



2012 Annual Report

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Corporate Directory

DIRECTORS

John Simpson – Non-Executive Chairman
Mochamad Thamrin – Deputy Chairman
Anthony Milewski – Managing Director
Brett Mitchell – Non-Executive Director
Greg Lee – Non-Executive Director

CHIEF OPERATING OFFICER

Kenneth Bull

COMPANY SECRETARY

Jonathan Whyte

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 17, Level 2
100 Railway Road
Subiaco WA 6008
Tel: (08) 9380 9920
Fax: (08) 9381 5064

WEBSITE

qpnl.com.au

COUNTRY OF INCORPORATION

Australia

HOME EXCHANGE

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth WA 6000

ASX CODES

QPN
QPNO

ABN

22 009 171 046

AUDITORS

PKF Mack & Co
4th Floor
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Chairman's Report

Dear Shareholder,

I am pleased to present Quest Petroleum NL's Annual Report for the year ended 30 June 2012.

The 2012 year saw a major change of direction for the Company, with the completion of the acquisition of Merric Capital in November 2011 and the award of the Ranau production sharing contract (Ranau PSC) from the Indonesian Government.

The acquisition of Merric has brought to the Company long standing operating and local oil & gas expertise in Indonesia and specifically in Sumatra. This is allowing the Company to roll out a multi level strategy to become a mid-tier hydrocarbons producer in Sumatra.

This strategy includes the aggressive exploration of the multiple projects identified within the Ranau PSC, the utilization of our extensive local industry relationships to identify and acquire existing production which has ready potential for significant expansion and the acquisition of further areas that can be put under PSC's utilizing the Joint Study model and Pak Thamrin's project generation expertise.

Over the last year the Company has assembled an experienced corporate and technical team. In addition, further key relationships have been established and developed with prominent oil and gas participants in Indonesia ensuring that the Company is well positioned to capitalize on the significant potential that exists at the Ranau PSC and in South Sumatra in general. Exploration success can be quickly taken to production by accessing the extensive infrastructure and multiple hydrocarbon markets located within close proximity to these projects.

I would like to take this opportunity to warmly welcome the new directors to the Board, Mr. Anthony Milewski as Managing Director and Mr. Mochamad Thamrin as Deputy Chairman. In addition I would like to welcome Mr. Ken Bull who was recently appointed as Chief Operating Officer and who is leading the exploration, development and production team in Indonesia.

The Ranau PSC covers 2,191km² of the highly prospective South Sumatra Basin in Indonesia. Sumatra is the 6th largest island in the world and has a well established oil and gas industry with some 450 oil and gas fields containing reserves of more than 45 billion barrels of oil equivalent.

The Company has now received the necessary approvals from the Indonesia Energy Regulator, BPMIGAS, to commence drilling at the first prospect, the Kayumanis-1 Well, in the highly prospective Komering Basin. The Company expects to execute the drilling contract shortly and has announced a targeted spud date for the first well of December this year.

The Kayumanis-1 Lead Prospect is one of 16 leads identified in the Ranau PSC with combined potential of up to 6Tcf gas and/or 300 mmbbl oil. The Kayumanis-1 lead Prospect potential alone is estimated at up to 59mmbbl or 340Bcf gas.

Operators in the surrounding PSC's have reported initial flow rates of up to 3,000 BOPD from the same formations as those hosting the Kayumanis-1 prospect and the Company is optimistic that similar results can be achieved at Kayumanis-1 and at two further well locations that are part of the initial drilling program.

I would like to extend my thanks to members of the Board and staff for their efforts during the year and also thank shareholders for their continued support during the year. With the drilling campaign soon to commence we look forward to an exciting and rewarding year for the Company and its shareholders.

Yours faithfully



John Simpson
Chairman



Directors' Report



Your directors present their report on Quest Petroleum NL (the 'Company') and its controlled entities (the 'Consolidated Entity' and 'Group') for the financial year ended 30 June 2012.

DIRECTORS AND COMPANY SECRETARY

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

CURRENT BOARD OF DIRECTORS

- » **John Simpson**
Non-Executive Chairman (Appointed 24 November 2011)
- » **Mochamad Thamrin**
Deputy Chairman (Appointed 3 April 2012)
- » **Anthony Milewski**
Managing Director (Appointed 20 August 2012)
- » **Greg Lee**
Non-Executive Director
- » **Brett Mitchell**
Non-Executive Director
- » **Jonathan Whyte**
Company Secretary (Appointed 24 October 2011)

RESIGNED FROM THE BOARD

- » **Saxon Palmer**
Non-Executive Director (Appointed 24 November 2011, Resigned 11 September 2012)
- » **James Malone**
Non-Executive Chairman (Resigned 24 November 2011)
- » **Mark Freeman**
Non-Executive Director (Resigned 24 November 2011)

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

COMPANY SECRETARY

Brett Mitchell was the Company Secretary until resigning on 24 October 2011. Jonathan Whyte was appointed as Company Secretary on 24 October 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year consisted of the exploration for and the development of onshore oil and gas exploration assets. For further details refer to the Review of Operations.

OPERATING RESULTS

The consolidated loss of the Consolidated Entity for the financial year after providing for income tax amounted to \$1,011,682 (2011: \$3,632,270).

DIVIDENDS PAID OR RECOMMENDED

The directors recommend that no dividend be paid for the year ended 30 June 2012, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

REVIEW OF OPERATIONS 2012

As announced on 11 September 2012, the Company anticipates receiving approval from Indonesia's Energy Regulator, BPMIGAS, of the AFE for the Kayumanis-1 Well together with Quest's 2012 work plan and budget shortly, following which the Company will be in position to advise on the planned spud date.

Negotiations are being finalised with rig operators and the execution of the drilling contract is expected soon after the drilling approval is received. All other third party service contracts are being negotiated and materials and personnel are being mobilised in preparation to commence drilling.

The Kayumanis-1 Lead is one of 16 leads identified in the Ranau PSC with total potential of up to 6Tcf and / or 300 mmbbl oil. It is located approximately 10km south of the town of Baradatu in the Way Kanan jurisdiction of Lampung Province, South Sumatra. The first drill location is situated on the edge of an identified structural high proximate to three significant sub-basins with clear potential for hydrocarbon generation. The target reservoirs are in the Baturaja Limestone and Talang Akar Sandstone Formations, which are prolific oil and gas reservoirs in the South Sumatra Basin. The drill site is on well drained, elevated land adjacent to a paved asphalt road which will expedite the commencement of drilling.

The Kayumanis lead potential is estimated at up to 340Bcf gas.

Based on the results of the Kayumanis-1 Well, two further wells are planned in the initial drilling program. Further details on the first well will be released closer to the spud date.

ACQUISITION OF MERRIC CAPITAL AND AWARD OF RANAU PSC

RANAU PSC AWARDED – QUEST ACQUIRES MERRIC CAPITAL

On 22 November 2011 the Company announced that the Indonesian Government had formally awarded the Ranau Production Sharing Contract (PSC) to PrabuEnergy Pty Ltd (PrabuEnergy) (local operating subsidiary 80% owned by Merric Capital Pty Ltd (Merric)).

With the formal award to the Ranau PSC to PrabuEnergy, the final condition precedent for Quest's 100% acquisition of Merric was satisfied. The acquisition was formally completed on 24 November 2011 through the issue of 963,300,000 ordinary shares and 296,400,000 1.5 cent options to the Merric vendors, for the outstanding 75% of Merric securities not held by Quest.

RANAU PSC - BACKGROUND

The Ranau PSC covers 2,191km² of the South Sumatra Basin. Sumatra is the 6th largest island in the world and has a well established oil and gas industry with some 450 oil and gas fields containing reserves of more than 45 billion barrels of oil equivalent. Recent exploration at the Ranau PSC has identified four sub-basins and 16 highly prospective leads within these.

As indicated above, the Company is set to drill these leads and if successful take them to production, accessing the extensive infrastructure and multiple hydrocarbon markets located within close proximity to these projects and Sumatra.

The Company is optimistic about the exploration potential of the Ranau PSC as it contains extensions of proven Sub-basins of the prolific onshore South Sumatra Basin. These Sub-Basins contain several large scale structures within the Ranau PSC which were identified by gravity data during the joint study (detailed below). Several of these structures have the potential to contain multi-Tcf gas fields.

Figure 1: Ranau PSC Location Map



RANAU JOINT STUDY

In February 2012 the Company announced the results of the Ranau Joint Study, which was completed by PrabuEnergy and the Geological Department of Trisakti University, one of Indonesia's leading educational institutions focused on the oil and gas industry. The study confirmed that the Ranau PSC contains four new and very lightly explored sub-Basins that form a significant extension of the prolific South Sumatra Basin.

The results from the Joint Study draw the following conclusions:

- » The Ranau PSC area is large (2,191 sq km) and virtually unexplored.
- » Gas and oil shows in surrounding wells in conjunction with observed oil seeps and evidence of a proven petroleum system in the area. Significantly, an adjacent well recorded log and pressure data confirming a 107m gross gas column within the primary Talang Akar Formation reservoir.
- » Existing seismic data adjacent to the Ranau PSC shows potential Direct Hydrocarbon Indicators (DHIs), providing strong support for widespread occurrences of oil and gas in this area.
- » These surrounding sub-Basins that are the source of the oil and gas extend into the Ranau area as the Ratu and Jaya sub-Basins.

- » The sub-Basins within the Ranau PSC contain up to 3km of sediment, the same oil and gas rocks and reservoir rocks as the prolific South Sumatra Basin. In addition the study has determined that these sub-Basins have sufficient thermal maturity to generate oil and gas.

The residual gravity anomaly map shows the location of the sub-Basins in blue in relation to the Ranau boundary. The Gravity Study identified four potential drill targets (leads).

BACKGROUND ON THE OIL AND GAS INDUSTRY IN INDONESIA AND SUMATRA

Sumatra is the 6th largest island in the world, and has had a successful oil and gas industry since 1885 when Indonesia's first successful oil well was drilled in North Sumatra, creating the Royal Dutch Shell group. Since then, there have been more than 400 oil and gas fields discovered containing more than 45 billion barrels of oil equivalent.

Today Sumatra produces oil for consumption in domestic and international markets and gas for domestic markets in Sumatra and West Java, and to international markets in Singapore, via pipeline, and North Asia, via LNG export.

The North and Central Sumatran petroleum basins are dominated by large international petroleum companies such as Chevron, Pertamina, CNOOC, ConocoPhillips and ExxonMobil. In South Sumatra the industry is dominated by Pertamina and smaller local companies. PrabuEnergy

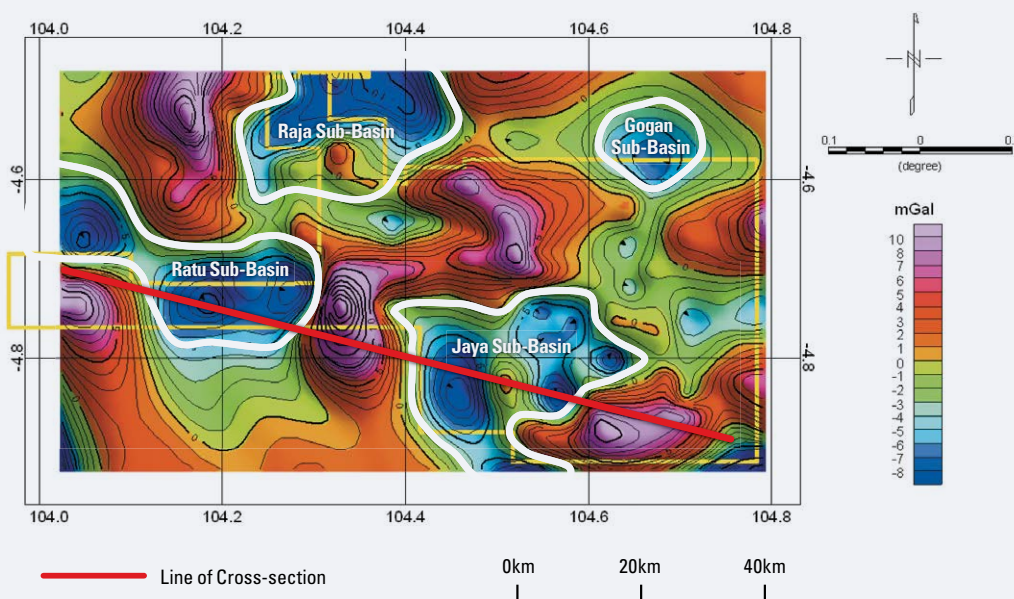


Figure 2: Residual Gravity Anomaly Map

believes this creates an opportunity to create value by bringing industry leading ideas and technologies to explore for and produce oil and gas in South Sumatra.

