



ANNUAL FINANCIAL REPORT
FOR THE PERIOD ENDED 31 DECEMBER

2011





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CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN

Antony Sage

NON-EXECUTIVE DIRECTORS

Timothy Turner

Frank Timis

Mark Ashurst

Tony Antoniou

Pierre Godec

Vladimir Mangazeev

EXECUTIVE DIRECTORS

William McAvock

Chris Hopkinson

COMPANY SECRETARY

Claire Tolcon

PRINCIPAL & REGISTERED OFFICE

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Perth

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Telephone: (08) 9429 2222

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Level 2, 45 St George's Terrace

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STOCK EXCHANGE LISTING

National Stock Exchange of Australia

Code: IOP

CHAIRMAN'S LETTER



Dear Shareholder,

International Petroleum Limited ("International Petroleum" or the "Company") made significant progress in 2011, with the discovery of two oilfields from the two exploration wells that it drilled at its Krasnoleninsky project and the acquisition of two further projects in Siberia, Russia.

KRASNOLENINSKY PROJECT

In October 2010, the Company acquired an indirect 75% interest in exploration rights to four licence blocks located in the Khanty-Mansiysk Region of Western Siberia (the "Krasnoleninsky Project"), the largest oil-producing region of Russia, covering a total area of 1,467km², in consideration for US\$5 million and an obligation to fund the current work program consisting of four exploration wells.

The Company is the operator of the Krasnoleninsky Project and, during 2011, drilled two exploration wells and discovered oilfields with both wells.

During 2012, the Company plans to satisfy the current work program by drilling two additional wells.

VAMAROV PROJECT

During late 2011, the Company assumed control of Vamaro Investments Limited ("Vamaro") and its 100%-owned subsidiary companies, Zapadno-Novomolodezhny LLC and Yuzhno-Sardakovskoye LLC, which are both Russian companies having rights for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia (the "Vamarov Project"). Following the end of the year, in February 2012, the Company completed the acquisition of Vamaro.

The Company is the operator of the Vamarov Project and, during 2012, plans to workover existing exploration wells, commence the production of oil from the proven reserves and drill new exploration wells.

DRUZHNY PROJECT

During late 2011, the Company assumed control of Charlize Investments Limited ("Charlize"). Charlize owns 100% of the issued share capital of OOO VostokNefteGaz, which owns an exploration licence in the Tomsk region of Western Siberia. Following the end of the year, in January 2012, the Company completed the acquisition of Charlize.

The Company is the operator of the Druzhny Project and, during the second half of 2012, the Company plans to carry out a 2D seismic study.

CHAIRMAN'S LETTER (CONTINUED)

KAZAKHSTAN PROJECT

One of the Company's wholly-owned subsidiaries operates and owns a 50% interest in subsoil use rights for the exploration of hydrocarbons in an early stage project in Kazakhstan (the "Kazakhstan Project").

In early 2011, the Company drilled Well A-3 to a depth of 1,066 metres, but no shows of hydrocarbons were seen.

Following the drilling of Well A-3, the results of drilling three exploration wells were incorporated into new interpretations. Seismic data indicated that potential Jurassic and Triassic reservoirs were present as stratigraphic traps on the flanks of Paleozoic-age volcanic intrusions or basement highs.

In June 2011, the Company commenced drilling Well A-8, the fourth well to be drilled in the Kazakhstan Project. Although Well A-8 confirmed that reservoir-quality sands are present on the flanks of Paleozoic-age volcanic intrusions or basement highs, no hydrocarbons were found in this well. Consequently, the Company plugged and abandoned Well A-8.

During the second half of 2012, the Company plans to carry out a 3D seismic study in order to assist with targeting the reservoir-quality sands and selecting the locations of future exploration wells.

OTHER ACQUISITIONS

Whilst the Company is focused on exploration at its existing projects in Russia and Kazakhstan, it continues to review other companies and regions, such as Russia and Africa, for opportunities to acquire additional exploration and/or production projects.

I would like to thank you for your continued support and I look forward to another exciting year.

Yours faithfully,

Tony Sage
Non-Executive Chairman



DIRECTORS' REPORT

Your directors submit the financial report of International Petroleum and its controlled entities (collectively referred to as the "Consolidated Group") for the year ended 31 December 2011.

OFFICERS

Directors

The names of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Antony Sage
Mr Timothy Turner
Mr Mark Gwynne (resigned 1 March 2012)
Mr Frank Timis
Mr Mark Ashurst
Mr William McAvoek (appointed 5 January 2011)
Mr Chris Hopkinson (appointed 13 April 2011)
Mr Tony Antoniou (appointed 1 June 2011)
Mr Pierre Godec (appointed 17 February 2012)
Mr Vladimir Mangazeev (appointed 1 March 2012)

Company Secretary

Ms Claire Tolcon

PRINCIPAL ACTIVITIES

The Company's principal activity is oil and gas exploration.

COMPARATIVE FINANCIAL INFORMATION

During 2010, the Company changed its financial year end from 30 June to 31 December in order to align the Company's financial year end with that of the controlled entities in the Consolidated Group. The comparative financial information presented is for the 6 months ended 31 December 2010. The current financial information presented is for the 12 months ended 31 December 2011.

REVIEW OF OPERATIONS

CORPORATE

Director Appointments

On 5 January 2011, Mr William McAvock was appointed as an executive director and Chief Financial Officer of the Company. Mr McAvock is a Chartered Certified Accountant and has worked in senior financial positions for exploration companies for over eight years. He spent over three years at Adastra Minerals Inc. (which had dual listings on the TSX and AIM stock exchanges and was taken over by First Quantum Minerals Limited in 2006). Mr McAvock spent four years at African Minerals Limited (AIM: AMI), the iron ore project development company that is developing the Tonkolili project in Sierra Leone, West Africa.

On 13 April 2011, Mr Chris Hopkinson was appointed as executive director and Chief Executive Officer of the Company. Mr Hopkinson has 22 years' experience in the oil and gas industry and previously worked for BG Group, where he was Senior Vice President of North Africa. Before that, Mr Hopkinson spent eight years working in Russia as CEO of Imperial Energy Corporation plc and in senior management positions for TNK-BP, Yukos and Lukoil. Mr Hopkinson started his career with Shell working in various locations worldwide.

On 1 June 2011, Mr Tony Antoniou was appointed as non-executive director of the Company. Mr Antoniou is a UK Chartered Accountant with over 30 years' public accounting experience with PwC, the last 15 years of which were as a partner of PwC in Russia. He is also a non-executive director and audit committee member of Transcreditbank, one of the largest banks in Russia, and a consultant to PwC in Central and Eastern Europe.

Acquisitions

During August 2011, the Company entered into an agreement to acquire Vamaro Investments Limited ("Vamaro"), the 100% legal and beneficial owner of two licences for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia ("Vamarov Project").

In consideration for the acquisition of Vamaro, the Company agreed to:

- issue 55,000,000 shares;
- US\$3 million cash; and
- assume certain liabilities of Vamaro.

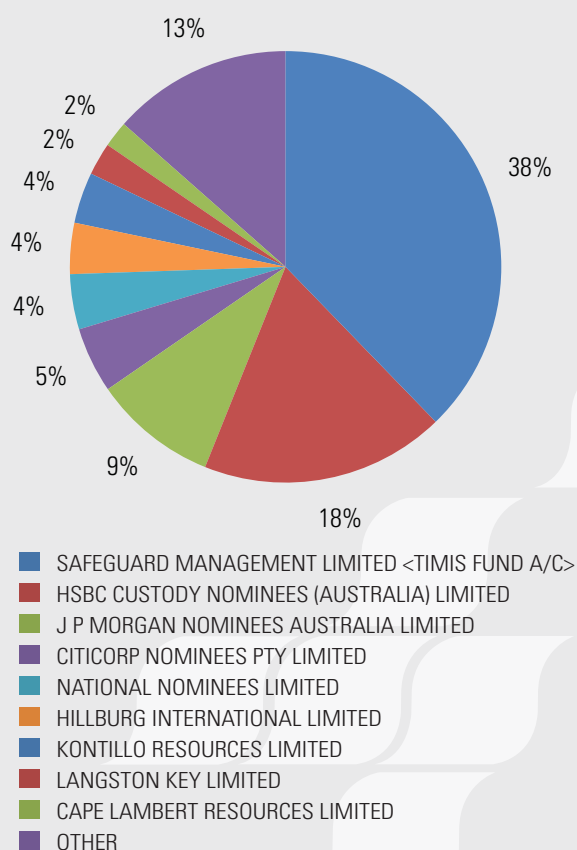
Vamaro has been included in the consolidated financial statements with effect from 3 November 2011, the date on which control of the Vamaro operations was obtained.

During February 2012, the Company completed the acquisition of Vamaro.

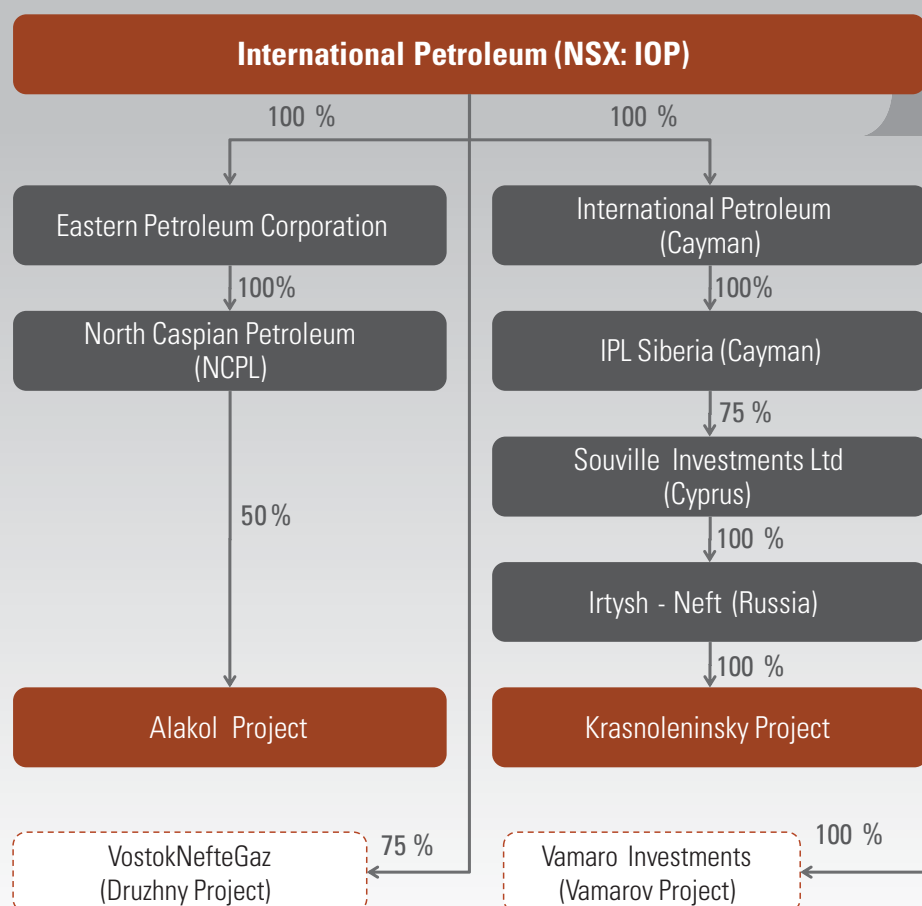
On 4 November 2011, the Company entered into a Share Purchase and Funding Agreement to acquire 75% of the issued share capital of Charlize Investments Limited (an entity incorporated in Cyprus) ("Charlize") ("Charlize Acquisition").

Charlize owns 100% of the issued share capital of OOO VostokNefteGaz (an entity incorporated in Russia) ("VNG"). VNG owns an exploration licence in the Tomsk region of Western Siberia (the "Tomsk Exploration Licence").

SHAREHOLDINGS AS AT 6 MARCH 2012



ORGANISATION CHART



In consideration for the acquisition of Charlize, the Company agreed to:

- (a) issue 6,666,667 shares; and
- (b) fund all of the exploration work necessary to fulfil the minimum work programme as stipulated in the Tomsk Exploration Licence.

Charlize has been included in the consolidated financial statements with effect from 28 December 2011, the date on which control of the Charlize operations was obtained.

During January 2012, the Company completed the acquisition of Charlize Investments Limited.

Funding

On 13 May 2011, the Company secured a US\$10 million standby facility ("Standby Facility") from a company related to four of the directors of the Company, to fund exploration expenditure and working capital. Amounts drawn down under the Standby Facility ("Facility Amount") will be repayable by the Company in full on the earlier of 1 June 2012, receipt by the Company of cash consideration from Nkwe Platinum Limited ("Nkwe") under the agreement with Nkwe for the sale of the Company's interest in the Tubatse Project and receipt of any other funding except for the funds raised by the Company in February 2012.

Interest is payable on the Facility Amount at the cash rate plus 3% per annum and the Standby Facility is secured by a fixed and floating charge over the Company. The Company is also obliged to pay a US\$250,000 commitment fee for the provision of the Standby Facility.

On 22 September 2011, the Company secured a US\$10 million loan facility ("Loan Facility") from Pan African Minerals Limited ("Pan African"), a company related to three directors of the Company, to fund expenditure and working capital. Amounts drawn down under the Loan Facility will be repayable by the Company in full on the earlier of receipt by the Company of capital raising funds, receipts by the Company of cash consideration from Nkwe under the agreement with Nkwe for the sale of the Company's interest in the Tubatse Project, a date agreed by the Company and Pan African and termination of the loan agreement by Pan African.

Interest is payable on the Loan Facility at the cash rate plus 3% per annum.

Towards the end of 2011, the Company marketed a placement to institutions and sophisticated investors that it completed on 6 February 2012. 165,730,000 fully paid ordinary shares were issued at an issue price of A\$0.20 per share raising A\$33,146,000 before costs.



KRASNOLENINSKY PROJECT

In April 2011, the Company commenced drilling of Well No. 1 and Well No. 2 at its Krasnoleninsky Project, which comprises a 75% equity interest in the exploration rights to four blocks covering a total area of 1,467 km² located in the Khanty-Mansiysk Autonomous Region in Western Siberia, the largest oil-producing region of Russia.

The 1,467 km² area comprising the Company's four licence blocks has been extensively surveyed by 2,446 line-kilometres of closely-spaced 2D seismic data, which identified more than thirty prospects, including five "superstructures". Within these superstructures, there are a number of potential reservoirs, ranging in age from Palaeozoic to Cretaceous, stacked upon each other, offering the potential of multiple producing zones in a single well.

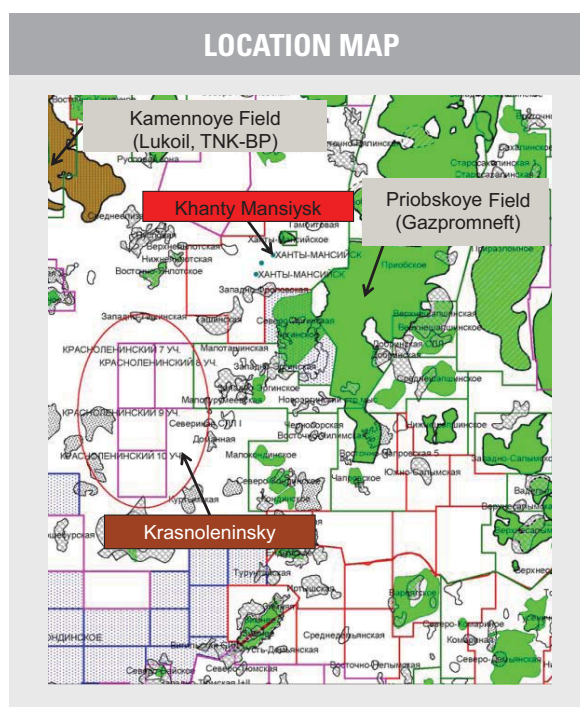
Drilling at both Well No. 1 and Well No.2 reached the target depths of 2,850 metres and 2,930 metres respectively in May 2011, and oil was found during drilling of both wells. The results of the interpretation of electrical logging of Well No. 1 and Well No. 2 were obtained in June 2011, and the interpretation of the electrical logging indicated that the Bazhenov and Tyumen suites are oil-bearing. In addition, the interpretation of the Palaeozoic suite indicated that the fractured zones in both wells are potentially oil-bearing.

In August 2011, the Company discovered an oilfield at Well No. 2. Oil commerciality was established in the J4 formation at the interval between 2,740 metres and 2,745 metres of Well No. 2, from which an unstimulated daily inflow of 6 cubic meters of oil was received. Using the data from this test, the Company has estimated oil flow rates after hydraulic fracturing to be 202 barrels per day (low case), 419 barrels per day (base case), and 508 barrels per day (high case) from this interval only.

Also in August 2011, the Company discovered a second oilfield during testing of Well No. 1. Oil commerciality was established in the J2-3 formation at the interval between 2,647 metres and 2,665.5 metres of Well No. 1, from which an unstimulated daily inflow of 5.5 cubic metres of oil was recorded.

By the end of December 2011, the Company had completed the testing of other prospective intervals in both Well No. 1 and Well No. 2.

By the end of April 2012, the Company plans to have conducted a stimulation programme in these two wells and have commenced pilot oil production thereafter, and, by the end of April 2012, intends to issue a reserve report for the Krasnoleninsky Project in accordance with the industry standard SPE-PRMS standards.





FRAC PUMPS AND MIXER AT KRASNOLENINSKY WELL SITE



WORKOVER RIG DOWN AT KRASNOLENINSKY WELL SITE



VAMAROV PROJECT

During August 2011, the Company entered into an agreement to acquire Vamaro Investments Limited ("Vamaro"). Vamaro is the 100% legal and beneficial holder of Zapadno-Novomolodezhny LLC and Yuzhno-Sardakovskoye LLC, both Russian companies having rights for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia (the "Vamarov Project").

During February 2012, the Company completed the acquisition of Vamaro.

The Zapadno-Novomolodezhny field has had 13 wells drilled and the Yuzhno-Sardakovskoye field has had wells drilled and the Company plans to work over some of the wells and bring them into production during spring 2012.

By the end of April 2012, the Company intends to issue a reserve report for the Vamarov Project in accordance with the industry standard SPE-PRMS standards.

