



**EMERALD**  
OIL AND GAS NL

**ABN: 72 009 795 046**

**ANNUAL REPORT**

**for the year ended 30 June 2014**



**ABN: 72 009 795 046**

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This financial report covers the consolidated entity consisting of Emerald Oil and Gas NL ("Emerald" or "the Company") and its subsidiaries (together "the Group" or "the Consolidated Entity"). The financial report is presented in the Australian currency.

Emerald Oil and Gas NL is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Emerald Oil and Gas NL  
Level 1,248 Hay Street  
Subiaco WA 6008

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the operating and financial review in the Directors' Report on pages 7-9.



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## Corporate Information

**Directors:**

Simon Lee AO  
Morgan Hart  
Ross Stanley  
Ross Williams

Non-Executive Chairman  
Managing Director  
Non-Executive Director  
Non-Executive Director

**Registered & Principal Office**

Level 1,248 Hay Street  
SUBIACO, WA, 6005  
Telephone +618 6380 2599  
Facsimile +618 6380 2088  
[www.emeraldoilandgas.com](http://www.emeraldoilandgas.com)

**Postal Address:**

P.O. Box 8294  
SUBIACO EAST, WA, 6008

**Company Secretary:**

Mark Clements

**Auditors:**

HLB Mann Judd  
Level 4, 130 Stirling Street  
PERTH, WA, 6000

**Home Securities Exchange:**

Australian Securities Exchange Ltd  
Exchange Plaza  
2 The Esplanade  
PERTH, WA, 6000  
ASX Code – EMR

**Solicitors:**

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
PERTH WA 6000

**Share Registry:**

Security Transfer Registrars Pty Ltd  
PO Box 535  
APPLECROSS, WA, 6953  
Telephone +618 9315 2333  
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[www.securitytransfer.com.au](http://www.securitytransfer.com.au)



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## **Chairman's Letter**

Dear Fellow Shareholders,

As newly appointed Chairman of Emerald Oil and Gas NL it gives me great pleasure to address you in my first Annual Report as Chairman. This year saw a significant change in Board structure of your Company. Mr Jeremy Shervington served as Chair until May and I would like to acknowledge his contribution during a time in which his Board oversaw the substantial change in the Company's asset base and business direction. In October 2013, Mr Peter Pynes and Mr Tim Kestell joined the Board and following Mr Shervington's resignation, Mr Ross Williams, former Finance Director and a founding shareholder of MACA Limited, was appointed as Chairman. On 20 July 2014, respected mining executive, Mr Morgan Hart joined the Board and in August, he was appointed Managing Director of the Company. Morgan has significant industry experience in the discovery, evaluation and development of mining projects both in Australia and overseas.

At that time we also welcomed another well-respected mining executive to the Board, Mr Ross Stanley. His extensive experience both in Australian and African mining enterprises complement Morgan's ability to identify and develop projects to create significant value for shareholders.

As noted in last year's annual report, the Board was seeking to monetise its investment in the Nasdaq listed Emerald Oil Inc. (NYSE MKT: EOX) and this was achieved in March with total pre-tax proceeds of US\$12 million (A\$13.6 million) received from the sale of this investment.

During the year, the Company implemented an on-market buy-back of 94,365,130 shares which was completed for a consideration of \$943,651. The Company also offered those shareholders holding less than a marketable parcel of shares with an opportunity to either increase their holding or realise their investment via a sale process in accordance with ASX guidelines. This process was completed in September following the sale of 6,143,272 shares on market for 2.6 cents per share resulting in the distribution of proceeds of \$159,725 before costs to those shareholders that participated.

In July 2014, the Company raised a further \$5.7 million via a placement to sophisticated and professional investors, facilitated by Euroz Limited. These funds are to be applied to continue to evaluate our strategy on the Appalachian gas business and consider more significant investment opportunities in the oil and gas and broader resources industry.

On behalf of the Board I would like to thank Mr Pynes, Mr Kestell and Mr Williams, as former Chairman and now fellow director, for their valuable contributions to the Company. I would also like to thank all our shareholders for your continued support. It has been a year of major change for the Company. However, with these changes, the Company is now in a strong position to fund future opportunities that have the potential to grow shareholder value.

A handwritten signature in black ink, appearing to read "Simon Lee", written over a faint circular watermark or background.

**SIMON LEE AO**  
**Chairman**

## Directors' Report

Your Directors are pleased to submit their report on the Consolidated Entity ("Consolidated Entity" or "Group") representing Emerald Oil and Gas NL (the "Company") and its controlled entities, for the year ended 30 June 2014.

### **1. DIRECTORS**

The names and details of Directors in office at any time during the financial year including up to the date of this report are:

**Simon Lee AO** appointed 20 August 2014, Non-Executive Chairman

#### ***Experience and Expertise***

Mr Lee has had extensive management experience with a diverse range of business enterprises in a career that has based him in Asia, England, Canada and Australia. Mr. Lee has held a number of positions, which included Board Member of the Australian Trade Commission (AUSTRADE) and President of the Western Australian Chinese Chamber of Commerce Inc. In 1993, he received the Advance Australia Award for his contribution to commerce and industry and in 1994, he was bestowed an Officer of the Order of Australia. Mr Lee has a successful track record in the resources industry which has included building gold mine companies, Great Victoria Gold NL, Samantha Gold NL and Equigold NL.

#### ***Other Current Directorships***

MOD Resources Limited, Non-Executive Director

#### ***Other Current Directorships in the Last Three Years***

None

**Morgan Hart** appointed 30 July 2014, Non-Executive Director, appointed to Managing Director 20 August 2014

#### ***Experience and Expertise***

Mr Hart is a Geologist and experienced Mining Executive. He is formerly an Executive Director and Chief Operating Officer of Regis Resources Ltd, responsible for the development of three gold mines in four years (Moolart Well, Garden Well and Rosemont). Prior to that, Mr Hart was Executive Director and Chief Operating Officer of Equigold NL, responsible for the development and construction of the Bonikro Gold Project in Ivory Coast West Africa in addition to the management of Equigold's Australian mining operations.

#### ***Other Current Directorships***

None

#### ***Other Current Directorships in the Last Three Years***

Regis Resources Ltd, Executive Director



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## Directors' Report (continued)

**Ross Stanley** appointed 20 August 2014, Non-Executive Director

### ***Experience and Expertise***

Mr Stanley is a well-respected mining executive with extensive experience both in Australia and African mining enterprises. Mr Stanley was formally the majority shareholder and Managing Director of ASX Listed Stanley Mining Services prior to its merger with Layne Christensen in 1997. Stanley Mining was the dominant drill services provider in Ghana in the 1990's. Ross also served as a Non-Executive Director of Equigold NL.

### ***Other Current Directorships***

None

### ***Other Current Directorships in the Last Three Years***

None

**Ross Williams** appointed 3 October 2013 Non-Executive Director, appointed Non-Executive Chairman from 20 May 2014 to 20 August 2014, appointed Non-Executive Director from 20 August 2014

### ***Experience and Expertise***

Mr Williams is a founding shareholder of MACA Limited and up until July 2014 held the position of CFO and Finance Director with responsibility for capital management, finance, financial reporting and corporate strategy. He played a key role in the highly successful initial public offering of MACA in 2010 and was pivotal to its subsequent success as a publicly listed company. He continues to serve on the Board of MACA as a Non-Executive Director. Mr Williams holds a Post Graduate Diploma in Financial Services Management from Macquarie University and was a Fellow of the Australian Institute of Banking and Finance prior to establishing MACA in 2002.

### ***Other Current Directorships***

MACA Limited, Non-Executive Director

### ***Other Current Directorships in the Last Three Years***

None

## Directors' Report (continued)

**Peter Pynes** - appointed 11 October 2013, resigned 20 August 2014, Non Executive Director

### ***Experience and Expertise***

Mr Pynes has in excess of 25 years' experience in Australia and overseas capital markets. He previously worked at Deutsche Bank as a Director, Global Markets where he gained extensive knowledge of global structured debt products as well as capital raising and syndication. In this role Mr Pynes established relationships with leading Australian investment institutions, which included his involvement in \$350m of ASX listed structured debt transactions and in excess of \$3.8 billion of ASX listed hybrid and convertible investments. In the past decade, Mr Pynes has played a key role in forming and capitalising both public listed and unlisted companies. Mr Pynes has been involved in both initial public offerings and takeovers, including the listing on the ASX of Tusker Gold Limited and its successful cash takeover by Barrick Gold Limited. Mr Pynes is a Director of MPC Funding Limited, a specialist financing company providing in excess of \$450m of loan funds for the development of the Melbourne Convention Centre.

### ***Other Current Directorships***

Blue Capital Limited  
Nexus Bonds Limited

### ***Other Current Directorships in the Last Three Years***

Indago Resources Limited

**Tim Kestell (BA (Econ) Hons)** - appointed 3 October 2013, resigned 20 August 2014  
Non-Executive Director

### ***Experience and Expertise***

Mr Kestell has over 18 years' experience in capital markets including working for Australian stockbrokers Euroz Securities Limited and Patersons. In the past decade, Mr Kestell has played a key role in forming and/or re capitalising publicly Listed companies, helping raise over \$70m in the process.

### ***Other Current Directorships***

Blue Capital Limited

### ***Other Current Directorships in the Last Three Years***

Emerson Resources Limited  
Indago Resources Limited



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## Directors' Report (continued)

### ***Other Directors that Served During the Year***

**Jeremy Shervington B.Juris, LLB** - appointed 23 January 2006, resigned 20 May 2014  
*Non-Executive Chairman*

**Dino Di Costa (CA BComm)** – appointed 27 December 2012, resigned 3 October 2014  
*Non-Executive Director*

**Mike Krzus BSc (Petroleum Engineering) GAIDC, SPE.** - appointed 13 August 2009, resigned 3 October 2013, *Non-Executive Director*

**Davide Bosio (BComm FFin GAICD)** – appointed 20 November 2012, resigned 3 October 2013 *Non-Executive Director*

**McAndrew Rudisill BA (Econ) Hons)** - appointed 5 October 2011, resigned 3 October 2013, *Non-Executive Director*

## **2. COMPANY SECRETARY**

**Mark Clements** – appointed 20 August 2014

Mr Clements gained a Bachelor of Commerce degree from the University of Western Australia. He is a Fellow of the Institute of Chartered Accountants and a member of both the Australian Institute Company Directors and the Institute of Chartered Secretaries in Australia. Mr Clements currently holds the position of Company Secretary of a number of publically listed companies and has experience in corporate finance, accounting and administration, capital raising and ASX Compliance and regulatory requirements.

**Amanda Burgess** – appointed 20 March 2014, resigned 20 August 2014

Ms Burgess is a finance professional with over 20 years' experience in accounting and company administration. She graduated from University of WA with a Bachelor of Economics degree and has since become a CPA with the Australian Society of Certified Practising Accountants. Ms Burgess currently holds CFO and Company Secretary positions with other Australian companies.

## **OTHER OFFICERS THAT SERVED DURING THE YEAR**

**Dennis Wilkins** - appointed 25 November 2013, resigned 20 March 2014

**Graeme Smith** - appointed 4 September 2012, resigned 25 November 2013



Directors’ Report (continued)

**3. DIRECTORS’ MEETINGS**

During the financial year, one Directors’ meeting was held with the following attendances:

<b>Directors</b>	<b>Meetings Attended</b>	<b>Meetings Eligible to Attend</b>
P. Pynes	1	1
R. Williams	1	1
T. Kestell	1	1
J. Shervington	1	1
M. Krzus	0	0
M. Rudisill	0	0
D. Bosio	0	0
D. DiCosta	0	0

There were also 13 occasions when the Board met to resolve matters via circular resolution.