COMPETENT PERSONS STATEMENT

The information in this report that relates to Exploration Results, Gas Reserves is based on information reviewed and compiled by Mr Saxon Palmer a previous Director of the Company, who holds a Bachelor of Science with Honours in Geology from the Australian National University, has 25 years relevant experience and who is a member of the American Association of Petroleum Geologists. Mr Palmer has sufficient experience that is relevant to oil and gas exploration and production to qualify as a Competent Person as defined in Chapter 5 of the ASX Listing Rules. Mr Palmer consents to the inclusion in this report of this information in the form and context in which it appears.



Figure 3: South Sumatran Basins.

CORPORATE

MANAGING DIRECTOR APPOINTMENT

On 20 August 2012 the Company appointed Anthony D. Milewski as the Managing Director and Chief Executive Officer. Mr Milewski has extensive experience in the energy & resource industries and has an active involvement in global capital markets. He has held board positions with several public energy and resource companies in emerging markets and immediately prior to joining Quest he held positions at Skadden Arps, Renaissance Capital and Firebird Management.

Mr Milewski has spent a significant part of his career living and working in emerging markets, including Africa, Russia and Asia. Mr Milewski is a lawyer and a member of the New York State Bar, holds an M.A. in International Studies and a Juris Doctorate from the University of Washington. He was a Fulbright scholar to Russia and holds an LLM in Russian law from the Russian Academy of Sciences.

OTHER BOARD APPOINTMENTS

APPOINTMENT OF DEPUTY CHAIRMAN AND SENIOR TECHNICAL ADVISOR

Mr Mochamad Thamrin was appointed as Deputy Chairman of the Company and Senior Technical Advisor of its subsidiary PrabuEnergy on 3 April 2012. Mr Thamrin is a leading industry professional with a deep knowledge of South Sumatra's petroleum geology. Mr Thamrin has over 45 years experience in the Indonesian oil and gas industry, including senior geological positions at PT. Shell Indonesia and as a production geologist with Indonesian government owned Pertamina, one of the largest oil and gas companies in the world.

MERRIC TRANSACTION

Pursuant to settlement of the transaction, Mr John Simpson was appointed to the Quest Board as Chairman and Mr Saxon Palmer as Director, replacing Mr James Malone and Mr Mark Freeman. Mr Palmer resigned on 11 September 2012.

CHIEF OPERATING OFFICER APPOINTMENT

On 11 September 2012 the Company appointed Mr Ken Bull as Chief Operating Officer. Mr Bull has over 30 years international experience in the oil and gas sector, primarily in the management and operation of onshore and offshore drilling, well completion and production operations. Mr Bull also has extensive experience in the Indonesian oil and gas industry and will manage all aspects of the Company's operations in Indonesia. With the near term commencement of drilling, a full time technical and operational team has been assembled in Indonesia, led by Mr Bull. Mr Bull is based in Jakarta and speaks fluent Indonesian.

Mr Bull joins Quest from Entek Energy where he was responsible for all drilling, workover, completion and safety at their operations in the USA. He has previously managed drilling programs for Indonesian based Kufpec and Kalrez Petroleum where he managed the drilling and production operations of the Seram Island Oil and Gas Project.

He has also had a combined five years of direct operating experience in South Sumatra working with Stanvac, Asameria Petroleum and ARCO conducting workovers, completions and well testing in and around the South Sumatran Basin. Ken has also worked with for PDO (Shell) Oman, BSP (Shell) Brunei, Santos Petroleum and New Guinea Energy.

\$5M CAPITAL RAISING

On 26 July the Company announced a placement to investors, including international and domestic institutions, of approximately 417 million fully paid ordinary shares at 0.6 cents per share, together with one (1) free attaching option exercisable at 1.5 cents on or before 30 June 2016 for every two (2) new shares subscribed to raise approximately \$2,500,000 (Placement).

The first tranche of the Placement amounted to \$1,198,514 through the issue of 199,752,475 shares at 0.6 cents per share, together with one (1) free attaching option exercisable at 1.5 cents on or before 30 June 2016 for every two (2) new shares subscribed (Tranche 1). Tranche 1 was completed on 27 July 2012.

The second tranche of the Placement amounts to \$1,301,485 through the issue of 216,914,192 shares at 0.6 cents per share, together with one for two free attaching options on the same terms as Tranche 1 (Tranche 2). The issue of the Tranche 2 was subject to shareholder approval, which was duly received at a general meeting held on 14 September 2012. On 21 September 2012 the Company issued 105,333,766 Shares as partial allotment of the Tranche 2 placement. A Prospectus is expected to be lodged shortly for the remaining Tranche 2 placement shares and options.

The Company is also offering all eligible shareholders the opportunity to participate in the capital raising on the same terms as the Placement through an Entitlement Issue to raise approximately \$2,500,000. Details and the timetable of the Entitlement Issue will be advised shortly.

FINANCIAL POSITION

The net assets of the Consolidated Entity have increased by \$3,970,106 from \$3,719,465 in 30 June 2011 to \$7,689,571 in 2012. The group's working capital, being current assets less current liabilities, has decreased to a surplus of \$1,607,197 in 2012 from \$2,859,322 in 2011.

The directors believe the Group is in a strong and stable financial position to expand and grow its current operations.

SIGNATURE BONUS AND PERFORMANCE BOND

Quest had previously provided a US\$1,000,000 bank guarantee via a loan arrangement with Merric in order to facilitate PrabuEnergy's bid for the Ranau PSC. This guarantee was converted to the standard PSC signature bonus and paid to BPMigas following the issue of the Ranau PSC.

A US\$1,500,000 performance bond was put in place for the Ranau work programs as a key condition for the grant of the Ranau PSC, which will be reduced in tranches upon completion of certain exploration work program activities, with the moneys refunded to the Company.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 22 November 2011 the Company announced that the Indonesian Government had formally awarded the Ranau PSC to PrabuEnergy.

With the formal award of the Ranau PSC to PrabuEnergy, the final condition precedent for Quest's 100% acquisition of Merric was satisfied. The acquisition was formally completed on 24 November 2011 through the issue of 963,300,000 ordinary shares and 296,400,000 1.5 cent options to the Merric vendors for the outstanding 75% of Merric securities not held by Quest.

AFTER REPORTING DATE EVENTS

On 31 August 2012 the working interest partners in the Bullseye Project announced the sale of the project and the Jumonville Wells. 100% of the project was sold for US\$1,500,000. Quest's net proceeds of its 5% share after costs associated with the sale amounted to approximately US\$81,000.

No other material events took place after the end of the financial period other than as detailed elsewhere in this report, including the placement to sophisticated investors as announced on 26 July 2012. For further details on the placement, refer to the 'Corporate' section in the Directors' Report.

ENVIRONMENTAL ISSUES

The Consolidated Entity's operations are subject to significant environmental regulations under international legislation in relation to its conduct of exploration for oil and

gas. These issues are dealt with by the local operator of each representative project on behalf of the project parties and the Consolidated Entity is not aware of any matter that requires disclosure with respect to any significant environmental regulation in respect of its activities.

INFORMATION ON DIRECTORS

Mr John (Gus) Simpson	Chairman (Non-Executive)
Qualifications	B.Applied Sc, B.Arts.
Experience	Mr Simpson brings an extensive range of corporate and commercial expertise to the Company. He is currently Executive Chairman of Peninsula Energy Limited, a Wyoming focused energy developer and he has over 25 years experience in the management of companies with international operations.
Interest in Shares and Options	Mr Simpson, directly and through an associated entity, holds 70,294,864 shares in the Company.
Directorships held in other listed entities	During the past three years Mr Simpson has served as a Director of other listed companies as follows: Peninsula Energy Limited.

Mr Mochamad Thamrin	Deputy Chairman & Senior Technical Advisor
Qualifications	Graduate Geology of ITB Bandung
Experience	Mr Thamrin is a leading industry professional with a deep knowledge of South Sumatra's petroleum geology. Mr Thamrin has over 45 years experience in the Indonesian oil and gas industry, including senior geological positions at PT Shell Indonesia and as a production geologist with Indonesian government owned Pertamina, one of the largest oil and gas companies in the world. From 1976 to 1987 Mr Thamrin was Head of Geological Evaluation in the R&D Division at Pertamina. Mr Thamrin was also Chairman of the Geology Department and Dean of the Mineral Technology Faculty at the University of Trisakti Jakarta from 1980 to 1994 and 1999 to 2011 respectively. Triskati conducted the Ranau Joint Study with PrabuEnergy and BPMIGAS. Mr Thamrin is widely regarded as a leading expert in the Indonesian oil and gas field and has authored over 30 publications and text books on geology and related topics within this area.
Interest in Shares and Options	Nil
Directorships held in other listed entities	None

Mr Anthony Milewski	Managing Director
Qualifications	B.A History (Minor Russian Studies), LLM Russian Securities and Finance, Juris Doctor and M.A in Russian and Central Asian Studies
Experience	Mr Milewski has extensive experience in the energy & resource industries and has an active involvement in global capital markets. He has held board positions with several public energy and resource companies in emerging markets and immediately prior to joining Quest he held positions at Skadden Arps, Renaissance Capital and Firebird Management. Mr Milewski has spent a significant part of his career living and working in emerging markets, including Africa, Russia and Asia. Mr Milewski is a lawyer and a member of the New York State Bar, holds an M.A. in International Studies and a Juris Doctorate from the University of Washington. He was a Fulbright scholar to Russia and holds an LLM in Russian law from the Russian Academy of Sciences.
Interest in Shares and Options	Mr Milewski, through an associated entity, holds 6,200,000 shares in the Company.
Directorships held in other listed entities	None

Mr Brett Mitchell	Non-Executive Director
Qualifications	B. Ec
Experience	Mr Mitchell has worked for both private and publicly listed entities for the past 18 years as a corporate finance executive. He holds a Bachelor of Economics degree from the University of Western Australia and has specific experience in the financial markets and resources sectors and is a member of the Australian Institute of Company Directors (ACID). Mr Mitchell is currently a director of Transerv Energy Ltd, Wildhorse Energy Ltd, Tamaska Oil and Gas Ltd and Citation Resources Ltd.
Interest in Shares and Options	Mr Mitchell through various related parties/entities holds 5,685,507 shares and 15,000,000 options in the Company.
Directorships held in other listed entities	During the past three years Mr Mitchell has served as a Director of other listed companies as follows: Xstate Resources Limited and Newland Resources Limited.

Mr Gregory Jonathan Lee	Non-Executive Director
Qualifications	CPEng, MIE Aust
Experience	Mr Lee is a highly experienced petroleum engineer with 29 years of experience in oil and gas field development and management, petroleum/production engineering and drilling operations. Mr Lee operates as an independent consultant petroleum engineer to major oil and gas companies.
Interest in Shares and Options	Mr Lee through various related parties/entities holds 3,876,411 shares and 5,000,000 options in the Company.
Directorships held in other listed entities	During the past three years Mr Lee has served as a Director of other listed companies as follows: Verus Investments Ltd.

Mr Saxon Palmer	Non-Executive Director (resigned 11 September 2012)
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Mr Jim Malone	Chairman (Non-executive) (resigned 24 November 2011)
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Mr Mark Freeman	Non-Executive Director (resigned 24 November 2011)
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Mr Jonathan Whyte	Company Secretary
Qualifications	B. Com, CA
Experience	Mr Whyte is a Chartered Accountant with experience in corporate accounting and investment banking sectors, having worked for Credit Suisse and Barclays Capital Plc in London over a period of 6 years. Previously Mr Whyte worked in the advisory services division of Deloitte in Perth over a period of 4 years. Mr Whyte was previously Company Secretary of ASX listed Lefroy Resources Limited and is Company Secretary of ASX listed Peninsula Energy Limited and several unlisted resource based companies.
Interest in Shares and Options	Mr Whyte through various related parties/entities holds nil shares and 280,383 options in the Company.

REMUNERATION REPORT – AUDITED

This report details the nature and amount of remuneration for each director of Quest Petroleum NL, and for the executives receiving the highest remuneration.

PRINCIPLES OF COMPENSATION

The remuneration policy of Quest Petroleum NL 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 Consolidated Entity's financial results. The Board of Quest Petroleum NL 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 Entity, as well as create goal congruence between directors, executives and shareholders.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

FIXED COMPENSATION

Non-executive directors, executive directors and senior executives receive a base salary (which is based on factors such as expertise and experience), which is calculated on a total cost basis and includes employer contributions to superannuation funds.

Executive directors can be employed by the Company on a consultancy basis, on board approval, with remuneration and terms stipulated in individual consultancy agreements.

The board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries. In addition external consultants may be used to provide analysis and advice to ensure the directors and senior executives' remuneration is competitive in the market place.

The employment terms and conditions of key management personnel and Consolidated Entity executives are formalised in contracts of employment. Terms of employment require that the relevant group entity provide an executive contracted person with a minimum one month notice prior to termination of contract. Key Contracts are for an average duration of one to three years, to a maximum of three years. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one month's notice. Termination payments are not payable on resignation or under circumstances of unsatisfactory performance.

LONG-TERM INCENTIVE

Options are sometimes issued to directors and executives at the discretion of the directors of the Consolidated Entity. The ability to exercise options is conditional upon an individual achieving certain performance hurdles. These hurdles are set for each person and are based either on the time of service or achieving certain operational targets.