- 100% interest in the Project (Zapadno-Novomolodezhny and Yuzhno-Sardakovskoye fields in the Khanty-Mansiysk region of Western Siberia)
- US\$3 million cash, the issue of 55 million IPL shares and assumption of liabilities

LOCATION MAP



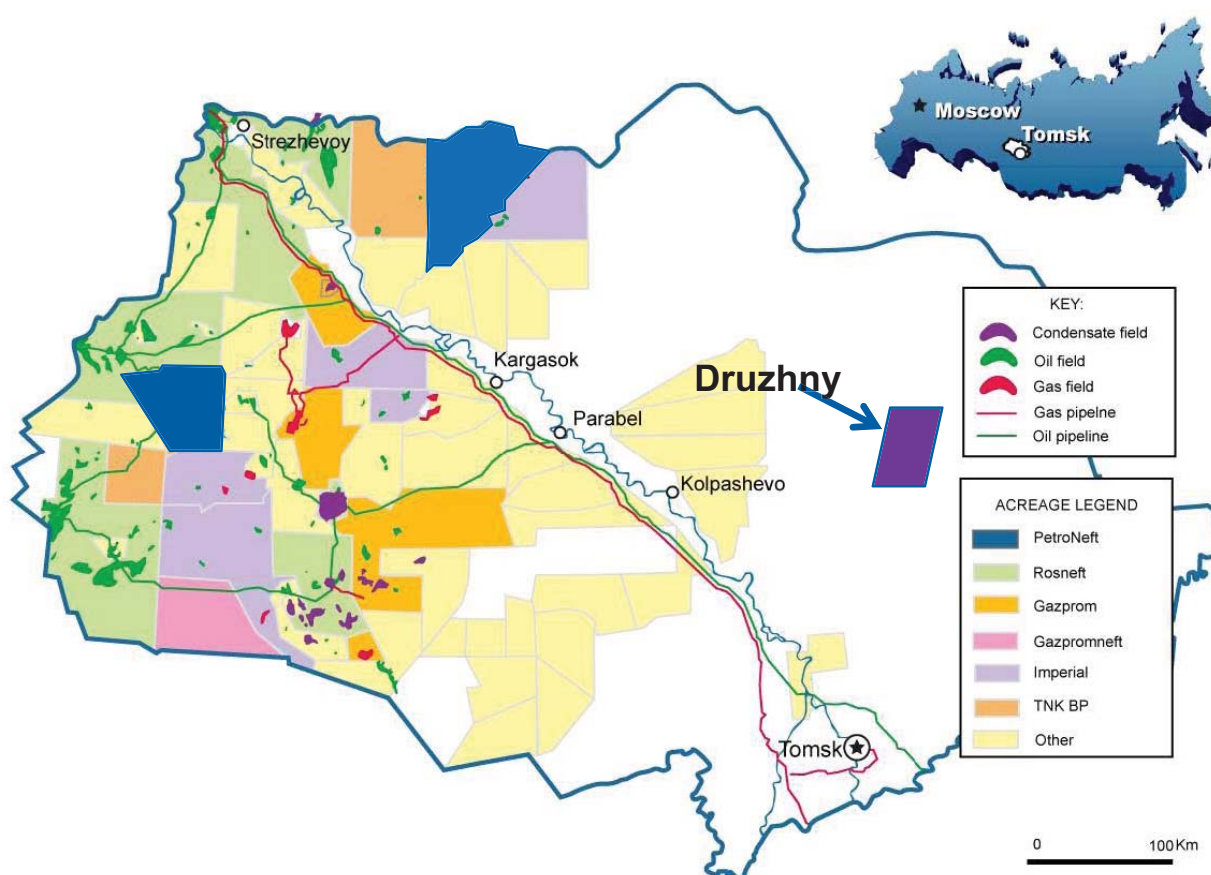
DRUZHNY PROJECT

On 4 November 2011, the Company entered into a Share Purchase and Funding Agreement to acquire 75% of the issued share capital of Charlize Investments Limited (an entity incorporated in Cyprus) ("Charlize") ("Charlize Acquisition"). Charlize owns 100% of the issued share capital of OOO VostokNefteGaz (an entity incorporated in Russia) ("VNG"). VNG owns an exploration licence in the Tomsk region of Western Siberia (the "Tomsk Exploration Licence").

During January 2012, the Company completed the acquisition of Charlize Investments Limited.

During the second half of 2012, the Company plans to carry out a 2D seismic study.

- Acquisition of 75% of OOO VostokNefteGaz, which holds an exploration licence in the Tomsk region of Western Siberia
- 5-year exploration licence expires in October 2015
- Consideration: issuance of 6,666,667 shares in IPL and a commitment to fund all of the exploration work necessary to fulfill the minimum work programme





KAZAKHSTAN PROJECT

The Company, through its wholly owned subsidiary, North Caspian Petroleum Ltd, operates and owns a 50% interest in subsoil use rights for the exploration of hydrocarbons in an early stage project in Kazakhstan ("Alakol Licence Area" or "Kazakhstan Project"). The remaining 50% is owned by Remas Corporation LLP, a privately owned Kazakhstan company.

The Alakol Licence Area is located in eastern Kazakhstan and borders the western boundary of the People's Republic of China. The main target reservoirs in the Alakol basin are carbonates or sandstones of Paleozoic age occurring at depths ranging between 1,600 and 3,500 metres. The Alakol basin is considered to be similar to the Junggar and Zaisan basins across the border in China which are both proven oil provinces.

In January 2011, drilling to a target depth of 2,600 metres commenced at Well A-3 located on a Paleozoic prospect in the eastern portion of the Alakol Licence Area near a number of artesian wells associated with hydrocarbon seeps or oil films proving generation of hydrocarbons within the basin. Seismic interpretation indicated the possible presence of reservoirs below a capping volcanic seal.

In March 2011, after drilling through more than 500 metres of massive Mesozoic-age quartzite and silicified sandstones, not seen in the previous Wells A-1 and A-2, before intersecting Paleozoic-age volcanic sediments, the decision was made to plug and abandon Well A-3. No shows of hydrocarbons were seen during drilling. Though planned for a total depth of 2,600 metres, the unexpected thick interval of metamorphic formations encountered provided clear evidence that the intense heat and pressure associated with mountain building during the Paleogene period in the eastern portion of the Alakol Basin destroyed any existence of reservoir rock properties in the full column of sediments from near surface and below in the A-3 well area. Owing to this event, reservoir quality formations below the Paleozoic volcanics are not anticipated.

In June 2011, the Company commenced drilling Well A-8, the fourth well to be drilled in the Alakol Licence Area. Seismic data indicated that potential Jurassic and Triassic reservoirs were present as stratigraphic traps on the flanks of Paleozoic-age volcanic intrusions or basement highs. In a report dated 6 June 2011 to evaluate the hydrocarbon resource potential ("Ryder Scott Report"), Ryder Scott estimated the unrisks prospective (undiscovered recoverable) resources at 935 (Low Estimate), 1,379 (Best Estimate) and 1,980 (High Estimate) mmb¹. Based on the undiscovered unrisks resource estimates from Ryder Scott, the directors believe that the Kazakhstan Project has the exploration potential of 1.4 billion barrels (Best Estimate).

In July and August 2011, a final depth of 2,019 metres was reached at Well A-8, well logging data was evaluated and drill stem testing of prospective intervals was carried out. Well A-8 was the first well to test the geological model that formed the basis of the Ryder Scott Report and, while it confirmed that reservoir-quality sands are present on the flanks of Paleozoic-age volcanic intrusions or basement highs, no hydrocarbons were found in this well. Consequently, the Company plugged and abandoned Well A-8.

During the second half of 2012, the Company plans to carry out a 3D seismic study in order to assist with targeting the reservoir-quality sands and selecting the locations of future exploration wells.

¹ It should be noted that the resources prospects evaluated are all seismic features, and Well A-8, which has just been drilled, is the first well to penetrate these features. It should be clearly understood that the resources are undiscovered and the project is a medium-high risk exploration play. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, may not be economically viable or technically feasible to produce any of the resources.

Result

The Consolidated Entity incurred a loss after income tax of US\$27,463,912 for the year ended 31 December 2011 (6 months ended 31 December 2010: loss of US\$6,669,644).

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Refer to the Review of Operations which outlines the significant changes in the state of affairs.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 9 January 2012, the Company completed the acquisition of Charlize Investments Limited and entered into an agreement to vary the terms of the Asset Sale Agreement with Nkwe in order to extend the latest date by which the A\$45 million consideration is payable from 31 December 2011 to 30 June 2012 and, in the event of a change of control in Nkwe, to increase the consideration payable by Nkwe to the Company from A\$45 million to A\$50 million.

On 6 February 2012, the Company completed a share placement to institutions and sophisticated investors of 165,730,000 fully paid ordinary shares at an issue price of A\$0.20 per share raising A\$33,146,000 before costs. Capital raising costs amounted to A\$1,374,959.

During February 2012, the Company completed the acquisition of Vamaro Investments Limited by issuing 55,000,000 ordinary shares and making a cash payment of US\$3 million.

On 17 February 2012, the Company appointed Pierre Godec as a Non-Executive Director. Mr Godec has 40 years' experience in the international oil industry. His experience includes 32 years with Groupe Elf Aquitaine ('Elf'), having held senior positions at Elf in the UK, Russia, France, USA, Canada, Kazakhstan, Nigeria and Norway. Between 2000 and 2004, Mr Godec worked as an independent international consultant with companies such as McKinsey, Accenture and Northern Oil. He was a Non-Executive Director of Imperial Energy Corporation plc from July 2004 until its acquisition by ONGC Videsh Limited in January 2009. At Imperial Energy Corporation plc, which was originally listed on AIM but moved up to the London Stock Exchange main board and entered the FTSE 250 index, he was the Senior Non-Executive Director and was Chairman of the audit committee and the remuneration committee. Currently, Mr Godec is a director of Petrolia E&P Holdings plc and Petroresources Ltd, which are both energy companies registered in Cyprus, controlled by the Larsen Group, with operations outside Cyprus, and he is President of the French Trade Board in Cyprus. He is a Chevalier de la Legion d'Honneur, Chevalier de l'Ordre National du Merite, and a Fellow of the Energy Institute in London.

On 1 March 2012, Mark Gwynne resigned as Non-Executive Director and the Company appointed Vladimir Pavlovich Mangazeev as a Non-Executive Director. Mr Mangazeev, aged 70, has over 45 years' experience in the oil industry in Russia. In 1966, he graduated from Tomsk Polytechnic University, majoring in Petroleum Geology and Exploration for Oil & Gas Fields and worked for Tomskneft, where he worked his way up from Petroleum Geologist to Chief Geologist by 1978. From 1978 to 1990, Mr Mangazeev was responsible for supervising the geological and petroleum industry of the Tomsk region. In 1990, he returned to the industry in the position of Deputy Director General for Geology and took charge of Tomskneft's Geological Department. From 1994 to 1998, as the First Vice-President of VNK (Eastern Oil Company), and, from 1999 to 2007, as the Executive Vice-President of Yukos Oil Company ("Yukos"), Mr Mangazeev was consistently involved in the modernisation of the petroleum sector, suggesting unprecedented engineering and technological solutions. He initiated and managed some of the most complex field projects such as the development of the Tomsk region, including the gas condensate fields and the largest Eastern Siberian gas-oil field, Yurubcheno-

SIGNIFICANT EVENTS AFTER THE BALANCE DATE (CONTINUED)

Tokhomskoye. In 2000, Yukos became the second largest Russian oil company in terms of oil production and entered international markets. New and sophisticated technologies, which had emerged in the late 20th Century, required qualified specialists to apply them, so Mr Mangazeev put forward the idea of establishing a centre that would train world-class petroleum engineers for Yukos. This centre became the internationally renowned Heriot-Watt University Approved Support Centre (the "HWUASC"). Under his guidance, Yukos signed a contract in December 2000 with Heriot-Watt University and TPU to become Learning Partners and the grand opening of the HWUASC at TPU took place on 12 September 2001. The first 50 petroleum engineering students graduated from the centre in November 2002. This year's class will mean that there will be over 500 petroleum graduates from the HWUASC working in the Russian and international oil and gas industry. Approximately 70 students per year from the HWUASC are sponsored and subsequently employed by Russian oil & gas companies. This has resulted in the widespread recognition throughout the Russian oil and gas industry of Heriot-Watt University for delivering high quality graduates. Mr Mangazeev is an Honorary Doctor of Engineering of Heriot-Watt University. During the last four years, Mr Mangazeev has been President Advisor of JSC Vostokgazprom.

No other event has arisen between 31 December 2011 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to meet its obligations with respect to its oil and gas projects.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with the relevant environmental regulations when carrying out any exploration work.

INFORMATION ON DIRECTORS



Antony Sage *Non-Executive Chairman*

Qualifications B.Com, FCPA, CA, FTIA

Experience Mr Sage has in excess of 25 years' experience in the fields of corporate advisory services, funds management and capital raising. Mr Sage is based in Western Australia and has been involved in the management and financing of listed mining companies for the last 16 years.

Mr Sage is the Executive Chairman of ASX listed entities Cape Lambert Resources Limited and Cauldron Energy Limited and is Non-Executive Chairman of ASX listed International Goldfields Limited and Fe Limited and is a Non-Executive director of ASX listed African Iron Limited and Matrix Metals Limited and is the Non-Executive Deputy Chairman of NSX listed African Petroleum Corporation Limited.

Interest in Shares and Options Mr Sage has an interest in 15,480,691 fully paid ordinary shares



Timothy Turner *Non-Executive Director*

Qualifications B.Bus, FCPA, FTIA, Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia

Experience Mr Turner is senior partner with accounting firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner also has in excess of 22 years' experience in new ventures, capital raisings and general business consultancy.

Mr Turner is also a non-executive director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and NSX listed African Petroleum Corporation Limited.

Interest in Shares and Options Mr Turner has an interest in 161,819 fully paid ordinary shares

INFORMATION ON DIRECTORS (CONTINUED)

Mark Gwynne *Non-Executive Director (resigned 1 March 2012)*

Experience Mr Gwynne has been involved in exploration and mining for over 18 years and has held management positions on mine sites and in the service sector of the mining industry, including general manager of an exploration consultancy firm. Mr Gwynne has extensive skills in exploration and mining logistics and management, as well as acquisition and divestment of mineral assets.

Mr Gwynne is also a director of Fe Limited.

Interest in Shares and Options Mr Gwynne does not hold any shares or options in the Company.

**Frank Timis** *Non-Executive Director*

Experience Mr Timis is a successful resource entrepreneur. He has interests in numerous resource companies listed in London, Australia and Toronto and in assets worldwide. Mr Timis has raised approximately US\$2 billion on the financial markets worldwide and is Executive Chairman of African Minerals Limited, an AIM listed mineral exploration company with significant interests in Sierra Leone.

Mr Timis is also the Non-Executive Chairman of NSX listed African Petroleum Corporation Limited.

Interest in Shares and Options Mr Timis holds 444,018,420 fully paid ordinary shares. Mr Timis also holds 88,083,684 unlisted share options with an exercise price of A\$0.25 and an expiry date of 30 June 2012.



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Mark Ashurst *Non-Executive Director*

Qualifications BA (Hons) Law; Fellow of the Institute of Chartered Accountants in England and Wales

Experience Mr Ashurst graduated from Sheffield University with a degree in law and is a qualified Barrister and Chartered Accountant.

Mr Ashurst has been employed as a senior investment banker with a broad range of corporate finance and broking skills gained from over 20 years in the City of London. Institutions Mr Ashurst has worked for include BZW, Hoare Govett and, more recently, Canaccord Adams. He has advised both UK and overseas listed companies and has significant expertise in Initial Public Offerings, fund raising and mergers and acquisitions.

Mr Ashurst is also an Executive Director of NSX listed African Petroleum Corporation Limited.

Interest in Shares and Options Mr Ashurst does not hold any shares or options in the Company



William McAvoek *Executive Director and Chief Financial Officer (appointed on 5 January 2011)*

Qualifications BA (Hons) Accountancy, Fellow of the Association of Chartered Certified Accountants

Experience Mr McAvoek was previously Group Financial Controller of natural resource exploration businesses for over seven years. He spent over three years at Adastra Minerals Inc. (which had dual listings on the TSX and AIM stock exchanges and was taken over by First Quantum Minerals Limited in 2006). Mr McAvoek spent four years at African Minerals Limited (AIM: AML), the iron ore project development company that is developing the Tonkolili project in Sierra Leone, West Africa.

Interest in Shares and Options Mr McAvoek has an interest in 90,000 fully paid ordinary shares. Mr McAvoek also holds 3,000,000 unlisted options which are subject to vesting conditions. The options have an exercise price of A\$0.25 and an expiry date of 1 June 2016.



Chris Hopkinson *Executive Director and Chief Executive Officer (appointed on 13 April 2011)*

Qualifications BSc (Hons) Applied Physics

Experience Mr Chris Hopkinson has 22 years' experience in the oil and gas industry and previously worked for BG Group, where he was Senior Vice President of North Africa. Before that, Mr Hopkinson spent eight years working in Russia as CEO of Imperial Energy Corporation plc and in senior management positions for TNK-BP, Yukos and Lukoil. Mr Hopkinson started his career with Shell working in various locations worldwide.

Interest in Shares and Options Mr Hopkinson does not hold any shares in the Company. Mr Hopkinson holds 15,000,000 unlisted options which are subject to vesting conditions. The options have an exercise price of A\$0.25 and an expiry date of 1 June 2016. Mr Hopkinson was awarded 10,000,000 performance shares which are subject to vesting conditions.



Tony Antoniou *Non-Executive Director (appointed on 1 June 2011)*

Qualifications BSc (Hons) Chemistry, Member of the Institute of Chartered Accountants in England & Wales

Experience Mr Antoniou is a UK Chartered Accountant with over 30 years' public accounting experience with PwC, the last 15 years of which were as a partner of PwC in Russia. He is also a non-executive director and audit committee member of Transcreditbank, one of the largest banks in Russia, and a consultant to PwC in Central and Eastern Europe.

Interest in Shares and Options Mr Antoniou does not hold any shares or options in the Company.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration of key management personnel of the Company.

REMUNERATION POLICY

Details of directors and key management personnel

(i) Directors

Antony Sage	Non-Executive Chairman
Timothy Turner	Non-Executive Director
Mark Gwynne	Non-Executive Director (resigned 1 March 2012)
Frank Timis	Non-Executive Director
Mark Ashurst	Non-Executive Director
William McAvoek	Executive Director and Chief Financial Officer (appointed 5 January 2011)
Chris Hopkinson	Executive Director and Chief Executive Officer (appointed 13 April 2011)
Tony Antoniou	Non-Executive Director (appointed 1 June 2011)
Mr Pierre Godec	Non-Executive Director (appointed 17 February 2012)
Mr Vladimir Mangazeev	Non-Executive Director (appointed 1 March 2012)

(ii) Other Key Management Personnel

Claire Tolcon	Company Secretary
Anya Belogortseva	Kazakhstan Regional Manager
Dr Valera Beloussov	VP Business Development (services agreement terminated on 28 June 2011)
Kenneth Hopkins	Country Manager (Kazakhstan)
Alexander Osipov	VP Russia

There are no other specified executives of the Consolidated Entity.

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

The remuneration policy, setting the terms and conditions for the directors, was approved by the Board as a whole. The Board has established a separate Remuneration and Nomination Committee.

The Consolidated Entity is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Remuneration may consist of a salary, bonuses, or any other element but must not be a commission on, or percentage of, operating revenue.

All remuneration paid to Non-Executive Directors is valued at the cost to the Company and expensed. All remuneration paid to Executive Directors is valued at cost to the Company and either expensed or capitalised in line with the Company's accounting policy. Options are valued using the Black-Scholes methodology.

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board as a whole determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of cash fees that can be paid to Non-Executive Directors is US\$457,922 (A\$ 450,000) or such other amount approved by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Company.

The Board exercises its discretion in determining remuneration linked to performance of executives. Given the early stage of the Consolidated Entity's key exploration projects, options awarded to executives of the Consolidated Entity contain vesting conditions which are related to the expansion of the Consolidated Entity's exploration asset portfolio and the discovery of hydrocarbons.

COMPANY PERFORMANCE AND SHAREHOLDER WEALTH AND DIRECTORS' AND EXECUTIVES' REMUNERATION

The Board continues to maintain promotional activity amongst analysts so as to increase investor awareness of the Company in line with a consistent and stable financial position and base value of assets.

