Reserve	Share Based Payment Reserve	Retained Losses	Total
Note	\$	\$	\$	\$	\$
Balance at 1 January 2012 (consolidated)	14,448,739	(1,149,355)	82,626	(14,545,442)	(1,163,432)
Derecognition of foreign currency translation reserve upon sale of subsidiary	15	-	1,155,344	-	-
Sale of subsidiary previously accounted for as a reverse acquisition	15	(2,133,023)	-	-	-
Total comprehensive income for the year	-	(5,989)	-	2,823,583	2,817,594
Balance at 31 December 2012 (consolidated)	12,315,716	-	82,626	(11,721,859)	676,483
Shares issued during the year	14	423,971	-	-	-
Total comprehensive loss for the year	-	-	-	(519,188)	(519,188)
Balance at 31 December 2013	12,739,687	-	82,626	(12,241,047)	581,266

The accompanying notes form part of these financial statements.

Pawnee Energy Limited

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Company	Consolidated Group
		2013	2012
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(70,740)	(186,848)
Interest received		339	7,813
Finance costs		-	(1,385)
Net cash (used in) continuing operations		(70,401)	(180,420)
Net cash (used in) discontinued operations	5(c)	-	(149,443)
Net cash (used in) operating activities	17	(70,401)	(329,863)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to subsidiaries and partners		(113,895)	-
Proceeds from sale of subsidiaries, net of cash disposed	5(b)	-	90,923
Net cash provided by continuing operations		(113,895)	90,923
Net cash provided by discontinued operations	5(c)	-	-
Net cash (used in) / provided by investing activities		(113,895)	90,923
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		175,421	-
Net cash provided by continuing operations		175,421	-
Net cash provided by discontinued operations		-	-
Net cash provided by financing activities		175,421	-
Net (decrease)/increase in cash held		(8,875)	(238,940)
Cash at beginning of financial year		43,888	289,017
Effect of exchange rates on cash holdings in foreign currencies		-	(6,189)
Cash at end of financial year	9	35,013	43,888

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 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the financial statements and notes of Pawnee Energy Limited. Pawnee Energy Limited is a listed public company domiciled in Australia.

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.

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.

The financial statements were authorised by the Board of Directors for issue on 31 March 2014.

Adoption of new and revised accounting standards

In the current year, the group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period as shown below.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013).

When these standards were first adopted for the year ended 31 December 2013, there was no impact on the transactions and balances recognised in the financial statements.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

There was no impact on the amounts recognised in the financial statements but has added additional disclosures in relation assets and liabilities which are measured using fair values.

Revised AASB 119 Employee Benefits and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The Company does not have any defined benefit plans. Therefore, these amendments had no impact on the Group.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

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.

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 consolidated group will not be able to collect all amounts due according to the original terms of receivables.

Plant and Equipment

Each class of plant and equipment is carried at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Plant and Equipment - *cont*

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

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated group 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) ***Financial assets at fair value through profit or loss***

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(ii) ***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.

(iii) ***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold those investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entity where there is neither a fixed maturity nor fixed or determinable payments.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

(v) **Financial Liabilities**

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

(vi) **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.

(vii) **Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Impairment of Non-financial Assets

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

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

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.

Provisions

Provisions are recognised when the group 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.

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

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

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.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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 consolidated group.

Key Estimates — Impairment

The consolidated group assesses impairment at each reporting date by evaluating conditions specific to the consolidated group 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.

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.

Investment in Associates

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.

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.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Unrealised gains and losses on transactions between the Company and its associates 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 consolidated financial statements are presented in Australian dollars (AUD), which is also the functional and presentation currency of the parent company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

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.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency of the entity in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AUD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into AUD at the closing rate. Income and expenses have been translated into AUD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity are reclassified to profit or loss and recognised as part of the gain or loss disposal.

Loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations;

- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Profit or loss from discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

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

The accounting standards that have not been early adopted for the year ended 31 December 2013, but will be applicable to the group 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 group.