NON-EXECUTIVE DIRECTORS

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitments and responsibilities. The board of directors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. The Directors are not required to hold any shares in the Company under the Constitution of the Company, however, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

COMPANY PERFORMANCE, SHAREHOLDER WEALTH AND DIRECTORS AND EXECUTIVES REMUNERATION

The table below shows the gross revenue, losses and earnings per share for the last three years for the Consolidated Entity.

	2012	2011	2010
Revenue and Other Income	838,612	644,385	755,429
Net Loss	(1,011,682)	(3,632,270)	(3,189,378)
Loss Per Share (cents per share)	(0.06)	(0.37)	(0.55)

DIRECTORS' AND EXECUTIVES' REMUNERATION - AUDITED

The key management personnel of the Consolidated Entity consists of the directors and company secretary of the Company only. The remuneration for each director of the Consolidated Entity during the year was as follows:

	Short term Salary & Fees \$	Post-employment Superannuation Benefits \$	Share-based payments Options and rights \$	TOTAL \$	S300A(1) (e) (i) Proportion of remuneration performance related %	S300A(1) (e)(i) Value of options as proportion of remuneration %
2012						
John Simpson	29,722	-	-	29,722	-	-
Saxon Palmer	21,000	-	-	21,000	-	-
Mochamad Thamrin	33,527	-	-	33,527	-	-
Gregory Lee	36,000	-	15,000	51,000	29.41	29.41
James Malone	15,000	-	15,000	30,000	50.00	50.00
Brett Mitchell	86,000	-	45,000	131,000	34.35	34.35
Mark Freeman	25,000	-	45,000	70,000	64.29	64.29
Jonathan Whyte	45,000	-	-	45,000	-	-
	291,249	-	120,000	411,249	29.18	29.18
2011						
Gregory Lee	36,000	-	-	36,000	-	-
James Malone	43,000	-	-	43,000	-	-
Brett Mitchell	125,750	-	-	125,750	-	-
Mark Freeman	105,000	-	-	105,000	-	-
	309,750	-	-	309,750	-	-

EQUITY INSTRUMENTS

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the Share Option Plan.

OPTIONS GRANTED AS COMPENSATION

On 10 August 2011 40,000,000 unlisted options were granted to key management personnel of the Company. The options are exercisable at 1.5 cents per option and expire on 30 June 2016. Fair value of the unlisted Options was determined by BDO Corporate Finance using information provided by the Company. The valuation was performed using a binomial option pricing model. The fair value of the Options was determined to be \$0.003 each, giving the share-based payment a value of \$120,000.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION

There are no shares issued as a result of the exercise of the options during the year.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

No options have been granted since the end of the financial year.

ANALYSIS OF MOVEMENTS IN OPTIONS

There was no movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management personnel.

End of Remuneration Report

MEETINGS OF DIRECTORS

During the financial year, 6 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

Director	Board Meetings	
	Attended	Held
John Simpson	5	5
Saxon Palmer	4	5
Mochamad Thamrin	-	3
Brett Mitchell	6	6
James Malone	1	1
Mark Freeman	1	1
Gregory Lee	4	6

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company has paid premiums to insure the directors against certain liabilities arising out of their conduct while acting as an officer of the Company. The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Under the terms and conditions of the insurance contract the premium paid cannot be disclosed. The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditors of the Company or any related entity against a liability incurred by the auditor.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of Corporate Governance. The Company's corporate governance statement is contained in the Corporate Governance section of the Financial Report.

REMUNERATION AND NOMINATION COMMITTEE

During the year ended 30 June 2012, the Consolidated Entity did not have a separately established nomination or remuneration committee. Considering the size of the Consolidated Entity, the number of directors and the Consolidated Entity's early stages of its development, the Board is of the view that these functions could be efficiently performed with full Board participation.

NON-AUDIT SERVICES

The Board of Directors are 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 nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2012:

	2012 \$	2011 \$
Tax consulting	3,000	5,013

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF PKF MACK & CO

There are no officers of the Company who are former audit partners of PKF Mack & Co.



AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2012 has been received.

AUDITOR

PKF Mack & Co continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors,



Anthony Milewski
Managing Director

Dated: 27 September 2012

PKF MACK & Co

Chartered Accountants & Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

TO THE MEMBERS OF QUEST PETROLEUM NL

In relation to our audit of the financial report of Quest Petroleum NL for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF MACK & Co



SIMON FERMANIS
PARTNER

27 SEPTEMBER 2012
WEST PERTH,
WESTERN AUSTRALIA

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated Entity	
	Note	2012 \$	2011 \$
Revenue	4	78,296	202,344
Cost of Sales		(65,832)	(110,332)
Gross Profit		12,464	92,012
Other income	5	75,349	442,041
Gain on fair valuing previously held investment on acquisition	5	684,967	-
Professional services	6	(91,885)	(70,102)
Amortisation expense	15	(99,555)	(792,827)
Impairment expense	12	(332,713)	-
Exploration & development expense	14	(353,854)	(2,467,753)
Corporate costs	7	(646,908)	(474,266)
Share-based payment expense	22	(182,000)	-
Property and lease expense		(46,969)	(68,400)
Other operating expenses		(28,287)	(47,945)
Bad debt expense		-	(77,376)
Results from operating activities		(1,009,391)	(3,464,616)
Unrealised foreign exchanges losses		(2,291)	(167,654)
Net financial income/(expense)		-	-
Loss before income tax		(1,011,682)	(3,632,270)
Income tax expense	8	-	-
Loss for the year		(1,011,682)	(3,632,270)
Other comprehensive income			
Net change in value of available for sale financial assets		-	12,000
Foreign currency translation differences		57,388	(758,969)
Other comprehensive income for the year (net of tax)		57,388	(746,969)
Total comprehensive income for the year		(954,294)	(4,379,239)
Loss attributable to:			
Members of Quest Petroleum NL		(982,896)	(3,632,270)
Non-controlling interest		(28,786)	-
		(1,011,682)	(3,632,270)
Total comprehensive loss attributable to:			
Members of Quest Petroleum NL		(925,508)	(4,379,239)
Non-controlling interest		(28,786)	-
		(954,294)	(4,379,239)
Earnings/(loss) per share attributable to ordinary equity holders of the parent (cents per share)			
Basic loss per share (cents per share)	9	(0.06)	(0.37)
Diluted loss per share (cents per share)	9	(0.06)	(0.37)

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2012

		Consolidated Entity	
	Note	2012 \$	2011 \$
CURRENT ASSETS			
Cash and cash equivalents	10	272,271	1,571,377
Trade and other receivables	11	1,724,306	1,140,649
Assets held for sale	12	-	327,622
TOTAL CURRENT ASSETS		1,996,577	3,039,648
NON-CURRENT ASSETS			
Trade and other receivables	11	26,079	25,005
Exploration & evaluation assets	14	6,073,886	137,369
Oil and gas properties	15	-	94,360
Financial assets	16	-	620,278
TOTAL NON-CURRENT ASSETS		6,099,965	877,012
TOTAL ASSETS		8,096,542	3,916,660
CURRENT LIABILITIES			
Trade and other payables	17	163,807	162,458
Deposits held	18	17,868	17,868
Share placement - funds held in trust	18	207,705	-
TOTAL CURRENT LIABILITIES		389,380	180,326
NON-CURRENT LIABILITIES			
Restoration Provision	19	17,591	16,868
TOTAL NON-CURRENT LIABILITIES		17,591	16,868
TOTAL LIABILITIES		406,971	197,195
NET ASSETS		7,689,571	3,719,465
EQUITY			
Issued capital	20	127,696,729	123,781,529
Reserves	21	1,299,877	696,954
Accumulated losses		(121,278,249)	(120,759,018)
Total parent entity interest		7,718,357	3,719,465
Non-controlling interest		(28,786)	-
TOTAL EQUITY		7,689,571	3,719,465

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital A\$	Accumulated Losses A\$	Option Reserve A\$	Foreign Currency Translation Reserve A\$	Total A\$	Non- controlling interest A\$	Total Equity A\$
Balance at 1 July 2011	123,781,529	(120,759,018)	463,665	233,289	3,719,465	-	3,719,465
Loss for the period	-	(982,896)	-	-	(982,896)	(28,786)	(1,011,682)
Other comprehensive income for the period	-	-	-	57,388	57,388	-	57,388
Total comprehensive income for the period	-	(982,896)	-	57,388	(925,508)	(28,786)	(954,294)
<i>Transactions with owners, recorded directly in equity</i>							
Shares issued during the period	3,853,200	-	-	-	3,853,200	-	3,853,200
Options issued during the period	-	-	889,200	-	889,200	-	889,200
Share-based payments	62,000	-	120,000	-	182,000	-	182,000
Write off expired options	-	463,665	(463,665)	-	-	-	-
	3,915,200	463,665	1,009,200	-	4,924,400	-	4,924,400
Balance at 30 June 2012	127,696,729	(121,278,249)	1,009,200	290,677	7,718,357	(28,786)	7,689,571

	Issued Capital A\$	Accumulated Losses A\$	Option Reserve A\$	Foreign Currency Translation Reserve A\$	Fair Value Reserve A\$	Total A\$	Total Equity A\$
Balance at 1 July 2010	119,876,646	(117,597,205)	463,665	992,258	(12,000)	3,723,364	3,723,364
Loss for the year	-	(3,632,270)	-	-	-	(3,632,270)	(3,632,270)
Net Change in fair value of available for sale financial assets	-	-	-	-	12,000	12,000	12,000
Foreign currency translation	-	-	-	(758,969)	-	(758,969)	(758,969)
Total comprehensive income for the year	-	(3,632,270)	-	(758,969)	12,000	(4,379,239)	(4,379,239)
<i>Transaction with owners, recorded directly in equity</i>							
Shares issued during the year	4,236,942	-	-	-	-	4,236,942	4,236,942
Options issued during the year	332,490	-	-	-	-	332,490	332,490
Listed options expired	(470,457)	470,457	-	-	-	-	-
Transaction costs	(194,092)	-	-	-	-	(194,092)	(194,092)
	3,904,883	470,457	-	-	-	4,375,340	4,375,340
Balance at 30 June 2011	123,781,529	(120,759,018)	463,665	233,289	-	3,719,465	3,719,465

The accompanying notes form part of these financial statements.

Statement of Cashflows

FOR YEAR ENDED 30 JUNE 2012

		Consolidated entity	
		30-Jun-12	30-Jun-11
	Note	A\$	A\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of Oil & Gas		83,424	159,521
Cost of sales		(45,543)	(64,748)
Payments to suppliers and employees		(784,264)	(741,715)
Interest received		76,704	61,783
Net cash used in operating activities	26	(669,679)	(585,159)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of Investments (Listed Shares)		-	735,515
Proceeds from sale of project assets		-	419,328
Payments for acquisition of equity investments		(341,999)	(620,000)
Security bond deposit		(1,684,840)	(105,310)
Payments for exploration and development expenditure		(61,103)	(1,983,121)
Payments for leasehold improvements		(5,090)	(327,622)
Acquisition of Merric Capital Pty Ltd	30	1,260,323	-
Net cash used in investing activities		(832,709)	(1,881,210)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		207,705	2,188,996
Proceeds from issue of options		-	332,490
Payment of share issue costs		-	(194,091)
Net cash provided by financing activities		207,705	2,327,395
Net increase/ (decrease) in cash and cash equivalents held		(1,294,683)	851,859
Cash and cash equivalents at the beginning of the period		1,571,377	1,771,903
Effects of exchange rate changes on the balances held in foreign currencies		(4,423)	(61,552)
Cash and cash equivalents at the end of the period	10	272,271	1,571,377

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: REPORTING ENTITY

Quest Petroleum NL (the 'Parent Entity') is a company listed on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia. The consolidated financial report of the Consolidated Entity for the financial year ended 30 June 2012 comprises the Parent Entity and its subsidiaries (together referred to as the 'Consolidated Entity').

The financial report was authorised for issue by the Board of Directors on 27 September 2012.

NOTE 2: BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for profit orientated entities. The financial report of the Consolidated Entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and investment properties.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars which is the Parent entity's functional currency. The functional currency of the Company's foreign subsidiaries is US dollars. The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

(d) Use of estimates and judgments

In preparing this financial report the Consolidated Entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

Significant accounting judgements

In the process of applying the Consolidated Entity's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Exploration, evaluation and development expenditure (Oil & Gas Properties)

The Group's accounting policy for exploration, evaluation and development is set out at note 3(e). Application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves exist. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, management conclude that it is unlikely that capitalised expenditure will be recovered by future exploitation or sale, the relevant capitalised amount will be written off to the profit or loss in the statement of comprehensive income. As at 30 June 2012 the carrying amount of Oil & Gas Properties is \$nil (2011: \$94,360).