Below is a summary of the performance of the legal parent, International Petroleum Limited, for the years ended 30 June 2008 and 30 June 2009 and the performance of the Consolidated Entity for the 6 month period to 30 June 2010, the 6 month period to 31 December 2010 and the year ended 31 December 2011:

	12 months to 30 Jun 2008	12 months to 30 Jun 2009	6 months to 30 Jun 2010	6 months to 31 Dec 2010	12 months to 31 Dec 2011
	US\$	US\$	US\$	US\$	US\$
Profit/(loss) for the period	1,375,387	(934,273)	(8,869,365)	(6,669,644)	(27,463,912)
Basic EPS	0.0122	(0.0102)	(0.0075)	(0.0070)	(0.0287)

Details of remuneration of directors and key management personnel of International Petroleum for the year ended 31 December 2011

The table below sets out the remuneration of the directors and key management personnel of International Petroleum and its subsidiaries for the period 1 January 2011 to 31 December 2011.

	Short term benefits			Post employment benefits	Share-based payments ¹		Total	Performance related
	Salary and fees	Other cash benefits	Cash bonus	Pension contribution	Options	Shares		
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
Directors								
A Sage ⁽ⁱ⁾	103,321	-	-	-	-	-	103,321	-
T Turner ⁽ⁱⁱ⁾	49,551	-	-	-	-	-	49,551	-
M Gwynne ⁽ⁱⁱⁱ⁾	49,551	-	-	-	-	-	49,551	-
F Timis ^(iv)	77,423	-	-	-	-	-	77,423	-
M Ashurst ^(v)	116,332	-	-	-	-	-	116,332	-
W McAvock ^(vi)	208,780	-	-	17,509	464,614	-	690,903	47
C Hopkinson ^(vii)	377,179	-	-	8,583	1,975,070	446,860	2,807,692	45
T Antoniou ^(viii)	32,002	-	-	-	-	-	32,002	-
	1,014,139			26,092	2,439,684	446,860	3,926,775	41
Key management								
A Belogortseva ^(ix)	272,897	-	-	-	-	-	272,897	-
V Belousova ^(x)	168,600	80,100	-	-	722,799	-	971,499	51
K Hopkins ^(xi)	441,600	-	-	-	204,939	-	646,539	32
A Osipo ^(xii)	360,000	-	-	-	131,972	-	491,972	27
C Tolco ^(xiii)	85,404	-	-	-	-	-	85,404	-
Total	2,342,640	80,100	-	26,092	3,499,394	446,860	6,395,086	38

¹ Share based payments represents options and shares that have vested during the current year.

REMUNERATION REPORT (CONTINUED)

Details of remuneration of directors and key management personnel of International Petroleum for the 6 months ended 31 December 2010

The table below sets out the remuneration of the directors and key management personnel of International Petroleum and its subsidiaries for the period 1 July 2010 to 31 December 2010.

	Short term benefits			Post employment benefits	Share-based payments ¹		Total	Performance related
	Salary and fees	Other cash benefits	Cash bonus	Pension contribution	Options	Shares		
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
Directors								
A Sage ⁽ⁱ⁾	100,060	-	-	-	-	-	100,060	-
T Turner ⁽ⁱⁱ⁾	24,485	-	-	-	-	-	24,485	-
M Gwynne ⁽ⁱⁱⁱ⁾	20,718	-	-	-	-	-	20,718	-
F Timis ^(iv)	97,234	-	-	-	-	-	97,234	-
M Ashurst ^(v)	138,323	-	-	-	-	-	138,323	-
	380,820	-	-	-	-	-	380,820	-
Key management								
A Belogortseva ^(ix)	77,140	-	-	-	352,408	-	429,548	-
V Beloussov ^(x)	180,000	-	-	-	509,652	93,762	783,414	6
K Hopkins ^(xii)	110,400	-	-	-	135,343	-	245,743	18
A Osipov ^(xii)	128,710	-	125,000	-	117,771	-	371,481	8
C Tolcon ^(xiii)	9,625	-	-	-	-	-	9,625	-
Total	886,695	-	125,000	-	1,115,174	93,762	2,220,631	5

¹ Share based payments represents options and shares that have vested during the period.

- (i) An aggregate amount of US\$103,321 (A\$100,000) was paid, or due and payable to Okewood Pty Ltd, a company controlled by Mr Sage, for the provision of his director services to the Company for the current period (6 months ended 31 December 2010: US\$100,060).
- (ii) An aggregate amount of US\$49,551 (A\$48,000) was paid, or due and payable to CRMS, an entity controlled by Mr Turner, for the provision of Mr Turner's director services to the Company for the current period (6 months ended 31 December 2010: US\$24,485).
- (iii) An aggregate amount of US\$49,551 (A\$48,000) was paid, or was due and payable to Silverwest Pty Ltd, a company controlled by Mr Gwynne for the provision of his director services to the Company for the current period (6 months ended 31 December 2010: US\$20,718).
- (iv) An aggregate amount of US\$77,423 (A\$75,000) was paid, or was due and payable to Frank Timis for the provision of his director services to the Company for the current period (6 months ended 31 December 2010: US\$97,234).
- (v) An aggregate amount of US\$116,332 was paid, or was due and payable to MLR Advisory Ltd, a company controlled by Mr Ashurst for the current period (6 months ended 31 December 2010: US\$138,323). Of this total, US\$66,781 was for the provision of his consultancy services to the Consolidated Entity and US\$49,551 (A\$48,000) was for the provision of his director services to the Company (31 December 2010: US\$114,588 and US\$23,735 respectively).

- (vi) Mr McAvoek was appointed on 5 January 2011 as Executive Director and Chief Financial Officer. An aggregate amount of US\$208,780 (£130,000) was paid, or was due and payable to William McAvoek for the current period.

The issue of 3,000,000 unlisted options to Mr McAvoek was approved by shareholders at the Company's Annual General Meeting. The options have an exercise price of A\$0.25 and an expiry date of 1 June 2016.

The vesting conditions attached to the options are as follows:

- 1,000,000 will vest on the Company securing a commercial discovery.
- 1,000,000 will vest on the Company dual listing on another recognised stock exchange.
- 1,000,000 will vest in equal instalments over a 3 year period commencing on the commencement date with the Company.

The 1,000,000 options conditional on the Company securing a commercial discovery vested during the current year, with the remaining options unvested as at 31 December 2011. On 5 January 2012, a further 333,333 options vested, being one year post Mr McAvoek's appointment.

- (vii) An aggregate amount of US\$377,179 was paid, or was due and payable to Mr Hopkinson for the current period.

The issue of 15,000,000 unlisted options to Mr Hopkinson was approved by shareholders at the Company's Annual General Meeting. The options have an exercise price of A\$0.25 and an expiry date of 1 June 2016.

The vesting conditions attached to the options are as follows:

- 2,500,000 will vest on the Company securing a commercial discovery in Russia prior to 31 December 2011.
- 2,500,000 will vest on the Company listing on the AIM Market or the London Stock Exchange; estimated to occur by 31 December 2012.
- 2,500,000 will vest in each of 6 months, 12 months, 24 months and 36 months of his commencement with the company.

The 2,500,000 options conditional on the Company securing a commercial discovery in Russia and the 2,500,000 options conditional on Mr Hopkinson providing 6 months of service to the Company vested during the current year, with the remaining options unvested as at 31 December 2011.

Also approved at the Annual General Meeting was the issue of 10,000,000 performance shares to Mr Hopkinson. The issue of the incentive shares is conditional upon the achievement of the following milestones:

- 2,500,000 Shares upon the Shares trading on NSX at A\$0.50 for 30 continuous trading days.
- 2,500,000 Shares upon the Shares trading on NSX at A\$0.75 for 30 continuous trading days.
- 2,500,000 Shares upon the Shares trading on NSX at A\$1.00 for 30 continuous trading days.
- 2,500,000 Shares upon the Shares trading on NSX at A\$1.50 for 30 continuous trading days.

As at 31 December 2011 none of these performance shares have been issued.

- (viii) Appointed on 1 June 2011.

- (ix) An aggregate amount of US\$272,897 was paid, or was due and payable to Anya Belogortseva for the provision of her services as Kazakhstan Regional Manager for the current year (6 months ended 31 December 2010: US\$77,140).

On 1 July 2010, it was agreed to award Anya Belogortseva with 1,500,000 options with an exercise price of A\$0.25 and an expiry date of 17 March 2016. These options vested on award and were in recognition of Anya Belogortseva's services to North Caspian Petroleum Ltd. The options were issued on 17 March 2011.

REMUNERATION REPORT (CONTINUED)

- (x) An aggregate amount of US\$168,600 was paid, or was due and payable to Hamunts Ltd for the provision of Dr Beloussov's services as VP Business Development during the current year (6 months ended 31 December 2010: US\$180,000).

On 28 June 2011, the service agreement between Hamunts Ltd and the Company was terminated. A termination payment of US\$80,100 was made to Hamunts Ltd. At the time of termination, Hamunts Ltd held 9,500,000 unlisted options with an exercise price of A\$0.30 and an expiry date of 16 November 2015. The vesting conditions attached to these options are as follows:

- 3,000,000 options over ordinary shares vested on issue and are in recognition of services performed by Dr Beloussov.
- 2,500,000 options over ordinary shares vest on the discovery of commercially viable hydrocarbons in one of the Company's Kazakhstan owned assets.
- 2,500,000 options over ordinary shares vest on the discovery of commercially viable hydrocarbons in one of the Company's Russian owned assets.
- 1,500,000 options over ordinary shares vest on the completion of an acquisition targeted in northern Kazakhstan.

On termination of the service agreement with Hamunts Ltd, 3,000,000 options had vested, 5,000,000 had not yet vested and 1,500,000 options had lapsed. 2,500,000 options vested between 28 June 2011 and 31 December 2011.

- (xi) An aggregate amount of US\$441,600 was paid, or was due and payable to Mr Hopkins, for the provision of his services as Country Manager (Kazakhstan) for the current year (6 months ended 31 December 2010: US\$110,400).

On 1 October 2010, it was agreed that Mr Hopkins would be awarded 2,500,000 options with an exercise price of A\$0.25 and an expiry date of 17 March 2016. The options were issued on 17 March 2011.

The vesting conditions attached to the options are as follows:

- 500,000 options over ordinary shares vested on award as they were in lieu of a signing bonus.
- 1,000,000 options over ordinary shares vest on a commercial discovery in Alakol licence area in Kazakhstan.
- 1,000,000 options over ordinary shares vest on a discovery or production of any acquisition project.

As at 31 December 2011, 1,500,000 options had vested (31 December 2010: 500,000 options).

- (xii) An amount of US\$360,000 was paid, or was due and payable for Mr Osipov's services as VP Russia for the current year (6 months ended 31 December 2010: US\$128,710 salary and US\$125,000 bonuses). Of this amount, US\$120,000 was paid to Hamunts Ltd and the remaining US\$240,000 was paid directly to Mr Osipov.

On 23 August 2010, it was agreed that 2,000,000 options with an exercise price of A\$0.25 and an expiry date of 17 March 2016 would be awarded to Mr Osipov. The options were issued on 17 March 2011.

The vesting conditions attached to the options are as follows:

- 500,000 options over ordinary shares vested on award and were in recognition of the acquisition of Souville Investments Ltd (Cyprus).
- 500,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A\$0.50 for 30 consecutive days.
- 1,000,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A\$1.00 for 30 consecutive days.

Also on 23 August 2010, it was agreed that 500,000 options would be awarded to Mr Osipov on acquisition of each new project.

During the year ended 31 December 2011, 500,000 options vested (31 December 2010: 500,000 options).

During 2010, US\$25,000 signing bonus and US\$100,000 bonus was paid to Mr Osipov in recognition of the services provided in relation to the acquisition of Souville Investments Ltd (Cyprus).

- (xiii) An aggregate amount of US\$85,404 was paid, or was due and payable to Bedaam Pty Ltd, an entity controlled by Claire Tolcon for company secretary and legal counsel services provided in the current year (6 months ended 31 December 2010: US\$9,625)

Options issued as part of remuneration for the year ended 31 December 2011

18,500,000 options were awarded to directors and key management during the year ended 31 December 2011 (31 December 2010: 15,500,000). 6,500,000 options had vested as at 31 December 2011 (31 December 2010: 5,500,000 options). The value of options that are expected to vest and which had not vested at 31 December 2011 will be recognised over the appropriate vesting periods. The option exercise prices are denominated in Australian dollars ("A\$") and have been translated into United States dollars ("US\$") at the prevailing exchange rate on 31 December 2011 for purposes of the disclosure below.

Terms and conditions for each option grant during the year ended 31 December 2011

2011	Options awarded during the period	Award date	Fair value per option at award date (A\$) ¹	Exercise price (A\$) ²	Expiry date	First exercise date	Last exercise date	Options vested during the year	
Directors								No.	%
Mr W McAvock	3,000,000	27 May 2011	A\$0.19 ³	A\$0.25 ⁴	1 Jun 2016	27 May 2011	1 Jun 2016	1,000,000	33
Mr C Hopkinson	15,000,000	27 May 2011	A\$0.19 ³	A\$0.25 ⁴	1 Jun 2016	27 May 2011	1 Jun 2016	5,000,000	33
Key management									
Mr A Osipov	500,000	3 Nov 2011	A\$0.21 ⁵	A\$0.25 ⁴	17 Mar 2016	3 Nov 2011	17 Mar 2016	500,000	100
Total	18,500,000							6,500,000	35

Terms and conditions for each option grant during the 6 months ended 31 December 2010

2010	Options awarded during the period	Award date	Fair value per option at award date (A\$) ¹	Exercise price (A\$) ²	Expiry date	First exercise date	Last exercise date	Options vested during the period	
Key management								No.	%
Dr V Beloussov	9,500,000	16 Nov 2010	A\$0.16 ⁶	A\$0.30 ⁷	16 Nov 2015	16 Nov 2010	16 Nov 2015	3,000,000	32
Ms A Belogortseva	1,500,000	1 Jul 2010	A\$0.27 ⁸	A\$0.25 ⁴	17 Mar 2016	1 Jul 2010	17 Mar 2016	1,500,000	100
Mr K Hopkins	2,500,000	1 Oct 2010	A\$0.20 ⁹	A\$0.25 ⁴	17 Mar 2016	18 Aug 2010	17 Mar 2016	500,000	20
Mr A Osipov	2,000,000	23 Aug 2010	A\$0.21 ⁵	A\$0.25 ⁴	17 Mar 2016	23 Aug 2010	17 Mar 2016	500,000	25
Total	15,500,000							5,500,000	35

¹ Given that the options are for ordinary shares in an Australian listed entity, the fair value of the options have been determined in Australian dollars ("A\$") and have been translated into United States dollars ("US\$") at the prevailing exchange rate on the dates the options were awarded.

² The option exercise prices are denominated in A\$ and have been translated into US\$ at the prevailing exchange rate on 31 December 2011.

³ The US\$ equivalent fair value on date of award is US\$0.20

⁴ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.25

⁵ The US\$ equivalent fair value at grant date is US\$0.19

⁶ The US\$ equivalent fair value on date of award is US\$0.13

⁷ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.31

⁸ The US\$ equivalent fair value on date of award is US\$0.23

⁹ The US\$ equivalent fair value at grant date is US\$0.18

REMUNERATION REPORT (CONTINUED)

All of the options that were issued to directors and key management personnel during the year are disclosed in the table below.

2011	Value at grant date	Value at exercise date	Value at time of lapse	Percentage of total remuneration for the year that consists of options
	US\$	US\$	US\$	%
Directors				
Mr W McAvock	592,909	-	-	62
Mr C Hopkinson	2,964,544	-	-	71
Key management				
Mr A Osipov	91,889	-	-	19

2011	Options granted	Options exercised	Options lapsed	Percentage of total remuneration for the year that consists of options
	Number	Number	Number	%
Directors				
Mr W McAvock	3,000,000	-	-	62
Mr C Hopkinson	15,000,000	-	-	71
Key management				
Mr A Osipov	500,000	-	-	19

All of the options that were issued to directors and key management personnel during the 6 months ended 31 December 2010 are disclosed in the table below.

2010	Value of options awarded during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of total remuneration for the year that consists of options
	US\$	US\$	US\$	%
Key management				
Dr V Belousov	1,232,451	-	-	69
Ms A Belogortseva	352,408	-	-	82
Mr K Hopkins	451,554	-	-	55
Mr A Osipov	371,626	-	-	32

2010	Options granted	Options exercised	Options lapsed	Percentage of total remuneration for the year that consists of options
	Number	Number	Number	%
Key management				
Dr V Belousov	9,500,000	-	-	69
Ms A Belogortseva	1,500,000	-	-	82
Mr K Hopkins	2,500,000	-	-	55
Mr A Osipov	2,000,000	-	-	32

For details on the valuation of the options, including models and assumptions used, please refer to note 22.

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

SERVICE AGREEMENTS

MR ANTONY SAGE – NON-EXECUTIVE CHAIRMAN

Mr Sage's role as Non-Executive Chairman is governed by a service agreement between International Petroleum Limited, Okewood Pty Ltd and Mr Sage.

The agreement stipulates the following terms and conditions:

- (a) Term: minimum of three years commencing 1 July 2008;
- (b) Rate: a consultancy fee of A\$100,000 per annum to be payable to Okewood Pty Ltd. Mr Sage's fee is settled in Australian dollars, with the USD equivalent equal to US\$103,321. In addition, Mr Sage is to be reimbursed for all reasonable expenses incurred in the performance of his duties;
- (c) this agreement may be terminated by the Company in a number of circumstances including:
 - i. failure to comply with lawful directions given by the Company through the Board;
 - ii. failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;
 - iii. a serious or consistent breach of any of the provisions of the Executive Chairman consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and
 - iv. Mr Sage being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.
- (d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

MR TIMOTHY TURNER – NON-EXECUTIVE DIRECTOR

The Company has entered into a consultancy agreement with Corporate Resource and Mining Services ("CRMS") and Mr Timothy Turner to provide the services of a Non-Executive Director to the Company.

The agreement stipulates the following terms and conditions:

- (a) Term: minimum of three years commencing 25 November 2008;
- (b) Rate: a fee of A\$48,000 per annum is payable to CRMS. Mr Turner's fee is settled in Australian dollars, with the USD equivalent equal to US\$49,551. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties;
- (c) this agreement may be terminated by the Company in a number of circumstances including:
 - i. failure to comply with lawful directions given by the Company through the Board;
 - ii. failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;
 - iii. a serious or persistent breach of any of the provisions of the Non-Executive Director consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and
 - iv. Mr Turner being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.
- (d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

MR MARK GWYNNE – NON-EXECUTIVE DIRECTOR – RESIGNED 1 MARCH 2012

The Company has entered into a consultancy agreement with Silverwest Corporation Pty Ltd and Mr Mark Gwynne to provide the services of a Non-Executive Director to the Company.

The agreement stipulates the following terms and conditions:

- (a) Term: minimum of three years commencing 24 April 2009;
- (b) Rate: a consultancy fee of A\$48,000 per annum is payable to Silverwest Corporation Pty Ltd. Mr Gwynne's fee is settled in Australian dollars, with the USD equivalent equal to US\$49,551. In addition, Mr Gwynne is to be reimbursed for all reasonable expenses incurred in the performance of his duties;
- (c) this agreement may be terminated by the Company in a number of circumstances including:
 - i. seriously neglectful of his duties under the Agreement;
 - ii. absent in, or demonstrates gross incompetence with regard to, the performance of his duties under this Agreement;
 - iii. conviction of any criminal offence which in the reasonable opinion of the Board brings the Consultant or the Company or any of its related bodies corporate into disrepute; and
 - iv. Mr Gwynne being unable to perform services for 3 consecutive months or an aggregate of 3 months within any 12 month period.
- (d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

MR MARK ASHURST - NON-EXECUTIVE DIRECTOR

The engagement conditions of Mark Ashurst were approved by the Board on his appointment as a non-executive director with a fee of A\$4,000 per month. Mr Ashurst's fee is settled in Great British pounds, with the USD equivalent equal to US\$49,551. US\$66,781 was also paid to Mr Ashurst for consultancy services provided to companies in the Consolidated Group during the current year.

