International Petroleum Limited

(ABN 76 118 108 615)

Half-year Financial Report for the Period Ended 30 June 2014

CONTENTS

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DIRECTORS' REPORT

Your Directors present their report on International Petroleum Limited ("International Petroleum" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the half-year ended 30 June 2014.

Directors

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

Mr Antony Sage
Mr Timothy Turner
Mr Frank Timis
Mr William McAvock (resigned 12 June 2014)
Mr Chris Hopkinson (resigned 26 February 2014)

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

PROJECTS

Russian Projects

Together the Krasnoleninsky Project, Yuzhno-Sardakovsky Project, Zapadno-Novomolodezhny Project and Druzhny Project constitute the Russian Projects.

On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a share purchase agreement with a third party (the "Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US$13million (the "Transaction"). The transaction was approved via General Meeting resolution on 8 September 2014. For further detail on the sale, encompassing all the Russian Projects, refer to the subsequent events section of the Directors' Report.

There were no active operations in respect of the Russian Projects for the period 1 January 2014 to the effective date on which control over the projects was lost, which was 30 May 2014.

Kazakhstan Project

The Company, through its wholly owned subsidiary, North Caspian Petroleum Ltd ("NCPL"), 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.

During 2013 the Company conducted in house geological study of the blocks and worked on a new geological model, in communication with third parties. The new geological model was to be used for re-evaluation of resources and an update of the exploration program.

In August 2014 the Group received notification from the Kazakhstan Ministry of Oil & Gas ("MOG") that its rights to the licence have been withdrawn by MOG unilaterally. The Company does not accept this as being justified and has written to MOG requesting that the licence be reinstated. On 11 November 2014 NCPL lodged a lawsuit against the Ministry of Energy of the Republic of Kazakhstan, pertaining to the early termination of the Alakol licence subsurface use contract. At the date of this Financial Report, the court process is still ongoing.

Garatau and 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 a South African platinum project ("Tubatse Project").

Owing to the continued delays to the settlement of the dispute about the ownership of two of the three mineral farms that comprise the Tubatse Project and the negotiations with suitable joint venture partners, Nkwe had not been able to pay the A$45 million consideration to the Company by the revised agreement date of 31 December 2012. The Directors are currently seeking legal advice on how to proceed.

Hoepakrantz 291 KT, together with prospecting licenses Nooitverwacht 324 KT and Eerste Geluk 327 KT, were known as the Tubatse Project (a South African platinum project). Hoepakrantz 291 KT now forms part of the Garatau Project, with two other prospecting licences. The Company has no interest in the other two prospecting licences forming part of the Garatau Project. Due to the continued uncertainty surrounding ownership title, the Company assigns no value to its 10% interest in prospecting licences Nooitverwacht 324 KT and Eerste Geluk 327 KT.

Niger Project

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

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.

On 13 February 2013 the Government of Niger has issued Exclusive Research Authorizations ("EEA") to the Contractor. Following the payment of signature bonuses and other mandatory payments in early 2013, the production sharing contracts came into force.

The 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.

In 2013 the Company gathered historic geological and geophysical ("G&G") data on the blocks and conducted in house G&G studies of the area, including reinterpretation of existing G&G data.

The Company undertook a reconnaissance survey of the area in June 2014. The Company is planning to conduct a gravity and magnetic survey of all the blocks in quarter 3 of 2015. The Company is currently conducting a tender for the Environmental Impact Assessment of all four blocks, which is planned to be carried out in quarter 1 of 2015.

FINANCIAL SUMMARY

The Group incurred a loss after income tax of US$2,011,755 (2013: US$129,498,023); of which US$191,934 (2013: US$73,448,084) related to continuing operations and US$1,819,821 (2013: US$56,049,939) related to discontinued operations. The Group's result from continuing operations includes the following:

- Impairment reversal on exploration and evaluation expenditure of US$281,219 (2013: allowance of US$73,793,346) reflecting the Group's ongoing evaluation of its exploration portfolio. Detail surrounding impairments are included in note 7 to the financial statements.
- Net foreign exchange gains of US$1,769,219 (2013: losses of US$3,579,159) primarily related to the movements in the carrying values of loans denominated in a foreign currency.
- Losses on derivative financial assets of US$559,960 (2013: gains of US$6,711,248) reflecting the revaluation of the embedded put options in the convertible notes at 30 June 2014.
- Finance costs of US$1,234,903 (2013: US$1,079,674) reflecting the third party borrowings used to fund exploration activities.

The effective date of the sale of the Russian subsidiaries (refer to the subsequent events section of the Directors' Report and note 4 of the financial statements for further detail on the disposal group held for sale) was deemed to be 30 May 2014, at which time control over the Russian subsidiaries was lost. The operation of these Russian subsidiaries was included as a discontinued operation per note 4 of the financial statements. No profit or loss amounted from the discontinued operation for the period ended 30 June 2014, except for the recognition of a loss of US$1,819,821 with the disposal of the operation. The loss was recognised after taking into account the US$13 million proceeds received net of selling costs of US$1,382,258, the carrying value of the net assets at disposal date of US$9,661,799, the elimination of the minority interest of US$365,360 and the reclassification of a cumulative exchange loss of US$4,141,124 from the foreign currency translation reserve.

The exploration activities are set out in the Review of Operations - Projects above.

CASH FLOWS, LIQUIDITY AND FUNDING

Net cash flows used in operations during the 6 months ended 30 June 2014 were US$595,702 (6 months ended 30 June 2013: US$978,572). There was a significant increase of US$10,350,710 in the cash balance from US$211,242 at 31 December 2013 to US$10,561,952 at 30 June 2014, reflecting the net proceeds received from the sale of the Russian subsidiaries.

No funding was received by the Group during the 6 months ended 30 June 2014 (6 months ended 30 June 2013: US$12,979,593).

The Company's loan agreements with African Petroleum Corporation Limited, Varesona and Range have been converted to shares in the Company on 2 October 2014. As part of the agreement with Range the Company paid US$500,000 on 21 October 2014, as final settlement of the borrowings owed to Range. The terms and impact are detailed in note 14 to the financial statements. Following the cash settlement with Range and the conversion of the loans and interest payable, the Company does not have any outstanding loans payable.

