

# Maverick Drilling Services Pty Ltd

## Special Purpose Financial report – 31 October 2009

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	Note	31 October 2009 US \$
<b>Current Assets</b>		
Cash and cash equivalents	2	2,846,311
Trade and other receivables		1,583,814
Inventories		144,161
<b>Total current assets</b>		<u><b>4,574,286</b></u>
<b>Non-current assets</b>		
Receivables		147,958
Property, plant, and equipment	3	11,552,037
Oil and gas assets	4	9,310,070
Goodwill		3,612,325
Other		50,000
<b>Total non-current assets</b>		<u><b>24,672,390</b></u>
<b>Total assets</b>		<u><b>29,246,676</b></u>
<b>Current liabilities</b>		
Trade and other payables	5	3,152,256
Borrowings	6	14,025,373
Current tax liabilities		90,723
<b>Total current liabilities</b>		<u><b>17,268,352</b></u>
<b>Non-current liabilities</b>		
Borrowings	7	7,998,055
Other payables		61,875
Deferred tax liabilities		4,191,793
<b>Total non-current liabilities</b>		<u><b>12,251,723</b></u>
<b>Total liabilities</b>		<u><b>29,520,075</b></u>
<b>Net assets</b>		<u><b>(273,399)</b></u>
<b>Equity</b>		
Issued capital		2,336,722
Retained earnings		(2,610,121)
<b>Total equity</b>		<u><b>(273,399)</b></u>

## 1 Summary of significant accounting policies

### (a) Basis of accounting

This is a special purpose financial report that has been prepared for the members to assist with compliance with the admission criteria of the Australian Securities Exchange and must not be used for any other purpose. The directors have determined that the accounting policies adopted are appropriate to meet the needs of the members.

The financial report has been prepared in accordance with the recognition and measurement criteria of Australian Accounting Standards and the significant accounting policies set out in this section. The financial report does not comply with the disclosure requirements of the following Accounting Standards:

- AASB 2 – Share-based Payment
- AASB 7 – Financial Instruments: Disclosures
- AASB 101 – Presentation of Financial Statements
- AASB 107 – Cash Flow Statements
- AASB 112 – Income Taxes
- AASB 114 – Segment Reporting
- AASB 124 – Related Party Disclosures
- AASB 132 – Financial Instruments: Presentation

#### *Historical cost convention*

The financial report is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

#### *Compliance with IFRS*

The financial report also complies with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### *Going concern basis of accounting- Significant uncertainty*

The Group currently has negative working capital (\$12,694,066), negative net assets of (\$273,399) and negative retained earnings (\$2,610,121). The negative working capital balance is impacted by \$14 million of convertible notes which will mature on 1 November 2010 along with approximately \$1.7 million of accrued interest on these notes being payable in May 2010. If a successful listing occurs, these notes will be converted into equity of Maverick Drilling Services Pty Ltd. However, if the listing does not occur the holders may elect to convert the notes into ordinary shares of Maverick Drilling Services Pty Ltd or request that the notes be repaid. The convertible notes are secured by a second ranking, fixed and floating charge over the assets of Maverick Drilling Services Pty Ltd.

The continuing viability of the Group and its ability to continue as a going concern and meet its commitments as they fall due is dependent upon the Group securing additional capital and the conversion of the abovementioned convertible notes debt to equity through an initial public offering on the Australian Stock Exchange.

As a result of these matters, there is significant uncertainty whether the group will continue as a going concern in the event that a listing does not occur, and therefore whether it will be able to realise its assets and meet its expenditure commitments in the normal course of business and in the amounts as stated in the financial report.

The Directors believe that a successful listing will occur, which will enable to group to convert the notes to equity and meet its commitments as they fall due, and accordingly have prepared the special purpose financial report on a going concern basis. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the special purpose financial report as at 31 October 2009. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classification of liabilities and commitments that might be necessary should the Group not continue as a going concern.

### (b) Principles of consolidation

#### *(i) Subsidiaries*

The reviewed financial information incorporates the assets and liabilities of all subsidiaries of Maverick Drilling Services Pty Ltd ('company' or 'parent entity') as at 31 October 2009.