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 group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Management anticipates that all of the relevant pronouncements will be adopted in the group'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 group'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 group's financial statements.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

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

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.
- 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.
- 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.
- 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 (OCI) and the remaining change is presented in profit or loss.

There will be no impact on the Group's accounting for financial assets or liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from AASB 139

Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

(ii) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

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. When these amendments are first adopted for the year ending 31 December 2014, they are unlikely to have any significant impact on the Group.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

(iii) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

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. When AASB 2012-3 is first adopted for the year ended 31 December 2014, there will be no impact on the Group as this standard merely clarifies existing requirements in AASB 132.

(iv) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to AASB 136)

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 these amendments are adopted for the first time on 1 January 2014, they are unlikely to have any significant impact on the Group given that they are largely of the nature of clarification of existing requirements.

NOTE 2: (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

	Company	Consolidated Group
	2013 \$	2012 \$
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	339	2,194
Interest from long term receivable	63,237	26,349
Other	-	676
Total interest revenue	<u>63,576</u>	<u>29,219</u>
— Bank charges and fees	347	496
Total finance costs	<u>347</u>	<u>496</u>
— Occupancy costs:		
— Rental expense for sublease	-	27,923
Total occupancy costs	<u>-</u>	<u>27,923</u>

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 2: (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

	Company	Consolidated Group
	2013	2012
	\$	\$
Administration		
— Travel, accommodation and entertaining	21,232	-
— Office expenses	99,742	66,778
Total administration costs	<u>120,974</u>	<u>66,778</u>
Professional Fees:		
— Accounting and audit fees	37,750	30,290
— Legal	102,400	11,575
— Corporate advisory fees	69,000	55,000
— Other consulting fees	35,482	43,639
Total professional fees	<u>244,632</u>	<u>140,504</u>
Other Expenses		
— Salaries, director fees and other related costs	100,627	12,971
— Write off of deposits paid for oil and gas licences	116,184	-
	<u>216,811</u>	<u>12,971</u>
Impairment		
— Investment in associate – Island Sky Corporation	-	116,800
Total Impairment	<u>-</u>	<u>116,800</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 3: LOSS FOR THE PRIOR PERIOD FROM DISCONTINUED OPERATIONS

On 15 June 2012 the Company signed a Stock Purchase Agreement (SPA) with Mr Richard Groden pursuant to which the Company sold 75% of its shares of common stock held in its wholly owned subsidiary, Island Sky Corporation. The Agreement, which was subject to shareholder approval, was approved at the Annual General Meeting held on 31 July 2012. As a result of this transaction, the net liabilities of Island Sky Corporation were deconsolidated from the Statement of Financial Position. In addition, the financial performance of Island Sky Corporation was removed from the continuing "operations" within the Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2012.

	2012
	\$
The following revenue and expense items are relevant in explaining the financial performance for the period of the discontinued operation:	
Revenue	
Sales Income	51,480
Gain on sale of assets	-
Interest Income	5,620
	<hr/>
	57,100
	<hr/>
Cost of sales	(25,423)
Expenses	
Distribution	(555)
Marketing	(826)
Occupancy	(34,712)
Administration	(23,397)
Employee expenses	(136,748)
Professional fees	(13,967)
Depreciation	(16,810)
Travel, accommodation and entertainment	(249)
Finance costs	(20,518)
Other expenses	(396)
	<hr/>
	(248,178)
	<hr/>
Income tax expense	
Company taxation	(145)
	<hr/>
	(145)
	<hr/>
Gain on disposal of subsidiary	3,376,482
	<hr/>
(Loss)/profit from discontinued operation	3,159,836
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 4: INCOME TAX EXPENSE

	Company	Consolidated Group
	2013 \$	2012 \$
The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-
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% (2012: 30%)	(155,756)	(100,876)
Add/(Less):		
Tax effect of:		
— Other non-allowable items	-	-
	(155,756)	(100,876)
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	155,756	100,876
Income tax attributable to entity	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 5: DISPOSAL OF ISLAND SKY CORPORATION

As outlined in Note 3, Pawnee Energy Limited disposed of 75% of its holding in Island Sky Corporation for a total consideration of \$1,154,929 (\$1,028,488 after discounting).

