

21 September 2016

The Manager  
The Australian Securities Exchange  
The Announcements Officer  
Level 4/20 Bridge Street  
SYDNEY NSW 2000

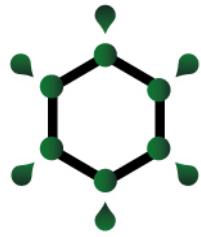
### 2016 ANNUAL REPORT

Please find attached Key Petroleum Limited's 2016 Annual Report.

Regards

A handwritten signature in black ink that reads "I.E. Gregory".

**IAN GREGORY**  
Company Secretary  
**KEY PETROLEUM LIMITED**



**KEY**  
PETROLEUM LIMITED

**ANNUAL REPORT**  
**FOR THE 12 MONTHS ENDED 30 JUNE 2016**

ACN 120 580 618

## CORPORATE INFORMATION

**ABN 50 120 580 618**

### **Directors**

Rex Turkington (Chairman & Non-Executive Director)  
Kane Marshall (Managing Director)  
Dennis Wilkins (Non-Executive Director)  
Min Yang (Non-Executive Director)  
Geoff Baker (Non-Executive Director)

### **Company Secretary**

Ian Gregory

### **Registered Office and Principal Place of Business**

Level 2, 47 Stirling Highway  
NEDLANDS WA 6009  
Telephone: +61 8 6389 0322  
Facsimile: +61 8 6389 0697

### **Solicitors**

Mizen & Mizen Pty Ltd  
69 Mount Street  
PERTH WA 6000

### **Bankers**

National Australia Bank Limited  
1232 Hay Street  
WEST PERTH WA 6005

### **Share Register**

Computershare Investor Services Pty Ltd  
Level 11  
172 St George's Terrace  
PERTH WA 6000

### **Auditors**

Bentleys  
Level 3, 216 St Georges Tce  
PERTH WA 6000

### **Internet Address**

[www.keypetroleum.com.au](http://www.keypetroleum.com.au)

### **Email Address**

[admin@keypetroleum.com.au](mailto:admin@keypetroleum.com.au)

### **Stock Exchange Listings**

Key Petroleum Limited shares (Code: KEY) are listed on the Australian Securities Exchange.

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## DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Key Petroleum Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016.

### DIRECTORS

The names and details of the Company's Directors in office during the year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

**Rex Turkington**, B.Com(Hons), BCA, GAICD, AAFSI, ADA1(ASX) (Non-Executive Director and Chairman since 14 January 2014)

Mr Turkington is a highly experienced corporate advisor and economist who has worked extensively in the financial services and stockbroking industry in Australia, specialising in the exploration and mining sectors. He has extensive experience with equities, derivatives, foreign exchange and commodities, and has participated in numerous corporate initial public offerings and capital raisings for listed exploration and mining companies. Mr Turkington is currently a Director of an Australian corporate advisory company, offering corporate finance and investor relations advice to listed companies. He holds a First Class Honours degree in Economics, is a graduate of the Australian Institute of Company Directors and is an associate of the Institute of Financial Services of Australia. Mr Turkington is also a non-executive director of TNG Limited.

**Kane Marshall**, BSc (Geology), BCom (Corp.Finance), MPetEng (Managing Director)

Mr Marshall has several years' experience working in the international oil industry. In more recent times, he was employed by Santos Ltd as a Consultant Production Engineer with the Roma Implementation Team in Brisbane, and prior to that, as a Reservoir Engineer for both Chevron Australia and Woodside Energy on the North West Shelf projects based in Perth.

Early in 2002 Mr Marshall moved to the United Kingdom where he worked for Highland Energy Limited as a Petroleum Geologist and Reservoir Engineer and then later with RWE Dea UK Limited as a Petroleum Engineer.

Mr Marshall holds academic qualifications which include a Masters of Petroleum Engineering from Curtin University, Bachelor of Science (Petroleum Geology) from the University of Western Australia and a Bachelor of Commerce in Investment Finance and Corporate Finance from the University of Western Australia.

**Dennis Wilkins**, B.Bus, AICD, ACIS (Non-Executive Director)

Mr Wilkins is the founder and principal of DWCorporate Pty Ltd a privately held corporate advisory firm servicing the natural resources industry. Since 1994 he has been a director of, and involved in the executive management of, several publicly listed resource companies with operations in Australia, PNG, Scandinavia and Africa. From 1995 to 2001 he was the Finance Director of Lynas Corporation Ltd during the period when the Mt Weld Rare Earths project was acquired by the group. He was also founding director and advisor to Atlas Iron Limited at the time of Atlas' initial public offering in 2006.

