International Petroleum Limited

(ABN 76 118 108 615)

Annual Financial Report for the year ended 31 December 2012

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CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN
Antony Sage

NON-EXECUTIVE DIRECTORS
Timothy Turner
Frank Timis
Tony Antoniou
Pierre Godec
Vladimir Mangazeev

EXECUTIVE DIRECTORS
William McAvock
Chris Hopkinson

COMPANY SECRETARY
Claire Tolcon

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STOCK EXCHANGE LISTING
National Stock Exchange of Australia
Code: IOP

Your directors submit the financial report of International Petroleum Limited ("International Petroleum" or the "Company") and its controlled entities (collectively referred to as the "Group") for the year ended 31 December 2012.

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 year unless otherwise stated.

Mr Antony Sage
Mr Timothy Turner
Mr Mark Gwynne (resigned 1 March 2012)
Mr Frank Timis
Mr Mark Ashurst (resigned 21 February 2013)
Mr William McAvock
Mr Chris Hopkinson
Mr Tony Antoniou
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.

REVIEW OF OPERATIONS

CORPORATE

Director appointments and resignation

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. He spent 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 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-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"). 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

Issue of shares
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 (US$35,523,023) gross proceeds, before transaction costs amounting to US$1,477,539.

Loan facilities
In the prior year, the Company secured a US$10 million loan facility ("Loan Facility A") from a company related to four of the directors of International Petroleum to fund exploration expenditure and working capital. Loan Facility A was fully drawn down as at the end of 2011. In July 2012, certain terms of the Loan Facility agreement were amended such that the amount drawn down under the Loan Facility ("Facility Amount") and interest and fees will be repayable by the Company in full on the earlier of (a) 31 March 2013, (b) receipt by the Company of the A$45 million 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 (c) receipt by the Company of any equity or convertible loan funding exceeding US$10m cumulatively until 31 March 2013 unless otherwise agreed in writing by the lender.

Interest is payable on the Facility Amount at the cash rate plus 3% and Loan Facility A is secured by a fixed and floating charge over the Company. In consideration of extending the repayment date of the funding facility, an additional US$125,000 commitment fee is payable. The Company is now obliged to pay total commitment fees of US$375,000 for the provision of the Loan Facility.

In September 2011, International Petroleum Services Limited secured a US$10 million loan facility ("Loan Facility B") from Pan African Minerals Limited. Interest was payable on Loan Facility B at the cash rate plus 3% per annum. Interest incurred on Loan Facility B for the year ended 31 December 2012 was US$20,021 and was capitalised to the loan amount (2011: US$21,592). Funds drawn down under Loan Facility B (US$7,110,000) and interest (US$41,613) were repaid in full on 8 February 2012.

In August 2012, the Company secured a US$2 million convertible loan facility from Varesona Participation Corporation ("Varesona"), an entity controlled by non-executive director Mr Frank Timis, to fund exploration expenditure and working capital. In September 2012, the Company secured an additional US$2 million convertible loan facility from Varesona, and, in October 2012, the Company secured a third US$2 million convertible loan facility from Varesona. All three convertible loan facilities were fully drawn down during the current year ("Convertible Loan Amounts") and interest is payable on the Convertible Loan Amounts at 5% per annum. Interest incurred on the Convertible Loan Amounts for the year ended 31 December 2012 is US$251,225. The Convertible Loan Amounts plus interest ("Outstanding Amounts") are due for repayment 12 months from the date of each of the loan agreements. A further US$0.2 million drawn down during the current year was an advance in respect of a further convertible loan facility of US$5.2 million with Varesona concluded in January 2013.

If the Outstanding Amounts are not repaid by the repayment dates, the Company will, subject to the receipt of all necessary shareholder approvals, issue new shares of the Company with a value, using a price equal to A$0.15 per share, equal to the Outstanding Amounts. If all necessary shareholder approvals for the conversion of the Convertible Loan Amounts into shares are not obtained, the Company must satisfy the Convertible Loan Amounts in cash and not shares.

Pursuant to the acquisition of Souville Investments Ltd in October 2010, the Group 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 year ended 31 December 2012 is US$474,584 and has been capitalised to the loan amount (2011: US$468,750). The loan is due for repayment on 27 September 2013 provided that any repayment of the loan may only be made from the proceeds after deducting costs (including expenses, taxes, royalties, etc.) of sales of oil or other assets ("Net Proceeds"), and to the extent that Net Proceeds are not sufficient to repay the loan and interest, then the term of repayment shall be extended for one year periods until the loan is fully paid or waived. Since it is not expected that Net Proceeds will be sufficient to repay any of the loan and interest by 27 September 2013, it is expected that the term of repayment shall be extended for one year until 27 September 2014.

PROJECTS

Yuzhno-Sardakovsky and Zapadno-Novomolodezhny Projects (in Western Siberia, Russia)

The acquisition of Vamaro Investments Limited ("Vamaro"), which was accounted for in November 2011, was completed in February 2012, following the payment of cash and issue of shares as consideration. Vamaro is the 100% legal and beneficial owner of two Russian companies that own two licences for geological study of subsoil, prospecting and extraction of oil and gas in the Yuzhno-Sardakovsky field and in the Zapadno-Novomolodezhny field in the Khanty-Mansiysk Autonomous Region in Western Siberia (respectively, the "Yuzhno-Sardakovsky Project" and the "Zapadno-Novomolodezhny Project").

Prior to the acquisition of the Yuzhno-Sardakovsky Project and the Zapadno-Novomolodezhny Project by the Company, 14 exploration wells had been drilled in the Zapadno-Novomolodezhny field and eight exploration wells had been drilled in the Yuzhno-Sardakovsky field. A communication corridor passes through the northern part of the Zapadno-Novomolodezhny field and includes pipelines and a hard-surface all-weather road, which can be used throughout the year, and a power transmission line.

During the year ended 31 December 2012, the Company worked over some of the historical well stock and constructed a short pipeline on the Zapadno-Novomolodezhny Project, to tie some of these wells into the existing pipeline, and completed the drilling of wells number 34 and 38 at its Yuzhno-Sardakovsky Project to final depths of approximately 3,500 metres. These wells were appraisal wells that were drilled with the purposes of increasing proved reserves in known reservoirs, discovering new production reservoirs, obtaining new core data, clarifying well production potential and preparing for production drilling of the field.

In a report, as of 31 July 2012, DeGolyer and MacNaughton ("D&M") estimated:

- the extent of the proved, probable and possible oil and natural gas reserves and estimated the proved reserves ("1P Reserves"), proved-plus-probable reserves ("2P Reserves") and proved-plus-probable-plus-possible reserves ("3P Reserves") of the Zapadno-Novomolodezhny field to be 2,288,000 barrels, 11,870,000 barrels and 63,612,000 barrels respectively,
- the net present value at a discount rate of 10% of the 2P Reserves of the Zapadno-Novomolodezhny field to be US$36,064,000,
- the extent of the proved, probable and possible oil and natural gas reserves and estimated the 1P Reserves, 2P Reserves and 3P Reserves of the Yuzhno-Sardakovsky field to be 374,000 barrels, 56,711,000 barrels and 97,693,000 barrels respectively, and
- the net present value at a discount rate of 10% of the 2P Reserves of the Yuzhno-Sardakovsky field to be US$273,667,000.

The reserves and prospective resources estimates presented in the D&M report have been prepared in accordance with the Petroleum Resources Management System ("PRMS") approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. "Reserves" as reported by D&M are defined as those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

The reserves report by D&M is available on the Company's website.

In the period from 27 August 2012 to 31 December 2012, the Company produced 25,000 barrels of oil from well number 52 at the Zapadno-Novomolodezhny Project at an average flow rate of 197 barrels per day. By 31 December 2012, the Company had sold 24,500 barrels of crude oil to local offtakers and had received payments for 99.6% of these sales and was using electric submersible pumps to test wells number 18 and 25 at the Zapadno-Novomolodezhny Project, with a view to bringing them into production during 2013.

The commencement of oil production in the Yuzhno-Sardakovsky block is expected to occur by April 2014. The nearest oil pipelines are 16 km from the block and the nearest hard-surface road is 11 km from the block.

Krasnoleninsky Project

The Company, through its wholly-owned subsidiary IPL Siberia Ltd, owns a 75% equity interest in Souville Investments Ltd ("Souville"). Souville is the 100% legal and beneficial holder of Irtysh-Neft, a Russian company having exploration rights to four blocks in Western Siberia ("Krasnoleninsky Project"). Assuryan Assets Ltd holds the remaining 25% interest in Souville and, by extension, the Krasnoleninsky Project. The four blocks comprising the Krasnoleninsky Project cover a total area of 1,467 km² and are located in the Khanty-Mansiysk 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 Paleozoic to Cretaceous, stacked upon each other, offering the potential of multiple producing zones in a single well.

In May 2011, drilling at both Well 1 and Well 2 reached the target depths of 2,850 metres and 2,930 metres respectively and oil was found during drilling of both wells. The results of the interpretation of electrical logging of Well 1 and Well 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.

During August 2011, the Company discovered an oilfield at Well 2 ("Yanlotskoye Field"). Oil commerciality was established in the J4 formation at the interval between 2,740 metres and 2,745 metres of Well 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.

Later in August 2011, the Company also discovered an oilfield during testing of Well 1 ("Vostochno-Kamskoye Field"). Oil commerciality was established in the J2-3 formation at the interval between 2,647 metres and 2,665.5 metres of Well 1, from which an unstimulated daily inflow of 5.5 cubic metres of oil was recorded.

During the year ended 31 December 2012, the Company conducted a stimulation programme using hydraulic fracturing in Well 1 and Well 2, and completed drilling Well 3 and Well 4, which were exploration wells to evaluate the first prospects in licence blocks 9 and 10 respectively of the Krasnoleninsky Project and took approximately two months to drill the well to their target true vertical depths of approximately 3,100 metres.

In a report, as of 31 July 2012, DeGolyer and MacNaughton estimated:

- the extent of the proved, probable and possible oil and natural gas reserves and estimated the Company's share of the 1P Reserves, 2P Reserves and 3P Reserves of the Vostochno-Kamskoye Field to be 111,000 barrels, 3,984,000 barrels and 46,078,000 barrels respectively,
- the net present value, at a discount rate of 10%, of the Company's share of the 2P Reserves of the Vostochno-Kamskoye Field to be US$6,107,000,
- the extent of the proved, probable and possible oil and natural gas reserves and estimated the Company's share of the 1P Reserves, 2P Reserves and 3P Reserves of the Yanlotskoye Field to be 866,000 barrels, 3,527,000 barrels and 26,132,000 barrels respectively, and
- the net present value, at a discount rate of 10%, of the Company's share the 2P Reserves of the Yanlotskoye Field to be US$3,085,000.

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").

The acquisition of Charlize Investments Limited, which was accounted for in December 2011, completed during January 2012, following the fulfilment of the closing conditions.

In a report, as of 31 July 2012, DeGolyer and MacNaughton estimated the prospective petroleum resources of three oil prospects that have been identified in the Druzhny Project in Siberia, Russia as:

- Low estimate 85,802,000 barrels
- Best estimate 144,858,000 barrels
- High estimate 262,522,000 barrels

The prospective resources volumes above have not been adjusted for geological or economic risks.

- "Prospective resources" as reported by D&M are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

- Low, Best and High estimates means there is a 90%, 50% and 10% chance, respectively, that an estimated quantity of resources volume will be equalled or exceeded assuming a discovery has been made (success case).

- There is no certainty that any portion of the prospective resources estimated by D&M on behalf of the Company will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

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 a report, as of 31 July 2012, DeGolyer and MacNaughton estimated the prospective petroleum resources of 12 oil and gas prospects that have been identified in the Alakol Project in Kazakhstan as:

- Low estimate 305,744,000 barrels
- Best estimate 517,307,000 barrels
- High estimate 980,994,000 barrels

The prospective resources volumes above have not been adjusted for geological or economic risks.

During the second half of 2013, 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.

Tubatse Project

During the year ended 31 December 2012, the Company revised the terms of the disposal of the Company's interest in three mineral farms in South Africa (the "Tubatse Project").

During October 2009, the Company entered into a sale agreement (the "Sale Agreement") with Nkwe Platinum Limited (ASX: NKP) ("Nkwe") relating to the Company's interest in the Tubatse Project.

During the year ended 31 December 2012, Nkwe announced that it:

(a) had been trying to settle a dispute about the ownership of two of the three mineral farms that comprise the Tubatse Project (the "Dispute") and maintained that the legal tenure of the farms cannot be abrogated and had received legal advice confirming this view, and
(b) was finalising negotiations with suitable joint venture partners (the "Joint Venture Negotiations"), who will contribute cash to Nkwe.

On 9 January 2012, the Company entered into an agreement to vary the terms of the Sale Agreement 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 (together, the "Consideration").

Owing to the continued delays to the settlement of the Dispute and the Joint Venture Negotiations, Nkwe had not been able to pay the A$45 million consideration to the Company by 30 June 2012. Therefore, the Company entered into a further agreement to vary the terms of the Sale Agreement in order to extend the latest date by which the Consideration is payable from 30 June 2012 to 31 December 2012.

Currently, owing to further delays to the Joint Venture Negotiations, Nkwe has not been able to pay the A$45 million consideration to the Company and, therefore, the Company is negotiating with Nkwe about entering into a further agreement to vary the terms of the Sale Agreement in order to extend the latest date by which the Consideration is payable from 31 December 2012 to 30 June 2013.

Niger Project

On 30 November 2012, four production sharing contracts (the "PSCs") between the Republic of Niger and International Petroleum Limited, which is incorporated in the Cayman Islands (the "Contractor") and is a wholly-owned subsidiary of the Company, relating to four blocks known as Manga 1, Manga 2, Aborak and Ténéré Ouest (the "Blocks") were signed.

The PSCs are expected to come into force during late March 2013, when the Company expects to pay the signature bonus to the Republic of Niger.

The Contractor will be the operator with a 100% ownership interest in the PSCs. The Exclusive Exploration Authorisation ("EEA") is granted for an initial period of four years and can be renewed twice for a period of two years per renewal period, provided that the total duration of the validity of the EEA resulting from the aggregation of the initial period of four years and renewal periods does not exceed eight years. If a commercial deposit is established, an application is made for allocation of an Exclusive Development Authorisation ("EDA") with an initial duration not exceeding 25 years and renewal for a maximum of ten years.

During the initial four year period of the EEA, the minimum work program is to conduct a gravity and magnetic survey, reprocess and reinterpret existing seismic lines, acquire and interpret new 2D seismic profiles and conduct exploration well drilling.