CHANGES TO CONTRIBUTED EQUITY

No shares were issued during the 6 months ended 30 June 2014 (year ended 31 Dec 2013: nil), and no convertible loans were drawn down by the Company during the 6 months ended 30 June 2014. The convertible loan drawn down during the year ended 31 December 2013 resulted in an equity contribution to the value of US$2,163,449, representing the difference between the initial fair values of the convertible loans recognised as debt and the loan proceeds received; as well as the initial fair value of the put options embedded in the loan agreements recognised as derivative financial assets by the Company.

A total of 10,000,000 options were granted during the 6 months ended 30 June 2014 (year ended 31 December 2013: 3,500,000); and no options expired during the 6 months ended 30 June 2014 (year ended 31 December 2013: 2,000,000). As at 30 June 2014, there were 26,700,000 share options on issue (31 December 2013: 40,700,000 share options on issue).

10,000,000 performance shares were awarded to the Company's Chief Executive Officer during the 6 months ended 30 June 2014, and will vest upon achievement of certain milestones (year ended 31 December 2013: nil). As at 30 June 2014, none of these performance shares had vested. During the 6 months ended 30 June 2014 10,000,000 performance shares were forfeited, as a result of employees ceasing employment (year ended 31 December 2013: nil). As at 30 June 2014, 10,000,000 performance shares are on issue (31 December 2013: 10,000,000).

No dividends were proposed or paid during the 6 months ended 30 June 2014 (30 June 2013: no dividends).

NSX SUSPENSION

At the Company's request the Company's shares have been suspended from trading on the NSX since 27 March 2013. The suspension from trading is not expected to be lifted until the lodgement of the outstanding financial reports of the Company on the NSX.

SUBSEQUENT EVENTS

The following significant events and transactions have taken place subsequent to 30 June 2014:

Alakol licence withdrawn

In August 2014 the Group received notification from the Kazakhstan Ministry of Oil & Gas ("MOG") that its rights to the Alakol licence have been withdrawn by MOG unilaterally. The Group does not accept this as being justified and has written to MOG requesting that the licence be reinstated. On 11 November 2014 the Group, through its wholly-owned subsidiary North Caspian Petroleum Ltd, lodged a lawsuit against the Ministry of Energy of the Republic of Kazakhstan, pertaining to the early termination of the Alakol licence subsurface use contract. At the date of this Financial Report, the court process is still ongoing.

Sale of Russian subsidiaries

On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a share purchase agreement with a third party (the "Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US$13million (the "Transaction").

IPL Siberia indirectly holds the Yuzhno-Sardakovsoye Block Licence, the Yanchinsky Block Licence, the Zapadno-Novomolodezhnoye Block Licence, the Krasnoleninsky Block Licences and the Druzhny Block Licences in Russia (together, the "Russian Assets"). These licenses comprise all of the Group's interests in Russia.

The Transaction was approved via General Meeting resolution on 8 September 2014.

Conversion of borrowings to shares in the Company

On 8 September 2014, a General Meeting was held whereby shareholder approval was obtained for the conversion of loans to fully paid ordinary shares of the Company. A summary of the loan conversions approved is set out below:

- US$13,184,231 of loans, associated commitment fees and interest, payable to African Petroleum Corporation Limited ("African Petroleum"), into 233,890,450 fully paid ordinary shares at a deemed price of A$0.06 per share
- US$8,331,560 of loans and interest, payable to Range Resources Limited ("Range Resources"), into 147,803,270 fully paid ordinary shares at a deemed price of A$0.06 per share
- US$5,200,000 of loans, payable to Varesona Participation Corporation ("Varesona"), into 79,070,457 fully paid ordinary shares at a deemed price of A$0.07 per share
- US$6,000,000 of loans, payable to Varesona, into 42,576,400 fully paid ordinary shares at a deemed price of A$0.15 per share

The US$11,200,000 loans payable to Varesona, which were converted into 121,646,857 fully paid ordinary shares, excluded capitalised interest. All the capitalised interest on the loans payable was waived by Varesona.

The loan conversions to fully paid ordinary shares, as detailed above, were completed on 2 October 2014. At the date of this financial report, an estimate of the financial effect of the conversion on the Statement of Comprehensive Income cannot be made.

In addition to the loans converted, 5,000,000 options exercisable at A$0.06 per Option were issued to each of African Petroleum and Range Resources on 2 October 2014, and both companies are entitled to nominate one person to the Board of the Company.

As part of the agreement with Range Resources the Company paid US$500,000 on 21 October 2014, as final settlement of the borrowings owed to Range Resources.

Following the cash settlement with Range Resources and the conversion of the loans and interest payable to African Petroleum, Range Resources and Varesona, the Company does not have any outstanding loans payable.

Waiver of outstanding payable

On 2 September 2014 African Minerals Limited, a related party to the Group, informed International Petroleum Services Ltd ("IPSL"), a wholly owned subsidiary of International Petroleum, that it has waived its right to an outstanding payable of £489,390 (US$-equivalent of US$834,283) owed by IPSL at 30 June 2014.

No other event has arisen between 30 June 2014 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.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

The Group's risk management and corporate governance statements were included in the 2013 annual report. These statements remain current.

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 8.

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

Antony Sage
Director **Perth, 3 December 2014**

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

In relation to our review of the financial report of International Petroleum Limited for the half-year ended 30 June 2014, 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

D S Lewsen
Partner
3 December 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2014

	Note	30 June 2014 US$	30 June 2013 US$
Continuing operations			
Revenue	3(a)	**392**	3,186
Consulting expenses		**(273,006)**	(239,528)
Compliance and regulatory expenses		**(35,910)**	(126,184)
Other expenses	3(b)	**(312,770)**	(129,512)
Occupancy costs		**(21,204)**	(60,017)
Employee expenses	3(c)	**(44,152)**	(796,595)
Foreign currency gains / (losses)		**1,769,219**	(3,579,159)
Depreciation expense		**(1,919)**	(1,336)
(Loss) / gain on derivative financial instruments	6	**(559,960)**	6,711,248
Realised gain on disposal of available-for-sale financial assets		**231,914**	-
Finance costs	3(d)	**(1,234,903)**	(1,079,674)
Impairment reversals / (allowances for impairment)	3(e)	**290,365**	(74,150,513)
Loss before tax		**(191,934)**	(73,448,084)
Income tax expense		**-**	-
Loss for the period from continuing operations		**(191,934)**	(73,448,084)
Discontinued operations			
Loss for the period from discontinued operations	4	**(1,819,821)**	(56,049,939)
Loss for the period		**(2,011,755)**	(129,498,023)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gain / (loss) on financial assets available-for-sale		**41,131**	(182,810)
Loss on financial assets available-for-sale recognised as impairment loss in loss for the period		**-**	357,167
Realised fair value gain on disposal of available-for-sale financial assets transferred to profit or loss		**(231,914)**	-
Income tax effect on fair value gain / (loss) on financial assets available-for-sale		**-**	-
Foreign exchange loss on translation of foreign operations		**(1,749,156)**	(4,505,442)
Foreign currency translation reserve reclassified to loss on disposal of subsidiaries	4	**4,141,124**	-
Other comprehensive income for the period, net of tax		**2,201,185**	(4,331,085)
Total comprehensive income for the period		**189,430**	(133,829,108)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2014 (CONTINUED)