Since July 2001 Mr Wilkins has been a running DWCorporate Pty Ltd where he advises on the formation of, and capital raising for, emerging companies in the Australian resources sector. Since 5 July 2006 Mr Wilkins has been a Non-Executive director of Key Petroleum Limited, TSX listed Mawson West Ltd since 3 August 2015, and an Alternate Director of Middle Island Resources Limited since 1 May 2010. Within the last three years, Mr Wilkins has been a former Director of ASX listed companies Duketon Mining Limited (resigned 18 November 2014), A1 Consolidated Gold Ltd (resigned 11 May 2015) and Shaw River Manganese Ltd (resigned 24 December 2015).

**Min Yang**, (Non-Executive Director)

Ms Yang resides in Hong Kong and has over 20 years of experience with private and state-run businesses in China and has expertise in the identification of opportunities in resources and financial investment. Currently the Director and Chairman of ASF Group Limited and a Non-Executive Chairman of Rey Resources Limited, ActivEX Limited and Metaliko Resources Limited.

**Geoff Baker**, BCom, LLB, MBA (Non-Executive Director)

Mr Baker is an Australian solicitor residing and working in Hong Kong and UK and has over 30 years of experience assisting companies in conducting business in China in addition to providing advice in mining, resources and finance. Currently a Non-Executive Director of ASF Group Limited, Rey Resources Limited, ActivEX Limited and Metaliko Resources Limited.

### COMPANY SECRETARY

**Ian Gregory**, BBus, FGIA, FCIS, F Fin, MAICD

Ian is a professionally well-connected Director and Company Secretary with over 30 years' experience in the provision of company secretarial, governance and business administration services with listed and unlisted companies in a variety of industries, including oil and gas, exploration, mining, mineral processing, banking and insurance. He also has expertise which includes launching successful start-up operations through the development of the company secretarial role and board reporting processes. Ian currently consults on company secretarial and governance matters to a number of listed companies.

Prior to founding his own consulting Company Secretarial business in 2005 Ian was the Company Secretary of Iluka Resources Ltd (6 years), IBJ Australia Bank Ltd Group, the Australian operations of The Industrial Bank of Japan (12 years), and the Griffin Coal Mining Group of companies (4 years).

Ian is a member of the Western Australian Branch Council of Governance Institute of Australia (GIA), a past Chairman of that body and has also served on the National Council of GIA.

## DIRECTORS' REPORT (CONTINUED)

### Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Key Petroleum Limited were:

	Ordinary Shares	Options over Ordinary Shares	Performance Rights
Rex Turkington	-	6,000,000	-
Kane Marshall	17,500,000	12,000,000	4,000,000
Dennis Wilkins	-	1,500,000	-
Min Yang	141,147,588 <sup>(1)</sup>	-	-
Geoff Baker	141,147,588 <sup>(1)</sup>	-	-

(1) Ms Yang and Mr Baker are both directors of ASF Group Limited which is the ultimate holding company of ASF Oil & Gas Holdings Pty Ltd which holds shares in Key Petroleum Limited.

### PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the acquisition of petroleum permits, and the exploration of these permits with the objective of identifying economic oil and gas reserves.

### DIVIDENDS

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

### OPERATING AND FINANCIAL REVIEW

#### Operations Review

The 2015/2016 financial year has seen Key Petroleum Limited ("Key") continue to build a foundation for growth by reducing costs corporately and seeking additional acreage opportunities that fit with the Company's capabilities and strategic direction.

During the year there was Geological and Geophysical mapping in EP104 with reprocessed seismic in EP104 further derisking the Black Rocks Prospect with evidence of potential direct hydrocarbon indicators in the form of gas chimneys over the structure and amplitudes at reservoir level.

In EP437 there was a technical review conducted aimed at derisking prospects for drilling in 2017.

Going forward the Company will continue its focus on operated exploration activities and vertical integration of new business opportunities that will involve high equity positions that align with the Company's exploration portfolio of interests.

#### Exploration Outlook

##### EP437

Well pre-planning is scheduled for the coming year with a focus on the Wye Knot prospect and other prospects in the southern part of the permit.