The Blocks are located in the south east of Niger in the West African Rift Subsystem, which is a component of the Western Central African Rift System and include parts of the Termit and N'Dgel Edgi rift basins, which contain continental to marine Early Cretaceous to Recent clastic sediments.

The areas of the Blocks are as follows:

Manga 1:	12,900 sq km
Manga 2:	11,490 sq km
Aborak:	24,640 sq km
Ténéré Ouest:	21,920 sq km
Total:	70,950 sq km

The Blocks are adjacent to the blocks known as Agadem and Ténéré, which are owned and operated by China National Petroleum Corporation ("CNPC"). On 28 November 2011, phase 1 of CNPC's Agadem upstream and downstream integrated project was completed and became operational. It includes a 1 million tonnes per year oilfield, the Zinder Refinery (with 1 million tonnes per year capacity) and a 462.5 km oil pipeline, which connects the oilfield to the Zinder Refinery. The Zinder Refinery produces petroleum, diesel, fuel oil, and LPG, which will be first supplied to the domestic market of Niger and then exported to surrounding countries. CNPC's Ténéré block covers the northern portion of the Termit-Ténéré Rift Basin in eastern Niger. The Termit-Ténéré Rift Basin is one arm of a series of rift basins that extend across north-central Africa. Similar basins in Libya, Chad and Sudan are currently in oil production. The southern half of the Termit-Ténéré Rift is covered by the adjacent Agadem block, where CNPC has made a series of oil and gas discoveries.

Result

The Group incurred a loss after income tax of US$3,362,144 for the year ended 31 December 2012 (2011: loss of US$27,463,912). The difference between the loss after income tax the current year, compared with the previous year, is mainly explained by an impairment loss of US$23,112,555 that was recognised during the previous year on the carrying value of capitalised exploration expenditure for the Tubatse Project, owing to uncertainty surrounding the ownership title of two of the three farms that comprise the Tubatse Project.

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

The Review of Operations on pages 3 to 8 outlines the significant changes in the state of affairs during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

In January 2013, the Company secured a US$5.2 million convertible loan facility from Varesona Participation Corporation ("Varesona"), an entity controlled by non-executive director Mr Frank Timis, to fund exploration expenditure and working capital. The convertible loan facility was fully drawn down during January 2013 ("Convertible Loan Amount") and interest is payable on the Convertible Loan Amount at 5% per annum. The Convertible Loan Amount plus interest ("Outstanding Amount") are due for repayment five business days after Varesona demands repayments of the Outstanding Amount.

On 21 February 2013, Mark Ashurst resigned as Non-Executive Director of the Company.

In March 2013, the Group acquired a 100% ownership interest in an exploration licence valid for five years over the Yanchinsky block for the geological study of subsoil and prospecting for oil and gas in the Nizhnevartovsk region of the Khanty-Mansiysk Autonomous District in Western Siberia.

No other event has arisen between 31 December 2012 and the date of this report that would be likely to materially affect the operations of the Group 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 Group 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. There have been no significant known breaches of the Company's exploration license conditions or any environmental regulations to which it is subject.

INFORMATION ON DIRECTORS

Antony Sage	*Non-Executive Chairman*
Qualifications	B.Com, FCPA, CA, FTIA
Experience	Mr Sage has in excess of 26 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, Global Strategic Metals N.L. and Fe Limited and is a Non-Executive director of ASX listed Matrix Metals Limited, an Executive director of ASX listed Kupang Resources 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 23 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
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.

Mark Ashurst	*Non-Executive Director (resigned 21 February 2013)*
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 McAvock	*Executive Director and Chief Financial Officer*
Qualifications	BA (Hons) Accountancy, Fellow of the Association of Chartered Certified Accountants
Experience	Mr McAvock has held senior financial positions in natural resource exploration businesses for ten years. He spent over three years as Group Financial Controller of 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) and four years as Group Financial Controller of African Minerals Limited (AIM: AMI), the iron ore project development company that is developing the Tonkolili project in Sierra Leone, West Africa.
Interest in Shares and Options	Mr McAvock has an interest in 90,000 fully paid ordinary shares. Mr McAvock 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*
Qualifications	BSc (Hons) Applied Physics
Experience	Mr Chris Hopkinson has 23 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*
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.
Pierre Godec	*Non-Executive Director (appointed 17 February 2012)*
Qualifications	Chevalier de la Legion d'Honneur, Chevalier de l'Ordre National du Merite, and a Fellow of the Energy Institute in London
Experience	Mr Godec spent 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 and also held the position of Chairman of the audit committee and the remuneration committee. Mr Godec is also 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.
Interest in Shares and Options	Mr Godec does not hold any shares or options in the Company.
Vladimir Mangazeev	*Non-Executive Director (appointed 1 March 2012)*
Qualifications	B.Bus, FCPA, FTIA, Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia
Experience	Mr Mangazeev has over 45 years' experience in the oil industry in Russia. He has worked for Tomskneft, as Chief Geologist, Deputy Director General for Geology where he was responsible for Tomskneft's Geological Department. He has also held the position of Vice-President of VNK (Eastern Oil Company), Executive Vice-President of Yukos Oil Company. 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 Mr Mangazeev has a degree from Tomsk Polytechnic University, majoring in Petroleum Geology and Exploration for Oil & Gas Fields.
Interest in Shares and Options	Mr Mangazeev does not hold any shares or options in the Company.

Mark Gwynne	*Non-Executive Director (resigned 1 March 2012)*
Qualifications	Mr Gwynne has been involved in exploration and mining for over 19 years and has held management positions on mine sites and in the service sector of the mining industry, including general manager of a consultancy firm. Mr Gwynne has extensive skills in exploration and mining logistics and management, as well as acquisition and divestment of mineral assets. Me Gwynne is also a director of Fe Limited, Kupang Resources Ltd and International Goldfields Ltd.
Interest in Shares and Options	Mr Gwynne does not hold any shares or options in the Company.

COMPANY SECRETARY

Claire Tolcon has over 15 years' of experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company and has a Bachelor of Laws and Bachelor of Commerce (Accounting) degree and has completed a Graduate Diploma of Applied Finance with the Financial Services Institute of Australasia and a Graduate Diploma of Corporate Governance with Chartered Secretaries of Australia Ltd.

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 other 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 (resigned 21 February 2013)
William McAvock	Executive Director and Chief Financial Officer
Chris Hopkinson	Executive Director and Chief Executive Officer
Tony Antoniou	Non-Executive Director
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
Kenneth Hopkins	Country Manager (Kazakhstan) – services agreement terminated 31 July 2012
Alexander Osipov	VP Business Development – appointed 6 June 2012 (formerly VP Russia)
Sergey Pisarchuk	General Director Moscow & Director of International Petroleum's Technical and Engineering Centre in Moscow - appointed 6 June 2012; following resignation, his employment contract terminated 28 February 2013.

There are no other specified executives of the Group.

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 Group is an exploration group, 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$466,695 (A$ 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 Group's key exploration projects, options awarded to executives of the Group contain vesting conditions which are related to the expansion of the Group's exploration asset portfolio and the discovery of hydrocarbons. Where performance conditions are not set,awards are designed to retain executives

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 parent company, International Petroleum Limited, for the years ended 30 June 2008 and 30 June 2009 and the performance of the Group for the 6 month period to 30 June 2010, the 6 month period to 31 December 2010 and the years ended 31 December 2011 and 31 December 2012:

	12 months ended 30 June 2008 US$	**12 months ended 30 June 2009 US$**	**6 months ended 30 June 2010 US$**	**6 months ended 31 Dec 2010 US$**	**12 months ended 31 Dec 2011 US$**	**12 months ended 31 Dec 2012 US$**
Profit / (loss) for the period	1,375,387	(934,273)	(8,869,365)	(6,669,644)	(27,463,912)	(3,362,144)
Basic EPS	0.0122	(0.0102)	(0.0075)	(0.0070)	(0.0279)	(0.0031)
Share price at end of period (A$)	A$0.43	A$0.20	A$0.30	A$0.16	A$0.15	A$0.065

Details of remuneration of directors and key management personnel of International Petroleum for the year ended 31 December 2012

The table below sets out the remuneration of the directors and key management personnel of International Petroleum and its subsidiaries for the year ended 31 December 2012.

	Short term benefits			Post-employment benefits	Share-based payments[1]			Performance related	Percentage of total remuneration that consists of options
	Salary and fees	Other cash benefits	Cash bonus	Pension contribution	Options	Shares	Total		
	US$	US$	US$	US$	US$	US$	US$	%	%
Directors									
A Sage (i)	103,550	-	-	-	-	-	103,550	-	-
T Turner (ii)	49,704	-	-	-	-	-	49,704	-	-
M Gwynne (iii)	4,142	-	-	-	-	-	4,142	-	-
F Timis (iv)	77,663	-	-	-	-	-	77,663	-	-
M Ashurst (v)	129,201	-	-	-	-	-	129,201	-	-
W McAvock (vi)	317,576	-	31,972	33,499	75,865	-	458,912	12	17
C Hopkinson (vii)	515,236	-	-	79,856	615,769	610,517	1,821,378	38	34
T Antoniou (viii)	63,166	-	-	-	-	-	63,166	-	-
P Godec (ix)	45,562	-	-	-	-	-	45,562	-	-
V Mangazeev (x)	41,420	-	-	-	-	-	41,420	-	-
	1,347,220	**-**	**31,972**	**113,355**	**691,634**	**610,517**	**2,794,698**	**26**	**25**
Key management									
A Belogortseva (xi)	317,137	-	-	-	-	-	317,137	-	-
K Hopkins (xiii)	257,600	-	-	-	(79,496)	-	178,104	-	-
A Osipov (xiv)	411,269	23,876	-	-	86,730	-	521,875	17	17
S Pisarchuk (xv)	114,921	-	-	-	38,823	-	153,744	25	25
C Tolcon (xvi)	83,599	-	-	-	-	-	83,599	-	-
Total	**2,531,746**	**23,876**	**31,972**	**113,355**	**737,691**	**610,517**	**4,049,157**	**22**	**19**

[1] Share based payments represents the fair value of options and deferred performance shares recognised in the financial statements during 2012.

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 year ended 31 December 2011.

	Short term benefits			Post-employment benefits	Share-based payments[1]			Performance related	Percentage of total remuneration that consists of options
	Salary and fees	Other cash benefits	Cash bonus	Pension contribution	Options	Shares	Total		
	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	67
C Hopkinson (vii)	377,179	-	-	8,583	1,975,070	446,860	2,807,692	45	70
T Antoniou (viii)	32,002	-	-	-	-	-	32,002	-	-
	1,014,139			**26,092**	**2,439,684**	**446,860**	**3,926,775**	**41**	**62**
Key management									
A Belogortseva (xi)	319,501	-	-	-	-	-	319,501	-	-
V Beloussov (xii)	265,432	80,100	-	-	722,799	-	1,068,331	46	68
K Hopkins (xiii)	441,600	-	-	-	204,939	-	646,539	32	21
A Osipov (xiv)	360,000	-	-	-	131,972	-	491,972	27	27
C Tolcon (xvi)	85,404	-	-	-	-	-	85,404	-	-
Total	**2,486,076**	**80,100**	**-**	**26,092**	**3,499,394**	**446,860**	**6,538,522**	**37**	**54**

[1] Share based payments represents the fair value of options and deferred performance shares recognised in the financial statements during 2011.
[2] Salary and fee amounts have been restated to reflect certain local salary payments totalling US$143,436 omitted from the Remuneration Report in the 2011 Annual Report.

(i) An aggregate amount of US$103,550 (A$100,000) was paid, or was due and payable, to Okewood Pty Ltd, a company controlled by Mr Sage, for the provision of his services as a director of the Company for the current year (2011: US$103,321).

(ii) An aggregate amount of US$49,704 (A$48,000) was paid, or was due and payable, to CRMS, an entity controlled by Mr Turner, for the provision of his services as a director of the Company for the current year (2011: US$49,551).

(iii) Mr Gwynne resigned as Non-Executive Director on 1 March 2012. An aggregate amount of US$4,142 (A$4,000) was paid, or was due and payable, to Silverwest Pty Ltd, a company controlled by Mr Gwynne for the provision of his services as a director of the Company for the current year (2011: US$49,551).

(iv) An aggregate amount of US$77,663 (A$75,000) was paid, or was due and payable, to Frank Timis for the provision of his services as a director of the Company for the current year (2011: US$77,423).

(v) An aggregate amount of US$129,201 was paid, or was due and payable, to MLR Advisory Ltd, a company controlled by Mr Ashurst for the current year (2011: US$116,332). Of this total, US$79,267 was for the provision of his consultancy services to the Group and US$49,934 (A$48,000) was for the provision of his services as a director of the Company for the current year (2011: US$66,781 and US$49,551 respectively).

(vi) An aggregate amount of US$317,576 (£200,000) was paid, or was due and payable, to William McAvock for the current year (2011: US$208,780). A bonus of US$31,972 (£20,000) was also paid to William McAvock during the current year in recognition of his services to the Group in 2011.

Mr McAvock holds 3,000,000 unlisted options in the Company. The options have an exercise price of A$0.25 and an expiry date of 1 June 2016. These options will vest upon the following conditions being met, on the assumption that Mr McAvock remains employed by the Group:

- 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 date of commencement of his employment by the Group.

The 1,000,000 options conditional on the Company securing a commercial discovery vested during the prior year, and a further 333,333 options vested in January 2012, following the first anniversary of the date of commencement of Mr McAvock's employment by the Group. The remaining 1,666,667 options were unvested as at 31 December 2012.

(vii) An aggregate amount of US$515,236 (£325,000) was paid, or was due and payable, to Mr Hopkinson for the current year (2011: US$377,179).

Mr Hopkinson holds 15,000,000 unlisted options in the Company. The options have an exercise price of A$0.25 and an expiry date of 1 June 2016. These options will vest upon the following conditions being met, on the assumption that Mr Hopkinson remains employed by the Group:

- 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;
- 2,500,000 will vest in each of 6 months, 12 months, 24 months and 36 months following the date of commencement of his employment by the Group.

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 six months of service to the Company vested during the prior year, with a further 2,500,000 options conditional on Mr Hopkinson providing 12 months of service to the Group vesting during the current year. The remaining 7,500,000 options were unvested as at 31 December 2012.

Mr Hopkinson was also granted 10,000,000 performance shares in the prior year. 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 2012 none of these performance shares have been issued.