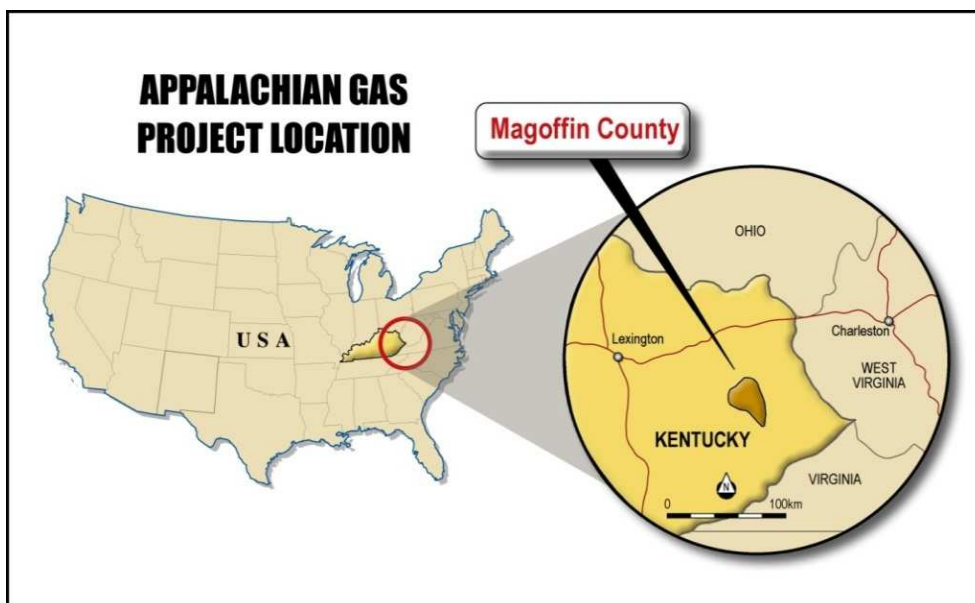
**4. PRINCIPAL ACTIVITIES**

The principal activities of the Group were the exploration and development of oil and gas properties in the United States of America (USA).

**5. OPERATING AND FINANCIAL REVIEW**

**5.1 Appalachian Gas - Magoffin County, Kentucky**

(Emerald 75% Equity Interest in Kentucky Energy Partners LLC)





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## Directors' Report (continued)

### **5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

Emerald's Appalachian gas operations are operated through Kentucky Energy Partners ("KEP"), a company 75% owned by Emerald. KEP currently holds approximately 1,000 lease acres with 12 existing wells potentially capable of gas production, and an 8 mile long gas gathering pipeline.

KEP's revenue from sour gas production during the year was \$94,781(2013:\$107,878) The Board continues to evaluate the strategy with respect to the core operating asset in Magoffin County, Kentucky and pursue and evaluate more significant opportunities in the energy and broader resources sector.

#### **5.2 Corporate**

##### **(a) Sale of Listed Investment in Emerald Oil Inc.**

During February 2014 the Group sold its entire share investment in Nasdaq listed Emerald Oil Inc. (NYSE MKT: EOX). Total pre-tax proceeds from the sale were USD \$12,289,085 (AUD equivalent approximately \$13.6m), and were received in full by the Company by 4 March 2014. The Company's tax advisors have determined there is a small gain from the disposal however this will be offset from brought forward losses.

##### **(b) Share Buy-Back**

On 23 January 2014 the Company announced its intention to commence an on-market buy-back of up to 94,365,130 of the issued capital of the Company in accordance with the ASX guidelines and Corporations Act. The share buy-back commenced from 7 February 2014 and was completed on 30 April 2014 for a total consideration of \$943,652.

##### **(c) Sale of Unmarketable Parcels**

On 20 May 2014 the Company announced its intention to offer for sale unmarketable holdings on 1 August 2014. It was announced on 5 September 2014 that 6,143,272 shares were sold on market for 2.6 cents per share for the proceeds of \$159,725 before costs.

##### **(d) Placement of Shares**

On 11 June 2014 the Company announced its intention to raise approximately \$5.7mil through a placement to sophisticated investor clients of Euroz Limited including Mr Morgan Hart. It was also proposed that Mr Hart become a Director of the company. This proposal was subject to shareholder approval which was gained at a general meeting on 30 July 2014 .The placement of 457,307,940 shares was fully subscribed at 1.25 cents per share for a total of \$5,716,349 and completed on 5 August 2014. Mr Hart was appointed as non-executive Director on 30 July 2014 and appointed managing Director on 20 August 2014.

## Directors' Report (continued)

### **5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **(e) Board Restructure**

On 20 August 2014 the Company announced a board restructure resulting in Mr Simon Lee AO being appointed Chairman, Mr Ross Stanley appointed Non-Executive Director, Mr Morgan Hart appointed as Managing Director and Mr Ross Williams stepping down as Non-Executive Chairman but remaining as Non-Executive Director. Mr Peter Pynes and Mr Tim Kestell resigned as Directors on 20 August 2014. Mr Mark Clements was appointed Company Secretary following the resignation of Ms Amanda Burgess on 20 August 2014.

#### **5.3 Financial Results**

The comprehensive income of the Group for the financial year 30 June 2014 amounted to \$354,306 (2013: (\$8,821,673) includes loss from discontinued operations (Emerald Oil Inc.) of \$6,671,291) after providing for income tax and foreign exchange translation.

At 30 June 2014 the Group had cash on hand of \$12,573,838.

### **6. DIVIDENDS PAID OR RECOMMENDED**

No dividend was paid or declared during the financial year and the Directors do not recommend the payment of a dividend.

### **7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

#### **(a) Sale of Listed Investment in Emerald Oil Inc.**

During February 2014 the Group sold its entire share investment in Nasdaq listed Emerald Oil Inc. (NYSE MKT: EOX). Total pre-tax proceeds from the sale were USD \$12,289,085 (AUD equivalent approximately \$13.6m), and were received in full by the Company by 4 March 2014.

#### **(b) Placement of Shares**

On 11 June 2014 the Company announced its intention to raise approximately \$5.7mil through a placement to sophisticated investor clients of Euroz Limited including Mr Morgan Hart. It was also proposed that Mr Hart become a Director of the company. This proposal was subject to shareholder approval and was carried at a general meeting of the shareholders on 30 July 2014. The placement of 457,307,940 shares was fully subscribed and completed on 5 August 2014. Mr Hart was appointed as Non-Executive Director on 30 July 2014.

## Directors' Report (continued)

### **7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONTINUED)**

#### **(c) Board Restructure**

On 20 August 2014 the Company announced a board restructure resulting in Mr Simon Lee AO being appointed Chairman, Mr Ross Stanley appointed Non-Executive Director, Mr Morgan Hart appointed as Managing Director and Mr Ross Williams stepped down as Non-Executive Chairman and remains as Non-Executive Director.

Mr Peter Pynes and Mr Tim Kestell resigned as Directors on 20 August 2014. Mr Mark Clements was appointed Company Secretary following the resignation of Ms Amanda Burgess on 20 August 2014

### **8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

Other than the above the Board is not aware of any matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Group, the results of those operations or the state of affairs of the Company and Group in subsequent financial years, other than those already mentioned.

### **9. LIKELY DEVELOPMENTS**

The Board continues to evaluate the strategy with respect to the core operating asset in Magoffin county, Kentucky and pursue and evaluate more significant opportunities in the energy and broader resources sector. Further information as to likely developments in the operations of the Group and likely results of those operations would in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

### **10. DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY**

As at the date of this report, the interests of the Directors in ordinary shares, of the Company were:

<i>Director</i>	<b>Shares</b>	
	<i>Held Directly</i>	<i>Held Indirectly</i>
M Hart	257,318,823	-
S Lee	-	64,000,000
R Williams	4,702,695	
R Stanley	83,500,000	-
<b>Total</b>	<b>345,521,518</b>	<b>64,000,000</b>

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors, Executives and Key Management Personnel of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly.

The remuneration report is set out under the following main headings:

- A. Names and positions of Directors and other Key Management Personnel
- B. Principles used to determine the nature and amount of remuneration
- C. Details of remuneration
- D. Service agreements
- E. Share-based compensation
- F. Additional information

#### A. Names and positions of Directors and other Key Management Personnel in office at any time during the financial year are:

Name	Position	Appointment / Resignation date
P. Pynes	Non Executive Director	Appointed 11 Oct 2013, resigned 20 Aug 2014
T. Kestell	Non Executive Director	Appointed 11 Oct 2013, resigned 20 Aug 2014
R. Williams	Non Executive Chairman	Appointed 3 Oct 2013, appointed Chairman 20 May 2014
J. Shervington	Non Executive Chairman	Appointed 23 Jan 2006, resigned 20 May 2014
M. Krzus	Non Executive Director	Appointed 13 Aug 2009, resigned 25 Nov 2013
M. Rudisill	Non Executive Director	Appointed 6 Oct 2011, resigned 25 Nov 2013
D. Bosio	Non Executive Director	Appointed 20 Nov 2012, resigned 3 Oct 2014
D. DiCosta	Non Executive Director	Appointed 27 Dec 2012, resigned 3 Oct 2014

#### B. Principles used to determine the nature and amount of remuneration

##### *Remuneration philosophy*

The remuneration policy of the Group 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 believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Key Management Personnel and Directors to run and manage the Group. The Key Management Personnel of the Group are the Executive and Non-Executive Directors.

For the purposes of this report, the term 'Executive' encompasses the Executive Directors of the Group. The Board's policy for determining the nature and amount of remuneration for Board members and Key Management Personnel of the Group is as follows:

##### *Remuneration structure*

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director Remuneration is separate and distinct.

## Directors' Report (continued)

### **11. REMUNERATION REPORT (AUDITED) (CONTINUED)**

#### **B. Principles used to determine the nature and amount of remuneration (continued)**

##### *Fixed Remuneration*

The remuneration policy, setting the terms and conditions for the Executive Directors and other Key Management Personnel, was developed by the Board. Non-Executive Directors are remunerated on a fixed fee and consultancy basis based on services provided by each person. The Board reviews Key Management Personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group and are able to participate in employee option plans that may exist from time to time.

##### *Variable remuneration – short term incentive (STI)*

There is currently no variable short term incentives provided to management in the form of a STI or bonus program. The Board is of the opinion that the variable long term remuneration provided to Directors and Executives is sufficient to align the interest of management with shareholders.

##### *Variable remuneration – long term incentive (LTI)*

Currently, this is facilitated through the issue of options to Key Management Personnel to encourage the alignment of personal and shareholder interests. The Board as a whole agrees upon an appropriate level of remuneration incentive for each Director, relative to their involvement in the management of the consolidated entity. The main performance criteria of the LTI remuneration is increasing shareholder value through aligning the Group with high quality exploration assets, which in turn increase share price. Options issued to Directors may be subject to market based price hurdles and vesting conditions, and the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Group believes this policy will be effective in increasing shareholder wealth.

On the resignation of Directors the options issued as remuneration lapse within 3 months unless exercised. For details of Directors and other Key Management Personnel interests in options at year end, see below.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to attract the highest calibre of Key Management Personnel and reward them for performance that results in long-term growth in shareholder wealth.

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED) (CONTINUED)

Key Management Personnel are also entitled to participate in the employee share and option arrangements. Consultants, Executive Directors and other Key Management Personnel do not receive any retirement benefits other than superannuation.