Critical accounting estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

NOTE 2: BASIS OF PREPARATION (CONTINUED)

Amortisation

Upon commencement of production, the Company amortises the accumulated costs for the relevant area of interest over the life of the area according to the rate of depletion of the economically recoverable quantities of reserves. Estimates of recoverable reserve quantities include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of the quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period.

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted.

Rehabilitation obligations

The Consolidated Entity estimates its share of the future removal and remediation costs of oil and gas platforms, production facilities, wells and pipelines at the time of acquisition or installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of remediation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of provision for rehabilitation refer to note 3(e). As at 30 June 2012 rehabilitation obligations have a carrying value of \$17,591 (2011: \$16,868).

Impairment of assets

In the absence of readily available market prices, the recoverable amounts of assets are determined using estimates of the present value of future cashflows using asset-specific discount rates. For oil & gas properties, these estimates are based on assumptions concerning reserves, future production profiles and costs. As at 30 June 2012, the carrying value of oil & gas properties is \$nil (2011: \$94,360).

(e) Going concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Consolidated Entity incurred a loss of \$1,011,682 for the year ended 30 June 2012 (2011: \$3,632,270) and negative operating cash outflows of \$669,679 (2011: \$585,159). Included within the loss was exploration and development expenditure written off or impaired of \$353,854 (2011: \$2,467,753). The net working capital surplus of the Consolidated Entity at 30 June 2012 was \$1,607,197 (2011: \$2,859,321) and the net decrease in cash held during the year was \$1,299,106 (2011: an increase of \$790,217).

The ability of the Company and the Group to continue to pay its debts as and when they fall due is dependent upon the Company successfully raising additional share capital and ultimately developing one of its mineral properties.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- The Directors have an appropriate plan to raise additional funds as and when it is required. In light of the Group's current exploration projects, the Directors believe that the additional capital required can be raised in the market; and
- the Directors have an appropriate plan to contain certain operating and exploration expenditure if appropriate funding is unavailable.

In the event that the Group is not able to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in its financial report.

NOTE 2: BASIS OF PREPARATION (CONTINUED)

Subsequent to year end the Company has successfully completed the first tranche of a \$2,500,000 Entitlement and Placement Issue. The first tranche of the Placement amounted to \$1,198,514 through the issue of 199,752,475 shares at 0.6 cents per share. Refer to Corporate section in the Directors' Report for further details.

The accounts have been prepared on the basis that the Group can meet its commitments as and when they fall due and can therefore continue normal business activities, and the realisation of assets and liabilities in the ordinary course of business.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of Consolidation

A controlled entity is any entity Quest Petroleum NL has the power to control the financial and operating policies so as to obtain benefits from its activities. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Parent Entity. Where controlled entities have entered or left the Consolidated Entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expense is based on the profit or loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

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 income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The major categories of assets are depreciated as follows:

- Oil and gas properties are amortised over the useful lives of the asset on a unit of production basis once a reserve has been established;
- Motor Vehicles are depreciated based on diminishing value at 22.5%;
- Plant and equipment and drilling parts are depreciated based on diminishing value at 25% to 40%;
- Office equipment is depreciated based on diminishing value at 25% to 40%; and
- Currently there are no buildings owned by the Consolidated Entity.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment is raised when there is objective evidence that the group will not be able to collect the debt.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Non-operator Interests in Oil & Gas Properties

Exploration & evaluation expenditure

The Consolidated Entity's accounting policy for the cost of exploring and of evaluating discoveries is based on the "successful efforts" method.

This approach is strongly linked to the Group's oil and gas reserves determination and reporting process and is considered to most fairly reflect the results of the Group's exploration and evaluation activity because only assets with demonstrable value are carried on the statement of financial position.

Once a decision has been made to develop an oil or gas prospect, accumulated exploration and evaluation costs for that prospect are transferred from Deferred Exploration, Evaluation to Development Projects. Once production commences capitalised costs associated with the producing well are transferred to Oil and Gas Properties and are amortised or depreciated over the useful life of the asset.

This method allows the costs of discovery, evaluation and development of a prospect to be aggregated on the statement of financial position and matched against the benefits derived from production once this commences.

Costs

All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

- the expenditure relates to an area of interest that, at reporting date, no assessment of the existence of economically recoverable reserves has been made; or
- where there exists an economically recoverable reserve and it is expected that the capitalised expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

Areas of interest are recognised at the field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are initially capitalised. Each area of interest is reviewed at least bi-annually to determine whether economic quantities of reserves exist or whether further exploration and evaluation work is required to support the continued carry forward of capitalised costs.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons. To the extent it is considered that the relevant expenditure will not be recovered, it is immediately expensed.

Transfer to development projects

Upon a decision being made to commercially develop an area of interest, accumulated expenditure for the area of interest is transferred to Oil & Gas Properties and amortised or depreciated over the useful life of the project.

Producing projects

Exploration, evaluation and development costs are initially capitalised as deferred exploration, evaluation and development expenditure and upon commencement of commercial operations are transferred to Oil & Gas Properties. Operating costs of projects in commercial production are expensed as incurred.

Prepaid drilling and completion costs

Where the Group has a non-operator interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the operator's drilling and / or completion costs, in advance of these operations taking place.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are capitalised as prepaid drilling costs within Deferred Exploration, Evaluation and Development Expenditure.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within Exploration, Evaluation and Development Expenditure.

As the operator notifies the Company as to how funds have been expended, the costs are reclassified from prepaid costs to the appropriate expenditure category.

Once a decision has been made to proceed with completion of a well, all costs are transferred from Exploration and Evaluation to Oil and Gas Properties, including any prepaid amounts.

Amortisation of producing projects

Upon commencement of production, the Consolidated Entity amortises the accumulated costs for the relevant area of interest over the life of the area according to the rate of depletion of the economically recoverable quantities of reserves. Estimates of recoverable reserve quantities include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Amortisation charged for the year to 30 June 2012 was \$99,555 (2011: \$792,827).

Future restoration costs

The Consolidated Entity's aim is to avoid or minimise environmental impact resulting from its operations.

Work scope and cost estimates for restoration are reviewed annually and updated at least every three years. Provision is made in the statement of financial position for restoration of operating locations. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The costs are then recognised as an expense on a units of production basis during the production phase of the project.

The costs are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

The Group accounts for changes in cost estimates on a prospective basis.

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

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

Impairment

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

(f) Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less cost to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

(g) 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 assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss in the statement of comprehensive income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Foreign Currency Transactions and Balances

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(i) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the obligation can be reliably estimated.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

An onerous contract is considered to exist where the Consolidated Entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(j) Provisions

Provision for restoration and rehabilitation

Provision is made in the statement of financial position for restoration of operating locations. The estimated restoration and rehabilitation costs are initially recognised as part of the capitalised cost of the relevant project which gave rise to the future obligation. During the production phase of the project the capitalised restoration costs is amortised using the units of production method. Any actual costs incurred by the Consolidated Entity are allocated against the provision.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The provision for restoration and rehabilitation are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

(k) Cash and Cash Equivalents

Cash and cash equivalents includes 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. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(l) Revenue

(i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(ii) Other revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Service income

Revenue from the provision of services is recognised when the Consolidated Entity has a legally enforceable right to receive payment for services rendered.

(iv) Royalty income

Royalty income is recognised on an accruals basis when a right to receive payment is established.

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

(m) 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 flow on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the Australian Taxation Office.

(n) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Dividends

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the directors on or before the end of the financial year, but not distributed at reporting date.

Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Options

The fair value of options in the shares of the Company issued to directors and other parties is recognised as an expense in the financial statements in relation to the granting of these options.

(q) Employee Benefits

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Employee benefits payable later than one year

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(iii) Superannuation

Contributions are made by the Consolidated Entity to superannuation funds as stipulated by statutory requirements and are charged as expenses when incurred.

(iv) Employee benefit on costs

Employee benefit on costs, including payroll tax, are recognised and included in employee benefits liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(v) Options

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

The fair value at grant date is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

(r) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the net profit or loss after income tax attributable to members 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 financing 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.

(s) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Consolidated Entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Consolidated Entity uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Consolidated Entity for similar financial instruments.

(t) **New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- (i) AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- (a) simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- (b) simplifying the requirements for embedded derivatives;
- (c) removing the tainting rules associated with held-to-maturity assets;
- (d) removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- (e) allowing 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. 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;
- (f) requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- (g) requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (ii) AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012). This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group.

- (iii) AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

- (a) AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

- (b) AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

- (c) AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

- (iv) AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 13 requires:

- (a) inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- (b) enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

- (v) AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

- (vi) AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).
- (vii) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124].

This Standard makes amendments to Australian Accounting Standard AASB 124 Related Party Disclosures.

These amendments arise from a decision of the AASB to remove the individual key management personnel (KMP) disclosures from AASB 124 on the basis they:

- (a) are not part of International Financial Reporting Standards (IFRSs), which include requirements to disclose aggregate (rather than individual) amounts of KMP compensation;
 - (b) are not included in New Zealand accounting standards and, accordingly, their removal is consistent with meeting the 2010 Outcome Proposal of the Australian and New Zealand governments that for-profit entities are able to use a single set of accounting standards and prepare only one set of financial statements;
 - (c) are considered by the AASB to be more in the nature of governance disclosures that are better dealt with as part of the Corporations Act 2001;
 - (d) were originally included in AASB 124 when fewer similar disclosure requirements were included in the Corporations Act and, in many respects, relate to similar disclosure requirements currently in that Act and therefore detract from the clarity of the requirements applying in this area; and
 - (e) could be considered (during the transition period for this Amending Standard) for inclusion in the Corporations Act or other legislation to the extent they presently go beyond the requirements in legislation and are considered appropriate in light of government policy.
- (viii) AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132].

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the Company's recognised financial assets and recognised financial liabilities, on the Company's financial position. This Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (ix) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132].

This Standard 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.

- (x) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2].

This standard results from the International Accounting Standards Board’s annual improvements project 2009-2011. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs.

(u) **Segment Reporting**

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board of Directors.

(v) **Parent Entity Financial Information**

The financial information for the Parent Entity, Quest Petroleum NL, disclosed in Note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associated and joint venture entities are accounted for at cost in the financial statements of Quest Petroleum NL. Dividends received from associated are recognised in the Parent Entity’s profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Quest Petroleum NL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Quest Petroleum NL, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Quest Petroleum NL also recognised the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Quest Petroleum NL for any current tax payable assumed and are compensated by Quest Petroleum NL for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Quest Petroleum NL under the tax consolidation legislation. The funding amounts are determined by reference to the amount recognised in the wholly-owned entities’ financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligation to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidation entities are recognised as current amounts receivable from or payable to other entities in the Group.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Financial guarantees

Where the Parent Entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment. No such guarantees have been provided at this time.

	Consolidated Entity	
	2012	2011
	\$	\$
NOTE 4: REVENUE FROM ORDINARY ACTIVITIES		
Gross revenue (i)	78,296	202,344
	<u>78,296</u>	<u>202,344</u>

(i) Revenue relates to oil and gas sales from the Bullseye Project (Jumonville Wells #1 and #2).

NOTE 5: OTHER INCOME

Interest income	75,349	61,784
Other income	-	22,561
Gain on fair valuing previously held investment on acquisition (i)	684,967	-
Profit from sale of listed shares	-	357,696
	<u>760,316</u>	<u>442,041</u>

(i) Gain arising from recognising the fair value of the assets and liabilities of Merric Capital Pty Ltd upon acquisition on 24 November 2011. For further details see Note 30.

NOTE 6: PROFESSIONAL SERVICES

Auditors' remuneration (i)	(47,000)	(44,263)
Legal services	(40,340)	(3,364)
Other professional fees	(4,545)	(22,475)
	<u>(91,885)</u>	<u>(70,102)</u>

(i) Auditors' remuneration

Audit and review of financial statements	(44,000)	(39,250)
Tax consulting	(3,000)	(5,013)
	<u>(47,000)</u>	<u>(44,263)</u>

	Consolidated Entity	
	2012	2011
	\$	\$
NOTE 7: CORPORATE COSTS		
ASX listing fees and share registry costs	(73,576)	(60,084)
Corporate services	(436,359)	(309,750)
Insurance	(1,255)	(104)
Annual report	(7,586)	(6,660)
Accounting fees	(15,439)	(56,092)
Investor relations	(12,000)	(8,000)
Facility fees on Performance Bond	(76,317)	-
Office administration	(3,775)	(11,687)
Other costs	(20,601)	(21,889)
	<u>(646,908)</u>	<u>(474,266)</u>

NOTE 8: INCOME TAX EXPENSE

Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>

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

Prima facie income tax expense/(benefit) at 30% (2011: 30%)	(303,505)	(1,089,681)
<i>Add:</i>		
Tax effect of:		
Other non-allowable items	54,614	935,993
Provisions and accruals	-	4,500
Revenue losses not brought to account	476,727	224,232
	<u>531,341</u>	<u>1,164,725</u>
<i>Less:</i>		
Tax effect of:		
Capital raising costs	19,345	75,044
Provisions and accruals	3,000	-
Non-assessable discount on acquisition	205,491	-
	<u>227,836</u>	<u>75,044</u>
Income tax expense/(benefit)	<u>-</u>	<u>-</u>

The following deferred tax balances have not been recognised:

Deferred Tax Assets:		
At 30%		
Carry forward revenue losses	3,281,094	2,804,367
Carry forward capital losses	219,399	219,399
Capital raising costs	27,018	46,362
Provisions and accruals	3,000	7,500
	<u>3,530,511</u>	<u>3,077,628</u>

The tax benefits of the above Deferred Tax Assets will only be obtained if:

- (a) The company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the company complies with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the company in utilising the benefits.