(viii) An aggregate amount of US$49,704 (A$48,000) was paid, or was due and payable, to Mr Antoniou for the provision of his services as a director of the Company forthe current year (2011: US$32,002). An amount of US$13,462 (A$13,000) was also paid to Mr Antoniou for attending committee meetings.

(ix) Mr Godec was appointed on 17 February 2012. An aggregate amount of US$45,562 (A$44,000) was paid, or was due and payable, to Mr P Godec for the provision of his services as a director of the Company for the current year (2011: US$ nil).

(x) Mr Mangazeev was appointed on 1 March 2012. An aggregate amount of US$41,420 (A$40,000) was paid, or was due and payable, to Mr Mangazeev for the provision of his services as a director of the Company for the current year (2011: US$ nil).

(xi) An aggregate amount of US$317,137 was paid, or was due and payable, to Ms Belogortseva for the provision of her services as Kazakhstan Regional Manager for the current year (2011: US$319,501).

Ms Belogortseva holds 1,500,000 unlisted options in the Company. The options have an exercise price of A$0.25 and an expiry date of 16 March 2016. The options were issued and vested during 2010.

(xii) An aggregate amount of US$ nil 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 (2011: US$168,600); a further US$96,832 was paid in the prior year to Dr Beloussov in local fees for services as a director of North Caspian Petroleum Limited branch in Kazakhstan. The service agreements were terminated in June 2011.

(xiii) Mr Hopkins's employment agreement with the Group was terminated on 31 July 2012. An aggregate amount of US$257,600 was paid, or was due and payable, to Mr Hopkins for the provision of his services as Country Manager (Kazakhstan) for the current year (2011: US$441,600).

1,500,000 vested options held by Mr Hopkins were cancelled, and 1,000,000 unvested options held by Mr Hopkins were forfeited, following termination of his employment agreement.

(xiv) A total of US$411,269 (2011: US$360,000) was paid, or was due and payable, for the year, in respect of Mr Osipov's services as VP Russia until June 2012 and as VP Business Development from June 2012 onwards. Of this amount, US$ nil (2011: US$120,000) was paid to Hamunts Ltd and the remaining US$411,269 (2011: US$240,000) was paid to Mr Osipov. In addition, the Group paid for living accommodation for Mr Osipov amounting to US$ 23,876 (2011:US$ nil).

Mr Osipov holds 2,000,000 options in the Company with an exercise price of A$0.25 and an expiry date of 16 March 2016. The options were awarded on 23 August 2010 and issued on 17 March 2011. These options will vest upon the following conditions being met, on the assumption that Mr Osipov remains employed by the Group:

- 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. As a result of an acquisition on 3 November 2011, a further 500,000 options, with an exercise price of A$0.25 and an expiry date of 18 July 2017, were awarded and vested immediately. These options were issued in July 2012.

(xv) An aggregate amount of US$114,921 was paid, or was due and payable, to Mr Pisarchuk for the provision of his services since June 2012 as General Director of the Moscow Office and Director of International Petroleum's Technical and Engineering Centre in Moscow for the current year (2011: nil).

Mr Pisarchuk holds 1,500,000 options in the Company with an exercise price of A$0.25 and an expiry date of 15 April 2016. The options were issued on 18 July 2011. These options will vest upon the following conditions being met, but any unexercised options will be forfeited following the termination on 28 February 2013 of Mr Pisarchuk's employment by the Group:

- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.75 for 30 consecutive days
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.50 for 30 consecutive days

No options vested during either the current year or the prior year.

(xvi) An aggregate amount of US$83,599 (A$80,733) was paid, or was due and payable, to Bedaam Pty Ltd, an entity controlled by MsTolcon for company secretary and legal counsel services provided in the current year (2011: US$85,404)

There were no options awarded to directors and key management during the current year (2011: 18,500,000 options). Of the options awarded in prior periods, 2,833,333 options vested during the current year (2011: 6,500,000 options). The value of options that are expected to vest and which had not vested at 31 December 2012 will be recognised over the appropriate vesting periods.

Options recognised as part of key management remuneration for the year ended 31 December 2012

The options that are reflected in the key management remuneration for the current year, and those of which vested during the current year, are as follows:

	Number of options awarded	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 current year	
Directors								**Number**	**%**
Mr W McAvock	3,000,000	27 May 2011	0.19[3]	0.25	1 Jun 2016	27 May 2011	1 Jun 2016	333,333	11
Mr C Hopkinson	15,000,000	27 May 2011	0.19[3]	0.25	1 Jun 2016	27 May 2011	1 Jun 2016	2,500,000	17
Other key management									
Mr K Hopkins[6]	2,500,000	1 Oct 2010	0.20[4]	0.25	16 Mar 2016	18 Aug 2010	16 Mar 2016	-	-
Mr O Osipov	1,500,000	23 Aug 2010	0.21[5]	0.25	16 Mar 2016	23 Aug 2010	16 Mar 2016	-	-
Mr S Pisarchuk	1,500,000	24 May 2011	0.19[3]	0.25	15 Apr 2016	24 May 2011	15 Apr 2016	-	-
Total	**23,500,000**							**2,833,333**	**12**

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$, equivalent to US$0.26 at the prevailing exchange rate on 31 December 2012.

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

4 The US$ equivalent fair value on date of award is US$0.18

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

6 On 31 July 2012, Mr Hopkins's employment agreement was terminated with the Group. 1,500,000 vested options held by Mr Hopkins were cancelled, and 1,000,000 unvested options held by Mr Hopkins were forfeited, following termination of his employment agreement.

Options awarded, exercised, lapsed or forfeited during the year ended 31 December 2012

There were no options granted to or exercised by key management personnel during the current year. 1,500,000 vested options held by Mr Hopkins were cancelled, and 1,000,000 unvested options held by Mr Hopkins were forfeited, following termination of his employment agreement.

	Number of options forfeited during the current year	Value of options forfeited during the current year US$
Key management		
K Hopkins	**1,000,000**	**69,106**

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$103,550 for 2012. 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$49,704 for 2012. 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 had 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. Mr Gwynne resigned as a Non-Executive Director of the Company on 1 March 2012.

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. 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.

Mark Ashurst - Non-Executive Director – resigned 21 February 2013

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 fees of A$48,000 for his services as a director for the current year were settled in pounds sterling, equivalent to US$49,704. US$79,497 was also paid to Mr Ashurst for consultancy services provided to other companies in the Group during the current year.

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, equivalent to a total of US$77,423 for the current year.

William McAvock - Executive Director and Chief Financial Officer)

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 now effective;

(b) Rate: Annual salary of £200,000. Mr McAvock's salary is settled in pounds sterling, equivalent to US$317,576 for the current year.

(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. An amount of US$31,972 (£20,000) was paid as a bonus to Mr McAvock during the current year (2011: nil) in recognition of his services to the Group in 2011.

(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 Group 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.

Chris Hopkinson – Executive Director and Chief Executive Officer

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 now effective;

(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$515,236.

(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. During the current year no bonus was paid to Mr Hopkinson.

(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 Group 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 Group 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 Group 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 Group 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 Group at the time.

As at 31 December 2012, the performance milestones on these performance shares had not yet occurred. US$610,517 has been recognised in the current year in relation to these performance shares (2011: US$446,859).

Tony Antoniou – Non-Executive Director

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, equivalent to US$49,704 for the current year. Mr Antoniou was also paid A$13,000 (US$13,462) for attending committee meetings of the Company.

Pierre Godec – Non-Executive Director

The engagement conditions of Pierre Godec were approved by the Board on his appointment as a non-executive director with a fee of A$4,000 per month. Mr Godec's fee is settled in Australian dollars, equivalent to US$45,562 for the current year.

Vladimir Mangazeev – Non-Executive Director

The engagement conditions of Vladimir Mangazeev were approved by the Board on his appointment as a non-executive director with a fee of A$4,000 per month. Mr Mangazeev's fee is settled in Australian dollars, equivalent to US$41,420 for the current year.

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: UK annual salary of £100,000 per year, settled in pounds sterling, equivalent to US$158,497 in the current year; a further 10% of UK salary is paid in lieu of pension contributions; and an allowance of £100 per day spent in Kazakhstan paid net, after settlement of payroll taxes.

(b) Local fees of US$75,040 (2011: US$46,604) paid for services as a director of North Caspian Petroleum Limited branch in Kazakhstan.

(c) Award of 1,500,000 options with an exercise price of A$0.25 and expiry date of 16 March 2016. The options were awarded on 1 July 2010 and vested on issue in the prior year.

(d) An annual performance bonus may be awarded at the discretion of the Board. No bonus was paid to Ms Belogortseva during the current year or prior year.

Kenneth Hopkins - Country Manager (Kazakhstan)

Mr Hopkins's employment agreement was terminated with the Group on 31 July 2012. The previous terms of the engagement were 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 16 March 2016. 500,000 of these options vested on award. The remaining options were 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.

All options held by Mr Hopkins were forfeited or cancelled following termination of his employment contract with the Group.

Alexander Osipov - VP Business Development (formally 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: £155,000 per year.

(d) The Group provides living accommodation for Mr A Osipov.

(e) Award of 2,000,000 options with an exercise price of A$0.25 and expiry date of 16 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.
- An annual performance bonus may be awarded at the discretion of the Board. No bonus was paid to Mr Osipov during the current year or prior year.

Also on 23 August 2010, it was agreed that 500,000 options would be awarded to Mr Osipov upon each acquisition of a new project to which he contributes. As a result of an acquisition on 3 November 2011, 500,000 options were awarded and vested immediately, with an exercise price of A$0.25 and expiry date of 18 July 2017.

Sergey Pisarchuk – General Director Moscow & Director of International Petroleum's Technical and Engineering Centre in Moscow

The engagement conditions of Sergey Pisarchuk were previously approved by the Board on commencement of his employment in 2011. This position commenced in July 2012. The terms of the engagement are as follows:

(a) Rate: RUB 572,000 (US$19,067) per month.

(b) An annual performance bonus may be awarded at the discretion of the Board, up to 100% of Mr Pisarchuk's annual salary. No performance bonus was awarded to Mr Pisarchuk as General Director since his appointment during the current year.

(c) Award of 1,500,000 options in the prior year with an exercise price of A$0.25 and expiry date of 15 April 2016. The options are subject to the following vesting conditions:

- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days.
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.75 for 30 consecutive days.
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days.
- 375,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.50 for 30 consecutive days.

Mr Pisarchuk's employment was terminated on 28 February 2013.

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$3,111 (A$3,000) per month for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of US$1,514 (A$1,460) per day being payable to Bedaam Pty Ltd.

End of remuneration report

MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

		Meetings of committees			
	Directors' meetings	Audit and Risk	Remuneration and Nomination	Continuous Disclosure[1]	Health, Safety, Social and Environmental
Number of meetings held:	6	3	-	-	-
Number of meetings attended:					
Antony Sage	1	1	-	-	-
Mark Ashurst	2	2	-	-	-
Timothy Turner	5	3	-	-	-
Frank Timis	5	-	-	-	-
William McAvock	6	3	-	-	-
Chris Hopkinson	5	-	-	-	-
Tony Antoniou	6	3	-	-	-
Mark Gwynne	-	-	-	-	-
Pierre Godec	5	-	-	-	-
Vladimir Mangazeev	5	-	-	-	-

The directors were eligible to attend all directors' meetings except Mark Gwynne, who was not eligible to attend any directors' meetings, as none were held during the period from 1 January 2012 to his resignation on 1 March 2012.

[1] In accordance with the continuous disclosure charter adopted by the Company, throughout the financial year the continuous disclosure committee considered 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	Health, Safety, Social and Environmental Committee
Chairman of the committee	Tony Antoniou	Antony Sage	Antony Sage	Pierre Godec
Member	Timothy Turner	Pierre Godec	Pierre Godec	Chris Hopkinson
Member	Antony Sage	Tony Antoniou	Chris Hopkinson	Vladimir Mangazeev
Member			William McAvock	
Member			Tony Antoniou	

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 A$	Number under option
30 June 2013	0.25	500,000
30 June 2013	0.35	500,000
30 June 2013	0.45	500,000
30 June 2013	0.55	500,000
30 June 2013	0.65	500,000
1 June 2014	0.30	200,000
16 November 2015	0.30	8,000,000
16 March 2016	0.25	3,500,000
15 April 2016	0.25	3,000,000
1 June 2016	0.25	18,000,000
8 August 2016	0.25	3,000,000
5 March 2017	0.25	1,500,000
18 July 2017	0.25	2,000,000

Shares issued on the exercise of options

During the year, no ordinary shares were issued upon the exercise of options (2011: nil).

PROCEEDINGS ON BEHALF OF THE GROUP

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

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

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 30.

NON AUDIT SERVICES

Non-audit services to the value of US$419,726 (2011: nil) were provided by related practices of the Company's auditors, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

William McAvock
Director

London, 28 March 2013

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

In relation to our audit of the consolidated financial report of International Petroleum Limited and its controlled entities for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
28 March 2013

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of International Petroleum Limited (the "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 by 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, Mr T. Antoniou, Mr V. Mangazeev and Mr P. Godec 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. Sage	7 years, 1 month	(Chairman)
F. Timis	2 years, 8 months	(Non-Executive Director)
T. Turner	7 years, 1 month	(Non-Executive Director)
W. McAvock	2 years, 2 months	(Chief Financial Officer, Executive Director)
C. Hopkinson	1 year, 11 months	(Chief Executive Officer, Executive Director)
T. Antoniou	1 year, 9 months	(Non-Executive Director)
P. Godec	1 year, 1 month	(Non-Executive Director)
V. Mangazeev	1 year, 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$466,695 (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.

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 (resigned 21 February 2013)
- 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)
- Antony Sage
- Tony Antoniou
- Pierre Godec
- Timothy Turner

Subsequent to the current year end, Antony Sage became Chairman of the Remuneration and Nomination Committee, replacing Mark Ashurst following his resignation as a director of the Company on 21 February 2013. Timothy Turner is no longer a member of the committee.

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 during the year were:

- Antony Sage (Chairman)
- Mark Ashurst (resigned 21 February 2013)
- Timothy Turner
- Tony Antoniou
- Pierre Godec
- Chris Hopkinson
- William McAvock

Timothy Turner and Mark Ashurst are no longer members of the committee. 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.

Health, Safety, Social and Environmental Committee

Although the ultimate responsibility for establishing Health, Safety, Social and Environmental ("HSSE") policies shall remain with the Board, the Company has established a Health, Safety, Social and Environmental Committee which is responsible for:
(a) formulating and recommending to the Board the policy for HSSE issues as they affect the Group's operations;
(b) reviewing management investigations of incidents or accidents that occur in order to assess whether HSSE policy improvements are required; and
(c) inviting specialists with appropriate technical expertise to attend HSSE Committee meetings.