	Note	30 June 2014 US$	30 June 2013 US$
Loss for the period is attributable to:			
Owners of the parent		**(2,011,755)**	(128,874,657)
Non-controlling interest		**-**	(623,366)
		(2,011,755)	(129,498,023)
Total comprehensive income for the period is attributable to:			
Owners of the parent		**189,430**	(132,516,613)
Non-controlling interest		**-**	(1,312,495)
		189,430	(133,829,108)
Earnings per share			
From continuing and discontinued operations			
Basic/diluted loss per share (cents)		**(0.17)**	(10.96)
From continuing operations			
Basic/diluted loss per share (cents)		**(0.02)**	(6.24)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	30 June 2014 US$	31 December 2013 US$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**10,561,952**	96,906
Trade and other receivables		**81,697**	92,387
Prepayments		**190,140**	118,016
Derivative financial assets	6	**12,133,482**	11,972,784
		22,967,271	12,280,093
Disposal group classified as held for sale	4	**-**	55,758,430
TOTAL CURRENT ASSETS		**22,967,271**	68,038,523
NON CURRENT ASSETS			
Restricted cash		**47,331**	49,489
Plant and equipment		**12,310**	18,963
Financial assets available-for-sale		**1,031**	315,234
Exploration and evaluation expenditure	7	**6,955,618**	5,518,791
TOTAL NON CURRENT ASSETS		**7,016,290**	5,902,477
TOTAL ASSETS		**29,983,561**	73,941,000
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8	**9,677,041**	8,534,947
Borrowings	9	**32,785,784**	31,597,810
Income tax payable		**259,966**	247,233
		42,722,791	40,379,990
Liabilities directly associated with disposal group classified as held for sale	4	**-**	43,775,329
TOTAL CURRENT LIABILITIES		**42,722,791**	84,155,319
NON CURRENT LIABILITIES			
Provisions		**25,145**	30,048
TOTAL NON CURRENT LIABILITIES		**25,145**	30,048
TOTAL LIABILITIES		**42,747,936**	84,185,367
NET LIABILITIES		**(12,764,375)**	(10,244,367)
SHAREHOLDERS' DEFICIT			
Contributed equity	10	**272,412,761**	272,412,761
Reserves	11	**(91,706,192)**	(91,563,299)
Accumulated losses		**(193,470,944)**	(191,459,189)
Equity attributable to equity holders of the parent		**(12,764,375)**	(10,609,727)
Non-controlling interest		**-**	365,360
TOTAL SHAREHOLDERS' DEFICIT		**(12,764,375)**	(10,244,367)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2014

	Note	Contributed equity US$	Accumulated losses US$	Share-based payment reserve US$	Revaluation reserve US$	Merger reserve US$	Foreign currency translation reserve US$	Other reserve US$	Non-controlling interest US$	Total US$
AS AT 1 JANUARY 2014		**272,412,761**	**(191,459,189)**	**7,920,077**	**190,783**	**(101,516,017)**	**2,123,483**	**(281,625)**	**365,360**	**(10,244,367)**
Loss for the period		**-**	**(2,011,755)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,011,755)**
Revaluation of financial assets available for sale		**-**	**-**	**-**	**41,131**	**-**	**-**	**-**	**-**	**41,131**
Realised fair value gain on disposal of available-for-sale financial assets transferred to profit or loss		**-**	**-**	**-**	**(231,914)**	**-**	**-**	**-**	**-**	**(231,914)**
Foreign currency translation reserve reclassified to loss on disposal of subsidiaries	4	**-**	**-**	**-**	**-**	**-**	**4,141,124**	**-**	**-**	**4,141,124**
Translation of foreign operations from functional currencies to presentation currencies		**-**	**-**	**-**	**-**	**-**	**(1,749,156)**	**-**	**-**	**(1,749,156)**
Total comprehensive income for the period		**-**	**(2,011,755)**	**-**	**(190,783)**	**-**	**2,391,968**	**-**	**-**	**189,430**
Share based payments		**-**	**-**	**(2,344,078)**	**-**	**-**	**-**	**-**	**-**	**(2,344,078)**
Disposal of subsidiaries	4	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(365,360)**	**(365,360)**
AS AT 30 JUNE 2014		**272,412,761**	**(193,470,944)**	**5,575,999**	**-**	**(101,516,017)**	**4,515,451**	**(281,625)**	**-**	**(12,764,375)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2013

	Note	Contributed equity US$	Accumulated losses US$	Share-based payment reserve US$	Revaluation reserve US$	Merger reserve US$	Foreign currency translation reserve US$	Other reserve US$	Non-controlling interest US$	Total US$
AS AT 1 JANUARY 2013		270,249,312	(58,911,382)	7,351,026	(174,357)	(101,516,017)	4,971,218	-	1,393,141	123,362,941
Loss for the period		-	(128,874,657)	-	-	-	-	-	(623,366)	(129,498,023)
Revaluation of financial assets available for sale		-	-	-	(182,810)	-	-	-	-	(182,810)
Impairment of financial assets available for sale recycled to loss for the period		-	-	-	357,167	-	-	-	-	357,167
Translation of foreign operations from functional currencies to presentation currencies		-	-	-	-	-	(3,816,313)	-	(689,129)	(4,505,442)
Total comprehensive income for the period		-	(128,874,657)	-	174,357	-	(3,816,313)	-	(1,312,495)	(133,829,108)
Shareholder equity contribution	10	2,163,449	-	-	-	-	-	-	-	2,163,449
Share based payments		-	-	807,681	-	-	-	-	-	807,681
Acquisition of a non-controlling interest	11	-	-	-	-	-	-	(281,625)	281,625	-
AS AT 30 JUNE 2013		272,412,761	(187,786,039)	8,158,707	-	(101,516,017)	1,154,905	(281,625)	362,271	(7,495,037)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2014