#### C. Details of Remuneration

Details of the remuneration of the Directors and other Key Management Personnel of Emerald Oil and Gas NL are set out in the following table. All individuals were in office for the full year, unless otherwise stated.

#### Key Management Personnel of Emerald Oil and Gas NL (Company and Group)

	Short term benefits		Post employment benefits	Share-based payments (LTI)	Total	Performance based remuneration and % consisting of options
	Salary and Fees	Non Monetary	Super-annuation	Options		
	\$	\$	\$	\$	\$	%
<b>2014</b>						
<b>Directors – Non Executive</b>						
Jeremy Shervington (Chairman) <sup>(i)</sup>	52,500	-	-	-	52,500	0%
Mike Krzus <sup>(ii)</sup>	13,420	-	1,241	-	14,661	0%
McAndrew Rudisill <sup>(iii)</sup>	12,387	-	-	-	12,387	0%
Davide Bosio <sup>(iv)</sup>	12,387	-	1,146	-	13,533	0%
Dino Di Costa <sup>(v)</sup>	12,387	-	1,146	-	13,533	0%
Tim Kestell <sup>(vi)</sup>	35,613	-	3,294	-	38,907	0%
Peter Pynes <sup>(vii)</sup>	35,613	-	3,294	-	38,907	0%
Ross Williams <sup>(viii)</sup> (Chairman)	35,613	-	-	-	35,613	0%
<b>Total</b>	<b>209,920</b>	<b>-</b>	<b>10,121</b>	<b>-</b>	<b>220,041</b>	<b>0%</b>
(i)	Resigned 20 May 2014					
(ii)	Resigned 3 October 2013					
(iii)	Resigned 3 October 2013					
(iv)	Resigned 3 October 2013					
(v)	Resigned 3 October 2013					
(vi)	Appointed 3 October 2013 Resigned 20 August 2014					
(vii)	Appointed 3 October 2013 Resigned 20 August 2014					
(viii)	Appointed 3 October 2013 Appointed Chairman 20 May 2014					
<b>2013</b>						
<b>Directors – Non Executive</b>						
Jeremy Shervington (Chairman)	60,000	-	-	-	60,000	0%
Mike Krzus	95,380	-	6,236	-	101,616	0%
McAndrew Rudisill	48,000	-	-	-	48,000	0%
Davide Bosio	29,466	-	2,652	-	32,118	0%
Dino Di Costa	24,000	-	2,160	-	26,160	0%
Nathan Featherby	4,000	-	-	-	4,000	0%
John Hannaford	2,065	-	186	-	2,251	0%
<b>Company Secretary/CFO</b>						
Morgan Barron	10,000	-	-	-	10,000	0%
<b>Total</b>	<b>272,911</b>	<b>-</b>	<b>11,234</b>	<b>-</b>	<b>284,145</b>	<b>0%</b>

## Directors' Report (continued)

### **11. REMUNERATION REPORT (AUDITED) (CONTINUED)**

#### **D. Service Agreements**

M Rudisill, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: \$48,000)
- Consultancy fees of US\$200,000 p.a. (2012: US\$200,000)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

D Bosio, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

D Di Costa, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

M Krzus, Non Executive Director (from 4 September 2012)

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

P Pynes, Non-Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2013: nil)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

T Kestell, Non-Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2013: nil)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

R Williams, Non-Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2013: nil)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period



## Directors' Report (continued)

### **11. REMUNERATION REPORT (AUDITED) (CONTINUED)**

#### **D. Service Agreements (continued)**

M Hart, appointed Non-Executive Director 30 July 2014, appointed Managing Director 20 August 2014

- Director fees of \$48,000 p.a. (2014: nil)
- No explicitly stated notice period
- Termination by the Company or Mr Hart may occur by giving the other party three month's written notice
- Termination benefit of 6 months' salary if due to termination of change of control event

#### **E. Share-based Compensation**

Details of the share-based remuneration of the Directors and other Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group are set out in section 10 above. The options were issued to Directors in prior periods as part of their remuneration and as incentive options to increase goal convergence between Directors and shareholders. The options are granted for no consideration, and are subject to vesting conditions which relate to the continuation of employment.

Where the Director ceases employment prior to the vesting of their options, the options are forfeited unless the termination was as a result of redundancy, death or in other circumstances where the Board believes are fair and reasonable. Vested options will lapse 3 months after termination of an Executive's employment unless exercised. Options granted carry no dividend or voting rights.

The Group currently has no provisions to prohibit Executives from entering into arrangements to protect the value of unvested options. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Options Granted and vested during the year

No Key Management Personnel Options were granted or have vested during the current or comparative year.

No options issued to KMP's were exercised during the current or comparative year, and no options issued to KMP's expired during the current or comparative year.

#### F. Additional Information

*Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.*

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

The Group issues options to Directors and Executives in order to provide incentives to deliver shareholder returns. In addition to share price performance, Group performance is also reflected in the movement of the Group's earnings or loss per share over time.

#### Related party payments

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
1) Legal	126,066	75,652
2) Serviced office charges	-	11,092
3) Bookkeeping, financial accounting, company secretary and admin	-	12,000
4) Capital raising fees	-	47,293
5) Consulting fees	-	7,656
6) Serviced office charges	25,818	-

1) Payments made or payable to Drungaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by former director Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with former director John Hannaford) for serviced offices totalling \$nil (2013: \$11,092) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with former director John Hannaford) for office bookkeeping, financial accounting, company secretarial, capital raising fees and administration services provided by John Hannaford and employees of Ventnor Capital totalling \$nil (2013: \$12,000) (excl GST).

4) Payments made or payable to Pelagic Capital Investments Ltd (a company associated with former director McAndrew Rudisill) for services relating to capital raising totalling \$nil (2013: \$47,293).

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED) (CONTINUED)

5) Payments made or payable to Pareto Capital Pty Ltd (a company associated with former directors Davide Bosio and Dino Di Costa) for consulting services totalling \$nil (2013: \$7,656) (excl GST).

6) Payments made or payable to Blue Capital Limited (a company associated with Peter Pynes and Tim Kestell) for serviced offices totalling \$25,818 (2013: \$nil)

### G. Directors' Interests in the Shares and Options of the Company

#### Share holdings of Key Management Personnel

The movement during the year in the number of ordinary shares in Emerald Oil and Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities is as follows:

#### 2014

Directors	Held at beginning of year	Movement during year*	Options Exercised	Interest at date of retirement	Held at 30 June 2014
<b>Directors</b>					
J. Shervington	8,331,915	-	-	(8,331,915)	-
M. Krzus	5,709,226	-	-	(5,709,226)	-
M. Rudisill	14,750,000	-	-	(14,750,000)	-
D. Bosio	-	-	-	-	-
D. Di Costa	-	-	-	-	-
R. Williams	-	4,702,695	-	-	4,702,695
P. Pynes	-	231,798,347	-	-	231,798,347
T. Kestell	-	231,798,347	-	-	231,798,347
<b>Total</b>	<b>28,791,141</b>	<b>468,299,389</b>	<b>-</b>	<b>(28,791,141)</b>	<b>468,299,389</b>

#### 2013

Directors	Held at beginning of year	Movement during year*	Options Exercised	Interest at date of retirement	Held at 30 June 2013
<b>Directors</b>					
J. Shervington	8,331,915	-	-	-	8,331,915
M. Krzus	5,709,226	-	-	-	5,709,226
M. Rudisill	14,750,000	-	-	-	14,750,000
D. Bosio	-	-	-	-	-
D. Di Costa	-	-	-	-	-
N. Featherby	-	-	-	-	-
J Hannaford	6,754,221	-	-	(6,754,221)	-
<b>Specified Executives</b>					
M. Barron	400,000	-	-	-	400,000
<b>Total</b>	<b>35,945,362</b>	<b>-</b>	<b>-</b>	<b>(6,754,221)</b>	<b>29,191,141</b>

\* Movement represents shares purchased via placement, rights issue, or on market during the financial year.

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Option holdings of Key Management Personnel

The movement during the year in the number of options over ordinary shares in Emerald Oil and Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities, is as follows:

#### 2014

There were no listed options during the year.

#### 2013

##### Listed Options

	Held at beginning of year	Movement during year	Exercised	Interest at date of Retirement	Held at 30 June 2013	Vested and exercisable at 30 June 2013
<b>Directors</b>						
J. Shervington	2,040,469	(2,040,469)	-	-	-	-
M. Krzus	5,173,688	(5,173,688)	-	-	-	-
M. Rudisill	-	-	-	-	-	-
N. Featherby	-	-	-	-	-	-
J. Hannaford <sup>(1)</sup>	1,531,645	-	-	(1,531,645)	-	-
<b>Specified Executives</b>						
M. Barron	-	-	-	-	-	-
<b>Total</b>	<b>8,745,802</b>	<b>(7,214,157)</b>	<b>-</b>	<b>(1,531,645)</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> Interest at date of retirement (16 July 2012)

#### 2014 Unlisted Options

	Held at beginning of year	Movement during year	Exercised	Interest at date of Retirement	Held at 30 June 2014	Vested and exercisable at 30 June 2014
<b>Directors</b>						
J. Shervington	-	-	-	-	-	-
M. Krzus	5,000,000	(5,000,000)	-	-	-	-
M. Rudisill	28,920,000	(28,920,000)	-	-	-	-
D. Bosio	-	-	-	-	-	-
D. Di Costa	-	-	-	-	-	-
P Pynes	-	-	-	-	-	-
T Kestell	-	-	-	-	-	-
R Williams	-	-	-	-	-	-
<b>Total</b>	<b>33,920,000</b>	<b>(33,920,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Directors' Report (continued)

### 2013 Unlisted Options

<b>Directors</b>	<b>Held at beginning of year</b>	<b>Movement during year</b>	<b>Exercised</b>	<b>Interest at date of Retirement</b>	<b>Held at 30 June 2013</b>	<b>Vested and exercisable at 30 June 2013</b>
J. Shervington	-	-	-	-	-	-
M. Krzus	5,000,000	-	-	-	5,000,000	5,000,000
M. Rudisill	28,920,000	-	-	-	28,920,000	28,920,000
D. Bosio	-	-	-	-	-	-
D. Di Costa	-	-	-	-	-	-
N. Featherby	-	-	-	-	-	-
J. Hannaford	-	-	-	-	-	-
<b>Specified Executives</b>						
M. Barron	-	-	-	-	-	-
<b>Total</b>	<b>33,920,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,920,000</b>	<b>33,920,000</b>

### (d) Loans to or from Key Management Personnel

As at 30 June 2014 there were no loans to or from any Directors or other KMP.

\*\*\*\*\*End of Remuneration Report\*\*\*\*\*

## 12. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

## 13. SHARE OPTIONS

### SHARES UNDER OPTION

At the date of this report, there are no unissued shares under option outstanding.

All options expired as at 30 June 2014.

## 14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group has paid a premium of \$21,670 (2013: \$20,718) to insure the Directors and Secretary of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

## Directors' Report (continued)

### 15. NON-AUDIT SERVICES

There were no non-audit services provided by the Group's auditor, HLB Mann Judd in the current or prior year.

During the year the following fees were paid or payable for services provided by the auditors.

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	\$	\$
<i>Paid or payable to HLB Mann Judd:</i>		
Audit and review fees	33,500	48,485

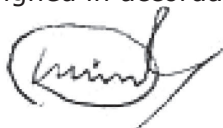
### 16. AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporation Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 21 and forms part of this directors' report for the year ended 30 June 2014.