MR FRANK TIMIS - NON-EXECUTIVE DIRECTOR

The engagement conditions of Frank Timis were approved by the Board on his appointment as a non-executive director with a fee of A\$6,250 per month.

MR WILLIAM MCAVOCK - EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER (APPOINTED 5 JANUARY 2011)

The engagement conditions of William McAvock were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

- (a) Term: one year rolling contract with a six month notice period effective following the first anniversary of the commencement of employment;
- (b) Rate: Annual salary of £130,000. Mr McAvock's salary is settled in Great British Pounds with the USD equivalent for the current year equal to US\$200,890.
- (c) A discretionary bonus of up to 100% of Mr McAvock's base salary may be awarded by the Board's Remuneration and Nomination Committee subject to Mr McAvock meeting annual targets set at the commencement of each year.
- (d) Company contribution equivalent to 10% of base salary to his personal pension scheme.
- (e) 3 million options with an exercise price of A\$0.25 which will vest upon meeting the following conditions:
 - 1,000,000 options in the event the Company secures a commercial discovery;
 - 1,000,000 options in the event the Company achieves a listing on a second stock exchange;
 - 1,000,000 options to be issued in equal instalments over a three year period commencing on the date Mr McAvock was appointed.

MR CHRIS HOPKINSON – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER (APPOINTED 13 APRIL 2011)

The engagement conditions of Chris Hopkinson were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

- (a) Term: one year rolling contract with a six month notice period effective following the first anniversary of the commencement of employment;
- (b) Rate: Annual salary of £325,000. Mr Hopkinson's salary is settled in Great British Pounds with the USD equivalent for the current year equal to US\$377,179.
- (c) A discretionary bonus of up to 100% of Mr Hopkinson's base salary may be awarded by the Board's Remuneration and Nomination Committee subject to Mr Hopkinson meeting annual targets set at the commencement of each year.
- (d) Company contribution equivalent to 10% of base salary to his personal pension scheme.
- (e) 15 million options with an exercise price of A\$0.25 which will vest upon meeting the following conditions:
 - 2,500,000 options in the event the Company secures a commercial discovery in Russia prior to 31 December 2011;
 - 2,500,000 options in the event the Company achieves a listing on the AIM market of the London stock exchange;
 - 10,000,000 options to be issued in instalments over a three year period commencing on the date Mr Hopkinson was appointed as follows: 2,500,000 options to be issued after the expiry of 6 months, 12 months, 24 months and 36 months of Mr Hopkinson's start date.
- (f) Mr Hopkinson will be eligible to receive up to 10 million fully paid shares in the Company upon the attainment of the Company's share price achieving the following milestones:
 - 2,500,000 shares when the Company's share price (mid-price) reaches A\$0.50 for a continuous trading period of 30 days, assuming Mr Hopkinson remains employed by the Company at the time.
 - 2,500,000 shares when the Company's share price (mid-price) reaches A\$0.75 for a continuous trading period of 30 days, assuming Mr Hopkinson remains employed by the Company at the time.
 - 2,500,000 shares when the Company's share price (mid-price) reaches A\$1.00 for a continuous trading period of 30 days, assuming Mr Hopkinson remains employed by the Company at the time.
 - 2,500,000 shares when the Company's share price (mid-price) reaches A\$1.50 for a continuous trading period of 30 days, assuming Mr Hopkinson remains employed by the Company at the time.

MR TONY ANTONIOU – NON-EXECUTIVE DIRECTOR (APPOINTED 1 JUNE 2011)

The engagement conditions of Tony Antoniou were approved by the Board on his appointment as a non-executive director with a fee of A\$4,000 per month. Mr Antoniou's fee is settled in Australian dollars, with the USD equivalent for the current year equal to US\$28,905. Mr Antoniou was also paid A\$3,000 (US\$3,097) for consultancy services provided to the Consolidated Entity.

MS ANYA BELOGORTSEVA - KAZAKHSTAN REGIONAL MANAGER

The engagement conditions of Anya Belogortseva were approved by the Board on commencement of her employment. The terms of the engagement are as follows:

- (a) Rate: Annual salary of £100,000. Ms Belogortseva's salary is settled in Great British pounds with the USD equivalent for the current year equal to US\$272,897.
- (b) Award of 1,500,000 options with an exercise price of A\$0.25 and expiry date of 17 March 2016. The options were awarded on 1 July 2010 and vested on issue (17 March 2011).
- (c) Annual performance bonus awarded at the discretion of the board.

DR VALERA BELOUSSOV - VP BUSINESS DEVELOPMENT (AGREEMENT TERMINATED ON 28 JUNE 2011)

Eastern Petroleum Corporation Ltd entered into a Consultancy Agreement with Hamunts Ltd for the provision of consultancy services, which included the services of Dr Valera Belousov. The terms of the Consultancy Agreement are as follows:

- (a) Term: rolling monthly basis
- (b) Notice period: 14 days
- (c) Rate: US\$35,000 per month

On 28 June 2011 the service agreement between Hamunts Ltd and Eastern Petroleum Corporation Limited was terminated.

MR KENNETH HOPKINS - COUNTRY MANAGER (KAZAKHSTAN)

The engagement conditions of Kenneth Hopkins were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

- (a) Term: two years
- (b) Notice period: three months
- (c) Rate: US\$441,600 per year.
- (d) Award of 2,500,000 options with an exercise price of A\$0.25 and expiry date of 17 March 2016. 500,000 of these options vested on award. The remaining options are subject to the following vesting conditions:
 - 1,000,000 options over ordinary shares vest on a commercial discovery in Alakol licence area in Kazakhstan.
 - 1,000,000 options over ordinary shares vest on a discovery or production of any acquisition project.

MR ALEXANDER OSIPOV - VP RUSSIA

The engagement conditions of Alexander Osipov were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

- (a) Term: two years
- (b) Notice period: 90 days
- (c) Rate: US\$32,500 per month plus US\$5,000 per month housing allowance.
- (d) US\$25,000 signing bonus
- (e) US\$100,000 bonus paid during the period ended 31 December 2010, in recognition of the services provided in relation to the acquisition of Souville Investments Ltd (Cyprus).
- (f) Award of 2,000,000 options with an exercise price of A\$0.25 and expiry date of 17 March 2016. 500,000 of these options vested on award. The remaining options are subject to the following vesting conditions:
 - 500,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A\$0.50 for 30 consecutive days
 - 1,000,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A\$1.00 for 30 consecutive days.

Also on 23 August 2010, it was agreed that 500,000 options would be awarded to Mr Osipov on acquisition of each new project.

MS CLAIRE TOLCON - COMPANY SECRETARY

The engagement conditions of Bedaam Pty Ltd, an entity controlled by Claire Tolcon, were approved by the Board on commencement of its engagement with a fee of US\$3,053 (A\$3,000) per month plus GST for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of US\$1,486 (A\$1,460) per day being payable to Bedaam Pty Ltd.

The board does not prohibit Directors and key management personnel from entering into arrangements to protect the value of unvested share based payment awards.

End of remuneration report

MEETINGS OF DIRECTORS

The number of Directors' meetings (including committees) held during the period and the number of meetings attended by each director is:

Director	Directors' meetings		Audit and Risk Committee meetings		Remuneration and Nomination Committee meetings		Continuous Disclosure Committee meetings ¹	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Antony Sage	1	1	2	-	-	-	-	-
Mark Ashurst	1	1	2	1	-	-	-	-
Timothy Turner	1	1	2	1	-	-	-	-
Frank Timis	1	1	-	-	-	-	-	-
William McAvock	1	1	2	2	-	-	-	-
Chris Hopkinson	1	1	-	-	-	-	-	-
Tony Antoniou	1	1	2	2	-	-	-	-
Mark Gwynne	1	-	-	-	-	-	-	-

¹ In accordance with the continuous disclosure charter adopted by the Company, throughout the financial year the continuous disclosure committee considered, as required, price-sensitive announcements prior to their release to the market, without the need for meetings to be held.

In addition to meetings of directors held during the year, owing to the number and diversified location of the directors, a number of matters are authorised by the board of directors via circulating resolutions. During the current year, nine circulating resolutions were authorised by the board of directors.

COMMITTEE MEMBERSHIP

As at the date of this report, the following committees were in place:

	Audit and Risk Committee	Remuneration and Nomination Committee	Continuous Disclosure Committee
Chairman of the committee	Tony Antoniou	Mark Ashurst	Antony Sage
Member	Timothy Turner	Tony Antoniou	Mark Ashurst
Member	Mark Ashurst	Timothy Turner	Timothy Turner
Member	Antony Sage	Antony Sage	Mark Ashurst
Member			Chris Hopkinson
Member			William McAvock

INDEMNIFYING DIRECTORS AND OFFICERS

In accordance with the Company's constitution, except as may be prohibited by the Corporations Act 2001, every Director, Officer or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Director, Officer or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the financial year, the Company has paid insurance premiums in respect of directors' and officers' liability. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information to gain a personal advantage.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under S300(9) of the Corporations Act 2001.

OPTIONS

Unissued Shares under Option

At the date of this report, unissued ordinary shares of the company under option are:

Expiry Date	Exercise Price	Number Under Option
30 June 2012	A\$0.25 ¹	135,193,072
16 November 2015	A\$0.30 ²	8,000,000
17 March 2016	A\$0.25 ¹	6,000,000
1 June 2014	A\$0.30 ²	200,000
1 June 2016	A\$0.25 ¹	18,000,000
15 April 2016	A\$0.25 ¹	3,000,000
8 August 2016	A\$0.25 ¹	3,000,000

¹ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.25

² The US\$ equivalent exercise price as at 31 December 2011 is US\$0.31

Shares issued on the exercise of options

During the period, no ordinary shares were issued on the exercise of options (6 months ended 31 December 2010: nil).

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party for the purpose of taking responsibility on behalf of the Consolidated Entity for all or any part of those proceedings.

The Consolidated Entity was not a party to any such proceedings during the current period.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 27.

NON AUDIT SERVICES

No non-audit services were provided by the Company's auditors, Ernst & Young.

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

A handwritten signature in black ink, appearing to read 'Antony Sage', is positioned above the printed name and title.

Antony Sage
Director
Perth, 26 March 2012

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of International Petroleum Limited

In relation to our audit of the financial report of International Petroleum Limited for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized signature of 'Ernst & Young' in blue ink.

Ernst & Young

A handwritten signature in blue ink, appearing to read 'D S Lewsen'.

D S Lewsen
Partner
Perth
26 March 2012

Liability limited by a scheme approved
under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of International Petroleum Limited (**Company**) is responsible for establishing the corporate governance framework of the Company having regard to the Corporations Act 2001 (Cth) and applicable Listing Rules.

This corporate governance statement summarises the corporate governance practices adopted by the Company.

The current corporate governance plan is posted in a dedicated corporate governance information section of the Company's website at www.internationalpetroleum.com.au

SUMMARY OF CORPORATE GOVERNANCE PRACTICES

The Company's main corporate governance policies and practices are outlined below.

THE BOARD OF DIRECTORS

The Company's Board of Directors is responsible for overseeing the activities of the Company. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the Company's shareholders.

The Board is responsible for the strategic direction, policies, practices, establishing goals for management and the operation of the Company.

The Board assumes the following responsibilities:

- (a) appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
- (b) driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- (c) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (d) approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- (e) approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- (f) approving the annual, half yearly and quarterly accounts;
- (g) approving significant changes to the organisational structure;
- (h) approving the issue of any shares, options, equity instruments or other securities in the Company;
- (i) ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
- (j) recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
- (k) meeting with the external auditor, at their request, without management being present.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

- (a) the composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction; and
- (b) the principal criterion for the appointment of new Directors is their ability to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. The majority of the Board should be comprised of non-executive directors and where practicable, at least 50% of the Board should be independent. Directors of the Company are considered to be independent when they are a non-executive director (ie not a member of management) (and has been for the preceding three years), hold less than 5% of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr A. Sage (Non-Executive Chairman), Mr F. Timis (Non-Executive Director), Mr W. McAvock (Executive Director and Chief Financial Officer) and Mr C. Hopkinson (Executive Director and Chief Executive Officer) are not considered independent.

Non-Executive Directors, Mr T. Turner, Mr M. Gwynne, Mr M. Ashurst and Mr T. Antoniou were considered to have been independent throughout the year or since the date of their appointment.

The Board believes that, while the Chairman is not deemed to be independent (as a result of holding an executive position within the Company within the last 3 years), there is a sufficient number of directors that are deemed to be independent, and he is the most appropriate person to fulfil the role.

The role and responsibilities of the Chief Executive Officer is discharged by Executive Director Mr C Hopkinson. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Mr C Hopkinson is the most appropriate person to fulfil the role.

The term in office held by each director in office at the date of this report is as follows:

A.W.P. Sage	6 years, 1 month	(Chairman)
M. Gwynne	2 years, 10 months	(Non-Executive Director)
F. Timis	1 year, 8 months	(Non-Executive Director)
M. Ashurst	1 year, 8 months	(Non-Executive Director)
T. Turner	6 years, 1 month	(Non-Executive Director)
W. McAvock	1 year, 2 months	(Chief Financial Officer, Executive Director)
C. Hopkinson	11 months	(Chief Executive Officer, Executive Director)
T. Antoniou	9 months	(Non-Executive Director)
P. Godec	0 months	(Non-Executive Director)
V. Mangazeev	0 months	(Non-Executive Director)

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

Remuneration arrangements

Review of the Company's remuneration policy is delegated to the Remuneration and Nomination Committee. The total maximum remuneration of non-executive Directors, which may only be varied by Shareholders in general meeting, is an aggregate amount of US\$457,922 (A\$450,000) per annum. The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

Performance

Review of the performance of the Board is delegated to the Nomination Committee.

The Board has established formal practices to evaluate the performance of the Board, committees, non-executive directors, the Chief Executive Officer, and senior management. Details of these practices are described in the Corporate Governance Plan available on the Company's website. No formal performance evaluation of the Board, individual directors or senior management took place during the year.

CODE OF CONDUCT

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements.

INTERNAL AUDIT AND RISK COMMITTEE

The Company has appointed an Audit and Risk Committee. The members of the committee during the year were:

- Tony Antoniou (Chairman)
- Timothy Turner
- Mark Ashurst
- Antony Sage

The skills, experience and expertise of each committee member at the date of the annual report is included in the Directors' Report.

The Committee has specific powers delegated under the Company's Audit and Risk Committee Charter. The charter sets out the Audit and Risk Committee's function, composition, mode of operation, authority and responsibilities.

EXTERNAL AUDIT

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

REMUNERATION AND NOMINATION COMMITTEE

The Board has established a Remuneration and Nomination Committee with specific powers delegated under the Company's Remuneration Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities. The members of the committee during the year were:

- Mark Ashurst (Chairman)
- Tony Antoniou
- Antony Sage
- Timothy Turner

The skills, experience and expertise of each committee member at the date of the annual report is included in the Directors' Report.

CONTINUOUS DISCLOSURE POLICY

The Company has adopted a policy concerning continuous disclosure. The policy outlines the disclosure obligations of the Company as required under the Corporations Act and the applicable Listing Rules. The Company is committed to:

- (a) complying with the general and continuous disclosure principles contained in the Corporations Act and applicable Listing Rules;
- (b) preventing the selective or inadvertent disclosure of material price sensitive information;
- (c) ensuring shareholders and the market are provided with full and timely information about the Company's activities; and
- (d) ensuring that all market participants have equal opportunity to receive externally available information issued by the Company.

NOMINATED ADVISOR

In accordance with the rules of NSX, the Company has appointed Steinepreis Paganin Lawyers and Consultants as its nominated advisor (**NOMAD**). Steinepreis Paganin are consulted and advise on announcements issued by the Company that are price sensitive.

CONTINUOUS DISCLOSURE COMMITTEE

In accordance with its existing corporate governance policies, the Company has established a Continuous Disclosure Committee which prepares (in conjunction with other relevant parties including technical consultants) and recommends all announcements for final approval and sign off by Mr A. Sage (Chairman). In the case of price sensitive announcements the NOMAD reviews and approves the announcement before being released to the exchange.

This committee and the NOMAD (together with other relevant parties including technical consultants) complement and strengthen the continuous disclosure policy currently in place. The members of the Continuous Disclosure Committee are:

- Mr A. Sage (Chairman)
- Mr M. Ashurst
- Mr T. Turner
- Mr T. Antoniou
- Mr C. Hopkinson
- Mr W. McAvock

The skills, experience and expertise of each committee member at the date of the annual report is included in the Directors' Report.

A quarterly declaration is made by the Chairman and Chief Executive Officer certifying that the Board has reviewed the Company's operations during the quarter and declares that, in the opinion of the Board, there are no issues that require additional disclosure by the Company and that the market is fully informed in accordance with the Company's continuous disclosure obligations under the Listing Rules in respect of the prospects and activities of the Company.

RISK MANAGEMENT PROGRAM

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed. The Board and senior management are committed to managing risks in order to both minimise uncertainty and to maximise its business opportunities. The function and responsibility for maintaining the Company's risk management systems is delegated to the Company's Audit and Risk Committee.

Further information regarding the risk management program can be found in the Corporate Governance Plan available on the Company's website.

SECURITIES TRADING POLICY

The Company has developed a policy for the sale and purchase of its securities. This policy imposes constraints on directors and senior executives of the Company dealing in securities of the Company. It also imposes disclosure requirements on Directors.

Under the Company's Securities Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

In addition, Directors and senior executives may not trade in securities during designated "Blackout Periods" without the prior written consent from the Board or Chairman in the circumstances of "severe financial hardship" or other exceptional circumstances. The "Blackout Periods" are:

- within the period of one (1) month prior to the release of annual or half yearly results; and
- if there is in existence price sensitive information that has not been disclosed because of an NSX exception.

Before commencing to trade, a Director or senior executive must obtain the approval of the Chairman (in the case of a Director) or the Chief Executive Officer or Chairman (in the case of a senior executive) of their intention to do so.

As is required by the NSX Listing Rules, the Company notifies the NSX of any transaction conducted by a Director in the securities of the Company.

SHAREHOLDER COMMUNICATION

The Company has adopted a shareholder communication strategy to set out the Company's policy for communicating with its shareholders.