	Consolidated Entity	
	2012	2011
	\$	\$
NOTE 9: LOSS PER SHARE		
Loss attributable to ordinary shareholders		
Loss for the period	(1,011,682)	(3,632,270)
Weighted average number of ordinary shares outstanding at the end of the year		
Issued ordinary shares 1 July	1,075,558,084	722,203,470
Effect of issue of shares during the year	580,624,463	270,508,232
Weighted average number of ordinary shares at 30 June	1,656,182,547	992,711,702
Basic loss per share (cents per share)	(0.06)	(0.37)
Diluted loss per share (cents per share)	(0.06)	(0.37)

NOTE 10: CASH AND CASH EQUIVALENTS

Cash at bank	272,271	1,571,377
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NOTE 11: TRADE AND OTHER RECEIVABLES

Current

Trade debtors	10,201	128,139
Prepayments	3,369	603
Other receivable (i)	1,710,736	1,011,907
	1,724,306	1,140,649

Non-current

Plug and abandon escrow	26,079	25,005
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- (i) A US\$1,500,000 performance bond was put in place for the Ranau work programs as a key condition for the grant of the Ranau PSC, which will be reduced in tranches upon completion of certain exploration work program activities, with the moneys refunded to the Company.

NOTE 12: ASSETS HELD FOR SALE

Leasehold improvements (i)	-	327,622
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- (i) The Consolidated Entity incurred costs in relation to the fitout of its previous premises that will no longer be recouped since the change in business premises as part of the Merric acquisition. Therefore, all leasehold improvements were written off at 31 December 2011. Total impairment expense in the statement of comprehensive income is \$332,713.

NOTE 13: JOINT VENTURE

As at 30 June 2012, the Consolidated Entity held interests in the following unincorporated joint ventures:

Joint Venture	Working Interest	Principal Activity
Bullseye Project (i)	5%	Oil and Gas exploration and development

(i) The Company sold its working interest in the Bullseye Project on 31 August 2012. For further details see Note 29.

	Consolidated Entity	
	2012 \$	2011 \$
NOTE 14: EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation expenditure - carrying value	6,073,886	137,369
<i>Movement in exploration and evaluation expenditure</i>		
Balance at 1 July	137,369	167,553
Acquisitions (i)	5,076,935	-
Exploration and evaluation expenditure capitalised	1,162,420	2,580,723
Exploration and evaluation expensed (ii)	(353,854)	(2,467,753)
Effect of movement in exchange rates	51,016	(143,154)
Balance at 30 June 2012	6,073,886	137,369

The recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation or sale of the respective oil and gas leases and associated assets.

- (i) On 24 November 2011 the Company completed the acquisition of Merric Capital Pty Ltd through the issue of 963,300,000 ordinary shares and 296,400,000 1.5 cent options to the Merric Vendors for the remaining 75% of Merric securities not already held by Quest. For further details refer to Note 30.
- (ii) This relates to previously capitalised exploration and evaluation expenditure written off.

	Consolidated Entity	
	2012 \$	2011 \$
NOTE 15: OIL AND GAS PROPERTIES		
Oil and gas properties - carrying value (i)	-	94,360
<i>Movement in exploration and evaluation expenditure</i>		
Balance at 1 July	94,360	1,065,392
Incurred during the year	-	348
Amortisation expense	(99,555)	(792,827)
Effect of movement in foreign exchange rates	5,195	(178,553)
Balance at 30 June 2012	-	94,360

- (i) Amortisation of the costs carried forward for the Jumonville #1 & #2 oil and gas properties were expensed based on estimated life of recoverable production. As at 30 June 2012 the properties had been fully amortised and were subsequently sold 31 August 2012. For further details see Note 29.

NOTE 16: FINANCIAL ASSETS**Non-current**

Investment in Merric Capital (i)

Consolidated Entity	
2012	2011
\$	\$
-	620,278

- (i) Prior year balance represents Company's 25% interest in the ordinary share capital of Merric Capital Pty Ltd, following the purchase of ordinary shares and conversion of options to ordinary shares during the year. The Company completed the acquisition of the remaining 75% of Merric Capital Pty Ltd on 24 November 2011. For further details see the Directors Report and Note 30.

NOTE 17: TRADE AND OTHER PAYABLES

Trade creditors

150,578

115,890

Other payables

-

648

Accruals

13,229

45,920

163,807

162,458

NOTE 18: DEPOSITS HELD

Unclaimed funds from unmarketable parcel buy back

17,868

17,868

Funds held in Trust – Placement applicants (i)

207,705

-

225,573

17,868

- (i) Balance related to funds from Tranche 1 Placement applicants banked prior to 30 June 2012 which were held by the Company in trust for these applicants pending the allotment and issue of the related securities. The related Placement securities were issued in July 2012. Please refer to the Directors' Report for further details of the Placement.

NOTE 19: PROVISIONS

Restoration provision

17,591

16,868

A provision for restoration is recognised in relation to the exploration and production activities for costs associated with the restoration of various sites. Estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration provision, the Company has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration in the future.

Consolidated - 2012

Carrying amount at the start of the year

16,868

Additional provision recognised

723

Carrying amount at the year end

17,591

NOTE 20: ISSUED CAPITAL**Consolidated Entity**

		30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
	Note	No of Shares	No of Shares	A\$	A\$
Ordinary shares - fully paid	(a)	2,045,058,084	1,075,558,084	129,114,740	125,199,540
Ordinary shares - partly paid to 2 cent		92,822	92,822	20,420	20,420
Ordinary shares - partly paid to 0.1 cents		582,963	582,963	6,413	6,413
Share issue costs				(1,444,844)	(1,444,844)
				127,696,729	123,781,529

NOTE 20: ISSUED CAPITAL (CONTINUED)

(a) Movement in ordinary shares - fully paid

	Date	Number of shares	Share value A\$	A\$
For the year ended 30 June 2012				
Opening balance	01-Jul-11	1,075,558,084		125,199,540
Issue of shares for Merric Capital acquisition	24-Nov-11	963,300,000	0.004	3,853,200
Share-based payment	17-Apr-12	6,200,000	0.010	62,000
Closing balance		2,045,058,084		129,114,740
	Date	Number of shares	Share value A\$	A\$
For the year ended 30 June 2011				
Opening balance	01-Jul-10	722,203,470		120,962,320
Share issue to Pass Petroleum	08-Jul-10	180,000,000	0.011	1,980,000
Exercise of listed options	01-Oct-10	7,066	0.025	177
Exercise of listed options	16-Nov-10	22	0.025	1
Share issue new placement @ \$0.013	15-Dec-10	173,076,924	0.013	2,250,000
Exercise of listed options	04-Feb-11	9,781	0.025	245
Exercise of listed options	02-Mar-11	26,839	0.025	671
Exercise of listed options	08-Apr-11	233,982	0.025	5,848
Listed options exercised during the year		-		278
Closing balance		1,075,558,084		125,199,540

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Movement in share options

	Date	Number of options	Value A\$
For the year ended 30 June 2012			
Opening balance	01-Jul-11	21,000,000	210,545
Options expired	30-Sep-11	(5,000,000)	(50,130)
Options issued	10-Aug-11	40,000,000	120,000
Options issued	24-Nov-11	296,400,000	889,200
Options expired	31-Dec-11	(16,000,000)	(160,415)
		336,400,000	1,009,200
	Date	Number of options	Value A\$
For the year ended 30 June 2011			
Opening balance	01-Jul-10	159,245,376	348,790
Options issued	6-Jul-10	102,489,114	102,489
Options issued	14-Jul-10	230,000,000	230,000
Options exercised	1-Oct-10	(7,066)	(7)
Options exercised	16-Nov-10	(22)	(0)
Options exercised	4-Feb-10	(9,781)	(9)
Options exercised	2-Mar-10	(26,839)	(27)
Options expired	1-Apr-11	(470,456,800)	(470,457)
Options exercised	8-Apr-11	(233,982)	(234)
		21,000,000	210,545

NOTE 20: ISSUED CAPITAL (CONTINUED)

On 24 November 2011, 296,400,000 1.5 cent unlisted Options with an expiry date of 30 June 2016 were issued to the Merric vendors as part of the purchase consideration. Fair value of the unlisted Options was determined by BDO Corporate Finance using information provided by Quest. The valuation was performed using a binomial option pricing model. The fair value of the Options was determined to be \$0.003 each, giving the consideration a value of \$889,200.

The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/08/2011	30/06/2016	\$0.004	\$0.015	125%	-	4.09%	\$0.003
Consolidated Entity							
2012							
\$							
2011							
\$							

NOTE 21: RESERVES

(a) Foreign currency translation reserve	290,677	233,289
(b) Share-based payments reserve	120,000	253,120
(c) Option premium reserve	889,200	210,545
	1,299,877	696,954

(a) Foreign Currency Translation Reserve

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

(b) Share-based payments reserve

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

(c) Option Premium Reserve

The option premium reserve is used to record premiums received on options issued to investors in the Company.

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management	Position
Brett Mitchell	Non-Executive Director
John Simpson	Non-Executive Chairman (Appointed 24 November 2011)
Saxon Palmer	Non-Executive Director (Appointed 24 November 2011, resigned 11 September 2012)
Greg Lee	Non-Executive Director
James Malone	Non-Executive Chairman (Resigned 24 November 2011)
Mark Freeman	Non-Executive Director (Resigned 24 November 2011)
Mochamad Thamrin	Deputy Chairman (Appointed 3 April 2012)
Jonathan Whyte	Company Secretary (Appointed 24 October 2011)

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Consolidated Entity's key management personnel for the year ended 30 June 2012.

The totals of remuneration paid to key management personnel of the Consolidated Entity during the year are as follows:

NOTE 22: KEY MANAGEMENT PERSONNEL (CONTINUED)

	Consolidated Entity	
	2012	2011
	\$	\$
Short-term employee benefits	291,249	309,750
Equity compensation benefits	120,000	-
	<u>411,249</u>	<u>309,750</u>

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2003 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with Quest Petroleum NL or Group since the end of the previous financial year and there were no material contracts involving directors existing at year end.

Loans to key management personnel and their related parties

There were no loans to key management personnel at the end of the year.

Key management personnel and director transactions

Meccano is a company associated with Mr Mark Freeman, a previous director of the Company who resigned on 24 November 2011. During the financial year ended on 30 June 2012, an amount of \$6,593 was charged to the Company for accounting services.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Quest Petroleum NL held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July	Purchases	Granted as remuneration	Other Changes(iii)	Held at 30 June
2012					
John Simpson	-	-	-	70,294,864	70,294,864
Saxon Palmer	-	-	-	104,140,540	104,140,540
Mochamad Thamrin	-	-	-	-	-
Gregory Lee	3,879,411	-	-	-	3,879,411
Brett Mitchell	5,685,507	-	-	-	5,685,507
Mark Freeman (i)	7,723,398	-	-	(7,723,398)	N/A
James Malone (ii)	912,180	-	-	(912,180)	N/A
2011					
Gregory Lee	3,879,411	-	-	-	3,879,411
Brett Mitchell	5,685,507	-	-	-	5,685,507
Mark Freeman	6,566,667	1,156,731	-	-	7,723,398
James Malone	912,180	-	-	-	912,180

- (i) Mr Mark Freeman resigned from the group effective 24 November 2011.
- (ii) Mr James Malone resigned from the group effective 24 November 2011.
- (iii) Movement in shares held by Mr Gus Simpson and Mr Saxon Palmer relate to shares granted to Merric vendors as part of the purchase consideration on 24 November 2011.