### 17. AUDITOR

HLB Mann Judd continues in office in accordance with Section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



**Simon Lee AO**  
**Chairman**

Perth  
 30 September 2014

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Emerald Oil & Gas NL for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



Perth, Western Australia  
30 September 2014

**L Di Giallonardo**  
Partner



**ABN: 72 009 795 046**

## Corporate Governance Statement

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business activities and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. The Corporate Governance Statement has been structured with reference to the Australian Securities Exchange Corporate Governance Council's ("Council") "Corporate Governance Principles and Recommendations" to the extent that they are applicable to the Company.

Information about the Company's corporate governance practices available via the Company's website are set out below:

### **THE BOARD OF DIRECTORS**

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

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

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

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



## Corporate Governance Statement (continued)

### **DIVERSITY**

The Company does not have a Diversity Policy in place.

As at 30 June 2014 (and 30 June 2013), the proportion of women employed across the Company, as a whole, and at Board level were:

<b>30 June 2014</b>	<b>Number</b>	<b>Number of Women</b>	<b>Percentage</b>
Employees	-	-	Nil
Board	4	-	Nil
<b>30 June 2013</b>	<b>Number</b>	<b>Number Of Women</b>	<b>Percentage</b>
Employees	-	-	Nil
Board	5	-	Nil

### **INDEPENDENT PROFESSIONAL ADVICE**

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

### **APPOINTMENTS TO OTHER BOARDS**

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

### **RISK MANAGEMENT SYSTEMS**

The identification and management of risk, including calculated risk-taking activity is viewed by the Board as an essential component in creating shareholder value.

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors a number of risks inherent in the industry in which the Company operates. These include:

- Fluctuations in oil and gas prices
- Rights of tenure
- Depletion of reserves
- Fluctuations in demand for oil and gas
- Loss of significant suppliers and customers
- Increasing cost of operations
- Changes in the regulatory environment

These risk areas are provided to assist shareholders and potential investors to better understand the risks faced by our Company and the industry in which we operate, and are not an exhaustive list of the business risks faced by the Company.

## Corporate Governance Statement (continued)

The Board also receives a written assurance from the Managing Director/CEO and Chief Financial Officer (CFO) that to the best of their knowledge and belief, the declaration provided to the Board 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 relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the Managing Director/CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

### **CONTINUOUS REVIEW OF CORPORATE GOVERNANCE**

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise exploration is a business with inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

### **ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE**

The Board has reviewed its current practices in light of the ASX Principles of Good Corporate Governance and Best Practice Guidelines 2010 2<sup>nd</sup> edition with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

## Corporate Governance Statement (continued)

### CONTINUOUS REVIEW OF CORPORATE GOVERNANCE (CONTINUED)

A summary of how the Company has addressed its compliance with the corporate governance principles and recommendations is outlined below:

Principal No.	Recommendation	Compliance	Reason for Non-compliance
<b>1.</b>	<b><i>Lay solid foundations for management and oversight</i></b>		
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	The Board has adopted a Statement of Board and Management Functions setting out the responsibilities of the Board and management. This can be accessed at: <a href="http://www.emeraldoilandgas.com">www.emeraldoilandgas.com</a> . Any functions not reserved for the Board and not expressly reserved for members by the Corporations Act and ASX Listing Rules are reserved for senior executives.	Not applicable
1.2	Disclose the process for evaluating the performance of senior executives.	The Board meets at least once annually to review the performance of senior executives. The performance of senior executives is assessed against the performance of the Company as a whole.	Not applicable
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	The information has been disclosed in the Annual Report.	Not applicable
<b>2.</b>	<b><i>Structure the board to add value</i></b>		
2.1	A majority of the Board should be independent of Directors.	The Board consists of two independent Directors and two non-independent Directors.	Given the size and nature of the Company the Board feels the composition of the Board is appropriate at this stage. The Board endeavours to review this policy from time to time.
2.2	The chair should be an independent Director.	The Chairman is an independent director.  Whilst the Chairman has an association with a shareholder with a significant holding in the Company. He is not a director, shareholder or involved in the management of that entity and is only a direct and indirect contingent beneficiary of the trusts for which that entity is a trustee.	Not applicable

## Corporate Governance Statement (continued)

2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	The Chairman and Managing Director is not the same person.	Not applicable
2.4	The Board should establish a nomination committee.	The Board has not established a Nomination Committee.	The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening and appointing new Directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process.
2.5	Disclose the process for evaluating the performance of the Board, its committee and individual Directors.	In the absence of a Remuneration Committee, the performance evaluation of Directors occurs by way of an internal review by the Board with advice from independent remuneration consultants where necessary.	Not applicable
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	<p>The skills, experience and expertise relevant to the position held by each Director is disclosed in the Directors' Report which forms part of the Annual Report.</p> <p>Given the size and nature of the Company the Board feels the composition of the Board is appropriate at this stage. The Board endeavours to review this policy from time to time.</p> <p>The Directors are entitled to take independent professional advice at the expense of the Company. The period of office held by each Director is disclosed in the Directors' Report which forms part of this Annual Report.</p>	Not applicable

## Corporate Governance Statement (continued)

<b>3.</b>	<b><i>Promote ethical and responsible decision-making</i></b>		
3.1	<p>Establish a code of conduct and disclose a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practice necessary to maintain confidence in the Company's integrity;</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	The Company has adopted a Code of Conduct which can be accessed at <a href="http://www.emeraldoilandgas.com">www.emeraldoilandgas.com</a>	Not applicable
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 measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Company does not have a diversity policy.	Given the size and nature of the Company the Board feels the composition of the Board is appropriate at this stage. The Board recognises the importance of achieving gender diversity and is committed to establishing a diversity policy and framework.
3.3	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.	The Company does not have a diversity policy.	Not applicable
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.	This information has been disclosed in the Annual Report.	Not applicable
3.5	Provide the information indicated in the Guide to reporting on Principle 3.	Given the size and nature of the Company the Board feels the composition of the Board and executive is appropriate at this stage. The Board has undertaken to establish a diversity policy and framework.	Not applicable

## Corporate Governance Statement (continued)

<b>4.</b>	<b><i>Safeguard integrity in financial reporting</i></b>		
4.1	The Board should establish an audit committee.	The Board has not established an Audit Committee.	The Company does not have an audit committee. The Board believes that, given the small number of Directors on the Board, the Board itself is the appropriate forum to deal with this function.
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of Non-Executive Directors;</li> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair, who is not chair of the Board;</li> <li>• has at least three members.</li> </ul>	The Board has not established an Audit Committee.	Not applicable
4.3	The Audit Committee should have a formal charter.	The Board has not established an Audit Committee.	Not applicable
4.4	Provide the information in the Guide to reporting on Principle 4.	The Board believes that, given the small number of Directors on the Board, the Board itself is the appropriate forum to deal with this function.	Not applicable
<b>5.</b>	<b><i>Make timely and balanced disclosure</i></b>		
5.1	Establish written policies and procedures 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.	The Company has adopted a Compliance Procedures Manual which can be accessed at <a href="http://www.emeraldoilandgas.com">www.emeraldoilandgas.com</a>	Not applicable
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	The information has been disclosed in the Annual Report.	Not applicable

## Corporate Governance Statement (continued)

<b>6.</b>	<b><i>Respect the rights of shareholders</i></b>		
6.1	Design a communications policy for promoting effective communication with shareholders and encourage their participation at general meetings and disclose that policy or a summary of that policy.	The Company has adopted a Shareholder Communications Policy which can be accessed at <a href="http://www.emeraldoilandgas.com">www.emeraldoilandgas.com</a>	Not applicable
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	The information has been disclosed in the Annual Report.	Not applicable
<b>7.</b>	<b><i>Recognise and manage risk</i></b>		
7.1	Establish policies for the oversight and management of material business risk and disclose a summary of those policies.	The Company has not adopted policies for the oversight and management of material business risk.	Not applicable
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	The Board meet on a regular basis to consider material business risks and the effectiveness of the Company's management of these risks.	Not applicable
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.	The Board receives assurance in the form of a declaration from the Managing Director and Chief Financial Officer.	Not applicable
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	The information has been disclosed in the Annual Report.	Not applicable

## Corporate Governance Statement (continued)

8.	<b>Remunerate fairly and responsibly</b>		
8.1	The Board should establish a Remuneration Committee.	The Board has not established a Remuneration Committee.	Given the current size of the Board, the Company does not have a remuneration committee. The Board as a whole reviews remuneration levels on an individual basis, the size of the Company making individual assessment more appropriate than formal remuneration policies. In doing so, the Board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent director</li> <li>• has at least three members</li> </ul>	The Board has not established a Remuneration Committee.	Not applicable
8.3	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.	The Board acknowledges the grant of options to Non Executive Directors' is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the granting of Director Options to be reasonable in the circumstances, given the necessity to attract and retain the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.	Not applicable
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	The information has been disclosed in the Annual Report.	Not applicable



## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

	<b>Note</b>	<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Revenue	5	94,781	107,878
Cost of sales		(98,691)	(153,503)
<b>Gross loss</b>		<u>(3,910)</u>	<u>(45,625)</u>
Profit on sale of financial assets		1,177,785	-
Corporate, legal and administration expenses		(747,021)	(680,579)
Consulting and contracting expenses		(220,041)	(286,237)
Fair value gains/(losses) on financial assets		-	(128,689)
<b>Profit/(Loss) from operating activities</b>		<u>206,813</u>	<u>(1,141,130)</u>
Finance income		146,925	44,526
Finance expense		-	(34,460)
<b>Net finance income</b>	6	<u>146,925</u>	<u>10,066</u>
<b>Profit/(Loss) before income tax</b>		353,738	(1,131,064)
Income tax benefit	9	-	-
<b>Profit/(Loss) from continuing operations</b>		<u>353,738</u>	<u>(1,131,064)</u>
Loss from discontinued operations	4	-	(6,671,291)
<b>Profit/(Loss) for the year</b>	7	<u>353,738</u>	<u>(7,802,355)</u>
<b>Other comprehensive (loss)/income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		568	(207,403)
<i>Reclassification adjustments</i>			
Transfer of foreign exchange reserve on disposal of discontinued operations		-	(811,915)
<b>Other comprehensive income/(loss) income for the year</b>		<u>568</u>	<u>(1,019,318)</u>
<b>Total comprehensive income/loss for the year</b>		<u>354,306</u>	<u>(8,821,673)</u>
Profit/(Loss) for the year is attributable to:			
Owners of the parent		411,117	(7,736,915)
Non-controlling interest		(57,379)	(65,440)
		<u>353,738</u>	<u>(7,802,355)</u>
Total comprehensive income/(loss) for the year is attributable to:			
Owners of the parent		407,135	(8,774,397)
Non-controlling interest		(52,829)	(47,276)
		<u>354,306</u>	<u>(8,821,673)</u>
Basic earnings/(loss) per share for profit/(loss) from continuing operations attributable to owners of the parent (cents)	8	0.042	(0.113)
Basic earnings/(loss) per share for profit/(loss) attributable to owners of the parent (cents)	8	0.042	(0.822)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position