Maverick Drilling Services Pty Ltd and its subsidiaries together are referred to as the Group or the consolidated entity in relation to the reviewed financial information.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

## 1 Summary of significant accounting policies

### (b) Principles of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Maverick Drilling Services Pty Ltd.

### (c) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 minority 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 (refer to policy note o). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (d) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

## 1 Summary of significant accounting policies (continued)

### (e) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars, which is Maverick Drilling & Exploration Limited's presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non monetary assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

#### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- (b) income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- (c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### (f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

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 sale 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:

- (i) Sale of oil  
Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have transferred to the buyer and can be measured reliably.
- (ii) Contract drilling services  
Contract drilling revenue is recognised as services are rendered in line with the terms of the drilling contract in place.
- (iii) Interest  
Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

## 1 Summary of significant accounting policies (continued)

### (g) 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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

### (h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**1 Summary of significant accounting policies (continued)**

**(j) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(k) Trade receivables**

Trade 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 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 90 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 present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement 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 income statement.

**(l) Property, plant and equipment**

Land and buildings are measured at cost less accumulated depreciation on buildings, less any impairment losses recognised.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs.

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 economic entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates are as follows:

Asset	Depreciation rate
Office equipment	14%
Drill rigs and drilling equipment	7% - 14%
Rig manufacturing plant and equipment	5% - 33%
Motor vehicles	20%

## 1 Summary of significant accounting policies (continued)

### (m) Exploration and evaluation

Exploration and evaluation expenditures are accounted for under the successful efforts method. Exploration licence acquisition costs for established areas are initially capitalised except for new unexplored areas which are expensed as incurred. For exploration wells, costs directly associated with the drilling of wells are initially capitalised pending evaluation of whether potentially economic reserves of hydrocarbons have been discovered.

Costs are expensed where the well does not result in the successful discovery of potentially economically recoverable hydrocarbons, unless the well is to be used in the recovery of economically recoverable hydrocarbons.

All other exploration and evaluation expenditures including directly attributable general administration costs, geological and geophysical costs and new venture activity expenditures are charged as expenses in the income statement as incurred, except where:

- (i) The expenditure relates to an exploration discovery that:
  - (a) at balance date, an assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or where
  - (b) a decision on additional major capital expenditure is pending; or
  - (c) additional exploration wells or appraisal work is underway or planned.
- (ii) The expenditure relates to a discovery well and it is expected that the expenditure will be recouped by future exploitation or sale.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to 'Oil and gas assets – Assets in development'.

### (n) Oil and gas assets

#### *Assets in development*

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings.

#### *Producing assets*

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation. Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploitation. When a determination has been made that those expenditures will not be recouped and/or no further appraisal will be undertaken, they will be written off.

#### *Amortisation of oil and gas assets*

Costs in relation to producing assets are amortised on a production output basis. In relation to the Blue Ridge Dome field, exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortised over the remaining estimated economic life of the fields.

#### *Restoration costs*

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the balance sheet at total estimated present value. These costs are estimated and based on judgements and assumptions regarding removal dates, future environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

#### *Reserves*

The estimated reserves are management assessments and take into consideration reviews by an independent third party, Energy Recovery Concepts, LLC, as well as other assumptions, interpretations and assessments. These include assumptions regarding commodity prices, exchange rates, discount rates, future production and transportation costs, and interpretations of geological and geophysical models to make assessments of the quality of reservoirs and their anticipated recoveries. Reserves estimation conforms with guidelines prepared by the Society of Petroleum Engineers.

## 1 Summary of significant accounting policies (continued)

### (o) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### (p) Trade and other payables

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

### (q) Borrowings

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

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

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

### (r) Provisions

Provisions for legal claims and restoration obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (s) Employee benefits

#### (i) *Wages and salaries, annual leave and sick leave*

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

#### (ii) *Long service leave*

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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## 1 Summary of significant accounting policies (continued)

### (t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

### (v) Critical accounting estimates and judgements

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

#### *Estimates of reserve quantities*

The estimated quantities of Proven plus Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers correct.

#### *Provision for restoration*

The Group estimates the future removal and restoration costs of oil wells and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation, the extent of restoration activities required and future removal technologies.

#### *Impairment of oil and gas assets*

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong.