	Note	30 June 2014 US$	30 June 2013 US$
Cash flows from operating activities			
Payments to suppliers and employees		**(596,181)**	(979,633)
Interest received		**479**	7,275
Income tax paid		**-**	(6,214)
Net cash flows used in operating activities		**(595,702)**	(978,572)
Cash flows from investing activities			
Net cash inflow on disposal of subsidiaries		**11,510,826**	-
Proceeds from disposal of financial assets available-for-sale		**374,146**	-
Receipt of security deposits		**22,316**	-
Payment for plant and equipment		**-**	(8,286)
Payment for exploration and evaluation expenses		**(917,638)**	(12,068,911)
Net cash flows from / (used in) investing activities		**10,989,650**	(12,077,197)
Cash flows from financing activities			
Proceeds from borrowings		**-**	14,329,593
Repayment of borrowings		**-**	(1,350,000)
Interest paid		**-**	(444)
Net cash flows from financing activities		**-**	12,979,149
Net increase / (decrease) in cash and cash equivalents		**10,393,948**	(76,620)
Cash and cash equivalents at the beginning of the period		**211,242**	374,980
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(43,238)**	57,489
Cash and cash equivalents at the end of the period		**10,561,952**	355,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of International Petroleum Limited and its subsidiaries ("the Group") for the half-year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Board of Directors on 3 December 2014.

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

This general purpose condensed financial report for the half-year ended 30 June 2014 has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2013 and considered together with any public announcements made by International Petroleum Limited during the half-year ended 30 June 2014 in accordance with the continuous disclosure obligations of the NSX Listing Rules.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2013 annual financial report for the financial year ended 31 December 2013, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

From 1 January 2014 the Group has adopted all new and amended Standards and Interpretations that are relevant to their operations and effective for the current reporting period, including:

- AASB 1053 - Application of Tiers of Australian Accounting Standards
- AASB 2011-4 – Amendments to Australian Accounting Standards to *Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124]
- AASB 2012-3 – Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 – Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
- AASB 2013-9 – Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

The 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.

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

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 period ended 30 June 2014, the Group incurred a net loss after tax of US$2,011,755 and a cash outflow from operating activities of US$595,702. The cash and cash equivalents balance at 30 June 2014 was US$10,561,952. The Group's net liability position at 30 June 2014 was US$12,764,375 and its net current liability position was US$19,755,520.

On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a share purchase agreement with a third party ("Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US$13million ("Russian Asset Sale"). As part of the transaction, the Buyer has the right to lodge financial claims with the Seller, not later than the second anniversary of the date of Completion of the transaction, in respect of undisclosed third party debts of IPL Siberia and IPL Russia (and their subsidiaries) as at the date of the transaction. The aggregate liability of the Seller in respect of all claims is limited to the consideration amount of US$13 million. As at the date of signing of this half-year financial report no financial claims have been lodged by the Buyer.

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to continue as a going concern. In forming this view, the directors have considered the Group's current position, funding objectives and the probability of legitimate financial claims being lodged pertaining to the Russian Asset Sale. The Group's funding objectives include:

i) negotiating agreements with certain creditors to extend payment terms, and
ii) the sale of certain assets

There are a number of inherent uncertainties relating to the completion of the funding objectives as listed above, including but not limited to:

i) creditors not agreeing to extend payment terms and filing legal claims to recover the amounts owed to them, and
ii) unfavourable market conditions resulting in difficulties in achieving a sale of certain assets.

It is the directors' opinion that the list of liabilities presented to the Buyer as part of the share purchase agreement in respect of the Russian Asset Sale was complete, and therefore to the best of their knowledge, they do not expect material legitimate financial claims to result from the Russian Asset Sale.

Should significant legitimate financial claims arise from the Russian Asset Sale, in contrast to the directors' current view, or should the Group's funding objectives not be attained, the directors will have to seek alternative sources of financing. In the event that such financing is not available, there would exist a significant uncertainty as to whether the Group would be able to 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.

3. REVENUE AND EXPENSES

Components of revenue and expenses related to continuing operations that require separate disclosure are as follows:

	Period ended 30 June 2014 US$	**Period ended 30 June 2013 US$**
(a) Revenue		
Interest revenue	**392**	3,186
(b) Other expenses	**(312,770)**	(129,512)
Included in other expenses are penalties of US$203,882 (30 June 2013: Nil) charged by a Kazakhstan supplier.		
(c) Employee expenses		
Employee benefits expense	**(318,085)**	(166,484)
Directors' remuneration	**(231,297)**	(383,636)
Share based payments[(i)]	**505,230**	(246,475)
	(44,152)	(796,595)

[(i)]The share based payments relate to unlisted equity-settled options and performance shares.

The options have been valued using the Black-Scholes option pricing model. The share based payment expense reversal recognised for the six months ended 30 June 2014 is US$900,648 (30 June 2013: expense of US$511,711), of which US$55,721 (30 June 2013: US$180,704) is recognised in the Statement of Comprehensive Income and US$844,927 has been captured as a reversal of capitalised exploration and evaluation expenditure (30 June 2013: US$331,007 capitalised as exploration and evaluation expenditure).

The performance shares were awarded during prior periods and valued using the share price on the grant date. The issue of these shares is subject to various service and performance conditions such that none of these shares have yet been issued. The share based payment expense reversal recognised for the six months ended 30 June 2014 is US$1,443,430 (30 June 2013: expense of US$295,970), of which US$449,509 (30 June 2013: US$65,771) is recognised in the Statement of Comprehensive Income and US$993,921 has been captured as a reversal of capitalised exploration and evaluation expenditure (30 June 2013: US$230,199 capitalised as exploration and evaluation expenditure).