The purpose of the policy is to ensure the Company deals fairly, transparently and promptly with its current and prospective shareholders, encourages and facilitates active participation by shareholders at shareholder meetings and deals promptly with shareholder enquiries

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	12 months ended 31 December 2011	6 months ended 31 December 2010
		US\$	US\$
Continuing operations			
Revenue	5(a)	123,322	466,211
Consulting expenses		(736,034)	(4,053,336)
Compliance and regulatory expenses		(325,816)	(313,502)
Other expense		(1,467,752)	(480,402)
Occupancy costs		(78,990)	(142,179)
Employee remuneration	5(b)	(3,597,280)	(1,873,365)
Foreign currency gains / (losses)		63,900	(219,395)
Depreciation expense		(5,228)	(104)
Profit on sale of assets		-	70,631
Finance costs	5(c)	(924,417)	(124,203)
Allowance for impairment	14	(23,112,555)	-
Loss from continuing operations before income tax		(30,060,850)	(6,669,644)
Income tax expense		2,596,938	-
Loss for the period attributable to the members		(27,463,912)	(6,669,644)
Other comprehensive income			
Fair value losses on available-for-sale financial assets		(910,926)	(435,538)
Foreign exchange gain / (loss) on translation of foreign operations		2,945,236	3,413,414
Tax on items of other comprehensive income		283,931	130,661
Other comprehensive income for the period, net of tax		2,318,241	3,108,537
Total comprehensive loss for the period		(25,145,671)	(3,561,107)
Loss for the period is attributable to:			
Non-controlling interest		(702,591)	-
Owners of the parent		(26,761,321)	(6,669,644)
		(27,463,912)	(6,669,644)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(1,013,406)	-
Owners of the parent		(24,132,265)	(3,561,107)
		(25,145,671)	(3,561,107)
EPS attributable to members			
Basic/diluted (loss) per share (cents)	24	(2.87)	(0.70)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	31 December 2011 US\$	31 December 2010 US\$
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	7	918,421	12,821,534
Trade and Other Receivables	8	1,213,595	442,841
Prepayments	9	131,268	2,584,968
Inventories	10	8,479	1,834
TOTAL CURRENT ASSETS		2,271,763	15,851,177
NON CURRENT ASSETS			
Restricted Cash	11	245,956	115,773
Trade and Other Receivables	8	-	2,294
Plant and Equipment	12	57,770	29,902
Financial assets available-for-sale	13	1,032,909	1,928,112
Exploration and Evaluation Expenditure	14	140,217,437	106,094,586
TOTAL NON CURRENT ASSETS		141,554,072	108,170,667
TOTAL ASSETS		143,825,835	124,021,844
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	16	15,695,199	4,895,362
Borrowings	17	15,366,801	-
Income tax payable		1,937,023	1,623,765
TOTAL CURRENT LIABILITIES		32,999,023	6,519,127
NON CURRENT LIABILITIES			
Borrowings	17	13,090,753	12,622,003
Deferred tax liability	4	9,004,327	5,763,045
Provisions	18	1,312,737	220,752
TOTAL NON CURRENT LIABILITIES		23,407,817	18,605,800
TOTAL LIABILITIES		56,406,840	25,124,927
NET ASSETS		87,418,995	98,896,917
EQUITY			
Issued Capital	19	232,205,203	223,082,207
Reserves	20	(90,472,749)	(97,262,894)
Accumulated losses	21	(55,350,384)	(28,589,063)
Non-controlling interest		1,036,925	1,666,667
TOTAL EQUITY		87,418,995	98,896,917

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	Ordinary share capital	Accumulated losses	Share- based payment reserve	Revaluation reserve	Merger reserve	Foreign currency translation reserve	Non- controlling interest	Total
		US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
BALANCE AT 1 JANUARY 2011		223,082,207	(28,589,063)	1,115,175	(138,774)	(101,516,017)	3,276,722	1,666,667	98,896,917
Loss for the period	21	-	(26,761,321)	-	-	-	-	(702,591)	(27,463,912)
Other comprehensive income / (losses) for the period									
Net fair value gains / (losses) on available for sale investments (after tax)	20	-	-	-	(626,995)	-	-	-	(626,995)
Foreign currency exchange differences arising on translation from functional currency to presentation currency	20	-	-	-	-	-	3,256,051	(310,815)	2,945,236
		-	-	-	(626,995)	-	3,256,051	(310,815)	2,318,241
Total comprehensive income / (loss) for the period		-	(26,761,321)	-	(626,995)	-	3,256,051	(1,013,406)	(25,145,671)
Transactions with owners in their capacity as owners									
Shares issued	19	9,122,996	-	-	-	-	-	-	9,122,996
Share based payments	22	-	-	4,161,089	-	-	-	-	4,161,089
Non-controlling interest arising on a business combination		-	-	-	-	-	-	383,664	383,664
BALANCE AT 31 DECEMBER 2011		232,205,203	(55,350,384)	5,276,264	(765,769)	(101,516,017)	6,532,773	1,036,925	87,418,995

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	Ordinary share capital	Accumulated losses	Share- based payment reserve	Revaluation reserve	Merger reserve	Foreign currency translation reserve	Non- controlling interest	Total
		US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
BALANCE AT 1 JULY 2010		222,988,445	(21,919,419)	-	166,103	(101,516,017)	(136,692)	-	99,582,420
Loss for the period attributable to members	21	-	(6,669,644)	-	-	-	-	-	(6,669,644)
Other comprehensive income / (losses) for the period									
Net fair value gains / (losses) on available for sale investments (after tax)	20	-	-	-	(304,877)	-	-	-	(304,877)
Foreign currency exchange differences arising on translation from functional currency to presentation currency	20	-	-	-	-	-	3,413,414	-	3,413,414
		-	-	-	(304,877)	-	3,413,414	-	3,108,537
Total comprehensive income / (loss) for the period		-	(6,669,644)	-	(304,877)	-	3,413,414	-	(3,561,107)
Transactions with owners in their capacity as owners									
Non-controlling interest arising on a business combination	15	-	-	-	-	-	-	1,666,667	1,666,667
Share based payments	22	93,762	-	1,115,175	-	-	-	-	1,208,937
BALANCE AT 31 DECEMBER 2010		223,082,207	(28,589,063)	1,115,175	(138,774)	(101,516,017)	3,276,722	1,666,667	98,896,917

The accompanying notes form part of these financial statements.

STATEMENT OF CASHFLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2011

		12 months ended 31 December 2011	6 months ended 31 December 2010
	Note	US\$	US\$
Cash Flows from Operating Activities			
Payments to suppliers and employees		(1,931,219)	(7,583,817)
Interest received		155,935	466,211
Interest paid		-	(2,200)
Net cash flows used in operating activities	7(b)	(1,775,284)	(7,119,806)
Cash Flows From Investing Activities			
Payment for plant and equipment		(33,096)	(4,372)
Cash provided as security for credit cards		(144,234)	-
Payment for exploration and evaluation activities		(24,297,004)	(8,331,020)
Proceeds from the sale of investments		-	122,427
Acquisition of controlled entity	15	5,007	(4,996,045)
Net cash from/(used in) investing activities		(24,469,327)	(13,209,010)
Cash Flows from Financing Activities			
Proceeds from borrowings		14,931,592	-
Repayment of loan from related party		14,453	-
Loan provided to related party		-	(105,000)
Net cash from / (used in) financing activities		14,946,045	(105,000)
Net increase / (decrease) in Cash and Cash Equivalents		(11,298,566)	(20,433,816)
Cash and Cash Equivalents at the beginning of period		12,821,534	29,943,317
Net Foreign exchange differences		(604,547)	3,312,033
Cash and Cash Equivalents at end of period		918,421	12,821,534

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2011

1. CORPORATE INFORMATION

The financial report of International Petroleum Limited for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 26 March 2012.

International Petroleum Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the National Stock Exchange of Australia.

2. BASIS OF PREPARATION OF ANNUAL REPORT

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for available for sale investments and assets and liabilities acquired pursuant to a business combination, which have been measured at fair value.

The financial report is presented in United States dollars.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(a) Going Concern

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

The ability of the Consolidated Entity to continue its planned exploration and evaluation activities is dependent on the Consolidated Entity raising additional capital within the next 12 months. At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Consolidated Entity will be able to raise additional capital, if required, in order to enable it to meet its obligations as and when they fall due. In forming this view, the directors have considered the Consolidated Entity's position and its available financing options, including entering into additional loan facility agreements with related parties, and the proceeds receivable on sale of its remaining 10% interest in the Tubatse project.

Should the Consolidated Entity not achieve the matters set out above, there is uncertainty whether it would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report. This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

(b) Comparative financial information

During 2010, the Company changed its financial year end from 30 June to 31 December. The comparative information presented is for the 6 months ended 31 December 2010. The current information presented is for the 12 months ended 31 December 2011.

(c) Compliance with IFRS

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards (IFRS).

3. SUMMARY OF ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following is a summary of the material accounting policies adopted by the Company and its legal subsidiaries (collectively referred to as the 'Consolidated Entity') in the preparation of the consolidated financial statements.

(a) Changes in accounting policy and other disclosures

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous period except where noted.

The following standards and interpretations have been applied for the first time by the Consolidated Entity during the current period:

Reference	Summary	Application date of standard	Application date for Consolidated Entity
AASB 124 (Revised)	<p>The revised AASB 124 Related Party Disclosures (December 2009) simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other 	1 January 2011	1 January 2011
AASB 2009-12	<p>Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]</p> <p>Makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p>	1 January 2011	1 January 2011

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) **Changes in accounting policy and other disclosures (continued)**

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the reporting period ended 31 December 2011 are set out below. Unless disclosed otherwise, the application of these Standards and Interpretations, once effective, will not have any impact on the Consolidated Entity.

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1 July 2012	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	1 January 2014

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <ul style="list-style-type: none"> (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> – The change attributable to changes in credit risk are presented in other comprehensive income (OCI) – The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11</p> 	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG -112 Consolidation – Special Purpose Entities.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.</p>	1 January 2013	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	<p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.</p>	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1 January 2013	1 January 2013

(b) 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 makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information available to chief operating decision makers – being the executive management team.

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 called "other".

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

Functional and presentation currency

The Company has elected United States dollars as its presentation currency. Where the functional currencies of entities within the consolidated group differ from United States dollars, they have been translated into United States dollars.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in the foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group Companies' functional currency to presentation currency

The results of International Petroleum Limited and certain of its subsidiaries are translated into United States dollars (presentation currency) as at the date of each transaction. Monetary assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(d) Cash and cash equivalents

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with banks or financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

(e) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due to it according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the amount expected to be received. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(f) Inventories

Inventories including consumables, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Consumables – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the Consolidated Entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(g) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 “Financial Instruments: Recognitions and Measurement” are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transactions costs.

Recognition and derecognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, these instruments are measured as set out below. Financial instruments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. They are measured initially at fair value and subsequently at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Impairment of financial assets

At the end of each reporting period, the Consolidated Entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditure is recorded at historical costs on an area of interest basis. Expenditure on an area of interest is capitalised and carried forward where rights to tenure of the area of interest are current and:

- (i) it is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
- (ii) exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in respect of areas of interest which are abandoned, are written off in full against profit in the period in which the decision to abandon the area is made.

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

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

Projects are advanced to development status when it is expected that further expenditure can be recouped through sale or successful development and exploitation of the area of interest.

(i) Plant and equipment

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

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Plant and equipment	33%

Gains and proceeds on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(j) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Consolidated Entity prior to the reporting date that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

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

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

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

(l) Contributed equity

Contributed equity is recognised at the fair value of the consideration received by the Consolidated Entity, less any capital raising costs in relation to the issue.

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.

(m) Share-based payments

The fair value of shares issued and options granted are recognised as an expense or the fair value of the asset acquired with a corresponding increase in equity. For shares issued, the fair value is measured at the share price on the date the shares were issued. For options granted, the fair value is measured at grant date taking into account market performance conditions only, and will be spread over the vesting period during which the holder becomes unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes model.

Upon exercise of options, the balance of the share-based payments reserve relating to those options is transferred to the redeemed option reserve and the proceeds received, net of any directly attributable transaction costs are credited to share capital.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(n) Revenue

Revenues are recognised at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax / or Value Added Tax paid to taxation authorities.

The Consolidated Entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Consolidated Entity's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the revenue have been resolved. The Consolidated Entity bases its estimates on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Interest

Interest revenue is recognised on a time proportional basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to the net carrying amount of the financial asset.

Other revenues

Other revenues are recognised when the Consolidated Entity's right to receive the payment is established.

(o) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the relevant national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(p) Other taxes

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") and Value Added Tax ("VAT") except:

- where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from, or payable to, taxation authorities is included as part of receivables or payables in the statement of financial position.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(p) Other taxes (continued)

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to taxation authorities are classified as operating cash flows.

(q) Earnings per share

- (i) Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the year.
- (ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(s) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred is a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the fair value of the acquiree's identifiable net assets. Costs directly attributable to the acquisition are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling shareholders' interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(s) Business Combinations (continued)

Any contingent consideration to be transferred by the acquiree will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(t) Interest in jointly controlled asset

The Consolidated Entity recognises its share of the asset, classified as exploration and evaluation expenditure. In addition the Consolidated Entity recognises its share of liabilities, expenses and income from the use and output of the jointly controlled asset.

(u) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Borrowing costs are expensed and borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(v) Significant accounting judgements, estimates and assumptions

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Entity.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results of the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Impairment

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amounts of the asset are determined.

On 4 October 2009, the Company entered into an asset sale agreement with Nkwe Platinum Ltd ('Nkwe') to sell its 15% interest in the South African platinum project ('Tubatse Project'). As at 31 December 2011 the sale has not been finalised. An impairment loss of US\$23,112,555 has been recognised on the carrying value of capitalised exploration expenditure for the Tubatse Project, owing to uncertainty surrounding the ownership title on two of the three farms that comprise the Tubatse Project.

The Consolidated Entity assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income.

Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(v) Significant accounting judgements, estimates and assumptions (continued)

Exploration and evaluation expenditure

North Caspian Petroleum Ltd ("NCPL"), a wholly owned subsidiary of the Company, operates and owns a 50% interest in subsoil use rights for the exploration of hydrocarbons in an early stage project in eastern and south eastern Kazakhstan ("Kazakhstan Project"). The remaining 50% interest is owned by Remas Corporation LLP ("Remas"), a privately owned Kazakhstan company.

NCPL and Remas are parties to a Joint Operating Agreement ("JOA") pursuant to which NCPL is designated as operator of the Kazakhstan Project and is responsible for all expenses relating to the minimum work programme.

Pursuant to the terms of the JOA, NCPL has agreed to solely fund the minimum expenditure on the exploration licence. On fulfilment of the minimum work programme, each of NCPL and Remas are required to fund their share of exploration and development costs in accordance with their respective participating interests.

Amounts incurred by NCPL on behalf of Remas are included in the capitalised exploration and evaluation costs presented on the statement of financial position for the Consolidated Entity.

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided certain conditions are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. The related carrying amounts are disclosed in Note 14.

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

Business Combination

On 3 November 2011, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired 100% of Vamaro Investments Ltd (Cyprus) ('Vamaro'). Vamaro is the 100% legal and beneficial holder of Zapadno-Novomolodezhny LLC and Yuzhno-Sardakovskoye LLC, both Russian companies having rights for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia.

On 28 December 2011, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired 75% interest in Charlize Investments Ltd (Cyprus) ('Charlize'). Charlize is the 100% legal and beneficial holder of OOO VostokNefteGaz, a Russian company which owns an exploration licence in the Tomsk region of Western Siberia (the 'Tomsk Exploration Licence' or the 'Druzny Project').

In the prior period, on 20 October 2010, the Company, through its wholly owned subsidiary, IPL Siberia Ltd completed the acquisition of an indirect 75% equity interest in Souville Investments Ltd (Cyprus) ('Souville') from Assurian Assets Ltd ('Assurian Assets').

Under AASB 3 *Business Combinations*, the assets and liabilities acquired have been recognised at fair value.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(v) Significant accounting judgements, estimates and assumptions (continued)

Income taxes

The Consolidated Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Consolidated Entity has not recognised any deferred tax assets relating to carried forward tax losses or temporary differences as there is no certainty that sufficient future taxable incomes will be generated to utilise such losses and temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning

Share based payments

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model. The related assumptions are detailed in Note 22. The accounting estimates and assumptions relating to equity-settled share-based payments may impact expenses, equity and assets within the next annual reporting period.

Restoration provision

The Consolidated Entity has recognised a provision for site restoration associated with the Kazakhstan Project. In determining the fair value of the provision, assumptions and estimates are made in relation to the expected amount and timing of those costs. The carrying amount of the provision as at 31 December 2011 was US\$1,312,737 (31 December 2010: US\$220,752).

4. INCOME TAX

	31 December 2011	31 December 2010
	US\$	US\$
(a) The components of income tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) The prima facie tax on loss from continuing activities before income tax is reconciled to the income tax as follows:		
Prima facie tax expense / (benefit) from ordinary activities before income tax at 30%	8,239,174	2,000,893
Foreign tax rate adjustment	286,979	(452,052)
	8,526,153	1,548,841
Add/(less)		
Tax effect of		
- Permanent differences	(7,104,928)	(562,243)
- Unrecognised deferred tax asset attributable to tax losses and temporary differences	(1,421,225)	(986,598)
Income tax attributable to the Consolidated Entity	-	-

RECOGNISED DEFERRED TAX LIABILITIES

No deferred tax assets have been recognised. The deferred tax liability balance comprises temporary differences attributable to:

	31 December 2011	31 December 2010
	US\$	US\$
Available for sale financial assets	(119,073)	(398,391)
Capitalised exploration and evaluation expenditure	(8,885,254)	(5,364,654)
Deferred tax liability	(9,004,327)	(5,763,045)

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE CURRENT YEAR

	Balance 1 January 2011	Recognised as part of a business combination	Recognised in income	Recognised in other comprehensive income	Balance 31 December 2011
	US\$	US\$	US\$	US\$	US\$
Available for sale financial assets	(398,391)	-	-	279,318	(119,073)
Capitalised exploration and evaluation expenditure	(5,364,654)	(5,272,354)	1,751,754	-	(8,885,254)
Deferred tax liability	(5,763,045)	(5,272,354)	(1,751,754)	279,318	(9,004,327)

4. INCOME TAX (continued)

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE PRIOR PERIOD

	Balance 1 July 2010	Recognised in other comprehensive income	Balance 31 December 2010
	US\$	US\$	US\$
Available for sale financial assets	(454,717)	56,326	(398,391)
Capitalised exploration and evaluation expenditure	(5,364,654)	-	(5,364,654)
Deferred tax liability	(5,819,371)	56,326	(5,763,045)

5. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

	31 December 2011	31 December 2010
	US\$	US\$
(a) Revenue		
Interest income	123,322	466,211
(b) Employee remuneration		
Employee benefits	(1,150,978)	(398,195)
Directors' remuneration	(1,014,049)	(266,233)
Share based payments	(1,432,253)	(1,208,937)
	(3,597,280)	(1,873,365)
(c) Finance costs		
Interest expense	(674,417)	(124,203)
Commitment fee on funding facility	(250,000)	-
	(924,417)	(124,203)

6. REMUNERATION OF AUDITORS

Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	96,872	40,122
Ernst & Young related practices	206,570	115,146
	303,442	155,268

7. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
	US\$	US\$
Cash at bank and on hand	767,377	5,528,600
Deposits at call	151,044	7,292,934
	918,421	12,821,534

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, at bank and investments in money market instruments, net of outstanding bank overdrafts.