The members of the Health, Safety, Social and Environmental Committee during the year were:
- Pierre Godec (Chairman)
- Chris Hopkinson
- Vladimir Mangazeev

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Continuing operations			
Revenue	5(a)	**117,247**	123,322
Consulting expenses		**(2,375,300)**	(736,034)
Compliance and regulatory expenses		**(649,063)**	(325,816)
Other expenses		**(1,270,976)**	(1,467,752)
Occupancy costs		**(129,817)**	(78,990)
Employee expenses	5(b)	**(2,129,077)**	(3,597,280)
Foreign currency (losses) / gains		**(421,744)**	63,900
Depreciation expense		**(10,989)**	(5,228)
Profit on disposal of financial assets		**17,329**	-
Gain on derivative financial instruments	10	**484,677**	-
Finance costs	5(c)	**(1,520,892)**	(924,417)
Allowances for impairment	5(d)	**(1,925,527)**	(23,112,555)
Loss before income tax from continuing operations		**(9,814,132)**	(30,060,850)
Income tax benefit	4	**6,451,988**	2,596,938
Loss for the year		**(3,362,144)**	(27,463,912)
Other comprehensive income			
Fair value loss on financial assets available-for-sale		**(684,532)**	(910,926)
Tax on fair value loss on financial assets available for sale		**153,052**	283,931
Fair value loss on financial assets available for sale recognised as impairment loss in loss for the year		**1,644,254**	-
Tax on fair value loss on financial assets available for sale recognised as impairment loss for the year		**(493,276)**	-
Realised gain on financial asset available for sale transferred to loss for the year, net of tax		**(28,086)**	-
Foreign exchange (loss) / gain on translation of foreign operations		**(1,404,193)**	2,945,236
Other comprehensive (loss) / income for the year, net of tax		**(812,781)**	2,318,241
Total comprehensive loss for the year		**(4,174,925)**	(25,145,671)
(Loss) / profit for the year is attributable to:			
Owners of the parent		**(3,560,998)**	(26,761,321)
Non-controlling interest		**198,854**	(702,591)
		(3,362,144)	(27,463,912)
Total comprehensive (loss) / profit for the year is attributable to:			
Owners of the parent		**(4,531,141)**	(24,132,265)
Non-controlling interest		**356,216**	(1,013,406)
		(4,174,925)	(25,145,671)
EPS attributable to members			
Basic/diluted loss per share (cents)	24	**(0.31)**	(2.79)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2012 US$	31 December 2011 US$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**374,980**	918,421
Trade and other receivables	8	**4,511,331**	1,101,072
Prepayments		**196,150**	131,268
Inventories	9	**670,305**	8,479
Derivative financial assets	10	**3,955,072**	-
TOTAL CURRENT ASSETS		**9,707,838**	2,159,240
NON CURRENT ASSETS			
Restricted cash	11	**113,781**	245,956
Plant and equipment	12	**1,483,316**	57,770
Financial assets available-for-sale	13	**357,250**	1,032,909
Deferred tax asset	4	**42,716**	13,535
Exploration and evaluation expenditure	14	**181,906,360**	140,217,437
TOTAL NON CURRENT ASSETS		**183,903,423**	141,567,607
TOTAL ASSETS		**193,611,261**	143,726,847
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	**27,183,163**	15,695,199
Borrowings	17	**16,790,164**	15,366,801
Income tax payable		**247,135**	1,937,023
TOTAL CURRENT LIABILITIES		**44,220,462**	32,999,023
NON CURRENT LIABILITIES			
Borrowings	17	**13,565,337**	13,090,753
Deferred tax liability	4	**4,873,436**	8,905,339
Provisions	18	**7,589,085**	1,312,737
TOTAL NON CURRENT LIABILITIES		**26,027,858**	23,308,829
TOTAL LIABILITIES		**70,248,320**	56,307,852
NET ASSETS		**123,362,941**	87,418,995
EQUITY			
Contributed equity	19	**270,249,312**	232,205,203
Reserves	20	**(89,368,130)**	(90,472,749)
Accumulated losses	21	**(58,911,382)**	(55,350,384)
Equity attributable to equity holders of the parent		**121,969,800**	86,382,070
Non-controlling interest		**1,393,141**	1,036,925
TOTAL EQUITY		**123,362,941**	87,418,995

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Contributed equity US$	Accumulated losses US$	Share-based payment reserve US$	Revaluation reserve US$	Merger reserve US$	Foreign currency translation reserve US$	Non-controlling interest US$	Total US$
AS AT 1 JANUARY 2012		**232,205,203**	**(55,350,384)**	**5,276,264**	**(765,769)**	**(101,516,017)**	**6,532,773**	**1,036,925**	**87,418,995**
(Loss) / profit for the year	21	**-**	**(3,560,998)**	**-**	**-**	**-**	**-**	**198,854**	**(3,362,144)**
Other comprehensive income / (loss) for the year		**-**	**-**	**-**	**591,412**	**-**	**(1,561,555)**	**157,362**	**(812,781)**
Total comprehensive loss / (income) for the year		**-**	**(3,560,998)**	**-**	**591,412**	**-**	**(1,561,555)**	**356,216**	**(4,174,925)**
Transactions with owners in their capacity as owners									
Share issue	19	**35,523,023**	**-**	**-**	**-**	**-**	**-**	**-**	**35,523,023**
Transaction costs on share issue		**(1,477,539)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,477,539)**
Shareholder equity contribution		**3,998,625**	**-**	**-**	**-**	**-**	**-**	**-**	**3,998,625**
Share based payments	22	**-**	**-**	**2,074,762**	**-**	**-**	**-**	**-**	**2,074,762**
AS AT 31 DECEMBER 2012		**270,249,312**	**(58,911,382)**	**7,351,026**	**(174,357)**	**(101,516,017)**	**4,971,218**	**1,393,141**	**123,362,941**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Contributed equity US$	Accumulated losses US$	Share-based payment reserve US$	Revaluation reserve US$	Merger reserve US$	Foreign currency translation reserve US$	Non-controlling interest US$	Total US$
AS 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 year	21	-	(26,761,321)	-	-	-	-	(702,591)	(27,463,912)
Other comprehensive income / (loss) for the year		-	-	-	(626,995)	-	3,256,051	(310,815)	2,318,241
Total comprehensive (loss) / income for the year		-	(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
AS 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.

CONSOLIDATED STATEMENT OF CASHFLOWS

	Note	**Year ended 31 December 2012 US$**	**Year ended 31 December 2011 US$**
Cash flows from operating activities			
Payments to suppliers and employees		**(3,506,553)**	(1,931,219)
Interest received		**40,607**	155,935
Income tax paid		**(8,897)**	-
Net cash flows used in operating activities	7(b)	**(3,474,843)**	(1,775,284)
Cash flows from investing activities			
Payment for plant and equipment		**(1,519,666)**	(33,096)
Receipt / (payment) of security deposits		**152,332**	(144,234)
Payment for exploration and evaluation activities		**(23,775,922)**	(24,297,004)
Payment for acquisition of controlled entity, net of cash acquired	15	**(3,000,000)**	5,007
Payment of liabilities assumed through acquisition of controlled entity	15	**(4,000,000)**	-
Proceeds from repayment of loan from related party		**-**	14,453
Net cash used in investing activities		**(32,143,256)**	(24,454,874)
Cash flows from financing activities			
Proceeds from issue of shares		**35,523,023**	-
Transaction costs of issue of shares		**(1,477,539)**	-
Proceeds from borrowings		**8,400,000**	14,931,592
Repayment of borrowings		**(7,110,000)**	-
Interest paid		**(233,631)**	-
Net cash flows from financing activities		**35,101,853**	14,931,592
Net decrease in cash and cash equivalents		**(516,246)**	(11,298,566)
Cash and cash equivalents at the beginning of the year		**918,421**	12,821,534
Net foreign exchange difference		**(27,195)**	(604,547)
Cash and cash equivalents at the end of the year		**374,980**	918,421

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

The consolidated financial statements of International Petroleum Limited (the "Company" or the "Parent") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2013.

International Petroleum Limited is a 'for profit entity' and is a company limited by shares incorporated in Australia. Its shares are publicly traded on the National Stock Exchange of Australia (code: IOP).

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 financial assets available for sale and derivative financial assets, which have been measured at fair value.

The financial report is presented in United States dollars ("US$" or "US dollars").

(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.

During the year ended 31 December 2012, the Group incurred a net loss after tax of US$3,362,144 and a net cash outflow used in operating activities of US$3,474,843. The cash and cash equivalents balance, as at 31 December 2012 was US$374,980. The Group's net current liability position at 31 December 2012 was US$34,512,624.

The ability of the Group to pay its trade creditors, repay its borrowings and continue its planned exploration and evaluation activities and maintain its going concern status is dependent on the Group raising additional cash within the short term. At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to operate as a going concern by raising further funds as required. In forming this view, the directors have considered the Group's position and are pursuing multiple financing options, including (a) negotiating agreements with trade creditors to extend payment terms, (b) the completion of a transaction presented to Company in respect of a loan and an acquisition, (c) finalising agreements with lenders to extend the repayment date of borrowings, (d) raising additional equity finance, and (e) the sale of certain platinum and oil & gas assets.

There are a number of inherent uncertainties about the successful completion of the financing options listed above, including but not limited to (i) trade creditors not agreeing to extend payment terms and filing legal claims to recover the amounts owed to them, (ii) the transaction presented to Company in respect of a loan and an acquisition not completing, (iii) lenders not agreeing to extend the repayment date of borrowings, (iv) conditions in the equity markets resulting in difficulties raising additional equity finance, (v) platinum prices and other conditions in the mining industry resulting in difficulties achieving a satisfactory price for the sale of certain platinum assets, and (vi) oil prices and other conditions in the oil & gas industry resulting in difficulties achieving a satisfactory price for the sale of certain oil & gas assets.

Should the Group not be able to manage the inherent uncertainties referred to above and to successfully complete a sufficient number of the financing options set out above, there would be significant uncertainty as to whether it would be able to meet its debts as and when they fall due and therefore continue as a going concern.

These financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Group not be able to continue as a going concern.

(b) Comparative financial information

The comparative information presented is for the year ended 31 December 2011. The current information presented is for the year ended 31 December 2012. Certain comparative amounts have been reclassified in order to be comparable with current year presentation.

(c) Compliance with IFRS

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

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 the Group 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 financial year. From 1 January 2012, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 January 2012. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

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 Group for the year ended 31 December 2012 are set out below. The Group is still in the process of determining the impact of the new standards and interpretations, although it does not expect the adoption of AASB 10, AASB11, AASB 12 and AASB 13 to have a significant impact on the Group.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-9	Amendments to Australian Accounting Standards – *Presentation of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 January 2013

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 10	*Consolidated Financial Statements*	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.* 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. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 January 2013
AASB 11	*Joint Arrangements*	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly-controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 January 2013

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 12	*Disclosure of Interests in Other Entities*	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments 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.	1 January 2013	1 January 2013
AASB 13	*Fair Value Measurement*	AASB 13 establishes a single source of guidance 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. 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. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 January 2013
AASB 119	*Employee Benefits*	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 January 2013

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2012-2	Amendments to Australian Accounting Standards – *Disclosures – Offsetting Financial Assets and Financial Liabilities*	AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 January 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1) • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 January 2013	1 January 2013
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	*Financial Instruments*	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. 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. (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: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	1 January 2015

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 1053	*Application of Tiers of Australian Accounting Standards*	This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this standard) (b) The Australian Government and State, Territory and Local governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1 and 2012-7.	1 July 2013	1 January 2014
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 January 2014

(a) Consolidation

The consolidated financial statements comprise the financial statements of International Petroleum Limited and its subsidiaries for the year ended 31 December 2012.

Subsidiaries are all of those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by International Petroleum Limited are accounted for at cost in the separate financial statements of the Parent less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

(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 Operating Segments 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".

(c) Foreign currency translation

Functional and presentation currency
The Company has elected US dollars as its presentation currency. Where the functional currencies of entities within the Group differ from US dollars, they have been translated into US dollars. The functional currency of the Company is Australian dollars. The Company is listed on the National Stock Exchange of Australia ('NSX').

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.

Group companies – translation from functional currencies to presentation currency
On consolidation, the assets and liabilities of foreign operations are translated into US dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(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 Group 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 other 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.

(e) 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 Group 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.

(f) 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 is determined at the date of initial recognition and depends on the purpose for which the investments were acquired or originated.

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.

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 Group 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.

Financial assets available-for-sale
Financial assets available-for-sale, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the categories. Subsequent to initial recognition, financial assets available-for-sale are carried at fair value with revaluation gains and losses recorded in other comprehensive income.

Derivative financial assets
Derivative financial assets are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss. The Group does not hold any derivatives for hedging purposes.

Impairment of financial assets
At the end of each reporting period, the Group assesses whether there is objective evidence that loans and receivables or financial assets available-for-sale are impaired. In the case of available-for-sale financial instruments, a prolonged decline in their value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised to profit / loss for the year in the consolidated statement of comprehensive income.

(g) 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.

Revenues and related costs arising from the sale of oil from an area of interest during its exploration phase are credited / charged to exploration and evaluation expenditure, and to oil and gas properties during the development phase prior to achieving commercial production.

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.

(h) Plant and equipment

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 Group 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	14-50%

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

(i) 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 Group prior to the reporting date that are unpaid and arise when the Group 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.

(j) Provisions

Provisions are recognised when the Group 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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

(k) Contributed equity

Contributed equity is recognised at the fair value of the consideration received by the Group. 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.

(l) Share-based payments

The fair value of shares issued and options granted are recognised as an expense or an asset as appropriate, 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.

(m) 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 Group 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 Group'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 Group 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 income
Interest income is recognised 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 revenue
Other revenue is recognised when the Group's right to receive the payment is established.

(n) 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.

(o) Other taxes

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

- where the VAT/GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT/GST 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 VAT/GST included.

The amounts of VAT/GST recoverable from, or payable to, taxation authorities are included as part of receivables or payables in the Consolidated Statement of Financial Position.

Receipts and payments of VAT/GST are categorised under operating, investing and financing activities in the Consolidated Statement of Cash Flows in line with the transactions on which the VAT/GST originates.

(p) 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.

(q) 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 due 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 due to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group 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.

(r) 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 re-measured 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 Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group'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.

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 re-measured.