	Period ended 30 June 2014 US$	**Period ended 30 June 2013 US$**
(d) Finance costs		
Interest expense	**(1,234,903)**	(939,674)
Commitment fees on funding facilities	**-**	(140,000)
	(1,234,903)	(1,079,674)
(e) Impairment reversals / allowances for impairment		
Other impairment reversals	**9,146**	-
Impairment reversal / (loss) on financial assets available-for-sale	**-**	(357,167)
Impairment reversal / (loss) on exploration and evaluation expenditure	**281,219**	(73,793,346)
	290,365	(74,150,513)

4. DISCONTINUED OPERATIONS

On 9 May 2014 the Company, through its wholly owned subsidiary International Petroleum Limited (a company incorporated in the Cayman Islands), entered into a share purchase agreement with a third party for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) (“IPL Siberia”) and International Petroleum Company Limited (a company incorporated in Russia) (“IPL Russia”) for proceeds of US$13million.

IPL Siberia indirectly holds the Yuzhno-Sardakovsoye Block Licence, the Yanchinsky Block Licence, the Zapadno-Novomolodezhnoye Block Licence, the Krasnoleninsky Block Licences and the Druzhny Block Licences in Russia.

IPL Siberia and IPL Russia are classified as a disposal group held for sale and as a discontinued operation. The effective date of the sale of IPL Siberia and IPL Russia was deemed to be 30 May 2014, at which time control over the Russian subsidiaries was lost. A loss on disposal of US$1,819,821 was recognised in the current period, after taking into account the US$13 million proceeds received net of selling costs of US$1,382,258, the carrying value of the net assets at disposal date of US$9,661,799, the elimination of the minority interest of US$365,360 and the reclassification of a cumulative exchange loss of US$4,141,124 from the foreign currency translation reserve.

The results of the discontinued operation included in the consolidated statement of comprehensive income are set out below. The comparative profit and cash flows from the discontinued operation have been re-presented to include the operation classified as discontinued in the current period.

	Period ended 30 June 2014	**Period ended 30 June 2013**
	US$	**US$**
Loss for the year from a discontinued operation		
Revenue	-	3,656
Consulting expenses	-	(29,605)
Compliance and regulatory expenses	-	(16,857)
Other expenses	-	(3,148,332)
Employee expenses	-	(15,607)
Foreign currency (losses)/gains	-	(30,642)
Depreciation expense	-	(4,963)
Finance costs	-	(227,903)
Impairment loss recognised on the re-measurement to fair value less costs to sell [(i)]	-	(53,118,243)
Loss on disposal of operation including a cumulative exchange loss of US$4,141,124 reclassified from foreign currency translation reserve to loss for the period	**(1,819,821)**	-
Loss before tax from a discontinued operation	**(1,819,821)**	(56,588,496)
Attributable income tax benefit:		
Related to current pre-tax loss	-	538,557
Related to measurement to fair value less costs of disposal (deferred tax)	-	-
Related to loss on disposal of operation	-	-
Loss for the year from a discontinued operation	**(1,819,821)**	(56,049,939)

[(i)] For the period ended 30 June 2013, an impairment loss of US$53,118,243 was recognised on the Russian exploration assets. The exploration assets were impaired to reflect the the fair value less costs to sell in respect of the Group’s interest in the Russian exploration assets.

4. DISCONTINUED OPERATIONS (CONTINUED)

	Period ended 30 June 2014 US$	Period ended 30 June 2013 US$
Earnings per share		
Basic/diluted loss per share (cents) from a discontinued operation	**(0.15)**	(4.72)
Cash flows from a discontinued operation		
Net cash used in operating activities	**-**	(47,194)
Net cash used in investing activities	**-**	(11,102,917)
Net cash from financing activities	**-**	-
Net cash outflows	**-**	(11,150,111)

The disposal of IPL Siberia and IPL Russia was completed on 30 May 2014, and therefore there are no assets and liabilities classified as held for sale at 30 June 2014. The major classes of assets and liabilities classified as held for sale at the date of disposal of 30 May 2014, and at 31 December 2013, were as follows:

	30 May 2014 US$	31 December 2013 US$
Assets		
Exploration and evaluation expenditure	**49,657,165**	53,801,021
Plant and equipment	**929,113**	994,192
Deferred tax asset	**336,583**	360,159
Inventories	**60,591**	64,835
Prepayments	**17,756**	19,000
Trade and other receivables	**378,384**	404,887
Cash and cash equivalents	**106,915**	114,336
Assets classified as held for sale	**51,486,507**	55,758,430
Liabilities		
Borrowings (non-current)	**(9,529,825)**	(9,529,825)
Provisions (non-current)	**(7,799,857)**	(8,346,195)
Deferred tax liability	**(3,721,573)**	(3,982,249)
Income tax payable	**(6,107)**	(5,636)
Trade and other payables	**(20,767,346)**	(21,911,424)
Liabilities directly associated with assets classified as held for sale	**(41,824,708)**	(43,775,329)
Net assets directly associated with disposal group	**9,661,799**	11,983,101
Included in Other Comprehensive Income:		
Foreign currency translation reserve	**4,141,124**	3,066,372
Reserve of disposal group classified as held for sale	**4,141,124**	3,066,372

5. CASH AND CASH EQUIVALENTS

	30 June 2014 US$	31 December 2013 US$
Cash at bank and on hand	**10,561,952**	96,906
	10,561,952	96,906

6. DERIVATIVE FINANCIAL ASSETS

	30 June 2014 US$	31 December 2013 US$
At 1 January	**11,972,784**	3,955,072
Initial recognition of embedded derivatives	**-**	1,724,426
(Loss) / gain on derivative financial instruments	**(559,960)**	7,776,354
Foreign exchange differences on translation of foreign operations	**720,658**	(1,483,068)
At end of reporting period	**12,133,482**	11,972,784

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 prior years, as explained in Note 9. The fair values are determined using the Black-Scholes model.