NOTE 22: KEY MANAGEMENT PERSONNEL (CONTINUED)

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Quest Petroleum NL hold, directly, indirectly or beneficially, by each key management persons, including their related parties, is as follows:

Movement in options

	Balance at 1 July Number	Granted during the year as compensation Number	Exercised during the year Number	Other changes during the year (iii) Number	Expired during the year (iv) Number	Balance at 30 June Number
2012						
John Simpson	-	-	-	-	-	-
Saxon Palmer	-	-	-	32,043,242	-	32,043,242
Mochamad Thamrin	-	-	-	-	-	-
Gregory Lee	2,500,000	5,000,000	-	-	(2,500,000)	5,000,000
Brett Mitchell	2,000,000	15,000,000	-	-	(2,000,000)	15,000,000
Mark Freeman (i)	10,000,000	15,000,000	-	(15,000,000)	(10,000,000)	N/A
James Malone (ii)	1,500,000	5,000,000	-	(5,000,000)	(1,500,000)	N/A
Jonathan Whyte	-	-	-	280,383	-	280,383

2011

Gregory Lee	3,714,120	-	-	-	(1,214,120)	2,500,000
Brett Mitchell	3,895,169	-	-	-	(1,895,169)	2,000,000
Mark Freeman	12,188,889	-	-	-	(2,188,889)	10,000,000
James Malone	1,804,060	-	-	-	(304,060)	1,500,000

- (i) Mr Mark Freeman resigned from the group effective 24 November 2011.
- (ii) Mr James Malone resigned from the group effective 24 November 2011.
- (iii) Movement in options held by Mr Saxon Palmer and Mr Jonathan Whyte relate to options granted to Merric vendors as part of the purchase consideration on 24 November 2011.
- (iv) 16,000,000 unlisted options held by key management personnel expired during the period. The options were exercisable at 3.3 cents and expired on 31 December 2011.

	Vested and exercisable	Vested and Un- exercisable	Vested at the end of year
2012			
John Simpson	-	-	-
Saxon Palmer	32,043,242	-	32,043,242
Mochamad Thamrin	-	-	-
Gregory Lee	5,000,000	-	5,000,000
Brett Mitchell	15,000,000	-	15,000,000
Mark Freeman	N/A	N/A	N/A
James Malone	N/A	N/A	N/A
Jonathan Whyte	280,383	-	280,383
2011			
Gregory Lee	2,500,000	-	2,500,000
Brett Mitchell	2,000,000	-	2,000,000
Mark Freeman	10,000,000	-	10,000,000
James Malone	1,500,000	-	1,500,000

NOTE 22: KEY MANAGEMENT PERSONNEL (CONTINUED)

Share-based payments

The following share-based payment arrangements existed at 30 June 2012:

Ordinary Shares

There were no ordinary shares granted to key management personnel during the year ended 30 June 2012.

On 17 April 2012 6,200,000 ordinary shares were issued to consultant Mr Anthony Milewski for investor relations and promotional services provided to the Company. The value assigned to these shares by reference to market price at date of issue was \$0.01, giving a share-based payment value of \$62,000. Mr Milewski was subsequently appointed as Managing Director on 20 August 2012, forming part of key management personnel in the 2013 financial year.

Performance Shares

There were no performance shares granted to key management personnel during the year ended 30 June 2012.

Options

On 10 August 2011 40,000,000 unlisted options were granted to key management personnel of the Company. The options are exercisable at 1.5 cents per option and expire on 30 June 2016. Fair value of the unlisted Options was determined by BDO Corporate Finance using information provided by Quest. The valuation was performed using a binomial option pricing model. The fair value of the Options was determined to be \$0.003 each, giving the share-based payment a value of \$120,000.

The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/08/2011	30/06/2016	\$0.004	\$0.015	125%	-	4.09%	\$0.003

Options granted as compensation

2012

Grant date	Expiry date	Exercise price	Opening balance	Granted	Exercised	Expired/ forfeited	Closing balance
28/11/2008	31/12/2011	\$0.033	16,000,000	-	-	(16,000,000)	-
10/08/2011	30/06/2016	\$0.015	-	40,000,000	-	-	40,000,000
Weighted average exercise price			\$0.033	\$0.015	-	\$0.033	\$0.015

2011

Grant date	Expiry date	Exercise price	Opening balance	Granted	Exercised	Expired/ forfeited	Closing balance
28/11/2008	31/12/2011	\$0.033	16,000,000	-	-	-	16,000,000
Weighted average exercise price			\$0.033	-	-	-	\$0.033

NOTE 22: KEY MANAGEMENT PERSONNEL (CONTINUED)

All options granted to key management personnel were for ordinary shares in Quest Petroleum NL, which confer a right of one ordinary share for every option held.

Included under share-based payment expense in the profit or loss in the statement of comprehensive income is \$182,000 which relates to the equity-settled share-based payment transactions disclosed above.

NOTE 23: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Directors are not aware of any material contingent liabilities nor contingent assets as at 30 June 2012.

NOTE 24: CAPITAL AND LEASING COMMITMENTS

During the financial year Quest Petroleum NL and its subsidiaries were committed to keeping its interests in the Bullseye Project area in good standing by contributing its share of leasehold rental commitments and other related costs as required under the Joint Venture Agreements. The Bullseye Project was subsequently sold on 31 August 2012. For further details refer to Note 29.

	Consolidated Entity	
	2012	2011
	\$	\$
LEASING COMMITMENTS		
Leasehold acreage costs – within one year	-	2,602

PrabuEnergy Pty Ltd, a 80% controlled subsidiary of the Group was awarded the Ranau Production Sharing Contract (PSC) in November 2011. This contract provides a budgeted expenditure work program which details the committed level of expenditure required for the first three years of the contract. As per the contract, PrabuEnergy Pty Ltd is committed to expenditure totalling \$6,700,000 (USD). However, as part of the agreement a bond has been set aside in the amount of \$1,500,000 as disclosed in note 11. The value of this bond shall be reduced annually by deducting the amount included in the work program. Therefore, the Group's commitment with regards to exploration activities is as follows:

	2012	2011
	\$	\$
Within 1 year	1,677,284	-
Between 1-5 years	4,916,186	-
	6,593,470	-

NOTE 25: SEGMENT REPORTING**Segment Information***Identification of reportable segments*

Management has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Directors consider the principal activities are mineral exploration and are managed primarily on a project by project basis. Operating segments are therefore determined on the same basis.

Reportable segments are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

NOTE 25: SEGMENT REPORTING (CONTINUED)

The Group's exploration projects consist of:

- Oil
- Gas

Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

Segment Assets

Segment assets are clearly identifiable on the basis of their nature and physical location.

Segment Liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

Items of revenue, expense, assets and liabilities are not allocated to operating segments if they are not considered part of the core operations of any segment.

(i) Segment Performance

The following table present information regarding the Consolidated Entity's operating segments for the year ended 30 June 2012:

	Bullseye	Ranau		
	Louisiana, USA	Indonesia	Australia	Total
	\$	\$	\$	\$
30 June 2012				
Revenue				
External Sales	78,296	-	-	78,296
Interest revenue:	-	9	75,340	75,349
Total Segment Revenue	78,296	9	75,340	153,645
Expenses				
Cost of Sales	(65,832)	-	-	(65,832)
Amortisation	(99,555)	-	-	(99,555)
<i>Unallocated</i>				
Gain on fair valuing previously held investment on acquisition				684,967
Professional services				(91,885)
Impairment expense				(332,713)
Exploration & development expense				(353,854)
Corporate costs				(646,908)
Share-based payment expense				(182,000)
Property and lease expense				(46,969)
Other operating expenses				(28,287)
Foreign exchange losses				(2,291)
Loss before and after income tax				(1,011,682)

NOTE 25: SEGMENT REPORTING (CONTINUED)

	Bullseye Louisiana, USA \$	Ranau Indonesia \$	Australia \$	Total \$
30 June 2012				
Segment Assets				
Segment operating assets	38,798	7,813,104	-	7,851,902
Unallocated assets				
Cash				233,984
Trade and other receivables				10,656
Total Assets				8,096,542
	Bullseye Louisiana, USA \$	Australia \$	Total \$	
30 June 2011				
Revenue				
External Sales	202,344	-	202,344	
Interest revenue	-	61,784	61,784	
<i>Total Segment Revenue</i>	202,344	61,784	264,128	

As the Company only had one producing property in South Louisiana (Bullseye), no other segment reporting was applicable.

	Consolidated Entity	
	2012 \$	2011 \$
NOTE 26: CASH FLOW INFORMATION		
Reconciliation of profit after income tax to net cash from operating activities		
Loss for the period	(1,011,682)	(3,632,270)
<i>Adjustment for:</i>		
Exploration and evaluation expense	353,854	2,467,753
Impairment expense	332,713	-
Gain on fair valuing previously held investment	(684,967)	-
Profit/(loss) on sale of investments	-	(357,696)
Share-based payment expense	182,000	-
Amortisation	99,555	792,827
Unrealised foreign exchange gain	2,291	167,654
Bad debt expense	-	77,376
	(726,236)	(484,356)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	55,208	(17,277)
Increase/(decrease) in payables	1,349	(83,526)
Cash flow from operating activities	(669,679)	(585,159)

NOTE 27: INVESTMENT IN CONTROLLED ENTITIES

The controlled entities of the Consolidated Entity at 30 June were as follows:

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)	
		2012	2011
Nuenco LLC	USA	100%	100%
Anzoil (Asia) Pte Ltd	Singapore	100%	100%
Maxin Pty Ltd	Australia	100%	100%
Enercal Ltd	Guernsey	100%	100%
Coalinga LLC	USA	100%	100%
Merric Capital Pty Ltd (i)	Australia	100%	25%

- (i) The Company completed the acquisition of the remaining 75% of Merric Capital Pty Ltd on 24 November 2011. Merric owns 80% of PrabuEnergy Pty Ltd. For further details see the Directors' Report and Note 30.

Loans are made by the Parent Entity to wholly-owned subsidiaries to fund the subsidiaries' operations. The loans outstanding between the Parent Entity and its subsidiaries have no fixed date of repayment and are non-interest bearing. As at 30 June 2012, the recoverable amount of such loans to subsidiaries totalled \$1,428,502 (2011: \$946,200).

Joint venture

As at 30 June 2012, the Consolidated Entity held interests in a joint venture. Details of the joint venture interests are disclosed in Note 13.

NOTE 28: FINANCIAL INSTRUMENTS**Financial Risk Management****Overview**

The Consolidated Entity has exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Consolidated Entity's management of financial risk is aimed at ensuring net cash flows are sufficient to:

- Meet all its financial commitments; and
- Maintain the capacity to fund the Consolidated Entity's growth activities.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Consolidated Entity through regular reviews of the risks.

Market, liquidity and credit risk (including foreign exchange, commodity price and interest rate risk) arise in the normal course of business. These risks are managed under Board approved directives which underpin treasury practices and processes.

This note presents information about the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Entity's receivables from customers.

Trade and other receivables

As the Consolidated Entity operates in the mining exploration sector and is still in the phase of exploration and evaluation. As at 30 June 2012 there were no significant concentrations of credit risk on the statement of financial position.

Impairment losses

None of the Group's other receivables are past due (2011: nil). As at 30 June 2012 there is no allowance for impairment in respect to other receivables for the Consolidated Entity (2011: nil).

Exposure to credit risk

The carrying amount of the Consolidated Entity's financial assets represents the maximum credit exposure. The Consolidated Entity's maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount	
		2012 \$	2011 \$
Trade and other receivables	11	1,724,306	1,140,649
Cash and cash equivalents	10	272,271	1,571,377

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity manages liquidity risks by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated Entity

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
30 June 2012							
Trade and other payables	163,807	-	163,807	-	-	-	-
Deposits held	17,868	-	17,868	-	-	-	-
Share placement – funds held	207,705	-	207,705	-	-	-	-
	<u>389,380</u>	<u>-</u>	<u>389,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
30 June 2011							
Trade and other payables	162,458	-	162,458	-	-	-	-
Deposits held	17,868	-	17,868	-	-	-	-
	<u>180,326</u>	<u>-</u>	<u>180,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Consolidated Entity is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Consolidated Entity entities, primarily the US Dollar (USD), the Rupiah (RPH) and the Australian Dollar (AUD). The Consolidated Entity holds most of its cash in Australian Dollars. The parent entity has exposure to the USD and RPH currencies by virtue of its loans to overseas subsidiaries.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012 \$	2011 \$	2012 \$	2011 \$
USD/AUD	1.0039	1.0145	0.9841	0.9436
RPH/AUD	0.0001	N/A	0.0001	N/A

Sensitivity analysis

A 10 percent strengthening/weakening of the Australian dollar against the following currencies at 30 June 2012 would have increased/(decreased) equity and or profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Consolidated Entity	
	Equity \$	Profit or loss \$
2012		
Improvement in AUD to USD	981	-
Decline in AUD to USD	(981)	-
Improvement in AUD to IDR	1,640	-
Decline in AUD to IDR	(1,640)	-
2011		
Improvement in AUD to USD	7,385	-
Decline in AUD to USD	(7,385)	-

NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

	Consolidated Entity Carrying amount	
	2012 \$	2011 \$
Fixed rate instruments		
Financial liabilities	-	-
	-	-
Variable rate instruments		
Financial assets (i)	1,993,545	2,562,210
	1,993,545	2,562,210

- (i) Includes security deposits held totalling \$1,721,274 (2011: \$990,833) which are classified under Trade and Other Receivables. Refer to Note 11 for details.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2012				
Variable rate instruments	1,994	(1,994)	-	-
Cash flow sensitivity (net)	1,994	(1,994)	-	-
30 June 2011				
Variable rate instruments	2,562	(2,562)	-	-
Cash flow sensitivity (net)	2,562	(2,562)	-	-

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2012		2011	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Consolidated Entity				
Trade and other receivables	1,724,306	1,724,306	1,140,649	1,140,649
Cash and cash equivalents	272,271	272,271	1,571,377	1,571,377
Trade and other payables	(163,807)	(163,807)	(162,458)	(162,458)
Deposits held	(17,868)	(17,868)	(17,868)	(17,868)
Share placement – funds held in trust	(207,705)	(207,705)	-	-
	1,607,197	1,607,197	2,531,700	2,531,700

NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Consolidated Entity defines as net operating income divided by total shareholders' equity.