(a) Effect of the disposal on the financial position of the Group:

The assets and liabilities of Island Sky Corporation at the date of disposal were:	\$
Cash and cash equivalents	9,077
Trade and other receivables	42,385
Plant and Equipment	13,744
Inventories	897,298
Trade and other payables	<u>(2,155,187)</u>
Net Liabilities	<u>(1,192,683)</u>
De-recognition of foreign currency translation reserve	<u>(1,155,344)</u>
	<u>(2,348,027)</u>
Total consideration received or receivable (after discount)	<u>1,028,455</u>
Gain on disposal of subsidiary	<u><u>3,376,482</u></u>

(b) Proceeds from sale net of cash disposed:

Total consideration received in cash	100,000
Cash and cash equivalents disposed of	<u>(9,077)</u>
Net cash received	<u>90,923</u>

(c) Cashflows from discontinued operations:

Cashflows generated by Island Sky Corporation for the reporting period until the disposal were as follows:

	2013	2012
Operating activities	-	(149,443)
Investing activities	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 6: AUDITORS' REMUNERATION

	Company	Consolidated Group
	2013	2012
	\$	\$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	23,750	27,500
— Investigating Accountants Report for prospectus	14,000	-
— taxation services	3,000	2,790
	<u>40,750</u>	<u>30,290</u>

NOTE 7: EARNINGS PER SHARE (EPS)

	Company	Consolidated Group
	2013	2012
	\$	\$
Reconciliation of earnings to loss from continuing operations		
Earnings used in the calculation of basic and diluted EPS from continued operations	(519,188)	(336,253)
Earnings used in the calculation of basic and diluted EPS from discontinued operations	-	3,159,836
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	<u>300,613,275</u>	<u>285,701,996</u>

In accordance with AASB 133 there were no dilutive securities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTE 8: KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration

Directors	Short-term Benefits	Share-based payment	Post-employment Benefits	Total	Performance Related
	Salary & fees	Options	Superannuation		
2013	\$	\$	\$	\$	%
David Lindh ⁽¹⁾	40,000	-	3,700	43,700	.
Richard Groden	20,000	-	-	20,000	.
Neville Martin ⁽²⁾	20,000	-	-	20,000	.
	80,000	-	3,700	83,700	.

(1) Director fees were accrued during the 2013 year; however Mr Lindh did not receive any payment for 2013 director fees. Mr Lindh had outstanding director fees from prior years of \$42,100, which were fully paid during the year by a share issue.

(2) Director fees were accrued during the 2013 year; however Mr Martin did not receive any payment for 2013 director fees. Mr Martin had outstanding director fees from prior years of \$24,996 which were fully paid during the year by a share issue.

Directors	Short-term Benefits	Share-based payment	Post-employment Benefits	Total	Performance Related
	Salary & fees	Options	Superannuation		
2012	\$	\$	\$	\$	%
David Lindh ⁽³⁾	-	-	-	-	.
Richard Groden	-	-	-	-	.
Neville Martin ⁽⁴⁾	-	-	-	-	.
	-	-	-	-	.

(3) No director fees were accrued during the 2012 year. Mr Lindh did not receive any payment for 2012 director fees during the year. Mr Lindh had outstanding director fees for the 2011 and 2010 year which Mr Lindh loaned to the company. The company paid a portion of these outstanding fees during the year totaling \$73,575.

(4) No director fees were accrued during the 2012 year. Mr Martin did not receive any payment for 2012 director fees during the year. Mr Martin had outstanding director fees for the 2011 and 2010 year which Mr Martin loaned to the company. The company paid a portion of these outstanding fees during the year totaling \$24,996.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 8: KEY MANAGEMENT PERSONNEL REMUNERATION - CONT

Shareholdings

Number of Shares held by Key Management Personnel

	Balance on 1.1.2013	Received****	Options Exercised	Net Change Other	Balance 31.12.2013
David John Lindh*	12,719,600	7,143,962	-	-	19,863,562
Richard Jay Groden**	13,096,913	-	-	-	13,096,913
Neville Wayne Martin***	9,519,758	4,241,575	-	-	13,761,333
Total	35,336,271	11,385,537	-	-	46,721,808

Number of Shares held by Key Management Personnel

*19,663,562 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 12,000,000 share held in joint names of Richard Jay Groden and Susan Groden. Also included are 794,391 shares held in Rhythm & Blues Holdings Inc, a company associated with Richard Groden.