As at 30 June 2014

	Note	2014 \$	2013 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	11	12,573,838	403,672
Trade and other receivables	12	71,935	40,242
Financial assets at fair value through profit or loss	13	-	12,485,233
<b>Total current assets</b>		<b>12,645,773</b>	<b>12,929,147</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	88,142	182,037
Exploration and evaluation expenditure	15	297,688	389,068
Oil and gas assets	16	434,362	530,149
<b>Total non-current assets</b>		<b>820,192</b>	<b>1,101,254</b>
<b>TOTAL ASSETS</b>		<b>13,465,965</b>	<b>14,030,401</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	88,934	64,024
<b>Total current liabilities</b>		<b>88,934</b>	<b>64,024</b>
<b>TOTAL LIABILITIES</b>		<b>88,934</b>	<b>64,024</b>
<b>NET ASSETS</b>		<b>13,377,031</b>	<b>13,966,377</b>
<b>EQUITY</b>			
Issued capital	18	45,412,529	46,356,181
Reserves	19	1,145,592	1,059,713
Accumulated losses		(33,128,873)	(33,539,990)
Total equity attributable to owners of the parent		<b>13,429,248</b>	<b>13,875,904</b>
Non-controlling interest		(52,217)	90,473
<b>TOTAL EQUITY</b>		<b>13,377,031</b>	<b>13,966,377</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

	Issued Capital	Options Reserve	Foreign Exchange Translation Reserve	Non-controlling Shareholders Premium Reserve	Accumulated Losses	Equity attributable to owners of the parent	Non- controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Total equity at 30 June 2012</b>	<b>45,627,768</b>	<b>1,327,132</b>	<b>1,036,896</b>	<b>(293,448)</b>	<b>(25,803,075)</b>	<b>21,895,273</b>	<b>164,364</b>	<b>22,059,637</b>
Loss for the year	-	-	-	-	(7,736,915)	(7,736,915)	(65,440)	(7,802,355)
<i>Other comprehensive income (loss)</i>								
Exchange gain recognised on disposal of foreign operations	-	-	(811,915)	-	-	(811,915)	-	(811,915)
Exchange differences on translation of foreign operations	-	-	(225,567)	-	-	(225,567)	18,164	(207,403)
Total other comprehensive income (loss)	-	-	(1,037,482)	-	-	(1,037,482)	18,164	(1,019,318)
Total comprehensive loss for the year	-	-	(1,037,482)	-	(7,736,915)	(8,774,397)	(47,276)	(8,821,673)
<i>Transactions with owners, recorded directly in equity:</i>								
Issue of ordinary shares, net of transaction costs	728,413	-	-	-	-	728,413	-	728,413
<i>Share based payments:</i>								
Non-controlling interest distributions	-	-	-	20,028	-	20,028	(20,028)	-
Non-controlling shareholders premium reserve	-	-	-	6,587	-	6,587	(6,587)	-
<b>Total equity at 30 June 2013</b>	<b>46,356,181</b>	<b>1,327,132</b>	<b>(586)</b>	<b>(266,833)</b>	<b>(33,539,990)</b>	<b>13,875,904</b>	<b>90,473</b>	<b>13,966,377</b>
Profit/(Loss) for the year	-	-	-	-	411,117	411,117	(57,379)	353,738
<i>Other comprehensive income (loss)</i>								
Exchange differences on translation of foreign operations	-	-	(3,982)	-	-	(3,982)	4550	568
Total other comprehensive income (loss)	-	-	(3,982)	-	-	(3,982)	4550	568
Total comprehensive loss for the year	-	-	(3,982)	-	411,117	407,135	(52,829)	354,306
<i>Transactions with owners, recorded directly in equity:</i>								
Share Buy Back of ordinary shares, net of transaction costs	(943,652)	-	-	-	-	(943,652)	-	(943,652)
<i>Share based payments:</i>								
Non-controlling interest distributions	-	-	-	13,902	-	13,902	(13,902)	-
Non-controlling shareholders premium reserve	-	-	-	75,959	-	75,959	(75,959)	-
<b>Total equity at 30 June 2014</b>	<b>45,412,529</b>	<b>1,327,132</b>	<b>(4,568)</b>	<b>(176,972)</b>	<b>(33,128,873)</b>	<b>13,429,248</b>	<b>(52,217)</b>	<b>13,377,031</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 \$	2013 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		100,015	99,931
Interest received		97,198	44,526
Interest paid		-	(35,806)
Payments to suppliers and employees		<u>(856,329)</u>	<u>(1,304,580)</u>
Net cash (used) in operating activities	21	<u>(659,116)</u>	<u>(1,195,929)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Exploration and evaluation expenditure		(19,087)	(1,684,200)
Proceeds on sale of subsidiary, net of cash disposed		-	1,657,328
Proceeds on sale of financial assets		<u>13,675,432</u>	-
Net cash provided by /(used in) investing activities		<u>13,656,345</u>	<u>(26,872)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	1,875,354
Repayment of borrowings		-	(363,065)
Share buy back		(943,651)	-
Proceeds from issue of shares		-	569
Capital raising costs		-	<u>(103,017)</u>
Net cash provided by/(used in) financing activities		<u>(943,651)</u>	<u>1,409,841</u>
Net increase in cash and cash equivalents		12,053,578	187,040
Cash and cash equivalents at the beginning of the year		403,672	565,742
Effect of exchange rates on cash holding in foreign currencies		<u>116,588</u>	<u>(349,110)</u>
Cash and cash equivalents at the end of the year	11	<u>12,573,838</u>	<u>403,672</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to the Financial Statements

For the year ended 30 June 2014

### **1. Reporting entity**

Emerald Oil and Gas NL ("the Company") is a company domiciled in Australia. The Company was incorporated on 15 September 1969 and is a company limited by shares incorporated in Australia.

The consolidated financial statements of the Company for the financial year ended 30 June 2014 comprise the Company and its controlled entities (together referred to as "the Consolidated Entity" or "the Group") and the Group's interest in jointly controlled operations and jointly controlled entities.

The consolidated financial statements were authorised for issue by the Directors on 30 September 2014.

### **2. Basis of preparation**

#### **a) Statement of compliance**

The consolidated financial statements are general purpose financial statements which have 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.

The consolidated financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

#### **b) Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis, except for disposal groups held for sale, which are measured at fair value.

#### **c) Functional currency**

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the major entities comprising the consolidated entity.

#### **d) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **2. Basis of preparation (continued)**

#### **e) Use of estimates and judgements (continued)**

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are discussed below.

#### **Key sources of estimation uncertainty and judgements**

##### *Oil and Gas assets*

Determining the recoverability of oil and gas assets capitalised in accordance with the Group's accounting policy requires estimates and assumptions as to whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. This assessment requires estimates and assumptions about the reserves, the timing of expected cashflows and future capital requirements. If after having capitalised the expenditure, a judgement is made that recovery of expenditure is unlikely, an impairment loss is recognised in profit or loss.

#### **f) Adoption of new and revised standards**

In the year ended 30 June 2014, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group.

#### **a) Principles of consolidation**

##### ***Subsidiaries***

Subsidiaries are entities controlled by any member of the Group. Control exists when a member of the Group has the power, directly or indirectly, to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

##### ***Non-controlling interests***

Non-controlling interests are allocated their share of net profit (loss) after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

##### ***Joint ventures***

Joint ventures are those entities over whose activities the Group has joint control, established by contractual arrangements.

##### ***Jointly controlled assets***

The Group's interest in jointly controlled assets is brought to account by recognising in its consolidated financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods produced by the joint venture.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **a) Principles of consolidation (continued)**

##### ***Transactions eliminated on consolidation***

Intragroup balances (including balances related to jointly controlled operations and assets) and any unrealised gains or losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements

##### ***Loss of control of a subsidiary***

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### **b) Revenue**

Revenue is recognised and measured at the fair value of the consideration receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.

The Group uses the sales method to account for sales of natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

The following specific recognition criteria must also be met before revenue is recognised:

Revenue for product sales is brought to account when the product is passed from the Group's physical control under an enforceable contract, when selling prices are known or can be reasonably estimated and the products are in a form that requires no further treatment by the Group.

#### **c) Finance income and expenses**

Finance income comprises interest income and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest rate, applicable.

Finance expenses comprise interest expenses on borrowings, foreign currency losses and impairment losses recognised on financial assets (other than trade receivables).



## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **d) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss, using the effective interest rate as applicable.

#### **e) Leases**

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **f) Segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **g) Goods and services tax (GST)**

Revenue, expenses and assets are recognised net of the amount of GST or overseas equivalent, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

#### **h) Foreign currency**

##### ***Foreign currency transactions***

Transactions in foreign currencies are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at the foreign exchange rates ruling at the dates the fair value was determined.

##### ***Foreign operations***

The assets and liabilities of foreign operations are translated to Australian dollars at the foreign exchange rates as at the balance date. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates at the dates of the transactions.

Foreign currency differences arising upon translation of foreign operations are recognised in other comprehensive income and presented in the foreign exchange translation reserve (FETR) within equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FETR related to that foreign operation is transferred to the profit or loss as part of the gain or loss on disposal. In the case of a partial disposal that does not result in the consolidated entity losing

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 3. Summary of significant accounting policies (continued)

#### h) Foreign currency (continued)

control over a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount in the FETR is reattributed to non-controlling interests and is not recognised in the profit or loss. For all other partial disposals, the relevant proportion of the cumulative amount in the FETR is transferred to the profit or loss.

When a settlement of a monetary item of receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, unrealised foreign exchange gains and losses on these monetary items are recognised in other comprehensive income and presented in the FETR in equity.

#### i) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance date.

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

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

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

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 3. Summary of significant accounting policies (continued)

#### i) Income tax (continued)

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Tax consolidation legislation*

The company and its wholly owned Australian resident subsidiary have not formed a tax-consolidated group as at the balance date.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **j) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **k) Impairment of assets**

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **l) Cash and cash equivalents**

Cash comprises of cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **m) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at fair value and subsequently at amortised cost less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms or receivables. The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment is recognised in the statement of comprehensive income.

#### **n) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or 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 and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 3. Summary of significant accounting policies (continued)

#### n) Non-current assets (or disposal groups) held for sale and discontinued operations (continued)

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

#### o) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

The shares that were held in Emerald Oil Inc. (see Note 13) were classified as held for trading and included in the category "financial assets at fair value through profit or loss". All gains and losses that arose from fair value adjustments on these financial assets have been recognised in profit or loss.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **p) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### ***Impairment***

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

#### ***Derecognition and disposal***

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **q) Exploration and evaluation expenditure**

Exploration and evaluation expenditure in relation to each area of interest is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward if rights to tenure of the area of interest are current and to the extent that they are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing. Accumulated costs in relation to an abandoned area are written off in full against the statement of comprehensive income in the period in which the decision to abandon the area is made.

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

Once production statements are received from a particular well, the carried costs are transferred to oil and gas assets.

#### **r) Oil & gas assets**

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

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

Although an area of interest has entered the development and production phase, exploration activities within the same area of interest may continue. Such costs, although of an exploration nature, are classified as expenditure on development phase properties and are amortised along with carried forward costs and current financial year development expenditure. Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas well.

#### **s) Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **t) Interest-bearing loans and borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### **u) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**3. Summary of significant accounting policies (continued)**

**u) Provisions ( continued)**

***Provision for restoration and rehabilitation***

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

**v) Employee leave benefits**

***Wages, salaries, annual leave and sick leave***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **w) Share-based payments**

The Group provides benefits to employees (including Directors and KMP) in the form of share-based compensation, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan (ESOP) in place to provide these benefits to Directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes method.

The Black & Scholes option pricing model takes into account the exercise price, the term of the option, the impact of dilution, 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.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimates of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **w) Share-based payments (continued)**

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award is treated as if it were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

#### **x) Issued capital**

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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

#### **y) Earnings per share**

##### ***Basic earnings/loss per share***

Basic earnings/loss per share is calculated by dividing the profit/loss attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

##### ***Diluted earnings/loss per share***

Diluted earnings/loss 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.