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

As at 30 June 2012, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTE 29: EVENTS AFTER THE REPORTING DATE

On 31 August 2012 the working interest partners in the Bullseye Project announced the sale of the project and the Jumonville Wells. 100% of the project was sold for US\$1,500,000. Quest's net proceeds of its 5% share after costs associated with the sale amounted to approximately US\$81,000.

No other material events took place after the end of the financial period other than as detailed elsewhere in this report, including the placement to investors announced 26 July 2012. For further details on the placement, refer to the 'Corporate' section in the Directors' Report.

NOTE 30: BUSINESS COMBINATIONS

The acquisition of Merric Capital Pty Ltd

On 24 November 2011, the acquisition of Merric Capital Pty Ltd was formally completed through the issue of 963,300,000 ordinary shares and 296,400,000 1.5 cent options to the Merric vendors for the outstanding 75% of Merric securities not already held by Quest. The acquired business contributed a loss of \$261,950 to the consolidated entity for the period from 24 November 2011 to 30 June 2012. If the acquisition had occurred on 1 July 2011, the full year contribution would have been a loss of \$312,243.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Merric Capital Pty Ltd as at the date of acquisition were:

	Fair value recognised on acquisition \$
<u>Assets</u>	
Cash and Cash equivalents	1,260,323
Receivables	31,482
Exploration and evaluation	5,076,935
	6,368,740
<u>Liabilities</u>	
Payables	(45,540)
	(45,540)
Total identifiable net assets at fair value	6,323,200

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities arising from the acquisition are recognised at fair value which are equal to their carrying value at acquisition date.

Consideration Transferred

963,300,000 Ordinary Shares issued @FV \$0.004 (i)	3,853,200
296,400,000 Options issued @FV \$0.003 (ii)	889,200
Fair value of previously held equity interest @25% (iii)	1,580,800
Total consideration	6,323,200

Acquisition costs expensed to profit of loss	32,423
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- (i) The fair value of the shares is the published price of the shares of Quest at the acquisition date, which was \$0.004 each. The fair value of the consideration given is therefore \$3,853,200.
- (ii) The fair value of the unlisted Options was determined by BDO Corporate Finance using information provided by Quest. The valuation was performed using a binomial option pricing model. The terms of the Options were an exercise price of 1.5 cents and expiry date of 30 June 2016. The fair value of the Options was determined to be \$0.003 each, giving the consideration a value of \$889,200. For further details on the key assumptions used in determining the fair value refer to Note 20 (b).
- (iii) The difference between the fair value and carrying value at acquisition date resulted in the following gain:

Fair value of previously held equity interest @25%	1,580,800
Carrying value of previously held equity interest	(895,833)
Gain on fair valuing previously held investment on acquisition	684,967

NOTE 31: PARENT ENTITY FINANCIAL INFORMATION**Summary financial information**

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Consolidated	
	2012	2011
	\$	\$
Current assets	1,711,018	2,613,097
Total assets	8,259,757	5,899,910
Current liabilities	274,240	177,034
Total liabilities	292,109	1,897,369
Contributed equity	127,696,729	123,781,529
Reserves	1,009,200	463,665
Accumulated losses	(120,738,281)	(119,915,030)
Total equity	7,967,648	4,330,164
Loss for the year	(1,286,917)	(3,775,689)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(1,286,917)	(3,775,689)

Directors' Declaration

The directors of the Company declare that:-

1. The financial statements, notes and the Remuneration Report in the Directors' Report designated as audited are in accordance with the Corporations Act 2001 including:
 - (a) complying with Australian Accounting Standards and Corporations Regulations 2001;
 - (b) containing an explicit and unreserved statement of compliance with International Financial Reporting Standards in note 1; and
 - (c) giving a true and fair view of the financial position of the Company and the Consolidated Entity as at 30 June 2012, and of their performance for the year ended on that date.
2. 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 payable.
3. This declaration has been made after receiving the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2012.

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



Anthony Milewski
Managing Director

Dated: 27 September 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUEST PETROLEUM NL

Report on the Financial Report

We have audited the accompanying financial report of Quest Petroleum NL, which comprises the statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Quest Petroleum NL (the company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

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

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Opinion

In our opinion:

- (a) the financial report of Quest Petroleum NL is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2012 and of their 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 Note 2(a).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(e) in the financial report, which indicates that the consolidated entity incurred a net loss after tax of \$1,011,682 during the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the company and consolidated entity's ability to continue as a going concern and therefore, the company and consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report of the company and consolidated entity does not include any adjustments in relation to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 15 of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of Quest Petroleum NL for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.



PKF MACK & CO



SIMON FERMANIS
PARTNER

27 SEPTEMBER 2012
WEST PERTH,
WESTERN AUSTRALIA

PRINCIPLES AND RECOMMENDATIONS

OVERVIEW

In March 2003, the Australian Securities Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations").

In August 2007, the ASX Corporate Governance Council published a revised Principles and Recommendations (2nd Edition).

In 2011, the ASX Corporate Governance Council published a further revised Corporate Governance Principles and Recommendations with 2011 Amendments (2nd Edition) to ensure that these remain relevant to the Australian business and investment communities. The Company's Corporate Governance Statement is structured below with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2011 Amendments (2nd Edition). The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company has determined not to comply with the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size. Recommendations which the Company does not comply with are highlighted in this report.

Further information on the Company's corporate governance policies is located on the website: www.qpnl.com.au

1. PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 Companies should establish and disclose the respective roles and responsibilities of board and management.

- **Recommendation 1.1:** Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
- **Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.
- **Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.

1.2 The Company's practice:

The Board considers that the essential responsibility of directors is to oversee the Company's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. Responsibility for management of The Company's business is delegated to the Executive Director, who is accountable to the Board.

Further, the Board takes specific responsibility for:-

- Contributing to the development of and approving corporate strategy;
- Appointing, assessing the performance of and, if necessary removing the Executive Director;
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- Overseeing and monitoring:
 - Organizational performance and the achievement of strategic goals and objectives
 - Compliance with the Company's code of conduct

- Progress of major capital expenditures and other corporate projects including acquisitions, mergers and divestments;
- Monitoring financial performance including approval of the annual, half yearly and quarterly reports and liaison with the auditor;
- Ensuring there are effective management processes in place, including reviewing and ratifying systems of risk identification and management, ensuring appropriate and adequate internal control processes, and that monitoring and reporting procedures for these systems are effective;
- Enhancing and protecting the Company's reputation;
- Approving major capital expenditure, capital management, acquisitions and divestments;
- Reporting to shareholders;
- Appointment of directors; and
- Any other matter considered desirable and in the interest of the Company.

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Company has a formal Board Charter which is on the Company's website and summarised above. In broad terms, the Board is accountable to the shareholders and must ensure that the Company is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate (as defined in the Corporations Act).

Senior executives are responsible for the ongoing management of the Company's operations and report to the Board. They are accountable for all functions that are necessary to the operations of the Company and not specifically reserved to the Board. Senior Executives performance is reviewed on a regular basis by the Board.

Based on the above information the Company believes it is fully compliant with Recommendations 1.1, 1.2 and 1.3.

2. PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

2.1 Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

- **Recommendation 2.1:** A majority of the board should be independent directors.
- **Recommendation 2.2:** The chair should be an independent director.
- **Recommendation 2.3:** The roles of chair and chief executive officer should not be exercised by the same individual.
- **Recommendation 2.4:** The board should establish a nomination committee.
- **Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
- **Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2.

2.2 The Company's practice:

Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, the Company has two independent, non-executive Directors. The Company also has a third non-executive Director who would be qualified as independent except for the fact that he was previously employed in an

executive capacity by the Company within the past three years. The Board as a whole comprises a non-executive Chairman, an Executive Director and three other non-executive directors.

Composition

The directors have been chosen for their particular expertise to provide the company with a competent and well-rounded decision-making body and which will assist the company and shareholders in meeting their objectives.

The term in office held by each director in office at the date of this report is as follows and details of the professional skills and expertise of each of the directors are set out in the Directors' Report.

Name	Position	Term in Office
John Simpson	Non-Executive Chairman	0.9 Years
Brett Mitchell	Non-Executive Director	6.5 Years
Mochamad Thamrin	Deputy Chairman	0.5 Years
Gregory Lee	Non-Executive Director	8 Years
Anthony Milewski	Managing Director	0.1 Years

The directors meet frequently, both formally and informally, so that they maintain a mutual, thorough understanding of the Company's business and to ensure that the Company's policies of corporate governance are adhered to.

Education

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the Company's expectations concerning the performance of directors. Directors are given access to and encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other board members.

Nomination committee

The Company does not currently have a separate nomination committee and as such has not complied with Recommendation 2.4. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities and as such, the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

Monitoring of Board Performance

The performance of all Directors is reviewed by the Chairman on an ongoing basis and any Director whose performance is considered unsatisfactory is asked to retire. The Chairman's performance is reviewed by the other Board members.

The Company has established firm guidelines to identify the measurable and qualitative indicators of the Director's performance during the course of the year. Those guidelines include:

- Attendance at all Board meetings. Missing more than three consecutive meetings without reasonable excuse will result in that Director's position being reviewed,
- Attendance at the Company's Shareholder Meetings. Non-attendance without reasonable excuse will result in that Director's position being reviewed.

Based on the above information the Company believes it is fully compliant with Recommendations 2.1, 2.2, 2.3, 2.5 and 2.6. The Company is not compliant with Recommendation 2.4 as outlined.

3. PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

3.1 Companies should actively promote ethical and responsible decision-making.

- **Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code as to:
 - the practices necessary to maintain confidence in the company's integrity
 - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
 - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices
- **Recommendation 3.2:** Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
- **Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
- **Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.
- **Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

3.2 The Company's practice:

Ethical Standards

The Company has a formal Code of Conduct as per Recommendation 3.1. This code outlines how directors and employees of the Company and its related bodies corporate are to behave when conducting business. A full copy of this Code of Conduct is available on the Company's website.

The Company is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Diversity Policy

The Board has adopted a Diversity Policy as per Recommendation 3.2. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the processes by which the Board will set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company.

The Company is committed to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees and is utilised to enhance the Company's performance.

The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of diversity objectives.

Gender Diversity

As a priority, the Company is focusing on the participation of women on its Board and within senior management. The Board is in the process of determining appropriate measurable objectives for achieving gender diversity.

Women Employees, Executives and Board Members

The Company and its consolidated entities have three (3) female employees/executives:

- an accountant;
- an office manager; and
- an executive assistant

which represent approximately 27% of the total employees, executives and/or board members of the Company and its consolidated entities. There are currently no female members of the Board of the Company.

Based on the above information the Company believes it is fully compliant with Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5.

4. PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

- **Recommendation 4.1:** The board should establish an audit committee.
- **Recommendation 4.2:** The audit committee should be structured so that it:
 - consists only of non-executive directors
 - consists of a majority of independent directors
 - is chaired by an independent chair, who is not chair of the board
 - has at least three members.
- **Recommendation 4.3:** The audit committee should have a formal charter.
- **Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

4.2 The Company's practice:

Audit Committee

The Board has not established a separate audit committee and as such has not complied with Recommendation 4.1 & 4.2. The duties and responsibilities typically delegated to such a committee are the responsibility of the full Board, due to the size and current operations of the Company.

The processes the Board applies in performing this function include:-

- reviewing internal control and recommending enhancements;
- monitoring compliance with Corporations Act 2001, Securities Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions;
- improving the quality of the accounting function, personnel and processes;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner; and
- reviewing the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

Audit and Compliance Policy

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

The Board assumes responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board maintains responsibility for a framework of internal control and ethical standards for the management of the consolidated entity.

The board, consisting of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The Executive Director and Chief Financial Officer declared in writing to the Board that the Company's financial reports for the year ended 30 June 2012 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Based on the above information the Company believes it is fully compliant with Recommendations 4.3 and 4.4. The Company is not compliant with Recommendations 4.1 and 4.2 as outlined.

5. PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

5.1 Companies should promote timely and balanced disclosure of all material matters concerning the company.

- **Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- **Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

5.2 The Company's practice:

Continuous Disclosure Policy

The Company has a formal Continuous Disclosure Policy as required by Recommendation 5.1. This policy was introduced to ensure the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules and ensuring The Company and individual officers do not contravene the Corporations Act or ASX Listing Rules. A full copy of this policy can be found on the Company's website.