(b) Reconciliation of net loss to net cash flows from operating activities

	31 December 2011	31 December 2010
	US\$	US\$
Loss from ordinary activities	(27,463,912)	(6,669,644)
Adjusted for non-cash items:		
Depreciation	5,228	104
Profit on sale of equity investments	-	(70,631)
Share-based payments expense	1,432,253	1,208,937
Interest incurred and capitalised	903,959	122,002
Unrealised foreign exchange gain / (loss)	(15,624)	219,395
Allowance for impairment	23,112,555	-
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
(Increase) / decrease in trade and other receivables	1,864,482	(599,816)
(Increase) / decrease in inventories	(6,645)	37,507
Increase / (decrease) in trade and other payables	(223,450)	(1,367,660)
Increase / (decrease) in deferred tax liability	(1,384,130)	-
Net cash used in operating activities	(1,775,284)	(7,119,806)

(c) Non-cash activities

During the current year, 24,700,000 unlisted options have been issued to directors, consultants and employee of the company (31 December 2010: 15,500,000 unlisted options). US\$1,208,823 has been expensed in the current year with respect to these options (6 months ended 31 December 2010: US\$1,115,175). US\$2,505,470 has been capitalised to exploration expenditure in the current year with respect to these options (6 months ended 31 December 2010: nil).

During the current year, 10,000,000 performance shares have been awarded to the Chief Executive Officer of the Company. The performance shares are subject to vesting conditions. As at 31 December 2011, no performance shares have vested. US\$223,430 has been expensed and US\$223,430 has been capitalised to exploration expenditure in the current period with respect to these performance shares,

On 3 November 2011, the Company granted 55,000,000 shares in respect of the acquisition of Vamaro Investments Limited, the 100% legal and beneficial owner of two licences for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia (the "Vamarov Project").

7. CASH AND CASH EQUIVALENTS (continued)

(c) Non-cash activities (continued)

On 28 December 2011, the Company issued 6,666,667 shares in respect of the acquisition of 75% of Charlize Investments Limited ("Charlize"). Charlize owns 100% of the issued capital of OOO VostokNefteGaz ("VNG"). VNG owns an exploration licence in the Tomsk region of Western Siberia (the "Tomsk Exploration Licence").

8. TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010
	US\$	US\$
Current		
Trade receivables	34,545	8,448
GST / VAT recoverable and other debtors	1,179,050	403,763
Deposits paid	-	16,177
Loans to related parties	-	14,453
	1,213,595	442,841
Non current		
VAT recoverable	-	-
Other receivables	-	2,294
	-	2,294

9. PREPAYMENTS

Prepayments	131,268	2,584,968
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10. INVENTORIES

Consumables at cost	8,479	1,834
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11. RESTRICTED CASH

Security deposits in place for credit cards	245,956	-
Security for applications in Kazakhstan	-	115,773
	245,956	115,773

12. PLANT AND EQUIPMENT

	31 December 2011	31 December 2010
	US\$	US\$
At cost	102,026	68,930
Accumulated depreciation	(44,256)	(39,028)
	57,770	29,902

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the reporting periods are set out below.

	31 December 2011	31 December 2010
	US\$	US\$
Balance at beginning of period	29,902	25,635
Additions	36,613	4,371
Depreciation expense	(5,228)	(104)
Foreign exchange differences arising on translating functional currency to presentation currency	(3,517)	-
Carrying amount at end of reporting period	57,770	29,902

13. FINANCIAL ASSETS

	31 December 2011	31 December 2010
	US\$	US\$
Available-for-sale-investments		
Investments in listed securities at fair value	1,032,909	1,928,112

Available-for-sale financial assets comprise investments in the ordinary share capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments. The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

Included in available for sale financial assets, is an investment of 4,000,000 Nkwe Platinum Limited ("Nkwe") shares valued at US\$997,252 (A\$980,000) being the share price on ASX of A\$0.25 on 8 November 2011. Nkwe's securities were suspended from trading on ASX from 11 November 2011 to 17 February 2012. At the time of signing this report, Nkwe's shares were trading at A\$0.145 (closing share price on 23 March 2012) and the fair value of the investment is US\$603,243 (A\$580,000).

14. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2011	31 December 2010
	US\$	US\$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	140,217,437	106,094,586
Reconciliation		
Opening balance	106,094,586	71,653,340
Exploration and evaluation expenditure incurred	37,862,127	15,374,316
Exploration and evaluation assets acquired pursuant to a business combination	22,331,421	19,065,237
Allowance for impairment (a)	(23,112,555)	-
Foreign exchange differences arising on translating functional currency to presentation currency	(2,958,142)	1,693
	140,217,437	106,094,586

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and commercial exploitation of the areas of interest, or alternatively, by their sale.

- (a) On 4 October 2009, the Company entered into an asset sale agreement with Nkwe Platinum Ltd ('Nkwe') to sell its 15% interest in the South African platinum project ('Tubatse Project'). As at 31 December 2011 the sale has not been finalised. An allowance for impairment loss of US\$23,112,555 has been recognised on the carrying value of capitalised exploration expenditure for the Tubatse Project, due to uncertainty surrounding the ownership title on two of the three farms that comprise the Tubatse Project.

15. BUSINESS COMBINATION

a) Acquisitions in the current year

i) Vamaro acquisition

On 3 November 2011, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired 100% of Vamaro Investments Ltd (Cyprus) ('Vamaro'). Vamaro is the 100% legal and beneficial holder of Zapadno-Novomolodezhny LLC and Yuzhno-Sardakovskoye LLC, with both Russian companies having rights for geological study of subsoil, prospecting and extraction of oil and gas in the Khanty-Mansiysk Autonomous Region in Western Siberia (the "Vamarov Project").

ii) Charlize acquisition

On 28 December 2011, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired 75% interest in Charlize Investments Ltd (Cyprus) ('Charlize'). Charlize is the 100% legal and beneficial holder of OOO VostokNefteGaz, a Russian company which owns an exploration licence in the Tomsk region of Western Siberia (the 'Tomsk Exploration Licence' or the 'Druzhny Project').

The Company has elected to measure the non-controlling interests in the companies acquired at the proportionate share of their interest in the acquiree's identifiable net assets.

15. BUSINESS COMBINATION (continued)

a) Acquisitions in the current year (continued)

The fair value of the identifiable assets and liabilities of Vamaro and Charlize as at the date of acquisition were:

	Vamaro Investments Limited	Charlize Investments Limited
	Fair value US\$	Fair value US\$
Assets		
Cash and cash equivalents	4,340	667
Exploration and evaluation assets	20,411,262	1,920,159
Other receivables	260,640	554
Liabilities		
Trade and payables	(5,018,752)	(2,693)
Provision for site restoration	(1,293,697)	-
Deferred tax liability	(3,391,788)	(384,032)
Net assets	10,972,005	1,534,655
Proportion attributable to non-controlling interests	-	383,664
Net assets acquired	10,972,005	1,150,991

Direct costs incurred by International Petroleum that have been expensed in the Statement of Comprehensive Income relating to the acquisition

144,099 34,662

The provisional goodwill on acquisition arising on business combinations results when comparing the assessment of the acquired identifiable assets, liabilities and contingent liabilities to the cost of the acquisition.

Details of the provisional goodwill on acquisition amounts recognised are as follows:

	Vamaro Investments Limited	Charlize Investments Limited
	US\$	US\$
Purchase consideration:		
- Issue of shares	7,972,005	1,150,991
- Cash	3,000,000	-
Fair value of net identifiable assets acquired (see above)	10,972,005	1,150,991
Goodwill	-	-
Cash inflow on acquisition		
Net cash acquired with the subsidiary	4,340	667
Net cash (paid)	-	-
Net consolidated cash inflow	4,340	667

As at 31 December 2011, neither the cash payment nor issue of shares for the Vamaro acquisition had yet occurred. The shares were issued on 7 February 2012 and the cash paid on 28 February 2012.

The consolidated Statement of Comprehensive Income includes revenue and net loss for the year ended 31 December 2011 of nil and US\$13,881 respectively, as a result of the acquisition of Vamaro. The consolidated Statement of Comprehensive Income includes revenue and net loss for the year ended 31 December 2011 of nil and nil respectively, as a result of the acquisition of Charlize.

15. BUSINESS COMBINATION (continued)

a) Acquisitions in the current year (continued)

Had the acquisition of Vamaro occurred at the beginning of the year (1 January 2011), the consolidated Statement of Comprehensive Income would have included revenue and net profit of nil and US\$368,076 respectively. Had the acquisition of Charlize occurred at the beginning of the year (1 January 2011), the consolidated Statement of Comprehensive Income would have included revenue and net loss of US\$13,631 and US\$1,874 respectively.

b) Acquisitions in period ended 31 December 2010

In the 6 months ended 31 December 2010, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired an indirect 75% equity interest in Souville Investments Ltd (Cyprus) ('Souville') from Assurian Assets Ltd ("Assurian Assets"). Souville is the 100% legal and beneficial holder of Irtys-Neft, a Russian company having exploration rights to blocks, located in the Khanty-Mansiysk Region in Western Siberia (Krasnoleninsky Blocks) – the largest oil producing region of Russia. Assurian Assets has retained a 25% interest in Souville and by extension, the Krasnoleninsky Blocks.

Consideration paid by the Company for the 75% interest in Souville was US\$5 million cash. In addition, the Company assumed the obligation to fund the current work program which requires the drilling of two wells on the Krasnoleninsky Blocks by 30 June 2012 and drilling two additional wells by 30 December 2012.

The Company elected to measure the non- controlling interest in the acquired at the proportionate share of its interest in the acquiree's identifiable net assets.

The fair value of the identifiable assets and liabilities of Souville as at the date of acquisition were:

Souville Investments Limited	
Fair value US\$	
Assets	
Cash and cash equivalents	3,955
Exploration expenditure	20,787,801
Other receivables	105,070
Financial assets	-
Liabilities	
Loan payable	(12,500,000)
Trade and payables	(7,570)
Income tax payable	(226,055)
Deferred tax liability	(1,496,534)
Net assets	6,666,667
Attributable to minority interests	(1,666,667)
Net assets acquired	5,000,000
Direct costs incurred by International Petroleum that have been expensed in the Statement of Comprehensive Income relating to the acquisition	980,776
Cash (outflow) on acquisition	
Net cash acquired with the subsidiary	3,955
Net cash (paid)	(5,000,000)
Net consolidated cash (outflow)	(4,996,045)

15. BUSINESS COMBINATION (continued)

b) Acquisitions in period ended 31 December 2010 (continued)

The net assets recognised in the 31 December 2010 financial statements were based on a provisional assessment of fair value. During the current year, the Company has completed a review of the deferred tax assets and liabilities of Souville, as at the time of acquisition, and this has resulted in a net deferred tax liability of US\$1,496,534 recognised in 2011, compared to a provisional value of nil recognised in 2010.

The consolidated Statement of Comprehensive Income includes revenue and net loss for the period ended 31 December 2010 of US\$58,132 and US\$279,879 respectively, as a result of the acquisition of Souville. Had the acquisition of Souville occurred at the beginning of the period (1 July 2010), the consolidated statement of comprehensive income would have included other income and profit of US\$2,264,521 and US\$2,259,972 respectively.

No goodwill or discount on acquisition arose on the acquisition of Souville.

16. TRADE AND OTHER PAYABLES

	Note	31 December 2011 US\$	31 December 2010 US\$
Trade payables		11,750,624	4,619,840
Other payables		944,575	275,522
Deferred consideration	15(a)	3,000,000	-
Trade and other payables		15,695,199	4,895,362

17. BORROWINGS

Current			
Secured loans from related parties ¹		10,435,209	-
Unsecured loan from related party ²		4,931,592	-
		15,366,801	-
Non current			
Unsecured loan ³		13,090,753	12,622,003
		13,090,753	12,622,003
Total borrowings		28,457,554	12,622,003

¹ In May 2011, the Company obtained a US\$10 million loan facility ("Loan Facility A") from a company which has four common directors with that of International Petroleum. Loan Facility A is secured by a fixed and floating charge over the Company.

17. BORROWINGS (continued)

The amount drawn down under Loan Facility A will be repayable by the Company in full on the earlier of;

- 1 June 2012;
- receipt by the Company of the cash consideration from Nkwe Platinum Limited ("Nkwe") under its agreement with Nkwe for the sale of the Company's interest in the Tubatse Project (comprising a 10% interest in the 3 farms located in the eastern limb of South Africa's Bushveld Complex, namely Hoepakrantz, Nooitverwacht and Eerste Geluk); and
- receipt of any other funding except for the funding that the Company raised in February 2012.

Interest is payable on Loan Facility A at the cash rate plus 3% per annum. At 31 December 2011, Loan Facility A has been drawn down in full. Interest incurred on Loan Facility A for the year ended 31 December 2011 is US\$185,209 and has been capitalised to the loan amount. The Company is also obliged to pay a US\$250,000 commitment fee for the provision of the loan facility.

² In September 2011, International Petroleum Services Limited secured a US\$10 million loan facility ("Loan Facility B") from Pan African Minerals Limited ('Pan African'). As at 31 December 2011, the Company had drawn down US\$4.91m of Loan Facility B.

Funds drawn down under Loan Facility B are repayable by the Company in full on the earlier of;

- receipt by the Company of capital raising funds;
- receipt by the Company of cash consideration from Nkwe Platinum Limited;
- a date agreed by the Company and Pan African; and
- termination of the loan agreement by Pan African.

Interest is payable on Loan Facility B at the cash rate plus 3% per annum. Additional interest is payable on overdue amounts at a rate of 10% per annum. Interest incurred on Loan Facility B for the year ended 31 December 2011 is US\$21,592 and has been capitalised to the loan amount. Funds drawn down under Loan Facility B and interest was repaid in full on 8 February 2012.

³ Pursuant to the acquisition of Souville Investments Ltd in October 2010, the Company, acquired a loan of US\$12,500,000 owing to Assuryan Assets Ltd. The loan bears interest at the rate of 3.75% per annum. Interest incurred on the loan for the year ended 31 December 2011 was US\$468,750 and has been capitalised to the loan amount (6 months ended 31 December 2010: US\$162,003). The loan is due for repayment on 27 September 2013.

18. PROVISIONS

	31 December 2011	31 December 2010
	US\$	US\$
Provision for site restoration	1,312,737	220,752
Balance at beginning of period	220,752	220,737
Utilised	(201,713)	(15)
Acquired pursuant to business combination	1,293,698	-
Balance at end of period	1,312,737	220,752

19. ISSUED CAPITAL

	31 December 2011	31 December 2010
	US\$	US\$
Fully paid ordinary shares	232,205,203	223,082,207

(a) Fully paid Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

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

RECONCILIATION OF MOVEMENT IN SHARES ON ISSUE

	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	No. of shares		US\$	
At beginning of period	948,865,364	948,365,364	223,082,207	222,988,445
Shares issued to acquire controlled entity ¹	61,666,667	-	9,122,996	-
Share based payments	-	500,000	-	93,762
At end of period	1,010,532,031	948,865,364	232,205,203	223,082,207

¹ 6,666,667 shares were issued on 28 December 2011, as part consideration for the acquisition of Charlize Investments Limited. A further 55,000,000 shares were issued on 7 February 2012, as part consideration for the acquisition of Vamaro Investments Limited. See note 15.

(b) Capital Risk Management

The Consolidated Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior reporting period.

Management monitors capital requirements through cash flow forecasting. Capital is defined as issued share capital. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Consolidated Entity has no externally imposed capital requirements.

20. RESERVES

	31 December 2011	31 December 2010
	US\$	US\$
Share-based payment reserve		
At beginning of period	1,115,175	-
Share based payments	4,161,089	1,115,175
At end of period	5,276,264	1,115,175
Revaluation reserve		
At beginning of period	(138,774)	166,103
Revaluation during the period	(910,926)	(435,538)
Tax effect of revaluation	283,931	130,661
At end of period	(765,769)	(138,774)
Merger reserve		
At beginning of period	(101,516,017)	(101,516,017)
At end of period	(101,516,017)	(101,516,017)
Foreign currency translation reserve		
At beginning of reporting period	3,276,722	(136,692)
Movement due to translation of functional currency to presentation currency	3,256,051	3,413,414
At end of period	6,532,773	3,276,722
Total reserves	(90,472,749)	(97,262,894)

NATURE AND PURPOSE OF RESERVES

Share-based payments reserve

The share based payment reserve is used to recognise the fair value of options issued.

Revaluation reserve

The revaluation reserve is used to recognise the changes in fair value of available-for-sale investments held.

Merger reserve

The merger reserve balance relates entirely to the acquisition of North Caspian Petroleum Ltd by Eastern Petroleum Corporation Ltd in 2007. The merger reserve represents the difference between the nominal value of shares acquired by Eastern Petroleum Corporation Ltd and those issued to acquire subsidiary undertakings.

Foreign currency translation reserve

The Foreign currency translation reserve is used to recognise foreign currency exchange differences arising on translation of functional currency to presentation currency.

21. ACCUMULATED LOSSES

	31 December 2011	31 December 2010
	US\$	US\$
Accumulated losses at beginning of period	(28,589,063)	(21,919,419)
Net loss attributable to the members of International Petroleum	(26,761,321)	(6,669,644)
Accumulated losses at end of period	(55,350,384)	(28,589,063)

22. SHARE BASED PAYMENTS

The following share-based payment arrangements were granted during the period:

SHARES

On 27 May 2011, shareholders agreed to award Mr Hopkinson 10,000,000 performance shares upon the following milestones being achieved:

- 2,500,000 shares awarded when the Company achieves a share price of A\$0.50 for 30 consecutive days.
- 2,500,000 shares awarded when the Company achieves a share price of A\$0.75 for 30 consecutive days.
- 2,500,000 shares awarded when the Company achieves a share price of A\$1.00 for 30 consecutive days.
- 2,500,000 shares awarded when the Company achieves a share price of A\$1.50 for 30 consecutive days.

As at 31 December 2011, none of the milestones have been reached, and therefore no performance shares have been issued. The fair value of the performance shares on grant date is US\$2,329,299 or US\$0.23 per share (A\$2,200,000 or A\$0.22 per share). An amount of US\$446,859 (A\$422,054) has been recognised in respect of these performance shares in the current year.

OPTIONS

The fair value of options granted as at 31 December 2011 which have vested amounts to US\$3,714,294 (6 months ended 31 December 2010: US\$1,115,175).

The following share-based payment options were granted during the current period:

Number	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
1,875,000 ¹	1 February 2011	16 March 2016	A\$0.30 ²	A\$0.21 ³
1,500,000 ⁴	20 May 2011	15 April 2016	A\$0.25 ⁵	A\$0.17 ⁶
1,500,000 ⁷	24 May 2011	15 April 2016	A\$0.25 ⁵	A\$0.19 ⁸
18,000,000 ⁹	27 May 2011	1 June 2016	A\$0.25 ⁵	A\$0.19 ¹⁰
200,000 ¹¹	31 May 2011	1 June 2016	A\$0.30 ²	A\$0.19 ¹²
1,500,000 ¹³	26 July 2011	8 August 2016	A\$0.25 ⁵	A\$0.13 ¹⁴
1,500,000 ¹⁵	8 August 2011	8 August 2016	A\$0.25 ⁵	A\$0.15 ¹⁶
500,000 ¹⁷	3 November 2011	28 December 2016	A\$0.25 ⁵	A\$0.11 ¹⁸

22. SHARE BASED PAYMENTS (continued)

The following share-based payment options were granted during prior periods:

Number	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
9,500,000 ¹⁹	16 November 2010	16 November 2015	A\$0.30 ²	A\$0.16 ²⁰
1,500,000 ²¹	1 July 2010	16 March 2016	A\$0.25 ⁵	A\$0.27 ²²
2,500,000 ²³	1 October 2010	16 March 2016	A\$0.25 ⁵	A\$0.20 ²⁴
2,000,000 ²⁵	23 August 2010	16 March 2016	A\$0.25 ⁵	A\$0.21 ²⁶
135,193,072 ²⁷	15 June 2010	30 June 2012	A\$0.25 ⁵	A\$0.20 ²⁸

¹ 1,875,000 unlisted options were awarded on 1 February 2011 and subsequently cancelled upon termination of the employment contract between the employee and the Company on 27 May 2011.