#### **z) Parent entity financial information**

The financial information for the parent entity, Emerald Oil and Gas NL, disclosed in Note 24 has been prepared on the same basis as the consolidated financial statements, except as set out below.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **3. Summary of significant accounting policies (continued)**

#### **z) Parent entity financial information (continued)**

##### ***Investments in subsidiaries, associates and joint venture entities***

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Emerald Oil and Gas NL. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

##### ***Share-based payments***

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### **4. Disposal group held for sale and discontinued operations**

#### **Prior Period**

On 9 July 2012, the Group ("Emerald") reached agreement with Voyager Oil and Gas Inc. (NYSE MKT: VOG) ("Voyager"), a publicly listed company in the United States, for Voyager to acquire Emerald Oil Inc. ("Emerald US"), the Group's wholly owned subsidiary, which holds its US shale oil assets. In this transaction, the Group exchanged its 100% interest in Emerald US for 11.6m ordinary shares in Voyager. The transaction was subsequently completed on 26 July 2012, and on 4 September 2012 Voyager began conducting business as Emerald Oil Inc., with the new trading symbol EOX.

EOX assumed the \$17m of debt carried by Emerald prior to the transaction. Emerald received \$2.5m in cash owed to Emerald as part of the transaction under a pre-existing inter-company arrangement between Emerald and its subsidiary company.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**4. Disposal group held for sale and discontinued operations (continued)**

The loss from discontinued operations for the year ended 30 June 2013 of \$6,671,291 is attributable entirely to the owners of the Company.

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Results of discontinued operations</b>		
Revenue	-	-
Cost of sales	-	(40,455)
<b>Gross loss</b>	-	(40,455)
Corporate, legal and administration expenses	-	(196,858)
Consulting and other contracting expenses	-	-
Borrowing costs <sup>(1)</sup>	-	-
Impairment of investments accounted for using the equity method <sup>(2)</sup>	-	-
Gain on settlement of financial liability	-	303,596
<b>Profit (loss) from operating activities</b>	-	66,283
Finance expense	-	-
Share of loss of equity – accounted investees	-	(475)
Impairment loss on re-measurement of disposal group <sup>(3)</sup>	-	-
<b>Profit (loss) before tax from discontinued operations</b>	-	65,808
Income tax	-	-
<b>Profit (loss) for the year from discontinued operations</b>	-	65,808
Loss on sale of subsidiaries before income tax	-	(6,737,099)
Income tax	-	-
<b>Loss on sale of subsidiaries after income tax</b>	-	(6,737,099)
<b>Loss from discontinued operations</b>	-	(6,671,291)
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) discontinued operations</b>		
Net cash used in operating activities	-	(287,410)
Net cash used in investing activities	-	(1,649,904)
Net cash from financing activities	-	1,875,354
<b>Net cash flows for the year</b>	-	(61,960)



Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**4. Disposal group held for sale and discontinued operations (continued)**
**Details of the sale of subsidiaries:**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Consideration received:</b>		
Voyager shares received	-	12,613,922
Repayment of intercompany loan	-	2,500,000
Net cash costs and adjustments at settlement	-	(826,602)
Total disposal consideration	-	<u>14,287,320</u>
Carrying amount of net assets sold	-	(21,836,334)
Recognition of foreign exchange reserve on sale	-	811,915
Loss on sale of subsidiaries before income tax	-	(6,737,099)
Income tax	-	-
<b>Loss on sale of subsidiaries after income tax</b>	-	<u>(6,737,099)</u>

As at the date of sale, the carrying amount of assets and liabilities were:

	<b>Date of Sale</b>
	<b>\$</b>
<b>Assets</b>	
Cash and cash equivalents	254,256
Trade and other receivables	1,109,466
Investments accounted for using the equity method	772,638
Plant and equipment	34,577
Exploration and evaluation expenditures	37,670,656
Oil and gas assets	1,073,894
Assets sold/classified as held for sale	<u>40,915,487</u>
<b>Liabilities</b>	
Trade and other payables	1,482,857
Short term loan payable	17,099,099
Provisions	497,197
Liabilities directly associated with assets sold/classified as held for sale	<u>19,079,153</u>
Net assets sold/attributable to disposal groups classified as held for sale	<u>21,836,334</u>

**5. Revenue from continuing operations**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Sale of gas	94,781	107,878
<b>Total Revenue</b>	<u>94,781</u>	<u>107,878</u>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 6. Net finance income

	<b>2014</b>	<b>2013</b>
	\$	\$
Interest income	146,925	44,526
<b>Finance income</b>	<u>146,925</u>	<u>44,526</u>
Interest expense on short term borrowings	-	(34,460)
<b>Finance expense</b>	<u>-</u>	<u>(34,460)</u>
Net finance income	<u>146,925</u>	<u>10,066</u>

### 7. Profit/(loss) for the year

	<b>2014</b>	<b>2013</b>
	\$	\$
Profit/(loss) before income tax has been determined after:		
a) Employee benefits expense		
Wages, salaries and fees	209,919	272,911
Defined contribution superannuation expense	10,122	11,234
Total employee benefits expense	<u>220,041</u>	<u>284,145</u>
b) Other expenses		
Depreciation and amortisation	171,714	136,495
Bank charges	1,588	2,148
	<u>173,302</u>	<u>138,643</u>

### 8. Earnings/(loss) per share

	<b>2014</b>	<b>2013</b>
	cents	cents
Basic earnings/(loss) per share for from continuing operations attributable to owners of the parent (cents)	0.042	(0.113)
Basic earnings/(loss) per share attributable to owners of the parent (cents)	0.042	(0.822)
	\$	\$
<b>Earnings used in the calculation of total base earnings/(loss) per share:</b>		
Profit/(loss) from continuing operations attributable to owners of the parent	411,117	(1,065,624)
loss attributable to discontinued operations	-	(6,671,291)
Profit/(loss) attributable to owners of the parent	<u>411,117</u>	<u>(7,736,915)</u>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	967,553,877	941,438,002

There are no options outstanding as at 30 June 2014.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 9. Income tax

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>(a) Income tax benefit</b>		
The major components of income tax benefit are:		
<b>Statement of Comprehensive Income</b>		
Current income tax expense	-	-
Deferred income tax expense	-	-
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>-</u>	<u>-</u>

### **(b) Numerical reconciliation between aggregate tax benefit recognised in the statement of comprehensive income and tax benefit calculated per the statutory income tax rate**

	<b>2014</b>	<b>2013</b>
	\$	\$
Profit/(Loss) before income tax	353,738	(7,802,355)
At statutory income tax rate of 30% (2013: 30%)	106,121	(2,340,706)
Non-deductible expenses	7,137	35,857
Current tax losses not recognised as a DTA	182,502	617,350
Foreign tax rate adjustment	(14,712)	4,113
Non-assessable items	(281,048)	-
Non-deductible loss on sale of subsidiary	-	1,683,386
Income tax benefit	<u>-</u>	<u>-</u>

### **c) Unrecognised Deferred Tax Assets and Liabilities**

Deferred tax assets have not been recognised in respect of the following items:

	<b>2014</b>	<b>2013</b>
	\$	\$
Timing Differences	106,781	204,035
Australian tax losses	1,668,727	1,492,729
Australian capital losses	11,889,138	11,884,605
United States of America tax losses	2,117,079	2,060,239
United States of America capital losses	7,174,022	671,907
Gross deferred tax assets	<u>22,955,747</u>	<u>16,313,515</u>

### **(d) Tax losses**

Emerald Oil and Gas NL has tax losses arising in Australia which are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met. Emerald Gas USA LLC (US) has tax losses arising in the United States which are available up to a maximum of ten years.

The Group's tax benefit arising from available Australian tax losses on revenue account is \$1,668,727 (2013: \$1,492,729), and from available USA tax losses on revenue account is estimated to be \$2,117,079 (2013: \$2,060,239).

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**10. Key Management Personnel Disclosures**
**(a) Key Management Personnel remuneration**

	Short term benefits	Post employment benefits	Share-based payments (LTI)	Total	% Performance Related
	Salary and Fees	Superannuation	Options		
	\$	\$	\$	\$	%
2014 Consolidated	209,920	10,121	-	220,041	-
2013 Consolidated	272,911	11,234	-	284,145	-

**(b) Other Transactions with Key Management Personnel**

<b>Other related parties</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
1) Legal	126,066	75,652
2) Serviced office charges	-	11,092
3) Bookkeeping, financial accounting, company secretary	-	12,000
4) Capital raising fees	-	47,293
5) Consulting fees	-	7,656
6) Serviced office charges	25,818	

1) Payments made or payable to Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by former director Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with former director John Hannaford) for serviced offices totalling \$nil (2013: \$11,092) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with former director John Hannaford) for office bookkeeping, financial accounting, company secretarial, capital raising fees and administration services provided by John Hannaford and employees of Ventnor Capital totalling \$nil (2013: \$12,000) (excl GST).

4) Payments made or payable to Pelagic Capital Investments Ltd (a company associated with McAndrew Rudisill) for services relating to capital raising totalling \$nil (2013: \$12,000).

5) Payments made or payable to Pareto Capital Pty Ltd (a company associated with former directors Davide Bosio and Dino Di Costa) for consulting services totalling \$nil (2013:\$7,656) (excl GST).

6) Payments made or payable to Blue Capital Ltd (a company associated with Peter Pynes and Tim Kestell) for serviced offices totalling \$25,818 (2013: \$nil)(excl GST).

All related party services were provided on normal commercial terms and conditions.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**11. Cash and Cash equivalents**

	<b>2014</b>	<b>2013</b>
	\$	\$
Cash at bank and on hand	12,573,838	403,672

**12. Trade and other receivables**

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Current</b>		
Trade debtors	49,728	19,986
Deposits and prepayments	12,803	4,186
Other receivables	9,404	16,070
	<u>71,935</u>	<u>40,242</u>

Other receivables do not bear interest and their carrying amount is equivalent to their fair value. There are no trade and other receivables considered to be impaired at balance date. There are no past due but not impaired trade and other receivables.

**13. Financial assets at fair value through profit or loss**

	<b>2014</b>	<b>2013</b>
	\$	\$
US listed equity securities	-	12,485,233

The equity investments, being shares Nasdaq listed in Emerald Oil Inc., were classified as held for trading at the previous balance date. The market value of all equity investments represented the fair value based on quoted prices on active markets (NYSE) as at the reporting date without any deduction for transaction costs. These investments were classified as Level 1 financial instruments.

During February 2014, the Group sold its entire share investment in Emerald Oil Inc. Total pre-tax proceeds from the sale were USD \$12,289,085 (AUD equivalent approximately \$13.6m), and were received in full by the Company by 4 March 2014. The Company's tax advisors have determined a small gain which can be offset against brought forward tax losses (see Note 9).