##### EP104/R1/L15

During the year seismic reprocessing was undertaken in EP104. An application to carry out a geochemical survey in EP104 has been lodged with the Department of Mines and Petroleum ("DMP"). Subsequent to the end of the financial year Retention Lease R1 was renewed for a further 5 years and planning is currently underway for an Airborne Aerial Electromagnetic survey as part of the first year of the renewed phase in R1.

##### EP448

Subsequent to the end of the financial year Key surrendered Exploration Permit EP448 in the Canning Basin.

#### New Opportunities

The Company has identified, and continues to assess, a number of new venture opportunities congruent with the Company's strategic plan and it is likely that during the next financial year the Company will be participating in a number of exploration wells and new ventures.

Subsequent to the end of financial year the Company acquired a 40% interest in WA-481-P, a prospective offshore Perth Basin exploration permit. The acquisition is subject to approval by National Offshore Petroleum Title Administrator ("NOPTA").

## **DIRECTORS' REPORT (CONTINUED)**

### **Outlook**

The Company reiterates its commitment to deliver value to shareholders and retain a strong financial position at a time when there has been a shortage of liquidity in small equity markets and a lack of exploration activity in the Western Australian petroleum sector. The Company will maintain its lean corporate structure giving it ability to move quickly on any commercial opportunities and execute exploration projects at relatively low costs when compared to its peers. Exploration activities are also being planned for the North Perth Basin and potentially new projects.

### **Finance Review**

The Group has recorded an operating loss after income tax for the year ended 30 June 2016 of \$2,186,709 (2015: \$2,117,735).

At 30 June 2016 funds available totalled \$1,573,472 (2015: \$2,648,442).

## DIRECTORS' REPORT (CONTINUED)

### Operating Results for the Year

Summarised operating results are as follows:

	2016	
	Revenues \$	Results \$
Consolidated entity revenues and loss	75,686	(2,186,709)

### Shareholder Returns

	2016	2015
Basic loss per share (cents)	(0.28)	(0.35)

### Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate Risk Management Committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholder's needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.



## **DIRECTORS' REPORT (CONTINUED)**

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

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial year.

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

Subsequent to the end of the year:-

- Key was offered a renewal of Retention lease R1 subject to a revised work program. Key accepted the offer and the Retention Lease was renewed for a further 5 years to 2021.
- Key surrendered Exploration permit EP448 in the Canning Basin, Western Australia.
- Key acquired a 40% interest in offshore Perth Basin Exploration permit WA-481-P.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Group is subject to significant environmental regulation in respect of its production and exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The Directors of the Company are not aware of any breach of environmental legislation for the year under review.

The Group is in compliance with the various environmental legislation and regulations that govern its activities in the jurisdictions in which it operates.

### **REMUNERATION REPORT**

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### **Principles used to determine the nature and amount of remuneration**

##### ***Remuneration Policy***

The Remuneration Policy of Key Petroleum Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board of Key Petroleum Limited believes the Remuneration Policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

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

The Remuneration Policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Board. All executives receive a base salary or an agreed fee (which is based on factors such as length of service and experience) and superannuation or GST. The board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also eligible to participate in the employee share and option arrangements.

The executives receive a superannuation guarantee contribution required by the government, which was 9.5% for the 2016 financial year, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

Given the low oil price environment, effective from 1 February 2016 Non-Executive Directors agreed to reduce their fees by 25%.

## DIRECTORS' REPORT (CONTINUED)

The Managing Director and Chief Financial Officer also reduced salaries by 30% and 20% respectively effective from 1 February 2016.

All remuneration paid to directors and executives is valued at the cost to the Group. Based on each individual's timesheet, costs are allocated to exploration projects and treated in accordance with the accounting policy described at note 1(p), or expensed where the time is not allocated directly to a project. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$500,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are eligible to participate in the employee share option plan.

### *Performance based remuneration*

The Group currently has performance based remuneration components built into director and executive remuneration packages.

Kane Marshall was issued 4,000,000 performance rights for nil consideration following shareholder approval granted at a General Meeting held on 6 August 2012. Half of the performance rights will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 100% from the share price reference point for a consecutive period of at least 30 business days during a calendar year. The other half will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 150% from the share price reference point for a consecutive period of at least 30 business days during a calendar year.