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

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short-term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and also are rarely debt funded. Any related borrowing costs incurred during this phase are therefore generally recognised in profit and loss in the period they are incurred.

(t) 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 Group.

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 Group assesses impairment at each reporting date by evaluating conditions specific to the Group 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 2012 the sale has not been finalised. In the year ended 31 December 2011, an impairment loss of US$23,112,555 was recognised against 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 Group 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 financial assets available-for-sale, 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 recognised in the profit or loss for the year in in the Consolidated Statement of Comprehensive Income.

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

Exploration and evaluation expenditure
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 Group's interest in exploration expenditure is dependent upon:

- the continuance of the Group'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.

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.

All expenses incurred by NCPL in meeting its obligations under the minimum work programme are included in the capitalised exploration and evaluation costs presented on the statement of financial position for the Group.

Business combination
The acquisition of Vamaro Investments Limited ("Vamaro"), which was accounted for in November 2011, was completed in February 2012, following the payment of cash and issue of shares as consideration. Vamaro is the 100% legal and beneficial owner of two licences for geological study of subsoil, prospecting and extraction of oil and gas in the Yuzhno-Sardakovsky field and in the Zapadno-Novomolodezhny field in the Khanty-Mansiysk Autonomous Region in Western Siberia (Respectively, the "Yuzhno-Sardakovsky Project" and the "Zapadno-Novomolodezhny Project").

On 4 November 2011, the Company, through its wholly owned subsidiary IPL Siberia Limited, 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").

The acquisition of Charlize Investments Limited, which was accounted for in December 2011, completed during January 2012, following the fulfilment of the closing conditions.

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

Income taxes
The Group 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 Group estimates its tax liabilities based on its 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 Group does not recognise deferred tax assets relating to carried forward tax losses or temporary differences where 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 Group 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.

Restoration provision
The Group has recognised a provision for site restoration associated with the Kazakhstan and Russian projects. In determining ther 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 2012 was US$7,589,085 (31 December 2011: US$1,312,737).

Derivative financial assets
The Group has measured derivative financial assets at fair value at the reporting date. The fair value is determined using the Black-Scholes model. The related assumptions are detailed in Note 10.

Functional currency
Under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, each entity within the Group is required to determine its functional currency, which is the currency of the primary economic environment in which the entity operates. Management considers all its foreign subsidiaries and branches to be foreign operations whose functional currencies are the local currencies of the economies in which they operate. In arriving at this determination, management has given priority to the currency that influences the labour, material and other costs of exploration activities, as they consider this to be a primary indicator of each functional currency.

4. INCOME TAX

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
(a) The income tax benefit for the year comprises:		
Current tax	**(1,710,520)**	32,764
Deferred tax	**(4,741,468)**	(2,629,702)
	(6,451,988)	(2,596,938)
(b) The prima facie tax on loss before income tax from continuing operations is reconciled to the income tax benefit as follows:		
Prima facie tax benefit based on loss before income tax from continuing operations at 30% (Australian tax rate)	**(2,944,239)**	(9,018,255)
Foreign tax rate adjustment	**570,174**	3,612,297
	(2,374,065)	(5,405,958)
Add / (less) tax effect of:		
- Adjustment to current tax related to prior years	**(1,718,417)**	-
- Non-deductible items	**447,594**	16,777
- Adjustment to deferred tax related to prior years	**(3,737,215)**	-
- Unrecognised deferred tax asset attributable to tax losses and other temporary differences	**930,115**	2,792,243
Income tax benefit attributable to the Group	**(6,451,988)**	(2,596,938)

Recognised deferred tax assets and liabilities

The deferred tax balances comprise temporary differences attributable to:

	31 December 2012 US$	31 December 2011 US$
Available for sale financial assets	**-**	(119,073)
Exploration and evaluation expenditure	**(8,122,741)**	(11,376,219)
Tax losses	**3,217,725**	2,552,918
Other deductible temporary differences	**31,580**	37,036
Deferred tax liability	**(4,873,436)**	(8,905,339)
Other deductible temporary differences	**42,716**	13,535
Deferred tax asset	**42,716**	13,535
Net deferred tax liability	**(4,830,720)**	(8,891,804)

Movement in net deferred tax liability during the current year

				Recognised in other comprehensive income		
	As at 1 January 2012 US$	Recognised as part of a business combination US$	Tax income / (expense) for the year recognised in income US$	Revaluation of financial assets US$	Foreign exchange differences US$	As at 31 December 2012 US$
Available for sale financial assets	**(119,073)**	-	464,027	(343,162)	(1,792)	**-**
Exploration and evaluation expenditure	**(11,376,219)**	-	3,757,692	-	(504,214)	**(8,122,741)**
Tax losses	**2,552,918**	-	499,542	-	165,265	**3,217,725**
Other deductible temporary differences	**50,570**	-	20,207	-	3,519	**74,296**
Net deferred tax liability	**(8,891,804)**	-	4,741,468	(343,162)	(337,222)	**(4,830,720)**

Movement in net deferred tax liability during the prior year

	As at 1 January 2011 US$	Recognised as part of a business combination US$	Tax income / (expense) for the year recognised in income US$	Recognised in other comprehensive income: Revaluation of financial assets US$	Recognised in other comprehensive income: Foreign exchange differences US$	As at 31 December 2011 US$
Available for sale financial assets	**(398,391)**	-	-	283,931	(4,613)	**(119,073)**
Exploration and evaluation expenditure	**(5,364,654)**	(7,911,180)	2,633,297	-	(733,682)	**(11,376,219)**
Tax losses	**51,142**	2,651,808	11,917	-	(161,949)	**2,552,918**
Other deductible temporary differences	**30,215**	35,385	(15,512)	-	482	**50,570**
Net deferred tax liability	**(5,681,688)**	(5,223,987)	2,629,702	283,931	(899,762)	**(8,891,804)**

5. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

	Note	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
(a) Revenue			
Interest income		**38,650**	123,322
Other revenue		**78,597**	-
		117,247	123,322
(a) Employee expenses			
Employee benefits		**(525,097)**	(1,150,978)
Directors' remuneration		**(791,089)**	(1,014,049)
Share based payments		**(812,891)**	(1,432,253)
		(2,129,077)	(3,597,280)
(b) Finance costs			
Interest expense		**(1,346,775)**	(674,417)
Commitment fees on funding facilities		**(174,117)**	(250,000)
		(1,520,892)	(924,417)
(c) Allowances for impairment			
Impairment loss on financial assets available for sale	13	**(1,644,254)**	-
Impairment loss on exploration and evaluation expenditure	14	**(130,090)**	(23,112,555)
Other		**(151,183)**	-
		(1,925,527)	(23,112,555)
(d) Lease rentals			
Lease rental expense		**35,108**	50,301

6. REMUNERATION OF AUDITORS

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Paid or payable to Ernst & Young		
Audit or review of financial reports		
Ernst & Young Australia	**112,464**	96,872
Ernst & Young related practices	**488,241**	206,570
	600,705	303,442
Non-audit services – Ernst & Young related practices	**419,726**	-
	1,020,431	303,442

7. CASH AND CASH EQUIVALENTS

	31 December 2012 US$	31 December 2011 US$
Cash at bank and on hand	**374,980**	767,377
Deposits at call	**-**	151,044
	374,980	918,421

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, 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

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Loss before tax from continuing operations	**(9,814,132)**	(30,060,850)
Non-cash adjustments:		
Depreciation	**10,989**	5,228
Profit on disposal of financial assets	**(17,329)**	-
Gain on derivative financial instruments	**(484,677)**	-
Share-based payments expense	**812,891**	1,432,253
Interest income	**(38,650)**	(123,322)
Finance costs	**1,520,892**	924,417
Foreign currency losses / (gains)	**404,761**	(63,900)
Allowances for impairment	**1,925,527**	23,112,555
Working capital adjustments:		
(Increase) / decrease in trade and other receivables	**(246,844)**	1,700,113
(Increase) / decrease in inventories	**-**	(6,645)
Increase / (decrease) in trade and other payables	**2,420,019**	(223,450)
Decrease in deferred tax liability	**-**	1,372,382
Interest received	**40,607**	155,935
Tax paid	**(8,897)**	-
Net cash used in operating activities	**(3,474,843)**	(1,775,284)

(c) Non-cash activities

The share based payments charge for the year includes US$1,261,871 (2011: US$2,728,836) that has been included in capitalised exploration and evaluation expenditure.

8. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
	US$	US$
Current		
Trade receivables	**155,745**	34,545
VAT / GST recoverable	**4,204,524**	979,054
Other receivables	**151,062**	87,473
	4,511,331	1,101,072

9. INVENTORIES

	31 December 2012	31 December 2011
	US$	US$
Consumables at net realisable value	**670,305**	8,479

10. DERIVATIVE FINANCIAL ASSETS

	Year ended 31 December 2012	Year ended 31 December 2011
	US$	US$
Initial recognition of embedded derivatives	**3,458,101**	-
Gain on derivative financial instruments	**484,677**	-
Foreign exchange differences on translation of foreign operations	**12,294**	-
Carrying amount as at 31 December	**3,955,072**	-

The derivative financial assets comprise put options over the Company's own shares and are carried at fair value. These arose upon the drawdown of convertible loans entered into by the Company during the year, as explained in Note 17. The fair values are determined using the Black-Scholes model. The related assumptions are as follows:

Loan	Grant date	Grant date share price	Expected volatility	Option life	Conversion price	Dividend yield	Risk free rate
		A$		days	A$		
Loan 1	20 July 2012	0.10[1]	125%	382	0.15	-	2.34%
Loan 2	7 – 14 September 2012	0.12-0.125[2]	124%-125%	365-372	0.15	-	2.34%
Loan 3	16 October 2012	0.11[3]	121%	365	0.15	-	2.34%
Loan 4	21 December 2012	0.065[4]	110%	375	0.07	-	2.34%

[1] The equivalent US$ share price on grant date is equal to US$0.10
[2] The equivalent US$ share price on grant date is equal to US$0.12-US$0.13
[3] The equivalent US$ share price on grant date is equal to US$0.11
[4] The equivalent US$ share price on grant date is equal to US$0.07

11. RESTRICTED CASH

	Interest rate per annum	31 December 2012	31 December 2011
		US$	US$
Security deposits in place for credit cards	0.1%	**80,901**	224,260
Security deposits for applications in Kazakhstan	1.0%	**32,880**	21,696
		113,781	245,956

12. PLANT AND EQUIPMENT

	31 December 2012	31 December 2011
	US$	US$
At cost	**1,642,920**	102,026
Accumulated depreciation	**(159,604)**	(44,256)
	1,483,316	57,770

Reconciliations of the carrying amounts of plant and equipment during the year are set out below.

	Year ended 31 December 2012	Year ended 31 December 2011
	US$	US$
As at 1 January	**57,770**	29,902
Additions	**1,519,666**	36,613
Depreciation charge (i)	**(129,305)**	(5,228)
Foreign exchange differences on translation of foreign operations	**35,185**	(3,517)
Carrying amount as at 31 December	**1,483,316**	57,770

(i) The depreciation charge for the year includes US$118,316 capitalised as exploration and evaluation expenditure (2011: nil).

13. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2012	31 December 2011
	US$	US$
Available-for-sale-investments		
Investments in listed securities at fair value	**357,250**	1,032,909

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

During the year, the Company determined that there had been a significant and prolonged decline in the value of these listed securities. Consequently an allowance for impairment of US$1,644,254 has been included in the loss for the year in the Consolidated Statement of Comprehensive Income (see Note 20).

14. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2012	31 December 2011
	US$	US$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	**177,941,094**	140,217,437
Reconciliation		
Opening balance	**140,217,437**	106,094,586
Exploration and evaluation expenditure incurred	**42,132,330**	29,738,612
Exploration and evaluation assets acquired pursuant to business combinations	**-**	24,053,985
Allowances for impairment (a)	**(130,090)**	(23,112,555)
Foreign exchange differences on translation of foreign operations	**(313,317)**	3,442,809
	181,906,360	140,217,437

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

- the continuance of the Group'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 2012 the sale has not been finalised. An allowance for impairment loss of $130,090 (2011: US$23,112,555) was 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.

15. BUSINESS COMBINATIONS

Acquisitions in the prior year

i) Vamaro acquisition
On 3 November 2011, the Company, through its wholly owned subsidiary, IPL Siberia Limited, 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 (Respectively, the "Yuzhno-Sardakovsky Project" and the "Zapadno-Novomolodezhny Project").

ii) Charlize acquisition
On 28 December 2011, the Company, through its wholly owned subsidiary, IPL Siberia Limited, 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.

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**
	US$	**US$**
Assets		
Cash and cash equivalents	4,340	667
Exploration and evaluation assets	20,411,262	1,920,159
Other receivables	212,795	33
Liabilities		
Trade and payables	(5,018,752)	(2,693)
Provision for site restoration	(1,293,697)	-
Deferred tax liability	(3,343,943)	(383,510)
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

Details of the consideration payable 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
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.

16. TRADE AND OTHER PAYABLES

	Note	31 December 2012	31 December 2011
		US$	**US$**
Trade payables		**25,046,705**	11,750,624
Other payables		**2,136,458**	944,575
Deferred consideration	15	**-**	3,000,000
Trade and other payables		**27,183,163**	15,695,199

17. BORROWINGS

	31 December 2012	31 December 2011
	US$	**US$**
Current		
Secured loans from related parties[1]	**10,879,462**	10,435,209
Unsecured loan from related party[2]	**-**	4,931,592
Convertible loans from related party[4]	**5,910,702**	-
	16,790,164	15,366,801
Non-current		
Unsecured loan[3]	**13,565,337**	13,090,753
	13,565,337	13,090,753
Total borrowings	**30,355,501**	28,457,554

[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.

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

- 31 March 2013;
- receipt of the A$45 million cash consideration from Nkwe under its agreement with Nkwe for the sale of the Company's interest in the Tubatse Project; and
- receipt of any equity or convertible loan facility exceeding US$10 million cumulatively until 31 March 2013 unless otherwise agreed in writing by the lender.

The lender has now agreed to extend the of repayment date of Loan Facility A to 31 December 2013. Interest is payable on Loan Facility A at the cash rate plus 3% per annum. At 31 December 2012, Loan Facility A has been drawn down in full. Interest incurred on Loan Facility A for the year ended 31 December 2012 was US$318,552 and was capitalised to the loan amount (2011: US$185,209). The Company is also obliged to pay commitment fees of US$375,000 for the extension of the facility, of which $125,000 was recognised in the current year and US$250,000 was recognised in the year ended 31 December 2011.