***8,902,308 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 32,450 shares on behalf of Mr Martin. Stansbury Petroleum Investments Pty Ltd, a company associated with Mr Martin holds 20,000 shares.

**** as per the remuneration report.

NOTE 9: CASH AND CASH EQUIVALENTS

	2013 \$	2012 \$
Cash at bank and in hand	35,013	43,888
	<u>35,013</u>	<u>43,888</u>

The effective interest rate on short-term bank deposits was 1.77% (2012: 2.5%); 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	<u>35,013</u>	<u>43,888</u>
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 10: TRADE AND OTHER RECEIVABLES

	2013	2012
	\$	\$
CURRENT		
Trade receivables	-	-
Receivable from related party (a)	1,018,040	-
Workcover	616	-
GST Receivable	2,565	3,274
Total Receivables	<u>1,021,221</u>	<u>3,274</u>
NON-CURRENT		
Receivable from related party	-	954,804
	<u>-</u>	<u>954,804</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 2013 from the related party is as follows:

Consideration for 933,077 shares:	1,154,929
Less: Deposit paid	(100,000)
Less: Discount	<u>(36,889)</u>
	<u>1,018,040</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 Inc owned by Mr Richard Groden.

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.

There are no significant balances within trade and other receivables that contain assets that are impaired or past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 11: INVESTMENT IN ASSOCIATE

	2013 \$	2012 \$
Investment in associate		
Unlisted investments		
NON - CURRENT		
— Shares – Island Sky Corporation	116,800	116,800
— Provision for Impairment	(116,800)	(116,800)
Investment in associate	<u>-</u>	<u>-</u>

Investments in associates

The group 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, and its principal place of business is the United States of America.

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

NOTE 12: PLANT AND EQUIPMENT

	2013 \$	2012 \$
Movements in carrying amounts		
PLANT AND EQUIPMENT		
Opening Balance	-	29,750
Additions		-
Depreciation expense	-	(15,746)
Disposal of wholly-owned subsidiary	-	(14,004)
Closing Balance	<u>-</u>	<u>-</u>
LEASEHOLD IMPROVEMENTS		
Opening Balance	-	1,064
Depreciation expense	-	(1,064)
Closing Balance	<u>-</u>	<u>-</u>

NOTE 13: TRADE AND OTHER PAYABLES

	2013 \$	2012 \$
CURRENT		
Trade payables	195,627	239,404
Sundry payables and accrued expenses	279,341	86,079
	<u>474,968</u>	<u>325,483</u>

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 20.

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2013 **2012**
\$ **\$**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Note 14: ISSUED CAPITAL

	2013	2012
	\$	\$
a. Ordinary Shares		
At the beginning of the year	12,315,716	14,448,739
Total shares issued during the year	423,971	-
Sale of subsidiary – previously accounted for as a reverse acquisition	-	(2,133,023)
At the end of the year	<u>12,739,687</u>	<u>12,315,716</u>

	2013	2012
	No.	No.
Ordinary shares		
At the beginning of the year	285,701,996	285,701,996
Shares issued during the year	85,710,500	-
At the end of the year	<u>371,412,496</u>	<u>285,701,996</u>

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.