² The US\$ equivalent exercise price as at 31 December 2011 is US\$0.31.

³ The US\$ equivalent fair value at grant date is US\$0.21.

⁴ 1,500,000 unlisted options were awarded on 20 May 2011. The options are subject to vesting conditions. US\$44,014 has been recognised in the current period. The remainder of the fair value of the options will be recognised over the vesting period.

⁵ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.25.

⁶ The US\$ equivalent fair value at grant date is US\$0.18.

⁷ 1,500,000 unlisted options were awarded on 24 May 2011. The options are subject to vesting conditions. US\$47,517 has been recognised in the current period. The remainder of the fair value of the options will be recognised over the vesting period.

⁸ The US\$ equivalent fair value at grant date is US\$0.20.

⁹ 18,000,000 unlisted options were approved at the Annual General Meeting on the 27 May 2011. The options are subject to vesting conditions. US\$2,439,684 has been recognised in the current period. The remainder of the fair value of the options will be recognised over the vesting period.

¹⁰ The US\$ equivalent fair value at grant date is US\$0.20.

¹¹ 200,000 unlisted options were awarded on 31 May 2011 and vested on issue with US\$40,069 recognised in the current period.

¹² The US\$ equivalent fair value at grant date is US\$0.20.

¹³ 1,500,000 unlisted options were awarded on 26 July 2011. The options are subject to vesting conditions. US\$24,711 has been recognised in the current period. The remainder of the fair value of the options will be recognised over the vesting period.

¹⁴ The US\$ equivalent fair value at grant date is US\$0.14.

¹⁵ 1,500,000 unlisted options were awarded on 8 August 2011. The options are subject to vesting conditions. US\$25,521 has been recognised in the current period. The remainder of the fair value of the options will be recognised over the vesting period.

¹⁶ The US\$ equivalent fair value at grant date is US\$0.15.

¹⁷ 500,000 unlisted options were awarded on 3 November 2011. US\$91,889 has been recognised in the current period. As at the date of this report the options had not been issued.

¹⁸ The US\$ equivalent fair value at grant date is US\$0.11.

¹⁹ 9,500,000 options were granted on 16 November 2010 to Hamunts Ltd in recognition of Dr Beloussov's services as Group Executive Officer. 3,000,000 options vested on issue, 1,500,000 are deemed to have forfeited and the remaining 6,000,000 have been fully recognised upon termination of the contract between Hamunts Limited and the Company on 28 June 2011. US\$722,799 has been recognised in the current period (31 December 2010: US\$509,653) in respect of these options.

²⁰ The US\$ equivalent fair value at grant date is US\$0.13.

²¹ 1,500,000 options were awarded on 1 July 2010 and vested on award. US\$nil has been recognised in the current period (31 December 2010: US\$352,408). The options were issued on 17 March 2011.

²² The US\$ equivalent fair value at grant date is US\$0.23.

²³ 2,500,000 options were awarded on 1 October 2010 and 500,000 options vested on award. The value of the remaining options that are expected to vest will be recognised over the vesting period. US\$204,939 has been recognised in the current period (31 December 2010: US\$135,343).

²⁴ The US\$ equivalent fair value at grant date is US\$0.18.

²⁵ 2,000,000 options were awarded on 23 August 2010 and 500,000 vested on award. The value of the remaining options that are expected to vest will be recognised over the vesting period. US\$73,087 has been recognised in the current period (31 December 2010: US\$117,771).

²⁶ The US\$ equivalent fair value at grant date is US\$0.19.

²⁷ On 15 June 2010, 135,193,072 unlisted options, with an exercise price of A\$0.25 (US\$0.25) and an expiry date of 30 June 2012 were issued to the shareholders of Eastern Petroleum Corporation Ltd as part of the purchase consideration for the acquisition of Eastern Petroleum Corporation Ltd. The options were issued for no consideration as part of the fee payable to the brokers. The fair value of the options, being US\$23,644,942, was recognised directly in equity as a capital raising expense.

²⁸ The US\$ equivalent fair value at grant date is US\$0.17.

The weighted average fair value of the options granted during the current period is A\$0.18 (US\$0.19) (31 December 2010: A\$0.17 (US\$0.16)). Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility. No allowance has been made for the effects of early exercise.

The range of exercise prices for options outstanding at the end of the year was A\$0.25 to A\$0.30 (31 December 2010: A\$0.25 to A\$0.30)

Holders of options do not have any voting or dividend rights in relation to the options.

22. SHARE BASED PAYMENTS (continued)

The following tables list the inputs to the models used for the options granted for the periods ended 31 December 2011 and 31 December 2010:

Options issued during year ended 31 December 2011							
Expiring on	15 Apr 2016	15 Apr 2016	1 Jun 2016	1 Jun 2016	8 Aug 2016	8 Aug 2016	28 Dec 2016
Grant date	20 May 2011	24 May 2011	27 May 2011	31 May 2011	26 Jul 2016	8 Aug 2016	3 Nov 2016
Grant date share price	A\$0.20 ¹	A\$0.23 ²	A\$0.22 ³	A\$0.26 ⁴	A\$0.17 ⁵	A\$0.18 ⁶	A\$0.14 ⁷
Exercise price	A\$0.25 ⁸	A\$0.25 ⁸	A\$0.25 ⁸	A\$0.30 ⁹	A\$0.25 ⁸	A\$0.25 ⁸	A\$0.25 ⁸
Expected volatility	125%	125%	125%	125%	125%	125%	125%
Option life	5 years	5 years	5 years	3 years	5 years	5 years	5 years
Dividend yield	-	-	-	-	-	-	-
Risk-free interest rate	5.14%	5.07%	5.05%	4.85%	4.54%	4.05%	3.79%

Options issued during 6 months ended 31 December 2010					
Expiring on	30 Jun 2012	16 Nov 2015	17 Mar 2016	17 Mar 2016	17 Mar 2016
Grant date	15 Jun 2010	16 Nov 2010	1 Jul 2010	1 Oct 2010	23 Aug 2010
Grant date share price	A\$0.30 ¹⁰	A\$0.19 ¹¹	A\$0.30 ¹²	A\$0.23 ¹³	A\$0.23 ¹⁴
Exercise price	A\$0.25 ⁸	A\$0.30 ⁹	A\$0.25 ⁸	A\$0.25 ⁸	A\$0.25 ⁸
Expected volatility	125%	125%	125%	125%	125%
Option life	2.04 years	5 years	5 years	5 years	5 years
Dividend yield	-	-	-	-	-
Risk-free interest rate	4.47%	5.23%	4.68%	4.95%	4.64%

¹ The US\$ equivalent share price on grant date is US\$0.21

² The US\$ equivalent share price on grant date is US\$0.23

³ The US\$ equivalent share price on grant date is US\$0.23

⁴ The US\$ equivalent share price on grant date is US\$0.28

⁵ The US\$ equivalent share price on grant date is US\$0.17

⁶ The US\$ equivalent share price on grant date is US\$0.19

⁷ The US\$ equivalent share price on grant date is US\$0.14

⁸ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.25

⁹ The US\$ equivalent exercise price as at 31 December 2011 is US\$0.31

¹⁰ The US\$ equivalent share price on grant date is US\$0.26

¹¹ The US\$ equivalent share price on grant date is US\$0.19

¹² The US\$ equivalent share price on grant date is US\$0.25

¹³ The equivalent US\$ share price on grant date is US\$0.22

¹⁴ The US\$ equivalent share price on grant date is US\$0.21

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

22. SHARE BASED PAYMENTS (continued)

The following table illustrates the number and weighted average exercise prices (WAEF) of, and movements in, share options during the year:

	12 months ended 31 December 2011		6 months ended 31 December 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of the period	150,693,072	A\$0.25 ¹	135,193,072	A\$0.25 ¹
Granted during the period	26,575,000	A\$0.25 ⁴	15,500,000 ³	A\$0.28 ²
Exercised during the period	-	-	-	-
Forfeited during the period	(3,375,000)	A\$0.30 ⁴	-	-
Expired during the period	-	-	-	-
Balance at end of the period	173,893,072	A\$0.25 ⁵	150,693,072	A\$0.25 ¹
Exercisable at end of the period	143,393,072	A\$0.25 ⁵	141,001,291	A\$0.25 ¹

The share options outstanding at the end of the period had a weighted average exercise price of A\$0.25⁵ (31 December 2010: A\$0.25¹) and the weighted average remaining contractual life was 489 days (31 December 2010: 679 days)

¹ The US\$ equivalent weighted average exercise price is US\$0.25

² The US\$ equivalent weighted average exercise price is US\$0.25

³ 15,500,000 options were awarded during the prior period. Of this total, 9,500,000 options were issued during the prior period and the balance was issued on 17 March 2011.

⁴ The US\$ equivalent weighted average exercise price is US\$0.31

⁵ The US\$ equivalent weighted average exercise price is US\$0.25

The share options on issue at the end of the period consists of:

- 135,193,072 options over ordinary shares with an exercise price of A\$0.25 (US\$0.31) each and an expiry date of 30 June 2012.
- 3,000,000 options over ordinary shares with an exercise price of A\$0.30 (US\$0.31) each and an expiry date 16 November 2015.
- 2,500,000 options over ordinary shares with an exercise price of A\$0.30 (US\$0.31) each and an expiry date of 16 November 2015 which vest on the discovery of commercially viable hydrocarbons in one of the Company's Kazakhstan owned assets.
- 2,500,000 options over ordinary shares with an exercise price of A\$0.30 (US\$0.31) each and an expiry date of 16 November 2015 which vest on the discovery of commercially viable hydrocarbons in one of the Company's Russian owned assets.
- 3,500,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and an expiry date of 16 March 2016.
- 1,500,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 16 March 2016 with 500,000 vesting on the International Petroleum Limited share price reaching A\$0.50 for 30 consecutive days and 1,000,000 of the options will vest on the International Petroleum Limited share price reaching A\$1.00 for 30 consecutive days.
- 1,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 16 March 2016 which vest on a commercial discovery in Alakol.

22. SHARE BASED PAYMENTS (continued)

- 1,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 16 March 2016 which vest on commercial discovery or on the commercial production of any acquisition project.
- 500,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and an expiry date of 28 December 2016.
- 200,000 options over ordinary shares with an exercise price of A\$0.30 (US\$0.31) each and expiry date of 1 June 2014.
- 1,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 1 June 2016 which vest on commercial discovery.
- 3,500,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 1 June 2016 which vest on Company dual listing on another recognised stock exchange.
- 1,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 1 June 2016 which vest in equal instalments over a 3 year period commencing on the Chief Financial Officer's commencement date with the Company.
- 2,500,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 1 June 2016 which vest on the Company securing a commercial discovery in Russia prior to 31 December 2011.
- 10,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and expiry date of 1 June 2016 with 2,500,000 vesting at 6 months, 12 months, 24 months and 36 months of the Chief Executive Officer's commencement date with the Company.
- 3,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and an expiry date of 15 April 2016 with 750,000 vesting on the International Petroleum Limited share price reaching A\$0.50 for 30 consecutive days, 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$0.75 for 30 consecutive days, 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$1.00 for 30 consecutive days and 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$1.50 for 30 consecutive days.
- 3,000,000 options over ordinary shares with an exercise price of A\$0.25 (US\$0.25) each and an expiry date of 8 August 2016 with 750,000 vesting on the International Petroleum Limited share price reaching A\$0.50 for 30 consecutive days, 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$0.75 for 30 consecutive days, 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$1.00 for 30 consecutive days and 750,000 of the options will vest on the International Petroleum Limited share price reaching A\$1.50 for 30 consecutive days.

23. FINANCIAL INSTRUMENTS

The Consolidated Entity's principal financial instruments comprise receivables, payables, available for sale investments and cash

RISK EXPOSURE AND RESPONSES

The Consolidated Entity manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Consolidated Entity's financial risk management policy. The objective of the policy is to support the delivery of the Consolidated Entity's financial targets while protecting future financial security.

The Consolidated Entity does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis.

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

23. FINANCIAL INSTRUMENTS (continued)

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

(a) Interest rate risk

The Consolidated Entity is exposed to interest rate risk (primarily on its cash and cash equivalents and interest bearing loans), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Consolidated Entity does not use derivatives to mitigate these exposures.

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

	31 December 2011	31 December 2010
	US\$	US\$
Financial assets		
Cash and cash equivalents	918,421	12,821,534
Financial liabilities		
Borrowings – fixed rate	13,090,753	12,622,003
Borrowings – variable rate	15,366,801	-

The Consolidated Entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at reporting date would not affect profit or loss.

An increase of 100 basis points in interest rates would have decreased the Consolidated Entity's profit by US\$112,629 (31 December 2010: increase the Consolidated Entity's profit by US\$181,290). 100 basis points is management's assessment of the possible change in interest rates.

The following sensitivity analysis is based in interest rate risk exposure in existence at the reporting date.

At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	US\$	US\$	US\$	US\$
+ 1 % (100 basis points)	(112,629)	181,290	-	-
- 1 % (100 basis points)	112,629	(181,290)	-	-

The movement in profit are due to higher / lower interest earned from variable rate cash balances.

23. FINANCIAL INSTRUMENTS (continued)

(b) Foreign currency risk

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the entities within the Consolidated Entity, which is primarily the United States dollar (US\$). The Company has not entered into any derivative financial instrument to hedge such transactions.

As a result of subsidiaries whose functional currency is United States dollars, the Consolidated statement of financial position can be affected significantly by movements in the exchange rates.

At balance date, the Consolidated Entity had the following exposure to Australian dollar and Great British Pounds foreign currency that is not designated in cash flow hedges:

	31 December 2011	31 December 2010
	US\$	US\$
Financial assets		
Cash and cash equivalents - AUD	179,949	1,001,611
Cash and cash equivalents - GBP	155,735	515,325

The following sensitivity is based on the foreign currency risk exposures in existence at reporting date:

At balance date, had the United States dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		Other comprehensive income higher / (lower)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	US\$	US\$	US\$	US\$
US dollar to AUD + 10%	17,995	91,056	-	-
US dollar to AUD - 10%	(17,995)	(91,056)	-	-
US dollar to GBP + 10%	15,574	51,533	-	-
US dollar to GBP - 10%	(15,574)	(51,533)	-	-

(c) Commodity price risk

The Company is still in the exploration and evaluation phase. Consequently its financial assets and liabilities are subject to minimal commodity price risk.

(d) Credit risk

Credit risk arises from the financial assets of the Consolidated Entity, which comprise cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The Consolidated Entity's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Consolidated Entity has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity does not have any significant credit risk exposure to any single counter-party.

(i) Cash and cash equivalents

The Consolidated Entity limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

23. FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(ii) Trade and other receivables

Trade and other receivables as at the balance sheet date mainly comprise GST and short term loans to be refunded to the Consolidated Entity. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Management does not expect any counterparty to fail to meet their obligations.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

(e) Liquidity risk management

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

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

2011	6 months or less US\$	6 – 12 months US\$	1 – 5 years US\$	Greater than 5 years US\$	Total US\$
Trade and other payables	15,695,199	-	-	-	15,695,199
Borrowings	15,541,213	-	13,814,828	-	29,356,041

2010	6 months or less US\$	6 – 12 months US\$	1 – 5 years US\$	Greater than 5 years US\$	Total US\$
Trade and other payables	4,895,362	-	-	-	4,895,362
Borrowings	-	-	13,814,828	-	13,814,828

(f) Fair value

The Consolidated Entity is exposed to equity security price risk. This arises from investments held by the Consolidated Entity and classified in the Statement of Financial Position as available-for-sale. The Consolidated Entity is not exposed to commodity price risk on its financial instruments. The Consolidated Entity uses a level 1 method in estimating fair value. Under the level 1 method, the fair value is calculated using quoted prices in active markets.

The table below summarises the impact of increases/decreases of this index on the Consolidated Entity's post tax loss for the year and on equity. The analysis is based on the assumption that the equity index had increased by 10% with all other variables held constant and all the Consolidated Entity's equity instruments moved according to the index. 10% is management's assessment of the possible change in price of equity instruments.

	Impact on post-tax loss US\$	Impact on equity post tax US\$
Listed available-for-sale assets		
Nkwe Platinum Limited	-	68,600
International Goldfields Limited	-	2,453

Equity would further increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

24. LOSS PER SHARE

	31 December 2011	31 December 2010
	US cents	US cents
(a) Basic loss per share		
Continuing operations	(2.87)	(0.70)
(b) Diluted loss per share		
Continuing operations	(2.87)	(0.70)
	31 December 2011	31 December 2010
	US\$	US\$
(c) Reconciliation of loss used in calculating loss per share		
Basic loss per share		
Loss attributable to the ordinary equity holders used in calculating basic loss per share	(27,463,912)	(6,669,644)
	31 December 2011	31 December 2010
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	957,828,833	948,490,363
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive earnings per share	957,828,833	948,490,363

Options on issue are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share because they are anti distributive.

25. SEGMENT REPORTING

In accordance with AASB 8 *Operating Segments*, 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 makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

The Consolidated Entity only has one operating segment being exploration for hydrocarbons. Although the Consolidated Entity retains a 10% interest in the South African Tubatse Project, it does not fund, operate or manage this project, and pursuant to the terms of an Asset Sale Agreement entered into with Nkwe Platinum Limited ("Nkwe"), A\$50 million is due to be paid to the Consolidated Entity for the sale of the remaining 10% interest to Nkwe within 30 days of the earlier of:

- the grant of mining rights in respect of the Tubatse Project; and
- Xstrata South Africa exercising its option with Nkwe such that Xstrata South Africa will acquire a 50% interest in the land that is the subject of the Tubatse Project.

25. SEGMENT REPORTING (continued)

If the payment of A\$50 million is not made by Nkwe when it falls due, Nkwe will have no right to acquire the remaining 10% interest in the project.

The analysis of the location of non-current assets is as follows:

	31 December 2011	31 December 2010
	US\$	US\$
Australia	1,032,909	1,928,112
Africa	15,352,898	32,513,053
Kazakhstan	68,154,999	51,531,453
Russia	57,013,266	19,181,352
	141,554,072	105,153,970

26. COMMITMENTS AND CONTINGENCIES

REMUNERATION COMMITMENTS

	31 December 2011	31 December 2010
	US\$	US\$
Commitments for the payment of remuneration under long term contracts in existence at the reporting date but not recognised as liabilities, payable:		
Within 1 year	16,282	143,682
Later than 1 year and not later than 5 years	-	16,259
Later than 5 years	-	-
	16,282	159,941

Refer further to the remuneration report in the Directors' Report for details of service contracts.

CONTINGENT ASSETS

On 4 October 2009, International Petroleum entered into an asset sale agreement with Nkwe Platinum Limited ("Nkwe") to sell its 15% interest in the South African Tubatse platinum project ("Tubatse Project") for A\$60 million.

Under the asset sale agreement:

- A\$10 million was due to be paid to the Company within 5 days of it obtaining shareholder approval. These funds have been paid to the Company, which entitles Nkwe to a 5% interest in the Tubatse Project.
- A\$50 million is due to be paid to the Company within 30 days of the earlier of:
 - the grant of mining rights in respect of the Tubatse Project; and
 - Xstrata South Africa exercising its option with Nkwe such that Xstrata South Africa will acquire a 50% interest in the land that is the subject of the Tubatse Project.
- If the payment of A\$50 million is not made by Nkwe when it falls due, Nkwe will have no right to acquire the remaining 10% interest in the project.