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**14. Property, plant and equipment**

	<b>Plant and Equipment \$</b>	<b>Total \$</b>
<b>Year ended 30 June 2014</b>		
At 30 June 2012 net of depreciation and impairment	191,563	191,563
Depreciation	(26,323)	(26,323)
Effect of foreign exchange	16,797	16,797
At 30 June 2013 net of depreciation and impairment	182,037	182,037
Depreciation	(90,534)	(90,534)
Effect of foreign exchange	(3,361)	(3,361)
At 30 June 2014 net of depreciation and impairment	<u>88,142</u>	<u>88,142</u>
<b>At 30 June 2014</b>		
Cost	293,807	293,807
Accumulated depreciation	(205,665)	(205,665)
Net carrying amount	<u>88,142</u>	<u>88,142</u>
<b>At 30 June 2013</b>		
Cost	303,394	303,394
Accumulated depreciation	(121,357)	(121,357)
Net carrying amount	<u>182,037</u>	<u>182,037</u>

**15. Exploration and evaluation expenditure**

	<b>2014 \$</b>	<b>2013 \$</b>
Exploration and evaluation costs carried forward in respect of exploration areas of interest in the USA	<u>297,688</u>	<u>389,068</u>
<i>Reconciled as follows:</i>		
Balance at the beginning of the year	389,068	339,902
Capitalised during the year	19,087	20,312
Effect of foreign exchange	(110,467)	28,854
Balance at the end of the year	<u>297,688</u>	<u>389,068</u>

Throughout the financial year the Board reviewed exploration and evaluation costs capitalised on its projects.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**15. Exploration and evaluation expenditure (continued)**

The directors have considered the licence, exploration and appraisal costs capitalised in respect of the exploration and evaluation assets which are carried at cost. These assets have been assessed for impairment, in particular with regard to remaining lease terms, likelihood of licence renewal, likelihood of further expenditures and ongoing appraisal for each area of interest. After assessing the potential of each project no impairment loss has been recognised.

The recoverability of the carrying amount of deferred exploration and evaluation expenditure is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

**16. Oil and gas assets**

	<b>2014</b>	<b>2013</b>
	\$	\$
Costs carried forward in respect of: Oil and gas assets, at cost	434,361	530,149

**Reconciliation:**

*Reconciled as follows:*

Carrying amount at beginning of the year	530,149	569,684
Additions	-	16,851
Amortisation for the year	(74,534)	(122,422)
Effect of foreign exchange	(21,253)	66,036
Carrying amount at end of the year	434,362	530,149

**17. Trade and other payables**

	<b>2014</b>	<b>2013</b>
	\$	\$
Trade creditors	53,934	30,024
Accruals	35,000	34,000
	88,934	64,024

Trade payables are non-interest bearing, unsecured and are usually paid within 30 days of recognition.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**18. Issued share capital**

	<b>Number of Shares</b>	<b>\$</b>
<b>(a) Issued and Paid Up Capital</b>		
Fully paid ordinary shares	849,286,174	45,412,529
<b>(b) Movements in fully paid shares on issue</b>		
Opening balance as at 1 July 2012	898,790,281	45,627,768
Issue of shares		
Issued in lieu of borrowing and transaction costs on 18 July 2012	44,849,635	762,444
Issued for cash on conversion of options	11,388	569
Share issue costs	-	(34,600)
<b>Total fully paid shares on issue at 30 June 2013</b>	943,651,304	46,356,181
Buy Back from February 2014-to April 2014	(94,365,130)	(943,652)
<b>Total fully paid shares on issue at 30 June 2014</b>	849,286,174	45,412,529

Consolidated Entity

The issued capital of the Group comprises the issued capital of Emerald Gas Pty Ltd, a company deemed to be the acquirer of Emerald Oil and Gas NL under a reverse acquisition transaction. The monetary share capital balance represents the equity in Emerald Gas Pty Ltd at the time of the acquisition plus the fair value of the equity held in Emerald Oil and Gas NL and subsequent transactions with equity holders of Emerald Oil and Gas NL in their capacity as equity holders.

**(c) Terms and conditions of issued capital**

Ordinary shares have the right to receive dividends as declared, and the proceeds on winding up of the parent entity in proportion to the number of shares held.

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

**(d) Share Options**

Information relating to options issued, exercised and expired during the financial year and options outstanding at the end of the financial year, is set out below:

	<b>2014 No.</b>	<b>2013 No.</b>
Balance at beginning of the year	167,600,000	251,344,568
Exercised during the year	-	(11,388)
Expired during the year	(167,600,000)	(83,733,180)
Balance at the end of the year	-	167,600,000



## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **18. Issued share capital (continued)**

#### **(e) 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. Given the stage of the Group's development there are no formal targets set for return on capital. Capital consists of issued capital as disclosed in the statement of financial position. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

### **19. Reserves**

#### Nature and purpose of reserves

- 1) Options reserve - the options reserve is used to record the value of options issued for the services provided by employees and consultants.
- 2) Foreign exchange translation reserve - the foreign exchange translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
- 3) Non-controlling shareholders premium reserve - arises as a result of the adjustment made to the interest of non-controlling shareholders in the equity of Kentucky Energy Partners LLC.

Refer to the statement of changes in equity for movements in reserves for the year.

### **20. Segment reporting**

#### *Identification of reportable segments*

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the location of activity. Discrete financial information about each of these locations is reported to the Board of Directors on at least a monthly basis.

Reportable segments requiring disclosure are operating segments that meet any of the following thresholds:

- Segment loss greater than 10% of combined loss of loss making operating segments; and
- Segment assets greater than 10% of combined assets of all operating segments.

In accordance with AASB 8 *Segment Reporting*, the reportable segments are based on aggregated operating segments determined by the similarity of the locations, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Once reportable segments have been identified, all remaining segments that do not satisfy the thresholds are to be aggregated together to form an "all other segments" reporting segment. In accordance with AASB 8 corporate and administration activities are included in the 'all other segments' reporting segment.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **20. Segment reporting (Continued)**

The Group operates in one business segment, being the exploration of oil and gas, and two geographical segments, being Australia and USA.

#### *Description of Operating Segments*

##### Appalachian (USA) continuing operation

Emerald's subsidiaries Emerald Gas USA Holdings LLC, Emerald Gas Developments LLC, Emerald Kentucky Gas Ventures LLC and Kentucky Energy Partners LLC undertake onshore oil and gas exploration activities in the USA. The combined operations of these entities represent a single reportable segment.

##### Shale (USA) discontinued operations

The disposal group of Emerald Oil Inc., Emerald GRB LLC and Emerald WB LLC undertook onshore oil and gas exploration activities in the Green River Basin and Williston Basin areas of USA prior to disposal. The combined operations of these entities represent a single reportable segment. Refer to Note 4 for details of the sale of the disposal group during the prior year.

##### All Other Segments (Australia)

Emerald Gas Pty Ltd, a wholly owned subsidiary of the Company, held onshore and offshore leases in the north west of Western Australia which are prospective for hydrocarbons. These leases were sold during the half year period ended 31 December 2013. The Australian oil and gas exploration operating segment does not meet the thresholds for reportable segments and have been included in all other segments for reporting purposes, which includes the administrative costs of the Company.

##### *Accounting policies and inter-segment transactions*

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 to the financial statements.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**20. Segment reporting (Continued)**

2014 Geographical segment	Continuing Operations	Discontinued Operations	Australia All other segments	Consolidated \$
	USA Appalachian \$	USA Shale \$	\$	
Segment revenues	94,781	-	-	94,781
Segment result	(254,914)	-	608,652	353,738
Segment assets	831,760	-	12,634,205	13,465,965
Segment liabilities	-	-	(88,934)	(88,934)
Included in segment result:				
Interest income	-	-	146,925	146,925
Interest expense	-	-	-	-
Depreciation and amortisation	(171,714)	-	-	(171,714)
Acquisition of non-current assets	-	-	-	-

2013 Geographical segment	Continuing Operations	Discontinued Operations	Australia All other segments	Consolidated \$
	USA Appalachian \$	USA Shale \$	\$	
Segment revenues	107,878	-	-	107,878
Segment result	(256,368)	(6,671,291)	(874,696)	(7,802,355)
Segment assets	1,058,622	-	12,971,779	14,030,401
Segment liabilities	(13,250)	-	(50,774)	(64,024)
Included in segment result:				
Interest income	-	-	44,526	44,526
Interest expense	-	-	(34,460)	(34,460)
Depreciation and amortisation	(135,980)	(1,005)	(515)	(137,500)
Acquisition of non-current assets	37,163	674,114	11,050	722,327

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 21. Statement of Cash Flows

Reconciliation of cash flows from operations with loss after income tax:

<b>Cash flows from operating activities</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Profit/(Loss) for the year	353,738	(7,802,355)
Adjustments for non-cash items and reclassifications:		
Borrowing costs	-	(303,596)
Depreciation & amortisation depletion of assets	171,714	136,495
Fair value losses on financial assets at fair value through profit or loss	-	128,689
Share of loss of equity investments	-	475
Profit on sale of EOX Shares	(1,177,785)	-
Other	-	(32,991)
Loss on sale of subsidiaries	-	6,737,099
	(652,233)	(1,136,184)
<i>Changes in operating assets and liabilities</i>		
Change in trade creditors and accruals	24,910	(90,637)
Change in trade and other receivables	(31,693)	(2,099)
<b>Cash flows used in operations</b>	<b>(659,116)</b>	<b>(1,195,929)</b>

### 22. Interest in controlled entities

The Company has the following subsidiaries:

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>	<b>Class of Shares</b>	<b>Percentage held</b>	
			<b>2014</b>	<b>2013</b>
Emerald Gas USA LLC	USA	Ordinary	100%	100%
Emerald Gas Pty Ltd	Australia	Ordinary	100%	100%
Emerald Gas USA Holdings Inc	USA	Ordinary	100%	100%
Emerald Gas Development USA LLC	USA	Ordinary	100%	100%
Emerald Gas Kentucky Ventures LLC	USA	Ordinary	100%	100%
Kentucky Energy Partners LLC	USA	Ordinary	75%	75%
Emerald Oil Inc <sup>(1)</sup>	USA	Ordinary	-	-
Emerald GRB LLC <sup>(1)</sup>	USA	Ordinary	-	-
Emerald WB LLC <sup>(1)</sup>	USA	Ordinary	-	-

(1) Entity part of disposal group, refer Note 4.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 23. Related party transactions

#### (a) Parent Entity

The parent entity within the Group is Emerald Oil and Gas NL.

#### (b) Subsidiaries

Interests in subsidiaries are set out in Note 22.

#### (c) Key Management Personnel

Disclosures relating to key management personnel are set out in the Remuneration Report and in Note 10.

Transactions with related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

### 24 Parent entity disclosures

#### *Financial Position*

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Current assets	12,650,275	12,869,745
Non-current assets	1,016,893	1,056,933
<b>Total assets</b>	<b>13,667,168</b>	<b>13,926,678</b>
<b>Liabilities</b>		
Current liabilities	88,934	50,774
<b>Total liabilities</b>	<b>88,934</b>	<b>50,774</b>
<b>Equity</b>		
Issued capital	125,775,188	126,718,839
Accumulated losses	(113,524,086)	(114,170,067)
Options reserve	1,327,132	1,327,132
<b>Total Equity</b>	<b>13,578,234</b>	<b>13,875,904</b>

#### *Financial Performance*

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Profit/(Loss) for the year	645,981	(8,912,146)
Other comprehensive income	-	-
<b>Total comprehensive income/(loss)</b>	<b>645,981</b>	<b>(8,912,146)</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 25. Auditor's remuneration

	<b>2014</b>	<b>2013</b>
	\$	\$
Amounts received or due and receivable by HLB Mann Judd: Audit and review of the financial reports of the Company and any other entity in the Group	33,500	48,485

### 26. Share based payments

#### Share-based payment transactions

##### Prior Year

The Group completed the following share-based payment transactions during the year that have been recognised in the Consolidated Statement of Financial Position:

	<b>Shares 2014 No.</b>	<b>Options 2013 No.</b>
Shares issued in lieu of borrowing costs	-	44,849,635

On 18 July 2012, 44,849,635 shares were issued in lieu of borrowing costs associated with certain short term borrowings that were part of the disposal group. The shares were issued at a deemed issue price of \$0.017 per share. The value of the shares issued was less than the outstanding liability, this resulted in a gain on settlement of the financial liability of \$303,596 which is disclosed as part of discontinued operations (refer Note 4).