	2014 Unlisted Options	
	2013	2012
	No.	No.
At the beginning of the year	5,000,000	5,000,000
Options issued during the year		
Pawnee Energy Limited	-	-
Total Options issued during the year	-	-
At the end of the reporting period	<u>5,000,000</u>	<u>5,000,000</u>

(i) The unlisted options have an exercise price of \$0.005 and expire on 4 August 2014.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 14: ISSUED CAPITAL - CONT

c. Unlisted Options

	2014 A Class Options	
	2013	2012
	No.	No.
At the beginning of the year	300,000	300,000
Options issued during the year		
Pawnee Energy Limited		
Total Options issued during the year	-	-
Total options issued during the prior year	-	-
At the end of the reporting period	300,000	300,000

(i) The unlisted options have an exercise price of \$0.40 and expire on 30 April 2014

Capital Management

Management effectively manages the company's capital by assessing the 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.

NOTE 15: RESERVES

Share Based Payment Reserve

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

Foreign currency translation reserve

On 15th June 2012 Pawnee Energy Limited entered into an agreement to dispose of the foreign operation. The cumulative translation differences recognised in equity were reclassified to profit or loss and recognised as part of the gain on disposal.

NOTE 16: OPERATING SEGMENTS

Identification of reportable segments

Following the disposal of the groups operating subsidiary Island Sky Corporation (based in the USA) as outlined in Note 3, the directors are of the view that there is no longer distinguishable operating segments which require disclosure.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 17: CASH FLOW INFORMATION

	Company	Consolidated
	2013	Group 2012
	\$	\$
Reconciliation of Cash Flow from Operations with (Loss) after Income Tax		
(Loss) after income tax from continuing operations	(519,188)	(336,253)
Profit after income tax from discontinued operations	-	3,159,836
Non-cash flows adjustments		
Gain on disposal of subsidiary	-	(3,376,482)
Impairment of investment in associate	-	116,800
Write off of deposits paid for oil & gas licences	116,184	-
Issue of scrip in lieu of cash	252,550	-
 Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/Decrease in trade and other receivables	(63,330)	(25,726)
Increase/(Decrease) in trade payables and accruals	143,383	134,731
(Decrease)/Increase in provisions	-	(2,769)
Cashflow from operating activities	<u>(70,401)</u>	<u>(329,863)</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 18: SHARE-BASED PAYMENTS

There were no share based payments during the 2013 year, other than the shares issued to two directors to extinguish directors fees brought forward as at 1 January 2013 – see Note 8 for details.

The following share base payments existed at 31 December 2013;

- 5,000,000 2014 options granted to underwriters with an exercise price of \$0.005 and an expiry date of 4 August 2014.
- 300,000 2014 A Class options granted to employees of Island Sky Florida with an exercise price of \$0.40 and an expiry date of 30 April 2014.

Pawnee Energy 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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 18: SHARE-BASED PAYMENTS - CONT

Options granted to key management personnel are as follows:	Grant Date	Number
	Number	Weighted average exercise price
Options outstanding as at 31 December 2011	5,300,000	\$0.03
Options exercisable as at 31 December 2011	5,300,000	\$0.03
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
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

NOTE 19: EVENTS AFTER THE REPORTING DATE

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

Pursuant to approval by shareholders the consolidation of each 50 shares held by shareholders into 1 share (approved by shareholders at the General Meeting held 21 November 2013), which took effect on 10th January 2014. This included the adjustment to the exercise price of the existing share options, which primarily belong to prior employees of the US operation.

Following the inability of the Company to secure a further extension to the completion dates under the Tiger Acquisition Agreement and the Pawnee Option Agreement (referred to in the Company's Prospectus dated 27 November 2013) and the failure to reach the Minimum Subscription by the Closing Date under the Prospectus, the Company:

- did not proceed with the acquisition of the Tiger Leases under the Tiger Acquisition Agreement;
- did not exercise its option to acquire an interest in the Pawnee Leases; and
- withdrew the Offer under the Prospectus.