7. EXPLORATION AND EVALUATION EXPENDITURE

	30 June 2014 US$	31 December 2013 US$
At cost	**94,563,941**	99,170,302
Less: impairment provisions	**(87,608,323)**	(93,651,511)
Net Carrying value	**6,955,618**	5,518,791
Reconciliation of movement		
At 1 January	**5,518,791**	181,906,360
Current period exploration expenditure	**936,967**	15,007,171
Impairment reversal / (allowance for impairment)[1]	**281,219**	(129,330,722)
Foreign exchange differences on translation of foreign operations	**218,641**	(8,262,997)
Discontinued operations (note 4)	**-**	(53,801,021)
At end of reporting period	**6,955,618**	5,518,791
Movement in impairment provision:		
At 1 January	**(93,651,511)**	(23,681,826)
Impairment reversal / (allowance for impairment)	**281,219**	(129,330,722)
Foreign exchange differences on translation of foreign operations	**5,761,969**	4,530,377
Discontinued operations (note 4)	**-**	54,830,660
At end of reporting period	**(87,608,323)**	(93,651,511)

7. EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

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.

[1]On 14 October 2013, the Group entered into a binding conditional agreement with a third party for the sale of 100% of the issued shares of Eastern Petroleum Corporation Limited for proceeds of US$10 million. The Buyer did not comply with its obligations set out in the term sheet and the sale did not complete. In August 2014, the Group received notification from the Kazakhstan Ministry of Oil & Gas ("MOG") that its rights to the Alakol licence have been withdrawn by MOG unilaterally. The Group does not accept this as being justified and has written to MOG requesting that the licence be reinstated. At the date of approval of this financial report the dispute has not yet been resolved. Based on the terms of the incomplete sales transaction and the uncertainty pertaining to the status of the licence, the capitalised exploration and evaluation expenditure relating to the Alakol permit was impaired to nil at 31 December 2013, resulting in an allowance for impairment of US$64,374,038 for the year. To maintain the carrying value of the Alakol permit at nil, the net reduction of exploration expenditure pertaining to the Alakol permit during the current period, resulted in an impairment reversal of US$281,219.

At 31 December 2013 the Company estimated the recoverable amount of the capitalised exploration and evaluation expenditure in respect of its 10% interest in prospecting licence Hoepakrantz 291 KT at US$3,549,080. Hoepakrantz 291 KT, together with prospecting licences Nooitverwacht 324 KT and Eerste Geluk 327 KT, were known as the Tubatse Project (a South African platinum project). Hoepakrantz 291 KT now forms part of the Garatau Project, with two other prospecting licences. The Company has no interest in the other two prospecting licences forming part of the Garatau Project. Due to the continued uncertainty surrounding ownership title, the Company's 10% interest in prospecting licences Nooitverwacht 324 KT and Eerste Geluk 327 KT has been fully impaired. The recoverable value of US$3,549,080 assigned to Hoepakrantz 291 KT at 31 December 2013 was estimated by management based on internal valuation assessments and also by reference to recent transactional data available in the market. Accordingly, an allowance for impairment of US$10,126,024 was recognised in the year ended 31 December 2013. No impairment adjustments were made for the period ended 30 June 2014.

On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a binding share purchase agreement with a third party for the sale of 100% of the issued shares of IPL Siberia Limited (a company registered in the Cayman Islands) and 100% of the issued shares of International Petroleum Company LLC (a company registered in Russia) for proceeds of US$13 million (US$11.6 million net of selling costs). The sale of these companies represented the sale of the Group's interest in the Russian geographical region as defined in the segment report ("Russian Assets"). The quantum of the proceeds received was further evidence to the assumption made by the Group's directors that the Russian Assets were impaired at 31 December 2013. Accordingly, an allowance for impairment of US$54,830,660 had been recognised during the year ended 31 December 2013, to reflect the fair value less costs to sell in respect of the Group's interest in the Russian Assets. The Russian Assets were disposed of during the period. Refer to note 4 for further information.

8. TRADE AND OTHER PAYABLES

	30 June 2014 US$	31 December 2013 US$
Current liabilities		
Trade payables	**4,231,126**	4,565,993
Other payables	**3,710,915**	2,723,954
Payable to related party	**1,735,000**	1,245,000
	9,677,041	8,534,947

9. BORROWINGS

	30 June 2014 US$	31 December 2013 US$
Current		
Secured loans from related parties[1]	**11,852,599**	11,303,983
Convertible loans from related party[2]	**12,161,541**	11,863,486
Unsecured loans from third parties[3 / 4]	**8,771,644**	8,430,341
	32,785,784	31,597,810

[1] In May 2011, the Company obtained a US$10 million loan facility ("Loan Facility A") from African Petroleum Corporation Limited ("APCL"), a company related to International Petroleum. Loan Facility A was 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.

During April 2013, the Company agreed with APCL to vary the terms of Loan Facility A, such that:

- an additional commitment fee of US$100,000 is payable by the Company to APCL,
- the repayment date was extended to the earlier of (i) 31 December 2013; (ii) the date of the receipt by the Company of A$45,000,000 pursuant to the terms of the Nkwe Agreement; and (iii) the date the Company completes a raising of funds by way of a public offering of shares,
- the Company's wholly owned subsidiary company, International Petroleum Limited, registered in the Cayman Islands under company number 244385 ("IPL Cayman"), entered into a deed of guarantee in favour of APCL and a deed of charge in favour of APCL, as security for the APCL Loan, over:
  (i) all allocations and distributions of income, cash flow and profits and payments arising from IPL Cayman's right, title and interest in production sharing contracts between the Republic of Niger and IPL Cayman over the four petroleum licence blocks known as Manga 1, Manga 2, Aorak and Tenere Ouest; and
- rights to receive all proceeds from the sale or transfer of IPL's interest in these contracts. APCL released from the fixed and floating charge dated 16 May 2011 between the Company and IPL, all the secured property, except all the Borrower's shares in IPL Cayman and any proceeds, dividends, distributions and other rights and benefits arising from or in connection with the Company's shares in IPL Cayman.

Interest is payable on Loan Facility A at the cash rate plus 3% per annum. Interest is payable at a rate of 10% per annum on any part of the loan balance that is overdue. At 30 June 2014, Loan Facility A was drawn down in full. Interest incurred for the period of US$548,234 was capitalised to the loan amount (year ended 31 December 2013: US$324,903). The Company was also obliged to pay US$475,000 in respect of commitment fees, of which US$100,000 was recognised in the year ended 31 December 2013 and the rest of the commitments fees were recognised in prior years.

The total borrowings owed to APCL were converted to fully paid ordinary shares of the Company on 2 October 2014. Details pertaining to the conversion are included in note 14.