#### Fair value of options granted

There were no options granted in the year ended 30 June 2014 (2013: Nil).

### 27. Contingencies

The Directors are not aware of any other contingencies that the Company is party to that are quantifiable. Contingencies in relation to joint venture assets held are set out in Note 28.

### 28. Joint Venture assets

The capitalised exploration expenditure in the statement of financial position includes the costs incurred on the following non-operated exploration joint venture assets:

#### Kentucky (USA) – Appalachian Basin

KEP Projects – 75% equity interest in Kentucky Energy Partners LLC, which is progressing gas projects located in Kentucky, USA. Carrying value of exploration assets at 30 June 2014: \$732,050 (2013: \$817,183).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **28. Joint Venture assets (continued)**

**EP104/Retention Lease R1 – Canning Basin (Western Australia)** – nil% (2013: 14.17%) working interest in the EP104 and R1 oil and gas joint ventures with projects located in the Canning basin in Western Australia. Carrying value at 30 June 2014: \$nil (2013: \$102,034).

#### **Joint venture commitments and contingencies**

The Directors are not aware of any other contingent liabilities or commitments arising from the Joint Venture operations.

### **29. Financial Risk Management**

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange and interest rate and credit risks.

#### *a) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar. Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to exchanges in foreign exchange rates. The Group is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency. Risks are managed at Board level but there are currently no formal measures in place.

#### *b) Market risk*

##### *Price risk*

The Group is exposed to equity securities price risk through the investments in securities classified on the statement of financial position as at fair value through profit or loss. Risks are managed at Board level but there are currently no formal measures in place. Refer to Note 30 for price risk exposure and sensitivity analysis.

The Group is exposed to commodity price risk through the future sales of oil and gas. During the current year, a total of \$94,781 (2013: \$107,878) was received or receivable from oil and gas sales. This amount is considered immaterial and therefore a sensitivity analysis has not been included in the financial statements.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **29. Financial Risk Management (continued)**

#### *c) Credit risk*

The maximum exposure of the Group and the Company to credit risk at balance date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the statement of financial position. The credit risk relates to trade and other receivables and deposits. At balance date there are no receivables past due. The Group monitors its receivables regularly to minimise its exposure to credit risk. Emerald is currently aligned with financial institutions that demonstrate high credit quality, significantly mitigating credit risk in regard to the Group's financial assets. Emerald has no significant concentration of credit risk at 30 June 2014.

#### *d) Liquidity Risk*

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cashflows.

#### *e) Cashflow and Fair value Interest Rate Risk*

The Group's exposure to interest rate risk relates primarily to the Group's floating interest rate cash balance which is subject to movements in interest rates. The Board monitors its cash balance on an ongoing basis and liaises with its financiers regularly to mitigate cash flow and interest rate risk. Refer to Note 30 for interest rate risk exposure and sensitivity analysis.

There were no changes to the risk management policies from prior years.

### **30. Financial Instruments**

#### *a) Fair value*

All financial assets and financial liabilities recognised in the statement of financial position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 30. Financial Instruments (continued)

#### b) Interest rate risk

At 30 June 2014, the interest rate profile of the Group's interest-bearing financial instruments was:

	<b>Floating interest rate \$</b>	<b>Non interest bearing \$</b>	<b>Total \$</b>
<b>2014 Consolidated</b>			
<i>Financial assets</i>			
Cash and cash equivalents	12,573,838	-	12,573,838
Trade and other receivables	-	71,935	71,935
<i>Financial Liabilities</i>			
Trade and other payables	-	(88,934)	(88,934)
Net assets	<u>12,573,838</u>	<u>(16,999)</u>	<u>12,556,839</u>
<b>2013 Consolidated</b>			
<i>Financial assets</i>			
Cash and cash equivalents	348,039	55,633	403,672
Trade and other receivables	-	40,242	40,242
<i>Financial Liabilities</i>			
Trade and other payables	-	(64,024)	(64,024)
Net assets	<u>348,039</u>	<u>31,851</u>	<u>379,890</u>

#### Sensitivity Analysis

A change of 150 basis points (2013: 150 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 2013.

<b>Risk Variable</b>	<b>Sensitivity</b>	<b>Effect On:</b>		<b>Effect On:</b>	
		<b>Results 2014 \$</b>	<b>Equity 2014 \$</b>	<b>Results 2013 \$</b>	<b>Equity 2013 \$</b>
Interest Rate	+ 1.50%	188,607	188,607	5,220	5,220
	- 1.50%	(188,607)	(188,607)	(5,220)	(5,220)

Notes to the Financial Statements (continued)  
For the year ended 30 June 2014

**30. Financial Instruments (continued)**

*c) Currency risk*

At 30 June 2014 the Group had the following exposures to US\$ foreign currency risk that is not designated in cash flow hedges:

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<i>Financial assets</i>		
Cash and cash equivalents	1,128	41,966
Trade receivables	-	13,250
Financial assets at fair value through profit or loss	-	12,485,233
Total financial assets	-	12,540,449
Trade payables and other payables		(13,250)
Short term loans	-	-
Net exposure	1,128	12,527,199

<b>Risk Variable</b>	<b>Sensitivity</b>	<b>Effect On:</b>		<b>Effect On:</b>	
		<b>Results 2014</b>	<b>Equity 2014</b>	<b>Results 2013</b>	<b>Equity 2013</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
AUD:USD rate	+ 10.0%	(216)	(216)	(1,252,720)	(1,252,720)
	- 10.0%	216	216	1,252,720	1,252,720

The possible fluctuation in exchange rates between the Australian and US dollar of +/- 10% (2013: 10%) has been determined by the Board of Directors as being a 'reasonably possible' estimate of movement. This analysis assumes that all other variables, in particular price risk, remain constant.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### 30. Financial Instruments (continued)

#### d) Liquidity risk

The table below sets out the Group's financial liabilities into relevant maturing groups, based on the remaining period at 30 June 2014 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including the estimated interest payments.

	<b>Carrying amount liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 12 months</b>
	\$	\$	\$
<b>2014</b>			
Trade and other payables	88,934	88,934	88,934
Total	<u>88,934</u>	<u>88,934</u>	<u>88,934</u>
<b>2013</b>			
Trade and other payables	64,024	64,024	64,024
Total	<u>64,024</u>	<u>64,024</u>	<u>64,024</u>

#### e) Price risk

##### Prior Year

At 30 June 2013 the Group was exposed to equity securities price risk due to its investment in Emerald Oil Inc ("EOX") which is publicly traded on the NYSE:

	<b>2014</b>	<b>2013</b>
	\$	\$
<i>Financial assets</i>		
Financial assets at fair value through profit or loss	-	12,485,233
Total financial assets	-	<u>12,485,233</u>
Net exposure	-	<u>12,485,233</u>

Risk Variable	Sensitivity	Effect On:		Effect On:	
		Results 2014	Equity 2014	Results 2013	Equity 2013
		\$	\$	\$	\$
EOX share price	+ 10.0%	-	-	1,248,523	1,248,523
	- 10.0%	-	-	(1,248,523)	(1,248,523)

## Notes to the Financial Statements (continued)

For the year ended 30 June 2014

### **31. Events subsequent to balance date**

The Board is not aware of any matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Group, the results of those operations or the state of affairs of the Company and Group in subsequent financial years, other than the following:

#### **Capital raising**

On 11 June 2014, the Company announced its intention to raise \$5.7mil through a placement to sophisticated investor clients of Euroz Limited. This placement was completed after shareholder approval was gained at a general meeting on 30 July 2014. The Placement of 457,307,940 shares at 1.25 cents per share for a total of \$5,716,349 was completed on 5 August 2014.

#### **Board Restructure**

On 20 August 2014 the Company announced the following board appointments;

Mr Simon Lee AO	Chairman Non Executive
Mr Ross Stanley	Non-Executive Director
Mr Morgan Hart	Managing Director (appointed as Non Executive Director on 30 July 2014)
Mr Ross Williams	Non-Executive Director (formerly Chairman Non Executive)

Mr Peter Pynes and Mr Tim Kestell resigned as Non-Executive Directors. Mr Mark Clements was appointed Company Secretary following the resignation of Ms Amanda Burgess.



**ACN: 009 795 046**

## Directors' Declaration

In the opinion of the directors of Emerald Oil and Gas NL ("the Company"):

- a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
  - i. giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year then ended; and
  - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
- d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

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

On behalf of the Board

A handwritten signature in black ink, appearing to read "Simon Lee", with a stylized flourish extending from the end.

**Simon Lee AO**  
**Chairman**

Perth  
30 September 2014

## INDEPENDENT AUDITOR'S REPORT

To the members of Emerald Oil & Gas NL

### Report on the Financial Report

We have audited the accompanying financial report of Emerald Oil & Gas NL ("the company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for 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 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 report complies with International Financial Reporting Standards.

#### ***Auditor's responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

#### ***Independence***

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

**Auditor's opinion**

In our opinion:

- (a) the financial report of Emerald Oil & Gas NL is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

**Report on the Remuneration Report**

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

**Auditor's opinion**

In our opinion the remuneration report of Emerald Oil & Gas NL for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



**HLB Mann Judd**  
**Chartered Accountants**

**Perth, Western Australia**  
**30 September 2014**



**L Di Giallonardo**  
**Partner**

## ASX Additional Information

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

### Shareholdings

The issued capital of the Company at 24 September 2014 is 1,306,594,114 ordinary fully paid shares. All ordinary shares carry one vote per share.

#### Top 20 Shareholders as at 24 September 2014

	<b>No. of Shares Held</b>	<b>% Held</b>
1 HART MORGAN CAIN	257,318,823	19.69%
2 CONFEDERATE CAP PL	137,498,347	10.52%
3 DESERTFOX PL	94,300,000	7.22%
4 P & L CAP INV PL	94,300,000	7.22%
5 STANLEY ROSS FRANCIS	83,500,000	6.39%
6 SHL PL	64,000,000	4.90%
7 ZERO NOM PL	55,464,505	4.24%
8 TROCA ENTPS PL	28,513,736	2.18%
9 KOBIA HLDGS PL	23,500,000	1.80%
10 WISE DANIEL PAUL	17,730,000	1.36%
11 TURNER SCOTT ANSON + S J	13,825,000	1.06%
12 CITICORP NOM PL	12,946,770	0.99%
13 BAHEN MARK JOHN + M P	12,916,595	0.99%
14 MERRILL LYNCH AUST NOM PL	8,651,736	0.66%
15 LENNAN B J D M + I J M	8,627,809	0.66%
16 BLU BONE PL	7,960,511	0.61%
17 TALEX INV PL	6,900,000	0.53%
18 HEINEMANN STEVEN D	6,573,645	0.50%
19 NEFCO NOM PL	6,103,641	0.47%
20 SASSEY PL	6,100,000	0.47%
	<b>946,731,118</b>	<b>72.47%</b>

#### Shares Range

	<b>No. of Holders</b>	<b>No. of Shares</b>
1 – 1,000	114	22,182
1,001 – 5,000	19	53,745
5,001 – 10,000	46	340,665
10,001 – 100,000	366	19,737,219
100,001 and over	466	1,286,440,303
	<b>1,011</b>	<b>1,306,594,114</b>

Number holding less than a marketable parcel at \$0.024 per share

244                      1,432,808

#### Shareholders by Location

	<b>No. of Holders</b>	<b>No. of Shares</b>
Australian holders	985	1,287,753,357
Overseas holders	26	18,840,757
	<b>1,011</b>	<b>1,306,594,114</b>

### Voting Rights

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.