Since the reporting date and the date of this report, Mr Lindh and Mr Martin have each injected \$25,000 cash in the form of unsecured personal loans to the company, in order to allow it to make payments to trade and other payables.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 20: RELATED PARTY TRANSACTIONS

	Company	Consolidated Group
	2013	2012
	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
Other Related Parties transactions (net of GST)		
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 Group.	65,520	134,696
During the year, the Company used the services of Minter Ellison for the provision of legal services. Mr Martin and Mr Lindh are consultants of Minter Ellison.	100,000	2,940
Amounts payable to Mr Martin for director's fees.	20,000	24,996
Amounts payable to Mr Lindh for director's fees.	43,700	35,425
Amounts payable to Mr Groden for director's fees.	20,000	-
During the year the company disposed of 75% of its subsidiary to Mr Groden (refer Note 5).	-	100,000
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.	185,454	-
Other Related Parties balances (including GST)		
Amount payable to Minter Ellison, of which, Mr Martin and Mr Lindh are consultants.	100,000	-
Amount payable to Adelaide Equity Partners Limited, of which, Mr Lindh is a Director and shareholder.	14,300	184,010
Amount payable to AE Administrative Services Pty Ltd, of which, Mr Lindh is an associate of this company.	102,043	45,767
Amount receivable from Mr Groden for disposal of subsidiary (refer Note 10).	1,018,040	954,803

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 21: 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 group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Treasury Risk Management

The Board 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 is exposed to fluctuations in foreign currencies arising from sales and purchase of goods and services in currencies other than the group'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 group 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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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	
	2013	2012	2013	2012
			\$	\$
Financial Assets:				
Cash and cash equivalents	1.8%	2.5%	35,013	43,888
Total Financial Assets			35,013	43,888
	Floating Interest Rate Within 1 Year		Non Interest Bearing	
	2013	2012	2013	2012
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	30,913	43,888	4,100	-
Trade and other receivables	-	-	1,021,221	954,803
Total Financial Assets	30,913	43,888	1,025,321	954,803
Financial Liabilities				
Trade and other payables	-	-	474,968	325,483
Total Financial Liabilities	-	-	474,968	325,483

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.

	2013		2012	
	Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
Financial Assets				
Cash and cash equivalents	35,013	35,013	43,888	43,888
Trade and other receivables	1,021,221	1,021,221	954,803	954,803
	1,056,234	1,056,234	998,691	998,691
Financial Liabilities				
Trade and other payables	474,968	474,968	325,483	325,483
	474,968	474,968	325,483	325,483
Net financial assets	581,266	581,266	673,208	673,208

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 21: FINANCIAL INSTRUMENTS - CONT

Sensitivity analysis

Interest rate sensitivity analysis

At 31 December 2013, 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 group'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:

	2013	2012
	\$	\$
Less than 6 months	308,625	325,483
6 months to 1 year	166,343	-
1 to 5 years	-	-
Over 5 years	-	-
	<hr/>	<hr/>
	474,968	325,483

NOTE 22: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company had no contingent assets or liabilities at 31 December 2012 or 31 December 2013.

NOTE 23: COMMITMENTS

The Company had no commitments as at 31 December 2013 (2012: nil).

NOTE 24: GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of going concern.

The company incurred a loss from continuing operations of \$519,188 and a cash outflow of \$184,296 from operating and investing activities. As at 31 December 2013 the company is in a net current asset position of \$581,266. If however the current receivable from a related party, due in July 2014 is delayed, the company is in a net current liability position of \$436,774.

The company remains reliant upon further capital raisings to continue as a going concern. If 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 financial report. No allowance for such circumstance has been made in the financial report.

Pawnee Energy Limited

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTE 25: CHANGES TO REPORTED NUMBERS SINCE LODGEMENT APPENDIX 4E

The appendix 4E lodged on 28 February 2014 reported a preliminary loss before tax of \$490,199. The difference to the final reported loss before tax of \$519,188 results from the inclusion of additional accruals for expenditure incurred in the year-ended 31 December 2013 relating primarily to the discontinued capital raising project.

NOTE 26: 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 18 to 48, 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 2013 and of the performance for the period ended on that date of the consolidated group;
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 31st day of March 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the company.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 which 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 2013 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 24 in the financial report which indicates that the company incurred a net loss from continuing operations of \$519,188 and a cash outflow of \$184,296 from operating and investing activities. These conditions, along with other matters as set forth in Note 24, 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 2013. 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 2013, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 31 March 2014