[2] In September 2011, International Petroleum Services Limited secured a US$10 million loan facility ("Loan Facility B") from Pan African Minerals Limited. Interest was payable on Loan Facility B at the cash rate plus 3% per annum. Interest incurred on Loan Facility B for the year ended 31 December 2012 was US$20,021 and was capitalised to the loan amount (2011: US$21,592). Funds drawn down under Loan Facility B of US$7,110,000 and interest of US$41,613 were repaid in full on 8 February 2012.

[3] Pursuant to the acquisition of Souville Investments Ltd in October 2010, the Group 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 2012 is US$474,584 and has been capitalised to the loan amount (2011: US$468,750). The loan is due for repayment on 27 September 2013 provided that any repayment of the loan may only be made from the proceeds after deducting costs (including expenses, taxes, royalties, etc.) of sales of oil or other assets ("Net Proceeds") from the Krasnoleninsky project, and to the extent that Net Proceeds are not sufficient to repay the loan and interest, then the term of repayment shall be extended for one year periods until the loan is fully paid or waived. Since it is not expected that Net Proceeds will be sufficient to repay any of the loan and interest by 27 September 2013, it is expected that the term of repayment shall be extended for one year until 27 September 2014.

[4] During the year, the Company secured convertible loans from Varesona Participation Corporation, an entity controlled by non-executive director Mr Frank Timis. Each loan bears interest at 5% per annum and is unsecured. The terms of each loan, carrying values and initial debt values are as follows:

Loan	**Maturity date**	**Conversion price**	**Loan principal**	**Initial value of debt component**	**Carrying value at 31 December 2012**
		A$	**US$**	**US$**	**US$**
Loan 1	6 August 2013	0.15	2,000,000	1,819,287	1,941,902
Loan 2	14 September 2013	0.15	2,000,000	1,825,720	1,907,497
Loan 3	16 October 2013	0.15	2,000,000	1,832,261	1,878,347
Loan 4	On demand	0.07	200,000	182,208	182,956
			6,200,000	**5,659,476**	**5,910,702**

A further US$0.2 million drawn down during the current year was an advance in respect of a further convertible loan facility of US$5.2 million with Varesona Participation Corporation concluded in January 2013.

Subject to shareholder approval the Company has the unilateral right to repay the loan principal and interest by issue of shares, the number of which is determined according to the conversion price. The resulting put options are embedded derivatives recognised as derivative financial assets by the Company, and were assigned an initial fair value of US$3,458,101 based on the assumptions set out in Note 10.

The carrying values of the debt components of the convertible loans measured at amortised cost include finance costs of US$251,226 and have been determined based on the residual value of the loans after adjusting for the initial fair values of the embedded derivatives of US$3,458,101.

18. PROVISIONS

	Provision for site restoration	
	Year ended 31 December 2012	**Year ended 31 December 2011**
	US$	**US$**
As at 1 January	**1,312,737**	220,752
Added during the year	**7,789,261**	-
Utilised during the year	**(1,735,429)**	(201,713)
Acquired pursuant to a business combination	**-**	1,293,698
Foreign exchange differences on translation of foreign operations	**222,516**	-
As at 31 December	**7,589,085**	1,312,737

The restoration provision relates to the exploration projects in Russia and Kazakhstan. The provisions have been calculated based on the present value of the expected future cash flows associated with the restoration activities required under the licence agreements, discounted at a risk-free rate of approximately 7% over a period of 12 years.

19. CONTRIBUTED EQUITY

	31 December 2012	**31 December 2011**
	US$	**US$**
Issued ordinary shares (a)	**266,250,687**	232,205,203
Shareholder equity contribution (b)	**3,998,625**	-
	270,249,312	232,205,203

(a) Issued ordinary shares – fully paid

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.

	Year ended 31 December 2012	**Year ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
	No. of shares		**US$**	
As at 1 January	**1,010,532,031**	948,865,364	**232,205,203**	223,082,207
Shares issued to acquire controlled entity[1]	**-**	61,666,667	**-**	9,122,996
Issue of shares pursuant to a capital raising[2]	**165,730,000**	-	**34,045,484**	-
As at 31 December	**1,176,262,031**	1,010,532,031	**266,250,687**	232,205,203

[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.

[2] 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 (US$35,523,023) before transaction costs amounting to US$1,477,539.

(b) Shareholder equity contribution

The drawdown of convertible loans by the Company (see Note 17) resulted in an equity contribution to the value of US$3,998,625 being the difference between the initial fair value of the convertible loans recognised and the loan proceeds received.

Capital Risk Management

The Group'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 year.

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 Group has no externally imposed capital requirements.

20. RESERVES

	Year ended 31 December 2012 US$	**Year ended 31 December 2011 US$**
Share-based payment reserve		
As at 1 January	**5,276,264**	1,115,175
Share-based payment expense	**2,074,762**	4,161,089
As at 31 December	**7,351,026**	5,276,264
Revaluation reserve		
As at 1 January	**(765,769)**	(138,774)
Revaluation of financial assets available for sale	**(684,532)**	(910,926)
Tax effect of revaluation of financial assets available for sale	**153,052**	283,931
Impairment recycled to loss for the year	**1,644,254**	-
Tax effect of impairment recycled to loss for the year	**(493,276)**	-
Other realised gains recycled to loss for the year	**(28,086)**	-
As at 31 December	**(174,357)**	(765,769)
Merger reserve		
As at 1 January	**(101,516,017)**	(101,516,017)
As at 31 December	**(101,516,017)**	(101,516,017)
Foreign currency translation reserve		
As at 1 January	**6,532,773**	3,276,722
Movement due to translation of foreign operations from functional currencies to presentational currency	**(1,561,555)**	3,256,051
As at 31 December	**4,971,218**	6,532,773
Total reserves as at 31 December	**(89,368,130)**	(90,472,749)

Nature and purpose of reserves

Share-based payments reserve
The share based payment reserve is used to recognise the fair value of options and performance shares 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.

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

21. ACCUMULATED LOSSES

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Accumulated losses at 1 January	**(55,350,384)**	(28,589,063)
Net loss attributable to the members of International Petroleum	**(3,560,998)**	(26,761,321)
Accumulated losses at 31 December	**(58,911,382)**	(55,350,384)

22. SHARE BASED PAYMENTS

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 2012, 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\$610,517 has been recognised in respect of these performance shares in the current year (2011: US\$446,859).

Options
The share based payment expense recognised for services over the vesting periods of the equity-settled share options is US\$1,464,245 in the current year (2011: US\$3,714,230).

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

Number	Grant date	Expiry date	Exercise price A\$	Fair value at grant gate A\$
1,500,000[1]	13 July 2012	5 March 2017	0.25	0.10[2]
500,000[3]	18 July 2012	30 June 2013	0.25	0.12[4]
500,000[3]	18 July 2012	30 June 2013	0.35	0.11[5]
500,000[3]	18 July 2012	30 June 2013	0.45	0.10[6]
500,000[3]	18 July 2012	30 June 2013	0.55	0.09[7]
500,000[3]	18 July 2012	30 June 2013	0.65	0.09[8]
1,500,000[9]	18 July 2012	18 July 2017	0.25	0.16[10]

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

Number	Grant date	Expiry date	Exercise price A$	Fair value at grant date A$
1,875,000[11]	1 February 2011	16 March 2016	0.30	0.21[12]
1,500,000[13]	20 May 2011	15 April 2016	0.25	0.17[14]
1,500,000[15]	24 May 2011	15 April 2016	0.25	0.19[16]
18,000,000[17]	27 May 2011	1 June 2016	0.25	0.19[18]
200,000[19]	31 May 2011	1 June 2016	0.30	0.19[20]
1,500,000[21]	26 July 2011	8 August 2016	0.25	0.13[22]
1,500,000[23]	8 August 2011	8 August 2016	0.25	0.15[24]
500,000[25]	3 November 2011	28 December 2016	0.25	0.11[26]

[1] 1,500,000 unlisted options were awarded on 13 July 2012. The options are subject to vesting conditions. US$78,286 has been recognised in the current year. The remainder of the fair value of the options will be recognised over the vesting period.
[2] The US$ equivalent fair value at grant date is US$0.10.
[3] 2,500,000 unlisted options were awarded on 18 July 2012. The options are subject to vesting conditions. The options have been valued at US$264,885, and have been fully recognised in the current year.
[4] The US$ equivalent fair value at grant date is US$0.13.
[5] The US$ equivalent fair value at grant date is US$0.12.
[6] The US$ equivalent fair value at grant date is US$0.11.
[7] The US$ equivalent fair value at grant date is US$0.10.
[8] The US$ equivalent fair value at grant date is US$0.09.
[9] 1,500,000 unlisted options were awarded on 10 September 2012. The options are subject to vesting conditions. US$156,743 has been recognised in the current year. The remainder of the fair value of the options will be recognised over the vesting period.
[10] The US$ equivalent fair value at grant date is US$0.17.
[11] 1,875,000 unlisted options were awarded on 1 February 2011 and subsequently cancelled upon termination of the employment contract between the employee and the Group on 27 May 2011.
[12] The US$ equivalent fair value at grant date is US$0.21.
[13] 1,500,000 unlisted options were awarded on 20 May 2011. The options are subject to vesting conditions. US$69,625 has been recognised in the current year (2011: US$44,014). The remainder of the fair value of the options will be recognised over the vesting period.
[14] The US$ equivalent fair value at grant date is US$0.18.
[15] 1,500,000 unlisted options were awarded on 24 May 2011. The options are subject to vesting conditions.
US$77,224 has been recognised in the current year (2011: US$47,517). The remainder of the fair value of the options will be recognised over the vesting period.
[16] The US$ equivalent fair value at grant date is US$0.20.
[17] 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$691,635 has been recognised in the current year (2011: US$2,439,684). The remainder of the fair value of the options will be recognised over the vesting period.
[18] The US$ equivalent fair value at grant date is US$0.20.
[19] 200,000 unlisted options were awarded on 31 May 2011 and vested on issue with US$40,069 recognised in the prior year.
[20] The US$ equivalent fair value at grant date is US$0.20.
[21] 1,500,000 unlisted options were awarded on 26 July 2011. The options are subject to vesting conditions. US$54,705 has been recognised in the current year (2011: US$24,711). The remainder of the fair value of the options will be recognised over the vesting period.
[22] The US$ equivalent fair value at grant date is US$0.14.
[23] 1,500,000 unlisted options were awarded on 8 August 2011. The options are subject to vesting conditions. US$63,908 has been recognised in the current year (2011: US$25,521). The remainder of the fair value of the options will be recognised over the vesting period.
[24] The US$ equivalent fair value at grant date is US$0.15.
[25] 500,000 unlisted options were awarded on 3 November 2011 and vested on issue with US$91,889 recognised in the prior year. As at the date of this report the options had not been issued.
[26] The US$ equivalent fair value at grant date is US$0.11.

Additionally, US$86,730 (2011: US$73,087) has been recognised in respect of 1,500,000 unvested options included in a tranche of 2,000,000 options awarded on 23 August 2010. Also, a net credit of US$79,496 has been recognised in the current year (2011: US$204,939 charge) in respect of 1,000,000 unvested options included in 2,500,000 options awarded on 1 October 2010 which were forfeited or cancelled in July 2012. A further US$722,799 was recognised in the prior year in respect of 8,000,000 options out of 9,500,000 granted on 16 November 2010, 1,500,000 having been cancelled during the prior year.

The weighted average fair value of the options granted during the current year is A$0.12 (US$0.12) (2011: A$0.18 (US$0.19)). 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$0.65 (2011: A$0.25 to A$0.30)

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

The following tables list the inputs to the models used for the options granted for the years ended 31 December 2012 and 31 December 2011:

	Options issued during year ended 31 December 2012		
Expiring on	**30 Jun 2013**	**5 Mar 2017**	**18 Jul 2017**
Grant date	18 Jul 2012	13 Jul 2012	18 Jul 2012
Grant date share price A$	0.20[1]	0.13[2]	0.19[3]
Exercise price A$	0.25 to 0.65	0.25	0.25
Expected volatility	125%	125%	125%
Option life	2 years	5 years	5 years
Dividend yield	-	-	-
Risk-free interest rate	4.93%	2.34%	3.87%

	Options issued during year ended 31 December 2011						
Expiring on	**15 Apr 2016**	**15 Apr 2016**	**1 Jun 2016**	**1 Jun 2014**	**8 Aug 2016**	**8 Aug 2016**	**18 Jul 2017**
Grant date	20 May 2011	24 May 2011	27 May 2011	31 May 2011	26 Jul 2011	8 Aug 2011	3 Nov 2011
Grant date share price A$	0.20[4]	0.23[5]	0.22[6]	0.26[7]	0.17[8]	0.18[9]	0.14[10]
Exercise price A$	0.25	0.25	0.25	0.30	0.25	0.25	0.25
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%

[1] The US$ equivalent share price on grant date is US$0.21
[2] The US$ equivalent share price on grant date is US$0.13
[3] The US$ equivalent share price on grant date is US$0.20
[4] The US$ equivalent share price on grant date is US$0.21
[5] The US$ equivalent share price on grant date is US$0.23
[6] The US$ equivalent share price on grant date is US$0.23
[7] The US$ equivalent share price on grant date is US$0.28
[8] The US$ equivalent share price on grant date is US$0.17
[9] The US$ equivalent share price on grant date is US$0.19
[10] The US$ equivalent share price on grant date is US$0.14

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.

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

	Year ended 31 December 2012		**Year ended 31 December 2011**	
	Number of Options	**Weighted Average Exercise Price A$**	**Number of Options**	**Weighted Average Exercise Price A$**
Balance at beginning of the year	**173,893,072**	**0.25**[4]	150,693,072	0.25[1]
Granted during the year	**5,500,000**	**0.34**[5]	26,575,000	0.25[2]
Forfeited/cancelled during the year	**(2,500,000)**	**0.25**[6]	(3,375,000)	0.30[3]
Expired during the year	**(135,193,072)**	**0.25**[6]	-	-
Balance at end of the year	**41,700,000**	**0.27**[7]	173,893,072	0.25[4]
Exercisable at end of the year	**17,033,333**	**0.24**[4]	150,893,072	0.25[4]

Balance at end of the year
The share options outstanding at the end of the year had a weighted average exercise price of A$0.27[7] (31 December 2011: A$0.25[4]) and the weighted average remaining contractual life was 1,167 days (31 December 2011: 489 days)

[1] The US$ equivalent weighted average exercise price is US$0.25
[2] The US$ equivalent weighted average exercise price is US$0.25
[3] The US$ equivalent weighted average exercise price is US$0.31
[4] The US$ equivalent weighted average exercise price is US$0.25
[5] The US$ equivalent weighted average exercise price is US$0.35
[6] The US$ equivalent weighted average exercise price is US$0.26
[7] The US$ equivalent weighted average exercise price is US$0.28

The share options outstanding at the end of the year consist of:

- 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 Group'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 Group's Russian owned assets.
- 2,000,000 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.
- 500,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) and an expiry date of 18 July 2017.
- 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 Controller's commencement date with the Group.