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- (a) Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;

- (b) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (c) Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Executive Director and the Company Secretary are responsible for co-ordinating the disclosure requirements. To ensure appropriate procedure all directors, officers and employees of the Company coordinate disclosures through the Executive Director and the Company Secretary, including:

- (d) Media releases;
- (e) Analyst briefings and presentations; and
- (f) The release of reports and operational results.

Based on the above information the Company believes it is fully compliant with Recommendations 5.1 and 5.2.

6. PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

- **Recommendation 6.1:** Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
- **Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

6.2 The Company's practice:

Shareholder Communication

It is the policy of the Company to communicate effectively with its shareholders by giving them ready access to balanced and understandable information about the Company and making it easier for them to participate in general meetings.

The Board encourages full shareholder participation at the Annual General Meeting as it provides shareholders an opportunity to review the Company's annual performance. Shareholder attendance also ensures a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of directors, approval of the maximum amount of directors' fees and the granting of options and shares to directors. Important issues are presented to the shareholders as single resolutions.

The Company's auditor is required to be present, and be available to shareholders, at the Annual General Meeting.

Information is communicated to shareholders through:-

- the Annual Report which is distributed to all shareholders;
- Half-Yearly Reports, Quarterly Reports, and all Australian Securities Exchange announcements which are posted on the Company's website;
- the Annual General Meeting and other meetings so called to obtain approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

The Company's full policy on shareholder communication can be found on our website.

Based on the above information the Company believes it is fully compliant with Recommendations 6.1 and 6.2.

7. PRINCIPLE 7: RECOGNISE AND MANAGE RISK

7.1 Companies should establish a sound system of risk oversight and management and internal control.

- **Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- **Recommendation 7.2:** The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
- **Recommendation 7.3:** The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
- **Recommendation 7.4:** Companies should provide the information indicated in the Guide to reporting on Principle 7.

7.2 The Company's practice:

RISK MANAGEMENT

Recognise and Manage Risk

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature and materiality of the matter.

The Board has established a formal policy to effectively recognise and manage risk as required by Recommendation 7.1. The Company's policy is to achieve levels of operation that balance risk and reward with the ultimate aim of optimising shareholder value. The Risk Management and Internal Control policy is detailed in full on our website.

Oversight of the risk management system

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee. The Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan, which encompasses the Company's vision and strategy, designed to meet stakeholder's needs and manage business risks.

The Executive Director has declared, in writing to the Board and in accordance with section 295A of the Corporations Act, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

Based on the above information the Company believes it is fully compliant with Recommendations 7.1, 7.2, 7.3 and 7.4.

8. PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

8.1 Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

- **Recommendation 8.1:** The board should establish a remuneration committee.
- **Recommendation 8.2:** The remuneration committee should be structured so that it:
 - consists of a majority of independent directors
 - is chaired by an independent chair
 - has at least three members
- **Recommendation 8.3:** Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
- **Recommendation 8.4:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

8.2 The Company's practice:


Remuneration committee

The Company does not currently have a separate remuneration committee and as such has not complied with Recommendation 8.1 or Recommendation 8.2. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities.

Remuneration policies

Remuneration of Directors are formalised in service agreements. The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Executive Director and the executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and senior executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive directors' and senior executives emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- 
1. Retention and Motivation of senior executives
 2. Attraction of quality management to the Company
 3. Performance incentives which allow executives to share the rewards of the success of the Company

Remuneration of non-executive directors is determined by the Board with reference to comparable industry levels and, specifically for directors' fees, within the maximum amount approved by shareholders. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

For details on the amount of remuneration and all monetary and non-monetary components for all directors refer to the Remuneration Report on pages 13 to 15 of the Annual Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

Based on the above information the Company believes it is fully compliant with Recommendation 8.3 and is not compliant with Recommendation 8.1 or Recommendation 8.2 as outlined.

Additional Shareholder Information

EXCHANGE LISTING

Quest Petroleum NL's shares are listed on the Australian Securities Exchange. The Company's ASX code is QPN. The Company's listed options ASX code is QPNO.

DISTRIBUTION OF SHAREHOLDERS AS AT 26 SEPTEMBER 2012

Spread of Holdings	Ordinary Shareholders	Number of Shares
1 – 1,000	292	66,295
1,001 – 5,000	258	816,809
5,001 – 10,000	309	2,430,155
10,001 – 100,000	1,106	48,452,692
100,001 and over	1,174	2,298,378,374
Total	3,139	2,350,144,325

The number of shareholders holding less than a marketable parcel of shares is 1,793, totalling 35,090,949 shares.

TOP 20 SHAREHOLDERS AS AT 26 SEPTEMBER 2012

Name	Shares	% of Shares
1. AVIEMORE CAPITAL PTY LTD	115,260,483	4.90
2. SABLET PTY LTD	104,140,540	4.43
3. ZERO NOMINEES PTY LTD	95,277,379	4.05
4. LEXTON HOLDINGS PTY LTD <SIMPSON A/C>	92,729,214	3.95
5. MR RAYMOND JEPPI	92,070,266	3.92
6. ALBA CAPITAL PTY LTD	83,105,405	3.54
7. FINANCE ASSOCIATES PTY LTD <SUPER FUND A/C>	43,714,285	1.86
8. CITICORP NOMINEES PTY LIMITED	36,896,591	1.57
9. ARREDO PTY LTD	36,048,648	1.53
10. ETCHELL CAPITAL PTY LTD	36,048,648	1.53
11. MR STANLEY ALLAN MACDONALD	36,048,648	1.53
12. MR JOHN ANDREW SIMPSON	34,246,216	1.46
13. MR DAVID WAYNE AUSTIN + MRS CHRISTINA YIT LING AUSTIN <AUSTIN SUPER FUND A/C>	32,635,955	1.39
14. L'MIGLIORE PTY LTD <L'MIGLIORE A/C>	25,000,000	1.06
15. RIVERSTONE CORPORATE PTY LTD <DAVIS TRADING 1 A/C>	25,000,000	1.06
16. WESTMINSTER CORPORATION PTY LTD	24,368,475	1.04
17. BAGNAR PTY LTD	20,000,000	0.85
18. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	18,277,899	0.78
19. MR ROBERT HUGALL + MRS RICCARDA HUGALL <RJ & RM HUGALL S/FUND A/C>	18,024,324	0.77
20. BONTOWN PTY LTD	18,000,000	0.77
Total Top 20	986,892,976	41.99
Other Shareholders	1,363,251,349	58.01
Total Ordinary Shares on Issue	2,350,144,325	100.00

DISTRIBUTION OF QPNO OPTION HOLDERS AS AT 26 SEPTEMBER 2012

Spread of Holdings	Number of Option Holders	Number of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	2	33,726
100,001 and over	64	436,242,512
Total	66	436,276,238

TOP 20 QPNO OPTION HOLDERS AS AT 26 SEPTEMBER 2012

Name	Options	% of Options
1. ZERO NOMINEES PTY LTD	47,891,277	10.98
2. MR COLIN IKIN	32,043,242	7.34
3. SABLET PTY LTD	32,043,242	7.34
4. ALBA CAPITAL PTY LTD	24,032,432	5.51
5. LEXTON HOLDINGS PTY LTD <SIMPSON A/C>	24,032,432	5.51
6. MR RAYMOND JEPP	20,828,107	4.77
7. KOBIA HOLDINGS PTY LTD <THE KOBIA A/C>	18,024,324	4.13
8. L'MIGLIORE PTY LTD	16,021,621	3.67
9. MR MARK FREEMAN <FREEMAN FAMILY A/C>	15,000,000	3.44
10. MR BRETT ANTHONY MITCHELL + MRS MICHELLE SUZANNE MITCHELL	15,000,000	3.44
11. FINANCE ASSOCIATES PTY LTD <SUPER FUND A/C>	14,867,954	3.41
12. FLUE HOLDINGS PTY LTD	11,523,865	2.64
13. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,416,667	2.39
14. MR DANIEL PAUL WISE <ARK INVESTMENTS A/C>	10,273,865	2.35
15. WESTMINSTER CORPORATION PTY LTD	9,439,384	2.16
16. MR DANIEL BAHEN & MRS LORRAINE BAHEN <DANIEL JOHN BAHEN S/F A/C>	9,012,162	2.07
17. BLU BONE PTY LTD <THE SHARE TRADING A/C>	9,012,162	2.07
18. MR LAWRENCE MATTHEW CLARK	8,500,000	1.95
19. ANDREW ROBERTS SUPERANNUATION FUND PTY LTD	8,010,811	1.84
20. BAGNAR PTY LTD	8,010,811	1.84
Total Top 20	343,984,358	78.85
Other QPNO Option holders	92,291,880	21.15
Total QPNO Options on Issue	436,276,238	100.00

CLASS OF SHARES AND VOTING RIGHTS

At 26 September 2012 there were 3,139 holders of 2,350,144,325 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

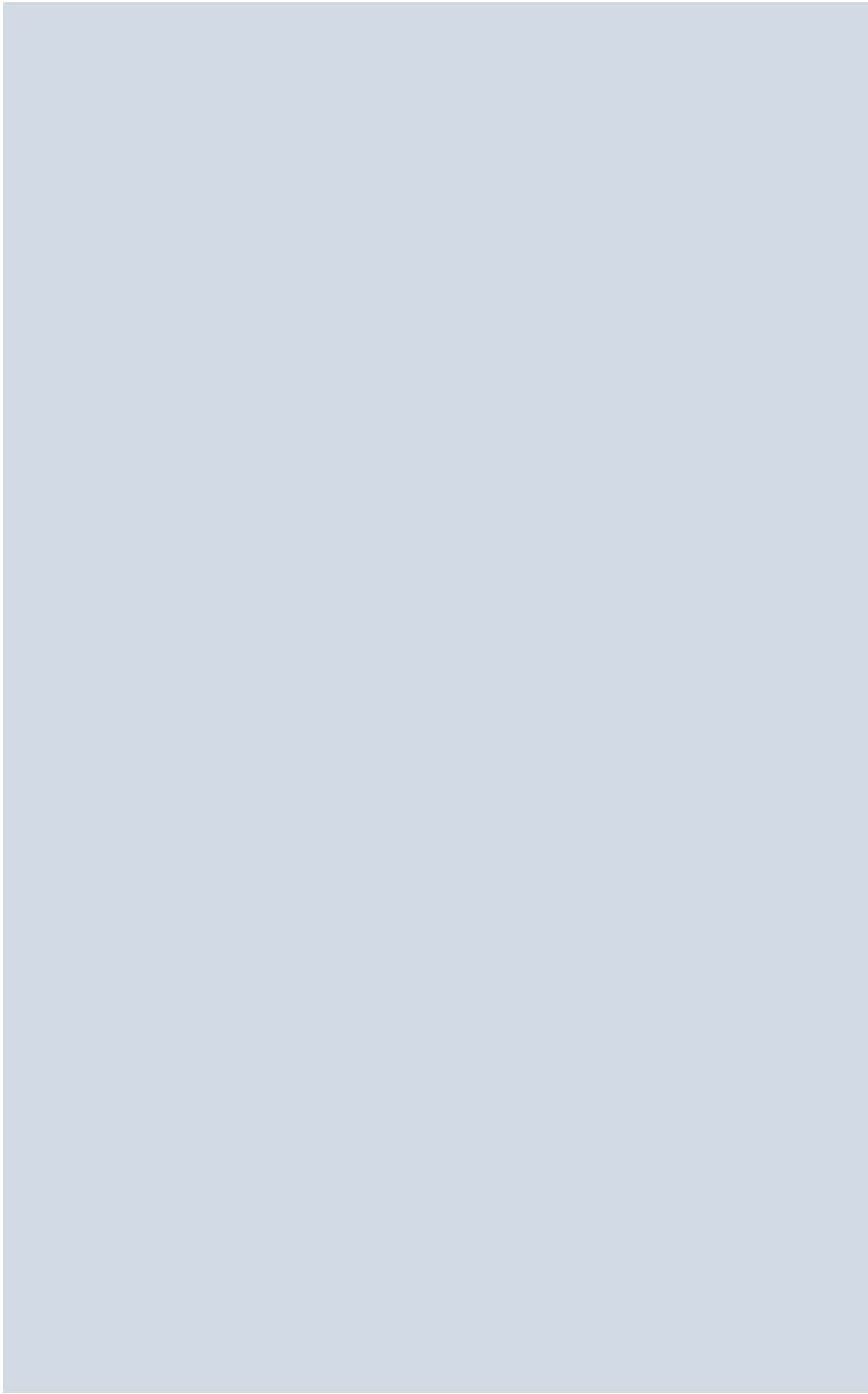
- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- (b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

INTERESTS IN MINING TENEMENTS AS AT 26 SEPTEMBER 2012

Project	Percentage Interest	Area covered	Principal Activity
Ranau PSC (PrabuEnergy Pty Ltd)	80%	2,191km ²	Oil and Gas exploration and development



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