26. COMMITMENTS AND CONTINGENCIES (continued)

CONTINGENT ASSETS (continued)

In August 2011, the asset sale agreement between Nkwe and the Company was varied such that the consideration payment for the remaining 10% interest was reduced from A\$50 million to A\$45 million and the conditions precedent were removed such that the revised consideration payment of A\$45 million was no longer payable by Nkwe within 30 days of the earlier of the grant of mining rights or Xstrata exercising its option with Nkwe. Instead, Nkwe was required to pay the amount of A\$45 million on or before 31 December 2011.

In January 2012, the asset sale agreement was again varied such that the consideration for the remaining 10% interest in the Tubatse Project to be settled on the earlier of the following:

- (a) A\$45 million payable on or before 30 June 2012, or
- (b) A\$50 million on the occurrence of a Change in Control Event (takeover of Nkwe or a merger by way of a scheme of arrangement)

The amount owing of A\$45 million has not been recorded as a receivable by the Company because of the lack of certainty that the A\$45 million will be received by 30 June 2012.

CONTINGENT LIABILITIES

There are no contingent liabilities as at balance date.

27. EVENTS SUBSEQUENT TO REPORTING DATE

On 9 January 2012, the Company entered into an agreement to vary the terms of the Asset Sale Agreement with Nkwe in order to extend the latest date by which the A\$45 million consideration is payable from 31 December 2011 to 30 June 2012 and, in the event of a change of control in Nkwe, to increase the consideration payable by Nkwe to the Company from A\$45 million to A\$50 million.

On 6 February 2012, the Company completed a share placement to institutions and sophisticated investors of 165,730,000 fully paid ordinary shares at an issue price of A\$0.20 per share raising A\$33,146,000 before costs. Capital raising costs amounted to A\$1,374,959.

During February 2012, the Company completed the acquisition of Vamaro Investments Limited and issued 55,000,000 ordinary shares and made a cash payment of US\$3 million.

No other event has arisen between 31 December 2011 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

28. RELATED PARTY INFORMATION

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

(a) Ultimate parent

International Petroleum Limited is the ultimate parent of the Consolidated Entity from a legal perspective. For accounting purposes, Eastern Petroleum Corporation Ltd is the deemed ultimate parent entity of the Consolidated Entity in line with the reverse acquisition accounting requirements set out in AASB 3 *Business Combinations*.

28. RELATED PARTY INFORMATION (continued)

(b) Corporate Structure

The legal corporate structure of the Consolidated Entity is set out below:

Name	Country of incorporation	% Equity interest	
		31 December 2011	31 December 2010
Parent entity: International Petroleum Limited	Australia		
Eastern Petroleum Corporation Ltd	United Kingdom	100%	100%
Almroth Holdings Ltd	Cyprus	100%	100%
North Caspian Petroleum Ltd	United Kingdom	100%	100%
North Caspian Petroleum LLP	Kazakhstan	100%	100%
International Petroleum Services Ltd	United Kingdom	100%	-
International Petroleum Ltd	Cayman Islands	100%	100%
IPL Siberia Ltd	Cayman Islands	100%	100%
Vamaro Investments Ltd	Cyprus	100%	-
Zapadno-Novomolodezhny LLC	Russia	100%	-
Yuzhno-Sardakovskoye LLC	Russia	100%	-
Charlize Investments Ltd	Cyprus	75%	-
VostokNefteGaz LLC	Russia	75%	-
International Petroleum (Services) Ltd	Russia	100%	100%
Souville Investments Ltd	Cyprus	75%	75%
Irtysheft LLC	Russia	75%	75%
International Petroleum Company LLC	Russia	100%	-

(c) Directors and key management personnel

Details relating to key management personnel, including remuneration paid, are included in the Remuneration Report within the Directors' Report.

COMPENSATION FOR DIRECTORS AND KEY MANAGEMENT PERSONNEL

	31 December 2011	31 December 2010
	US\$	US\$
Short-term employee benefits	2,422,740	1,011,695
Share based payments	3,946,254	1,208,936
Post-employment benefits	26,092	-
Total compensation	6,395,086	2,220,631

28. RELATED PARTY INFORMATION (continued)

(c) Directors and key management personnel (continued)

SHARES HELD BY DIRECTORS AND KEY MANAGEMENT PERSONNEL

	Balance 1 January 2011	Leavers	Purchase of shares on market	Balance 31 December 2011
Directors				
A Sage	1,555,691	-	13,925,000	15,480,691
T Turner	161,819	-	-	161,819
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	444,018,420	-	-	444,018,420
W McAvock ¹	90,000	-	-	90,000
C Hopkinson	-	-	-	-
T Antoniou	-	-	-	-
Key management				
A Belogortseva	-	-	-	-
A Beloussov ²	40,970,953	(40,970,953)	-	-
K Hopkinsw	-	-	-	-
A Osipov	-	-	-	-
	486,706,883	(40,970,953)	13,925,000	459,750,930

¹ Appointed on 5 January 2011.

² On 28 June 2011, the service agreement relating to the services provided by V Beloussov was terminated and, as at that date, entities related to V Beloussov held 40,970,953 shares in the Company.

	Balance 1 July 2010	Share based payments	Purchase of shares on market	Balance 31 December 2010
Directors				
A Sage	1,555,691	-	-	1,555,691
T Turner	161,819	-	-	161,819
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	444,018,420	-	-	444,018,420
Key management				
A Belogortseva	-	-	-	-
V Beloussov	40,470,953	500,000	-	40,970,953
K Hopkins	-	-	-	-
A Osipov	-	-	-	-
	486,206,883	500,000	-	486,706,883

28. RELATED PARTY INFORMATION (continued)

(c) Directors and key management personnel (continued)

OPTIONS HELD BY DIRECTORS AND KEY MANAGEMENT

	Balance 1 January 2011	Leavers	Share based payments	Balance 31 December 2011	Number ve sted as at 31 December 2011
Directors					
A Sage	-	-	-	-	-
T Turner	-	-	-	-	-
M Gwynne	-	-	-	-	-
M Ashurst	-	-	-	-	-
F Timis	88,803,684	-	-	88,803,684	88,803,684
W McAvock	-	-	3,000,000	3,000,000	1,000,000
C Hopkinson	-	-	15,000,000	15,000,000	5,000,000
T Antoniou	-	-	-	-	-
Key management					
A Belogortseva	1,500,000	-	-	1,500,000	1,500,000
A Beloussov	17,594,191	(17,594,191)	-	-	-
K Hopkins	2,500,000	-	-	2,500,000	1,500,000
A Osipov	2,000,000	-	500,000	2,500,000	1,000,000
	112,397,875	17,594,191	18,500,000	113,303,684	98,803,684

On 28 June 2011, the service agreement relating to the services provided by V Beloussov was terminated. Upon termination of the service agreement, 1,500,000 options were forfeited, leaving entities related to V Beloussov with 16,094,191 options in the Company. These remaining options were not forfeited as at the termination date, at which time 11,094,191 options had vested. No further options vested during the period from termination date to 31 December 2011.

	Balance 1 July 2010	Share based payments	Balance 31 December 2010	Number vested as at 31 December 2010
Directors				
A Sage	-	-	-	-
T Turner	-	-	-	-
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	88,803,684	-	88,803,684	88,803,684
Key management				
A Belogortseva	-	1,500,000 ¹	1,500,000	1,500,000
V Beloussov	8,094,191	9,500,000	17,594,191	11,094,191
K Hopkins	-	2,500,000 ¹	2,500,000	500,000
A Osipov	-	2,000,000 ¹	2,000,000	500,000
	96,897,875	15,500,000	112,397,875	102,397,875

¹ Options were awarded prior to 31 December 2010 and were issued on 17 March 2011

28. RELATED PARTY INFORMATION (continued)

(d) Transactions with related parties:

- (i) During the period ended 31 December 2010, US\$24,498 was paid to Hewitt Turner and Gelevitis, an entity related to Mr Turner for the provision of accounting services to the Legal parent. In the current year, no amounts were paid or are payable to Hewitt Turner and Gelevitis.
- (ii) An aggregate amount of US\$17,081 (31 December 2010: US\$56,505) was paid to Cape Lambert Resources Limited ('Cape Lambert') for expenditure incurred by Cape Lambert on behalf of the Legal parent. Mr Sage and Mr Turner are directors of Cape Lambert.
- (iii) An aggregate amount of US\$77,534 (31 December 2010: nil) was paid or payable to African Petroleum Corporation Limited ('African Petroleum') for expenditure incurred by African Petroleum on behalf of the Legal parent. Mr Timis, Mr Sage and Mr Ashurst are directors of African Petroleum.
- (iv) An aggregate amount of US\$151,735 (31 December 2010: nil) was paid or payable to African Minerals Engineering Limited ('African Minerals Engineering') for office rent and other accommodation-related services. Mr Timis is a director of African Minerals Engineering.
- (v) During the year ended 31 December 2010, an unsecured, non-interest bearing loan of US\$105,000 from Safeguard Management Limited ('Safeguard') was repaid. Safeguard is an entity controlled by Mr Timis. In the current year, no amounts were loaned to the Consolidated Entity by Safeguard.
- (vi) An aggregate amount of US\$673,717 (31 December 2010, US\$3,379,186) was paid or is payable to Hamunts Ltd, a company associated with Dr Belousov and Mr Osipov, for the provision of consulting services.
- (vii) As at 31 December 2011, the following amounts were payable to directors of the Company or their nominees:

	31 December 2011	31 December 2010
	US\$	US\$
Oakwood Pty Limited, a company controlled by Mr Sage	16,960	-
MLR Advisory Limited, a company controlled by Mr Ashurst	8,141	6,680
Silverwest Pty Limited which is a company controlled by Mr Gwynne	12,211	-
CRMS which is an entity controlled by Mr Turner	8,141	4,064
Mr Antoniou	8,141	-
Mr Timis	38,160	-

28. RELATED PARTY INFORMATION (continued)

(d) Transactions with related parties (continued)

- (viii) In May 2011, the Company secured a US\$10 million loan facility ('Loan Facility A') from African Petroleum Corporation Limited ('African Petroleum'). Mr Timis, Mr Sage, Mr Turner and Mr Ashurst are directors of African Petroleum. As at 31 December 2011, Loan Facility A was fully drawn down.

Funds drawn down under Loan Facility A are repayable by the Company in full on the earlier of 1 June 2012, receipt by the Company of cash consideration from Nkwe Platinum Limited (ASX: NKP) ("Nkwe") under its agreement with Nkwe for the sale of the Company's interest in the Tubatse project (comprising a 10% interest in the 3 farms located in the eastern limb of South Africa's Bushveld Complex, namely Hoepakrantz, Nooitverwacht and Eerste Geluk (the "Tubatse Project")) and receipt of any other funding except for the funding that the Company raised in February 2012.

Interest is payable at the cash rate plus 3% per annum and Loan Facility A is secured by a fixed and floating charge over the Company. The Company is also obliged to pay a US\$250,000 commitment fee for the provision of Loan Facility A. As at 31 December 2011, the interest and commitment fee had not been paid.

- (ix) In September 2011, International Petroleum Services Limited secured a US\$10 million loan facility ('Loan Facility B') from Pan African Minerals Limited ('Pan African'). Mr Timis and Mr Ashurst are directors and shareholders of Pan African. Mr Sage is also a shareholder of Pan African. As at 31 December 2011, the Company had drawn down US\$4.91m of Loan Facility B.

Funds drawn down under Loan Facility B are repayable by the Company in full on the earlier of receipt by the Company of capital raising funds, receipt by the Company of cash consideration from Nkwe Platinum Limited (ASX: NKP), a date agreed by the Company and Pan African and termination of the loan agreement by Pan African.

Interest is payable at the cash rate plus 3% per annum. Additional interest is payable on overdue amounts at a rate of 10% per annum. Funds drawn down under Loan Facility B and interest was repaid in full on 8 February 2012.

- (x) During the prior period, the Company entered into a Deed of Partial Termination with Evanston Resources NL and Southern Cross Goldfields Limited ("Southern Cross") whereby certain sections of an agreement entered into by the Company with these parties in 2007 were terminated. As a consequence of entering into the Deed of Partial Termination, Southern Cross no longer had the option to acquire the Company's Affected Tenements in the Evanston project. The Company subsequently disposed of its interest in the Affected Tenements to Dempsey Resources Pty Ltd for a nominal consideration of \$1. Mr Turner and Mr Sage are directors of Evanston Resources NL and Dempsey Resources Pty Ltd. No tenements were disposed of in the current year.

29. PARENT ENTITY FINANCIAL INFORMATION

a) Summary Financial information

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

	31 December 2011	31 December 2010
	US\$	US\$
Statement of financial position		
Current assets	200,680	9,543,362
Total assets	254,260,153	251,555,901
Current liabilities	(4,095,377)	(1,662,686)
Total liabilities	(10,535,304)	(2,061,077)
Shareholders' equity		
Issued capital	233,315,621	224,192,625
Reserves	44,081,601	34,620,924
Retained earnings	(33,672,373)	(9,318,726)
Net loss for the period	(24,353,645)	(3,280,735)
Total comprehensive loss	585,401	(3,280,735)

b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current period (31 December 2010: Nil).

30. VARIANCES FROM THE PRELIMINARY FINAL REPORT

The financial information presented in the preliminary final report lodged with NSX on 15 March 2012 was in the process of being reviewed by management and audited by the Consolidated Entity's independent auditor.

Adjustments have only been made to the current period information presented in the preliminary final report as set out below:

Consolidated Statement of Financial Position

	US\$
Current liabilities	
Current liabilities presented in the preliminary final report	40,971,028
Reclassification of current liability to issued capital	(7,972,005)
Current liabilities reported in the financial statements	32,999,023
Equity	
Equity presented in the preliminary final report	79,446,990
Reclassification of current liability to issued capital	7,972,005
Equity reported in the financial statements	87,418,995

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of International Petroleum Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of International Petroleum Limited for the period ended 31 December 2011 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of its financial position as at 31 December 2011 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (iii) complying with International Financial Reporting Standards as disclosed in Note 2 (c).
 - (b) as set out in note 2 (a) in the financial statements, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the period ended 31 December 2011.

Signed in accordance with a resolution of the Directors:



Antony Sage
Director

Perth, 26 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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Independent auditor's report to the members of International Petroleum Limited

Report on the financial report

We have audited the accompanying financial report of International Petroleum Limited, which comprises the consolidated statement of financial position as at 31 December 2011, 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

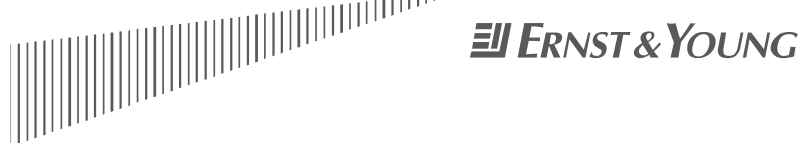
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation



Opinion

In our opinion:

- a. the financial report of International Petroleum Limited 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 31 December 2011 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of International Petroleum Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matter described in note 2 to the financial report, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

D S Lewsen
Partner
Perth
26 March 2012

NSX ADDITIONAL INFORMATION

International Petroleum Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia ("NSX").

The Company's registered and principal place of business is 18 Oxford Close Leederville, Western Australia 6007 Australia.

SHAREHOLDING

The distribution of members and their holdings of equity securities in the Company as at 6 March 2012 was as follows:

Category (size of holding)	Holders	Units
1- 1,000	37	14,679
1,001- 10,000	559	2,821,212
10,001- 100,000	517	17,066,956
100,001 – 1,000,000	114	32,649,552
1,000,001 - over	34	1,123,709,632
Total	1,261	1,176,262,031

EQUITY SECURITIES

There are 1,261 shareholders, holding 1,176,262,031 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and are entitled to dividends.

The number of shareholders holding less than a marketable parcel of ordinary shares is 145.

OPTIONS

Summarised below are the options currently on issue together with their exercise price and expiry date:

Number of options	Exercise price	Expiry date
135,193,072	A\$0.25	30 June 2012
200,000	A\$0.30	1 June 2014
8,000,000	A\$0.30	16 November 2015
6,000,000	A\$0.25	16 March 2016
3,000,000	A\$0.25	14 April 2016
18,000,000	A\$0.25	1 June 2016
3,000,000	A\$0.25	8 August 2016

VOTING RIGHTS

In accordance with the Company's constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Options do not carry a right to vote.

SUBSTANTIAL HOLDERS

The names of the substantial shareholders listed in the Company's register as at 6 March 2012 are as follows:

	Fully paid ordinary shareholders	Number	% of held Issued Capital
1	Safeguard Management Limited <Timis Fund A/C>	444,018,420	37.75
2	HSBC Custody Nominees (Australia) Limited	189,419,666	16.10
3	JP Morgan Nominees Australia Limited <Cash Income A/C>	64,614,990	5.49

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest fully paid ordinary shareholders as at 6 March 2012 are as follows:

	Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1.	SAFEGUARD MANAGEMENT LIMITED <TIMIS FUND A/C>	444,018,420	37.75
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	189,419,666	16.10
3.	J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	64,614,990	5.49
4.	CITICORP NOMINEES PTY LIMITED	57,839,096	4.92
5.	NATIONAL NOMINEES LIMITED	48,645,045	4.14
6.	J P MORGAN NOMINEES AUSTRALIA LIMITED	45,040,369	3.83
7.	HILLBURG INTERNATIONAL LIMITED	45,000,000	3.83
8.	KONTILLO RESOURCES LIMITED	45,000,000	3.83
9.	LANGSTON KEY LIMITED	28,750,000	2.44
10.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED -GSCO ECA	26,225,224	2.23
11.	CAPE LAMBERT RESOURCES LIMITED	23,009,439	1.96
12.	CS FOURTH NOMINEES PTY LTD	15,454,000	1.31
13.	OKEWOOD PTY LTD	13,925,000	1.18
14.	MR RUSSELL NEIL CREAGH	13,250,389	1.13
15.	PEMBURY NOMINEES PTY LTD	8,620,000	0.73
16.	HKT AU PTY LTD <MORAMBA SERV SUPER PLAN A/C>	8,080,000	0.69
17.	KERELA FINANCE CORPORATION	6,666,667	0.57
18.	EXCHANGE MINERALS LIMITED	6,103,621	0.52
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	5,005,100	0.43
20.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	4,727,000	0.40
		1,099,394,026	93.47

SCHEDULE OF EXPLORATION ASSETS HELD AT THE DATE OF THIS REPORT

KEY ASSETS

Tenement No.	Prospect Area	Percentage
XMH/01996	Krasnoleninsky subsoil block 7	75%
XMH/01997	Krasnoleninsky subsoil block 8	75%
XMH/01998	Krasnoleninsky subsoil block 9	75%
XMH/01999	Krasnoleninsky subsoil block 10	75%
XMH14621H3	Yuzhno-Sardakovsky	100%
XMH14622H3	Zapadno-Novomolodezhny	100%
TOM01561HII	Druzhny	75%
1766	Alakol	50%

NON-CORE ASSETS

Tenement No.	Prospect Area	Percentage
Hoepakrantz 291KT	Tubatse Project	10%
Nooitverwacht 324KT	Tubatse Project	10%
Eerste Geluk 327KT	Tubatse Project	10%