	31 October 2009
	\$
<b>2 Cash and cash equivalents</b>	
Cash in bank	426,113
Escrow accounts	2,420,198
	<u>2,846,311</u>
<b>3 Property, plant and equipment</b>	
Land and buildings	1,160,638
Accumulated depreciation	(9,989)
	<u>1,150,649</u>
Plant and Equipment	11,869,430
Accumulated depreciation	(1,468,042)
	<u>10,401,388</u>
Total property, plant and equipment	<u>11,552,037</u>
<b>4 Oil and gas assets</b>	
Oil and gas assets	9,438,367
Depletion reserve	(128,297)
	<u>9,310,070</u>
<b>5 Trade and other payables</b>	
Trade payables	901,490
Interest payable on convertible notes	1,680,000
Other payables	570,766
	<u>3,152,256</u>
<b>6 Current - Borrowings</b>	
Convertible notes	14,000,000
Bank overdraft	25,373
	<u>14,025,373</u>

The convertible notes will mature on 1 November 2010. If a listing occurs they will convert to equity. If the listing does not occur the holders may elect to convert the notes into ordinary shares or request that they be repaid. The notes are secured by a second ranking fixed and floating charge over all the assets of Maverick Drilling Services.

**7 Non-current - Borrowings**

Promissory notes	7,998,055
	<u>7,998,055</u>

The Promissory notes are held by the Group founder Mr Don Henrich and are due to be settled as early as 1 November 2010. The promissory notes are secured by a first ranking charge over the shares in Maverick Drilling Company.

**8 Events after balance sheet date**

**(a) Proposed initial public offering**

The Directors' have proposed that an initial public offering of AUD 15 million be undertaken in the 2010 financial year.

The Australian Stock Exchange (ASX) listing is proposed for June 2010.

At the time the financial statements were authorised for issue the details of the offer had not yet been finalised and the application for lodgement had not yet been submitted to the ASX.

**(b) Acquisition of additional leases**

In April 2010 the Group finalised the acquisition of additional leases on the Blue Ridge Dome (Houston, Texas).

The group also acquired new leases on the Edwards Reef Prospect (Williamson County, Texas) and Foothold Prospect (Lubbock County, Texas).

Consideration for these leases amounted to USD 402,500. These leases also contain minimum drilling requirements.

**(c) Conversion of Promissory Notes**

In December 2010, USD 800,000 of the promissory notes were converted by a noteholder to ordinary shares in Maverick Drilling Services Pty Ltd at USD 0.08 per share.

**(d) Extension of Convertible Note 1 May 2010 interest payment**

In March 2010, the Convertible Noteholders representative agreed to an extension of the Convertible Note interest payment due 1 May 2010 to the earlier of:

- (i) 30 June 2010; and
- (ii) the date that is 5 trading days after the date of allotment of Ordinary Shares under any prospectus issued by Maverick for an 'initial public offering'.

In the directors' opinion:

- (a) the financial report and notes set out on pages 2 to 11 are in accordance with the accounting policies described in Note 1 and presents fairly Maverick Drilling Services Pty Ltd's financial position as at 31 October 2009; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Bradley J Simmons  
Director

Newcastle  
Dated: 5 May 2010

**Independent Auditor's Review Report to the members of  
Maverick Drilling Services Pty Ltd**

**Report on the Special Purpose Financial Report as at 31 October 2009**

We have reviewed the attached Special Purpose Financial Report of Maverick Drilling Services Pty Ltd ("the Report") as at 31 October 2009 which comprise the statement of financial position as at 31 October 2009, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration for Maverick Drilling Services Pty Ltd Group ("the company").

The Report has been prepared to assist with compliance with the admission criteria of the Australian Securities Exchange and must not be used for any other purpose.

*Director's Responsibility for the Report*

The Directors are responsible for the preparation of the Report and have determined that the accounting policies described in Note 1 of the Report are appropriate to the needs of the members. This responsibility includes establishing and maintaining internal control relevant to the preparation of the 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 Report based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Report is not prepared, in all material respects, in accordance with the accounting policies described in Note 1 of the Report. No opinion is expressed as to whether the accounting policies described in Note 1 of the Report used are appropriate to the needs of the members.

ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body. A review 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.

**Independent Auditor's Review Report to the members of Maverick Drilling Services Pty Ltd (continued)**

*Conclusion*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Report as at 31 October 2009 is not prepared, in all material respects, in accordance with the accounting policies described in Note 1 of the Report.

*Significant uncertainty regarding continuation as a going concern*

Without qualifying our opinion, we draw attention is drawn to Note 1 of the Report, which comments on the company's ability to secure additional capital through an initial public offering to meet its forecast obligations and cash flow requirements. As a result, if the initial public offering does not proceed there is significant uncertainty about whether the company will continue as a going concern and therefore whether the company will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers



Darren Turner  
Partner

Newcastle  
5 May 2010