- 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 Group 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 Group.
- 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.
- 1,500,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 18 July 2017 with 375,000 vesting on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days, 375,000 of the options will vest on the International Petroleum Limited share price reaching A$0.75 for 30 consecutive days, 375,000 of the options will vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days and 375,000 of the options will vest on the International Petroleum Limited share price reaching A$1.50 for 30 consecutive days.
- 2,500,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 30 June 2013. 500,000 vesting on the International Petroleum Limited share price reaching A$0.25 for 10 trading days in a particular month, 500,000 vesting on the International Petroleum Limited share price reaching A$0.35 for 10 trading days in a particular month, 500,000 vesting on the International Petroleum Limited share price reaching A$0.45 for 10 trading days in a particular month, 500,000 vesting on the International Petroleum Limited share price reaching A$0.55 for 10 trading days in a particular month and 500,000 vesting on the International Petroleum Limited share price reaching A$0.65 for 10 trading days in a particular month.
- 1,500,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 5 March 2017. 500,000 vesting in equal instalments over a 3 year period commencing on the employee's start date with the Group.

23. FINANCIAL INSTRUMENTS

The Group's principal financial instruments are receivables, borrowings, trade and other payables, available for sale investments, derivative financial assets, cash and restricted cash.

Fair value

The directors consider that the carrying values of these financial instruments approximate to their fair values.

The Group uses a level 1 method in estimating fair value of equity securities. Under the level 1 method, the fair value is calculated using quoted prices in active markets. The Group uses a level 3 method in estimating fair values of derivative financial assets. Under the level 3 method, this technique uses non-market observable inputs. All level 3 derivative financial assets are new in the current financial year (see Note 10). There has been no transfer between different levels of fair value hierarchy.

Changes in the value of the Company's shares may result in significant changes in the fair value of derivative financial assets, as these comprise put options over the Company's own shares. However, the shares are valued using the level 1 method according to quoted prices, without reference to any assumption. Had one or more of any other inputs been changed to reasonably possible alternative assumptions, there would be no significant impact upon the fair value of the derivative financial assets.

Risk exposure and responses

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

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

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 Group through regular reviews of the risks.

(a) Interest rate risk

The Group 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 Group does not use derivatives to mitigate these exposures.

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

	31 December 2012	**31 December 2011**
	US$	**US$**
Financial assets		
Cash and cash equivalents – variable rate	**374,980**	918,421
Restricted cash – variable rate	**113,781**	245,956
Financial liabilities		
Borrowings – fixed rate	**19,476,039**	13,090,753
Borrowings – variable rate	**10,879,462**	15,366,801

The Group 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.

The following sensitivity analysis is based in interest rate risk exposure in existence at the reporting date. At the balance date, if interest rates applicable to variable rate financial instruments had increased or decreased by 100 basis points, which is management's assessment of the reasonably possible change, with all other variables held constant profit / loss and other comprehensive income / loss would have been affected as follows:

	Profit / loss for the year higher / (lower)		**Other comprehensive income / loss higher / (lower)**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
	US$	**US$**	**US$**	US$
+ 1% (100 basis points)	**(103,594)**	(112,629)	**-**	-
- 1 % (100 basis points)	**103,594**	112,629	**-**	-

The impact on profit / loss is due to higher / lower interest on variable rate borrowings.

(b) Foreign currency risk

The Group 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 Group. The Group has not entered into any derivative financial instrument to hedge such transactions.

As a result of most subsidiaries having functional currencies other than the US dollar, the consolidated statement of financial position can be affected significantly by movements in the exchange rates.

At the balance date, the Group had the following exposure to the Australian dollar, Russian rouble, Kazakhstani Tenge, Great British Pound and Euro foreign currencies that is not designated in cash flow hedges, excluding the risk arising on translation from functional currencies to US dollar presentational currency:

	Currency	31 December 2012 US$	31 December 2011 US$
Financial assets			
Cash and cash equivalents	GBP	**30,762**	155,735
Cash and cash equivalents	EUR	**830**	-
Cash and cash equivalents	USD	**3,288**	362
Restricted cash	USD	**20,817**	21,696
Restricted cash	GBP	**80,901**	224,260
Financial liabilities			
Borrowings	USD	**16,790,164**	10,435,209
Trade and other payables	GBP	**1,136,892**	522,332
Trade and other payables	EUR	**50,129**	-
Trade and other payables	USD	**199,784**	50,000

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

As at 31 December 2012, had the value of the US dollar changed against other currencies as illustrated in the table below, with all other variables held constant, profit / loss for the year and other comprehensive income / loss would have been affected as follows:

	Profit / loss for the year higher / (lower)		Other comprehensive income / loss higher / (lower)	
	31 December 2012 US$	**31 December 2011** US$	**31 December 2012 US$**	**31 December 2011** US$
Financial assets				
US dollar to AUD + 10%	**329**	36	**-**	-
US dollar to AUD - 10%	**(329)**	(36)	**-**	-
US dollar to GBP + 10%	**(11,166)**	(38,000)	**-**	-
US dollar to GBP - 10%	**11,166**	38,000	**-**	-
US dollar to EUR + 10%	**(83)**	-	**-**	-
US dollar to EUR - 10%	**83**	-	**-**	-
US dollar to KZT + 10%	**2,082**	2,170	**-**	-
US dollar to KZT - 10%	**(2,082)**	(2,170)	**-**	-
Financial liabilities				
US dollar to AUD + 10%	**(1,698,995)**	(1,048,521)	**-**	-
US dollar to AUD - 10%	**1,698,995**	1,048,521	**-**	-
US dollar to GBP + 10%	**113,689**	52,233	**-**	-
US dollar to GBP - 10%	**(113,689)**	(52,233)	**-**	-
US dollar to EUR + 10%	**5,013**	-	**-**	-
US dollar to EUR - 10%	**(5,013)**	-	**-**	-

(c) Commodity price risk

The Group 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 Group, which comprise cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The Group'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 Group 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 Group does not have any significant credit risk exposure to any single counter-party.

(i) Cash and cash equivalents

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

(ii) Trade and other receivables

Trade and other receivables as at the balance sheet date mainly comprise VAT/GST. No amount is part due or impaired. The directors consider that the carrying amount of trade and other receivables approximates to 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 Group will not be able to meet its financial obligations as they fall due. The Group'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 Group 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:

2012	**6 months or less US$**	**6 – 12 months US$**	**1 – 5 years US$**	**Greater than 5 years US$**	**Total US$**
Trade and other payables	**27,183,164**	**-**	**-**	**-**	**27,183,164**
Borrowings	**10,959,311**	**6,512,014**	**14,380,137**	**-**	**31,851,462**

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**

(f) Equity market risk

The Group is exposed to equity market risk. This impacts listed equity investments held by the Group, classified in the Statement of Financial Position as financial assets available-for-sale, and derivative financial assets comprising put options over the Company's own listed shares.

The table below summarises the expected impact of an increase/decrease of 10% in the ASX 200 index on the Group's profit / loss for the year and on equity. The analysis is based on the assumption that the ASX 200 index had increased or decreased by 10%, with all other variables held constant, and that the listed equity instruments held by the Group and the Company's own listed shares changed in value according to the ASX 200 index. The same analysis was performed for 2011.

	Profit / loss for the year higher / (lower)		Other comprehensive income / loss higher / (lower)	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
	US$	US$	**US$**	US$
Financial assets available-for-sale				
10% increase in ASX 200 index	**-**	-	**35,725**	72,304
10% decrease in ASX 200 index	**-**	-	**(35,725)**	(72,304)
Derivative financial assets				
10% increase in ASX 200 index	**(176,965)**	-	**-**	-
10% decrease in ASX 200 index	**200,445**	-	**-**	-

24. LOSS PER SHARE

	Year ended 31 December 2012	**Year ended 31 December 2011**
	US cents	**US cents**
(a) Basic loss per share		
Continuing operations	**(0.31)**	(2.79)
(b) Diluted loss per share		
Continuing operations	**(0.31)**	(2.79)

	Year ended 31 December 2012	**Year ended 31 December 2011**
(c) Reconciliation of loss used in calculating loss per share	**US$**	**US$**
Basic loss per share		
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(3,560,998)**	(26,761,321)

	Number of shares	
	Year ended 31 December 2012	**Year ended 31 December 2011**
(d) Weighted average number of ordinary shares on issue during the year used in the calculation of basic loss per share	**1,159,960,720**	957,828,833
(e) Weighted average number of ordinary shares on issue during the year used in the calculation of diluted loss per share	**1,159,960,720**	957,828,833

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. There are 41,700,000 options as at 31 December 2012 (2011: 173,893,072 options). These have not been included in the determination of basic earnings per share because they are anti-dilutive.

Approximately 43.5 million shares would be issued upon the Company exercising the put options to settle the convertible loans aggregate principal of US$6,200,000 plus interest at maturity. These have not been included in the determination of basic earnings per share because they are anti-dilutive.

25. SEGMENT REPORTING

For management purposes, the Group is organised into one main operating segment, which involves exploration for hydrocarbons. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The Group only has one operating segment being exploration for hydrocarbons.

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

	31 December 2012 US$	**31 December 2011 US$**
Australia	**357,250**	1,032,909
Africa	**15,647,031**	15,352,898
Kazakhstan	**63,474,580**	68,154,999
Russia	**104,424,562**	57,026,801
	183,903,423	141,567,607

26. COMMITMENTS AND CONTINGENCIES

Remuneration commitments

	31 December 2012 US$	**31 December 2011 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	**1,070,654**	16,282
Later than 1 year and not later than 5 years	**-**	-
Later than 5 years	**-**	-
	1,070,654	16,282

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

Office rental commitments

	31 December 2012 US$	**31 December 2011 US$**
Commitments for the payment of lease rentals in existence at the reporting date but not recognised as liabilities, payable:		
Within 1 year	**296,718**	-
Later than 1 year and not later than 5 years	**123,334**	-
Later than 5 years	**-**	-
	420,052	-

Capital commitments

At 31 December 2012 the Group had US$20,329,468 in capital commitments in respect of its licence obligations (2011: US$21,073,791).

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.

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 was 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).

In August 2012, the asset sale agreement was again varied such that the consideration for the remaining 10% interest in the Tubatse Project was to be settled on the earlier of the following:
(a) A$45 million payable on or before 31 December 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).

Currently, the Company is in negotiations with Nkwe to again vary the asset sale agreement such that the consideration for the remaining 10% interest in the Tubatse Project is to be settled on the earlier of the following:
(a) A$45 million payable on or before 30 June 2013, 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 consideration of A$45 million has not been recorded as a receivable by the Company because of the lack of certainty that the sale will be completed and the A$45 million will be received from Nkwe.

Contingent Liabilities

There are no contingent liabilities as at the balance date.

27. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In January 2013, the Company secured a US$5.2 million convertible loan facility from Varesona Participation Corporation (“Varesona”), an entity controlled by non-executive director Mr Frank Timis, to fund exploration expenditure and working capital. The convertible loan facility was fully drawn down during January 2013 (“Convertible Loan Amount”) and interest is payable on the Convertible Loan Amount at 5% per annum. The Convertible Loan Amount plus interest (“Outstanding Amount”) are due for repayment five business days after Varesona demands repayments of the Outstanding Amount.

On 21 February 2013, Mark Ashurst resigned as Non-Executive Director of the Company.

In March 2013, the Group acquired a 100% ownership interest in an exploration licence valid for five years over the Yanchinsky block for the geological study of subsoil and prospecting for oil and gas in the Nizhnevartovsk region of the Khanty-Mansiysk Autonomous District in Western Siberia.

No other event has arisen between 31 December 2012 and the date of this report that would be likely to materially affect the operations of the Group 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 Group from a legal perspective. For accounting purposes, Eastern Petroleum Corporation Ltd is the deemed ultimate parent entity of the Group in line with the reverse acquisition accounting requirements set out in AASB 3 *Business Combinations.*

(b) Corporate Structure

The legal corporate structure of the Group is set out below. The Company's principal activity through its group entities is oil and gas exploration. All entities within the Group support or are involved in this activity.

Name	Country of incorporation	Country of operation	% Equity interest 31 December 2012	% Equity interest 31 December 2011
Parent entity: International Petroleum Limited	Australia	Australia		
Eastern Petroleum Corporation Ltd	United Kingdom	United Kingdom	**100%**	100%
Almroth Holdings Ltd	Cyprus	Cyprus	**100%**	100%
North Caspian Petroleum Ltd	United Kingdom	United Kingdom	**100%**	100%
North Caspian Petroleum LLP	Kazakhstan	Kazakhstan	**100%**	100%
International Petroleum Services Ltd	United Kingdom	United Kingdom	**100%**	100%
International Petroleum Ltd	Cayman Islands	Cayman Islands	**100%**	100%
IPL Siberia Ltd	Cayman Islands	Cayman Islands	**100%**	100%
IPL Africa Limited (i)	Cayman Islands	Cayman Islands	**100%**	-
IPL Niger Limited (i)	Republic of Niger	Republic of Niger	**100%**	-
Vamaro Investments Ltd	Cyprus	Cyprus	**100%**	100%
Zapadno-Novomolodezhny LLC	Russia	Russia	**100%**	100%
Yuzhno-Sardakovskoye LLC	Russia	Russia	**100%**	100%
Charlize Investments Ltd	Cyprus	Cyprus	**75%**	75%
VostokNefteGaz LLC	Russia	Russia	**75%**	75%
International Petroleum (Services) Ltd	Russia	Russia	**100%**	100%
Souville Investments Ltd	Cyprus	Cyprus	**75%**	75%
Irtysh-Neft LLC	Russia	Russia	**75%**	75%
International Petroleum Company LLC	Russia	Russia	**100%**	100%

(i) Entities incorporated during the year.