9. BORROWINGS (CONTINUED)

[2] In January 2013 and during the prior year, the Company secured convertible loans from Varesona Participation Corporation ("Varesona"), an entity controlled by non-executive director Mr Frank Timis. These have been drawn down in full. A loan of US$5,200,000 secured in January 2013 included US$200,000 advanced during the prior year. Each loan bears interest at 5% per annum and is unsecured. The terms of each loan, the initial debt values and carrying values as at the end of the period are as follows:

Loan	**Maturity date**	**Conversion price**	**Loan principal**	**Initial value of debt component**	**Carrying value at 30 June 2014**
		A$	**US$**	**US$**	**US$**
Loan 1	6 August 2013	0.15	2,000,000	1,819,287	2,238,519
Loan 2	14 September 2013	0.15	2,000,000	1,825,720	2,192,989
Loan 3	16 October 2013	0.15	2,000,000	1,832,261	2,159,282
Loan 4	31 January 2014	0.07	5,200,000	4,743,185	5,570,751
			11,200,000	**10,220,453**	**12,161,541**

If each loan principal plus accrued interest (the "Outstanding Amounts") is 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 equal to the Outstanding Amounts, calculated at the applicable conversion prices. 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.

Subject to shareholder approval, the Company had 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. There were no new convertible loan agreements entered into during the current period.

The carrying value of the debt components of the convertible loans measured at amortised cost include capitalised finance costs of US$1,941,088 (31 December 2013: US$1,643,033) and have been determined based on the residual value of the loans after adjusting for the initial fair values of the embedded derivatives.

On 1 October 2013 the Company and Varesona agreed to extend the maturity dates of Loan 1, Loan 2 and Loan 3 to 31 December 2013. All other terms remained unchanged.

The agreed maturity date for all 4 loans was extended to 2 October 2014, on which date the total borrowings owed to Varesona were converted to fully paid ordinary shares of the Company. The outstanding borrowing balance at 31 July 2014, following negotiation of maturity dates, was used for the calculation of the quantity of ordinary share to be issued. Details pertaining to the conversion are included in note 14.

[3] In April 2013 the Company secured a US$15 million loan facility from an unrelated party, Range Resources Ltd ("Range"). The facility was provided in anticipation of Range's proposed acquisition of the Company. Interest is charged at 8% per annum. The Company received US$5,979,593 from Range under the facility during 2013 and incurred interest of US$341,018 during the current period (year ended 31 December 2013: US$401,516).

The total borrowings owed to Range, less US$500,000 to be settled in cash, were converted to fully paid ordinary shares of the Company on 2 October 2014. The cash settlement of US$500,000 occurred on 21 October 2014. Details pertaining to the conversion and cash settlement are included in note 14.

[4] In June 2013 the Company entered into a loan agreement with an unrelated party for US$2,000,000, bearing interest at 10% per annum and repayable in July 2013. During the year ended 31 December 2013, the Company was advanced the full US$2,000,000 under the facility, incurred interest of US$13,151 and incurred a loan structuring fee of US$40,000. Range repaid US$1,350,000 on behalf of the Company in June 2013 and Range repaid the remainder of the loan on 15 July 2013.

10. CONTRIBUTED EQUITY

	30 June 2014 US$	31 December 2013 US$
Issued ordinary shares (a)	**266,250,687**	266,250,687
Shareholder equity contribution (b)	**6,162,074**	6,162,074
	272,412,761	272,412,761

(a) Issued ordinary shares – fully paid

	Period ended 30 June 2014 US$	Year ended 31 December 2013 US$
As at 1 January	**266,250,687**	**266,250,687**
Issue of shares pursuant to a capital raising	**-**	**-**
At end of reporting period	**266,250,687**	**266,250,687**

(b) Shareholder equity contribution

The equity contribution is the difference between the initial fair value of the convertible loans recognised as debt and the loan proceeds received. There were no new convertible loan agreements entered into during the current period.

(c) Options and performance rights

During the current period the following share options were granted:

Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
10,000,000	0.01	21 July 2019	0.06	0.05

During the year ended 31 December 2013 the following share options were granted:

Number of options	Exercise Price A$	Expiry Date	Fair Value at Grant Date A$	Fair Value at Grant Date US$
1,000,000	0.10	15 April 2018	0.05	0.05
500,000	0.25	30 June 2015	0.02	0.02
500,000	0.35	30 June 2015	0.02	0.02
500,000	0.45	30 June 2015	0.01	0.01
500,000	0.55	30 June 2015	0.01	0.01
500,000	0.65	30 June 2015	0.01	0.01

No options expired during the current period (year ended 31 December 2013: 2,500,000). 24,000,000 options were forfeited during the current period as a result of employees ceasing employment (year ended 31 December 2013: 2,000,000). As at 30 June 2014, there were 26,700,000 share options on issue (31 December 2013: 40,700,000).

10,000,000 performance shares were awarded to the Company's Chief Executive Officer during the current period, and will vest upon achievement of certain milestones (year ended 31 December 2013: nil). As at 30 June 2014, none of these performance shares had vested. During the current period 10,000,000 performance shares were forfeited, as a result of employees ceasing employment (year ended 31 December 2013: nil). As at 30 June 2014, 10,000,000 performance shares are on issue (31 December 2013: 10,000,000).

11. RESERVES

Nature and purpose of reserves

Share-based payment 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.

Other reserve

The Other reserve balance relates to the acquisition of the remaining 25% shareholding in Souville Investments Limited on 17 June 2013. The 25% ownership of the shares was transferred prior to 31 December 2013, while the completion date of the agreement was post 31 December 2013. Therefore the minority interest balance was reclassified from Non-controlling interest to Other reserve at the share transfer date.

12. 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 on 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:

	30 June 2014 US$	31 December 2013 US$
Australia	**1,031**	315,234
Africa	**6,955,618**	5,518,791
Kazakhstan	**59,641**	68,452
	7,016,290	5,902,477

13. COMMITMENTS AND CONTINGENCIES

The Group had capital commitments in respect of its licence obligations of US$44,995,077 (31 December 2013: US$59,906,816) at the end of the reporting period. Other than the licence obligation commitments there are no other material changes between 31 December 2013 and 30 June 2014 to the commitments, as disclosed in the most recent annual financial report.

There have been no material changes between 31 December 2013 and 30 June 2014 to the contingent assets and contingent liabilities, as disclosed in the most recent annual financial report.

14. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events and transactions have taken place subsequent to 30 June 2014:

Alakol licence withdrawn

In August 2014 the Group received notification from the Kazakhstan Ministry of Oil & Gas ("MOG") that its rights to the Alakol licence have been withdrawn by MOG unilaterally. The Group does not accept this as being justified and has written to MOG requesting that the licence be reinstated. On 11 November 2014 the Group, through its wholly-owned subsidiary North Caspian Petroleum Ltd, lodged a lawsuit against the Ministry of Energy of the Republic of Kazakhstan, pertaining to the early termination of the Alakol licence subsurface use contract. At the date of this Financial Report, the court process is still ongoing.

Sale of Russian subsidiaries

On 9 May 2014, the Company (through its wholly owned subsidiary) entered into a share purchase agreement with a third party (the "Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US$13million (the "Transaction").

IPL Siberia indirectly holds the Yuzhno-Sardakovsoye Block Licence, the Yanchinsky Block Licence, the Zapadno-Novomolodezhnoye Block Licence, the Krasnoleninsky Block Licences and the Druzhny Block Licences in Russia (together, the "Russian Assets"). These licenses comprise all of the Group's interests in Russia. The Transaction was approved via General Meeting resolution on 8 September 2014.

Conversion of borrowings to shares in the Company

On 8 September 2014, a General Meeting was held whereby shareholder approval was obtained for the conversion of loans to fully paid ordinary shares of the Company. A summary of the loan conversions approved is set out below:

- US$13,184,231 of loans, associated commitment fees and interest, payable to African Petroleum Corporation Limited ("African Petroleum"), into 233,890,450 fully paid ordinary shares at a deemed price of A$0.06 per share
- US$8,331,560 of loans and interest, payable to Range Resources Limited ("Range Resources"), into 147,803,270 fully paid ordinary shares at a deemed price of A$0.06 per share
- US$5,200,000 of loans, payable to Varesona Participation Corporation ("Varesona"), into 79,070,457 fully paid ordinary shares at a deemed price of A$0.07 per share
- US$6,000,000 of loans, payable to Varesona, into 42,576,400 fully paid ordinary shares at a deemed price of A$0.15 per share

The US$11,200,000 loans payable to Varesona, which were converted into 121,646,857 fully paid ordinary shares, excluded capitalised interest of US$977,787. All the capitalised interest on the loans payable was waived by Varesona.

The loan conversions to fully paid ordinary shares, as detailed above, were completed on 2 October 2014. At the date of this financial report, an estimate of the financial effect of the conversion on the Statement of Comprehensive Income cannot be made.

In addition to the loans converted, 5,000,000 options exercisable at A$0.06 per Option were issued to each of African Petroleum and Range Resources on 2 October 2014, and both companies are entitled to nominate one person to the Board of the Company.

As part of the agreement with Range Resources the Company paid US$500,000 on 21 October 2014, as final settlement of the borrowings owed to Range Resources. Following the cash settlement with Range Resources and the conversion of the loans and interest payable to African Petroleum, Range Resources and Varesona, the Company does not have any outstanding loans payable.

Waiver of outstanding payable

On 2 September 2014 African Minerals Limited, a related party to the Group, informed International Petroleum Services Ltd ("IPSL"), a wholly owned subsidiary of International Petroleum, that it has waived its right to an outstanding payable of £489,390 (US$-equivalent of US$834,283) owed by IPSL at 30 June 2014.

No other event has arisen between 30 June 2014 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.

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of International Petroleum Limited for the period ended 30 June 2014 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

(b) subject to the matters set out in note 2 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.

Signed in accordance with a resolution of the Directors:

Antony Sage
Director

Perth, 3 December 2014

Building a better working world

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Independent review report to members of International Petroleum Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of International Petroleum Limited, which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of International Petroleum Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 Review Conclusion

Accounting books and records of IPL Siberia Limited and International Petroleum Company LLC

As described in Note 4 to the financial report, on 9 May 2014 the Company entered into a transaction to dispose of 100% of the issued shares of IPL Siberia Limited and International Petroleum Company LLC (the "Russian Subsidiaries"). The accounting books and records of the Russian Subsidiaries were provided to the acquirer on 30 May 2014.

The consolidated financial statements for the six months ended 30 June 2014 include the impact on the financial performance, financial position, cash flows and changes in equity of the sale of the Russian Subsidiaries. The directors of the Company were unable to obtain access to the accounting books and records of the Russian Subsidiaries and as a result, we were unable to perform sufficient appropriate review procedures in relation to these records.

In addition, as described in Note 2 to the financial report, pursuant to the sale of the Russian Subsidiaries, the acquirer has the right to lodge legitimate financial claims against the Company in respect of undisclosed third party debts of the Russian Subsidiaries as at the date of the transaction. As the directors were unable to access the accounting books and records of the Russian Subsidiaries, we were unable to perform sufficient appropriate review procedures in relation to the likelihood of such a claim arising.

The above matters represent material limitations on the scope of our work.

Carrying Value of Hoepakrantz 291 KT

As described in Note 7 to the financial report, the Company has impaired the carrying value of capitalised exploration and evaluation expenditure related to the Hoepakrantz 291 KT prospecting licence to the directors' estimated recoverable amount of US$3,767,720. We have been unable to obtain sufficient appropriate audit evidence to support the carrying value of the Hoepakrantz 291 KT prospecting licence for the purposes of this financial report.

The above represents a material limitation on the scope of our work.

Going concern

As described in Note 2 to the financial report, the Group's ability to continue to meet its debts as and when they fall due is reliant upon:

1. there being no material legitimate claims being made against the Company by the acquirers of the Russian Subsidiaries as outlined above ; and
2. The Group achieving its funding objectives which include:
    a. negotiating agreements with certain trade creditors to extend payment terms, and
    b. the sale of certain assets.

We have been unable to obtain sufficient appropriate review evidence as to whether the consolidated entity can achieve the matters disclosed in Note 2 and hence remove significant doubt relating to its ability to continue as a going concern within 12 months of the date of this review report.

Disclaimer of Review Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs, we have not been able to obtain sufficient appropriate review evidence to provide a basis for a review conclusion. Accordingly we do not express a review conclusion on the financial report.

Ernst & Young

Ernst & Young

Lewsen

D S Lewsen
Partner
Perth
3 December 2014