(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 2012 US$	31 December 2011 US$
Short-term employee benefits	**2,587,594**	2,566,176
Share based payments	**1,348,208**	3,946,254
Post-employment benefits	**113,355**	26,092
Total compensation	**4,049,157**	6,538,522

Number of shares held by directors and other key management personnel

	As at 1 January 2012	**Balance held upon appointment**	**Awarded as remuneration**	**Acquired on exercise of options**	**Other net changes**	**As at 31 December 2012**
Directors						
A Sage	15,480,691	-	-	-	-	15,480,691
T Turner	161,819	-	-	-	-	161,819
M Gwynne	-	-	-	-	-	-
M Ashurst	-	-	-	-	-	-
F Timis	444,018,420	-	-	-	-	444,018,420
W McAvock	90,000	-	-	-	-	90,000
C Hopkinson	-	-	-	-	-	-
T Antoniou	-	-	-	-	-	-
P Godec[1]	-	-	-	-	-	-
V Mangazeev[2]	-	-	-	-	-	-
Key management personnel		-	-	-	-	
C Tolcon	-	-	-	-	-	-
A Belogortseva	-	-	-	-	-	-
K Hopkins	-	-	-	-	-	-
S Pisarchuk	-	-	-	-	-	-
A Osipov	-	-	-	-	-	-
	459,750,930	**-**	**-**	**-**	**-**	**459,750,930**
		-	-			

	As at 1 January 2011	**Balance held upon appointment**	**Shares awarded as remuneration**	**Acquired on exercise of options**	**Other net changes**	**As at 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[3]	-	90,000	-	-	-	90,000
C Hopkinson	-	-	-	-	-	-
T Antoniou	-	-	-	-	-	-
Key management personnel						
C Tolcon	-	-	-	-	-	-
A Belogortseva	-	-	-	-	-	-
A Beloussov[4]	40,970,953	-	-	-	(40,970,953)	
K Hopkins	-	-	-	-	-	-
A Osipov	-	-	-	-	-	-
	486,706,883	**90,000**	**-**	**-**	**(27,045,953)**	**459,750,930**

[1] Appointed on 17 February 2012.
[2] Appointed on 1 March 2012.
[3] Appointed on 5 January 2011.
[4] 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.

See Note 22 for details of performance shares issued to key management personnel.

Number of options held by directors and other key management personnel

	As at 1 January 2012	Balance held upon appointment	Options awarded as remuneration	Other net changes	As at 31 December 2012 Held	Vested
Directors						
A Sage	-	-	-	-	-	-
T Turner	-	-	-	-	-	-
M Gwynne	-	-	-	-	-	-
M Ashurst	-	-	-	-	-	-
F Timis[1]	88,803,684	-	-	(88,803,684)	-	-
W McAvock	3,000,000	-	-	-	3,000,000	1,333,333
C Hopkinson	15,000,000	-	-	-	15,000,000	7,500,000
T Antoniou	-	-	-	-	-	-
P Godec[2]	-	-	-	-	-	-
V Mangazeev[3]	-	-	-	-	-	-
Other key management personnel		-	-	-	-	-
Claire Tolcon	-	-	-	-	-	-
A Belogortseva	1,500,000	-	-	-	1,500,000	1,500,000
S Pisarchuk[4]	-	1,500,000	-	-	1,500,000	-
K Hopkins[5]	2,500,000	-	-	(2,500,000)	-	-
A Osipov	2,500,000	-	-	-	2,500,000	1,000,000
	113,303,684	**1,500,000**	**-**	**(91,303,684)**	**23,500,000**	**11,333,333**

	As at 1 January 2011	Balance held upon appointment	Options awarded as remuneration	Other net changes	As at 31 December 2011 Held	Vested
Directors						
A Sage	-	-	-	-	-	-
T Turner	-	-	-	-	-	-
M Gwynne	-	-	-	-	-	-
M Ashurst	-	-	-	-	-	-
F Timis	88,803,684	-	-	-	88,803,684	88,803,684
W McAvock[6]	-	-	3,000,000	-	3,000,000	1,000,000
C Hopkinson	-	-	15,000,000	-	15,000,000	5,000,000
T Antoniou	-	-	-	-	-	-
Other key management personnel		-				
A Belogortseva	1,500,000	-	-	-	1,500,000	1,500,000
A Beloussov[7]	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	**-**	**18,500,000**	**(17,594,191)**	**113,303,684**	**98,803,684**

[1] The options expired on 30 June 2012.
[2] Appointed on 17 February 2012.
[3] Appointed on 1 March 2012.
[4] Appointed to a key management position on 6 June 2012.
[5] On 31 July 2012, the employment contract relating to the services provided by K Hopkins was terminated. Upon termination of the service agreement, all 2,500,000 options held by K Hopkins were cancelled / forfeited.
[6] Appointed on 5 January 2011.
[7] 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 have vested since the termination date.

(d) Transactions with related parties:

(i) An aggregate amount of US$46,266 was paid, or was due and payable to Cape Lambert Resources Limited ('Cape Lambert'), for reimbursement of employee, consultancy and occupancy costs (2011: US$17,081). Mr Sage and Mr Turner are directors of Cape Lambert.

(ii) An aggregate amount of US$59,883 was paid, or was due and payable to African Petroleum Corporation Limited ('African Petroleum') for accounting support services (2011: US$77,534). Mr Timis, Mr Sage, Mr Turner and Mr Ashurst are directors of African Petroleum.

(iii) An aggregate amount of US$280,272 was paid, or was due and payable to African Minerals Engineering Limited ('African Minerals Engineering') for office rent and other accommodation-related services (2011: US$151,735). Mr Timis is a director of African Minerals Engineering.

(iv) During the prior year, 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 Group by Safeguard.

(v) An aggregate amount of US$673,717 was paid or was payable in the prior year to Hamunts Ltd, a company associated with Dr Beloussov and Mr Osipov, for the provision of consulting services for the year ended 31 December 2011.

(vi) As at 31 December 2012, the following amounts were payable to directors of the Company or their nominees:

	31 December 2012 US$	**31 December 2011 US$**
Oakwood Pty Limited, a company controlled by Mr Sage	**9,507**	16,960
MLR Advisory Limited, a company controlled by Mr Ashurst	**-**	8,141
Silverwest Pty Limited, a company controlled by Mr Gwynne	**-**	12,211
CRMS, an entity controlled by Mr Turner	**4,563**	8,141
Mr Antoniou	**19,705**	8,141
Mr Timis	**116,674**	38,160

(vii) In the prior year, the Company secured a US$10 million loan facility ("Loan Facility A") from a company related to four of the directors of the Company to fund exploration expenditure and working capital. Loan Facility A was fully drawn down as at the end of 2011. In July 2012, certain terms of the agreement were amended such that the amount drawn down under Loan Facility A ("Facility Amount") will be repayable by the Company in full on the earlier of (a) 31 March 2013, (b) receipt by the Company of the A$45 million 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 (c) receipt by the Company of any equity or convertible loan funding exceeding US$10m cumulatively until 31 March 2013 unless otherwise agreed in writing by the lender.

Interest is payable on the Facility Amount at the cash rate plus 3% and Loan Facility A is secured by a fixed and floating charge over the Company's assets. In consideration of extending the repayment date of the funding facility, an additional US$125,000 commitment fee is payable. The Company is now obliged to pay total commitment fees of US$375,000 for the provision of the Loan Facility.

(viii) 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. 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 (US$7,110,000) and interest (US$41,613) were repaid in full on 8 February 2012.

(ix) In each of the months August 2012, September 2012 and October 2012 the Company secured three US$2.0 million convertible loan facilities from Varesona Participation Corporation ("Varesona"), an entity controlled by non-executive director Mr Frank Timis. All three convertible loan facilities were fully drawn down during the current year ("Loan Amounts") and interest is payable on the Loan Amounts at 5% per annum. The finance cost accrued on the loans for the year ended 31 December 2012 is US$250,477. The Loan Amounts plus interest are due for repayment 12 months from each agreement date.

If the Loan Amounts are not repaid by the repayment dates, the Loan Amounts will be converted, subject to the receipt of all necessary shareholder approvals, into shares at a deemed issue price equal to A$0.15 per share. If all necessary shareholder approvals for the conversion of the Loan Amounts into shares are not obtained, the Company must satisfy the Loan Amounts in cash and not shares.

(x) In January 2013, the Company secured a US$5.2 million convertible loan facility from Varesona Participation Corporation ("Varesona"), an entity controlled by non-executive director Mr Frank Timis. The convertible loan facility was fully drawn down in January 2013 ("Loan Amount"), including an advance of US$200,000 received in the current year. Interest is payable on the Loan Amount at 5% per annum. The finance cost accrued on the loan for the year ended 31 December 2012 is US$749. The Loan Amount plus interest is repayable at any time subject to 5 days written notice.

If the Loan Amount is not repaid by the repayment dates, the Loan Amount will be converted, subject to the receipt of all necessary shareholder approvals, into shares at a deemed issue price equal to A$0.07 per share. If all necessary shareholder approvals for the conversion of the Loan Amount into shares are not obtained, the Company must satisfy the Loan Amount in cash and not shares.

29. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

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

	31 December 2012 US$	**31 December 2011 US$**
Statement of financial position		
Current assets	**4,006,363**	200,680
Non-current assets	**137,704,832**	273,488,859
Total assets	**141,711,195**	273,689,539
Current liabilities	**(18,348,254)**	(12,388,011)
Total liabilities	**(18,348,254)**	(14,926,652)
Shareholders' equity		
Contributed equity	**271,359,729**	233,315,621
Reserves	**42,169,527**	40,552,087
Accumulated losses	**(190,166,315)**	(15,104,821)
Loss for the year	**(175,061,493)**	(3,702,128)
Total comprehensive loss for the year	**(175,518,815)**	(4,329,124)

b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current year (31 December 2011: Nil).

30. VARIANCES FROM THE PRELIMINARY FINAL REPORT

The financial information presented in the preliminary final report lodged with the NSX on 16 March 2013 was in the process of being reviewed by management and audited by the Group's independent auditor.

An adjustment to the current year information presented in the preliminary final report has been made to the restoration provision related to the Group's exploration projects in Russia. Increases in both the restoration provision and capitalised exploration and evaluation expenditure of US$3,965,266 have been recognised in the Consolidated Statement of Financial Position, as at 31 December 2012.

DIRECTORS' DECLARATION

In accordance with a resolution of the Board of 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 year ended 31 December 2012 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2012 and of its performance for the year 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) subject to the achievement of matters as set out in Note 2 (a) in the financial statements, there are reasonable grounds to believe that the Group 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 year ended 31 December 2012.

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

William McAvock
Director

London, 28 March 2013

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Independent audit 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 2012, 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 conducting the audit in accordance with Australian Auditing Standards. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an 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.

Basis for Disclaimer of Opinion

As is more fully set out in Note 2(a) to the financial report, the consolidated entity's ability to continue to pay its debts as and when they fall due, is reliant upon the consolidated entity securing additional debt or raising additional equity, successfully negotiating payment terms with existing creditors, completing a transaction presented to the Company in respect of a loan and restructuring, finalising agreements with lenders to extend the repayment date of borrowings, and selling certain assets over the coming months. As at the date of this report, the consolidated entity has limited unrestricted cash with significant short term liabilities.

We have been unable to obtain sufficient appropriate audit evidence as to whether the consolidated entity can achieve the matters set out in Note 2(a) to the financial report, and thus determine whether it is appropriate to prepare the financial statements on a going concern basis.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of International Petroleum Limited for the year ended 31 December 2012, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
28 March 2013

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 32 Harrogate Street, West Leederville, Western Australia 6007 Australia.

Shareholding

The distribution of members and their holdings of equity securities in the Company as at 25 February 2013 was as follows:

Category (size of holding)	Holders	Units
1- 1,000	36	14,678
1,001- 10,000	551	2,784,455
10,001- 100,000	511	16,984,041
100,001 – 1,000,000	116	35,738,371
1,000,001 - over	38	1,120,740,486
Total	**1,252**	**1,176,262,031**

Equity Securities

There are 1,252 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 492.

Options

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

Number of options	Exercise price	Expiry date
200,000	A$0.30	1 June 2014
8,000,000	A$0.30	16 November 2015
3,500,000	A$0.25	16 March 2016
3,000,000	A$0.25	15 April 2016
18,000,000	A$0.25	1 June 2016
3,000,000	A$0.25	8 August 2016
2,500,000	Various	30 June 2013
1,500,000	A$0.25	5 March 2017
2,000,000	A$0.25	18 July 2017

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.

NSX ADDITIONAL INFORMATION

Substantial Holders

The names of the substantial shareholders notified to the Company in accordance with section 671B of the Corporations Act as at 27 February 2013 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

Twenty Largest Shareholders

The names of the twenty largest fully paid ordinary shareholders as at 26 February 2013 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	133,169,300	11.32
3	J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	96,457,479	8.20
4	NATIONAL NOMINEES LIMITED	57,145,045	4.86
5	CITICORP NOMINEES PTY LIMITED	56,361,553	4.79
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	44,734,369	3.80
7	HILLBURG INTERNATIONAL LIMITED	40,000,000	3.40
8	KONTILLO RESOURCES LIMITED	36,000,000	3.06
9	BNP PARIBAS NOMS PTY LTD <DRP>	29,050,334	2.47
10	LANGSTON KEY LIMITED	27,900,000	2.37
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	23,227,261	1.97
12	CAPE LAMBERT RESOURCES LIMITED	23,009,439	1.96
13	CS FOURTH NOMINEES PTY LTD	15,454,000	1.31
14	OKEWOOD PTY LTD	13,925,000	1.18
15	MR RUSSELL NEIL CREAGH	13,250,389	1.13
16	PEMBURY NOMINEES PTY LTD	8,620,000	0.73
17	HKT AU PTY LTD <MORAMBA SERV SUPER PLAN A/C>	8,080,000	0.69
18.	KERELA FINANCE CORPORATION	6,666,667	0.57
19	MR RUSSELL NEIL CREAGH	5,547,472	0.47
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	4,727,000	0.40
		1,087,343,728	**92.44**

NSX ADDITIONAL INFORMATION

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%
XMH 14621 HЭ	Yuzhno-Sardakovsky	100%
XMH 14622 HЭ	Zapadno-Novomolodezhny	100%
XMH 02777HП	Yanchinsky	100%
TOM 01561HП	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%

Five year summary of the results, assets and liabilities of the Group

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
	US$	US$	US$	US$	US$
Loss for the year	(3,362,144)	(27,463,912)	(15,539,009)	(1,659,551)	(4,393,587)
Total assets	193,611,261	143,825,835	124,021,844	43,276,729	32,634,320
Total liabilities	70,248,320	56,406,840	25,124,927	24,879,613	14,552,161
Net assets	123,362,941	87,418,995	98,896,917	18,397,116	18,082,159