### *Group performance, shareholder wealth and directors' and executives' remuneration*

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and directors' and executives' performance. The Company plans to facilitate this process by directors and executives participating in future option issues to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

### *Use of remuneration consultants*

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2016.

### *Voting and comments made at the Company's 2015 Annual General Meeting*

The Company received approximately 98% of "yes" votes on its remuneration report for the 2015 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

### **Details of remuneration**

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

The key management personnel of the Group include the directors as per page 3 above.

Given the size and nature of operations of the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the Corporations Act 2001.

## DIRECTORS' REPORT (CONTINUED)

### Key management personnel of the Group

		Short Term Benefits				Post-Employment Benefits		Long-Term Benefits		Equity-Settled Share-Based Payments		Cash-Settled Share Based Payments	Termination Benefits	Total
		Salary & Fees	Profit Share & Bonuses	Non-Monetary	Other	Pension & Super-annuation	Other	Incentive Plans	LSL	Shares/Units	Options/Rights			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>														
Rex Turkington <sup>(1)</sup>	2016	53,750	-	-	-	-	-	-	-	12,880	-	-	-	66,630
(appointed 18 July 2013)	2015	60,000	-	-	-	-	-	-	-	12,844	-	-	-	72,844
Kane Marshall	2016	218,750	-	-	-	20,781	-	-	-	29,713	-	-	-	269,244
	2015	250,000	-	-	-	23,750	-	-	-	29,633	-	-	-	303,383
Dennis Wilkins <sup>(2)</sup>	2016	28,666	-	-	-	-	-	-	-	7,428	-	-	-	36,094
	2015	39,982	-	-	-	-	-	-	-	7,408	-	-	-	47,390
Min Yang (appointed 28 January 2014)	2016	28,666	-	-	-	-	-	-	-	-	-	-	-	28,666
	2015	42,666	-	-	-	-	-	-	-	-	-	-	-	42,666
Geoff Baker (appointed 28 January 2014)	2016	28,666	-	-	-	-	-	-	-	-	-	-	-	28,666
	2015	10,666	-	-	-	-	-	-	-	-	-	-	-	10,666
<b>Executives</b>														
Robert Ierace (appointed 31 October 2014)	2016	161,875	-	-	-	15,378	-	-	-	-	-	-	-	177,253
	2015	122,575	-	-	-	11,401	-	-	-	27,000	-	-	-	160,976
<b>Total key management personnel</b>	2016	520,373	-	-	-	36,159	-	-	-	50,021	-	-	-	606,553
	2015	525,889	-	-	-	35,151	-	-	-	76,885	-	-	-	637,925

- (1) In addition to the above remuneration, which is for Mr Turkington's services as director, a total of \$6,000 was paid in 2015 to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal. There no payments in the 2016 financial year. Katarina Corporation Pty Ltd provided corporate consulting services to the Key Group during the previous financial year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.
- (2) In addition to the above remuneration, which is for Mr Wilkins' services as director/chairman, a total of \$19,256 was paid in 2015 was paid to DW Corporate Pty Ltd, a business of which Mr Wilkins is principal. There were no payments in the 2016 financial year. DW Corporate Pty Ltd provided company secretarial, bookkeeping and other corporate services to the Key Group during the previous financial year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

### Service agreements

The details of service agreements of the key management personnel of Key Petroleum Limited are as follows:

Rex Turkington, Non-Executive Chairman:

- Annual consulting fee of \$45,000 to be paid to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal.
- Agreement commenced 14 January 2014 for a twelve month period and has since been renewed for a further twelve months in each of the last two years.
- The agreement may be terminated, without cause, by either party with one months' written notice.

## DIRECTORS' REPORT (CONTINUED)

Kane Marshall, Managing Director:

- Mr Marshall is a full-time employee of the Company with an annual salary of \$175,000, plus statutory superannuation.
- The agreement may be terminated, without cause, by either party with three months' written notice.

Min Yang, Non-Executive Director:

- Annual consulting fee of \$24,000 to be paid to Luxe Hill Ltd, a business of which Ms Yang is principal.
- Agreement commenced 1 February 2014 for a twelve-month period and has since been renewed for a further twelve months in each of the last two years.
- The agreement may be terminated, without cause, by either party with three months' written notice.

Geoff Baker, Non-Executive Director:

- Annual consulting fee of \$24,000 to be paid to Gold Star Industry Limited, a business of which Mr Baker is principal.
- Agreement commenced 1 March 2015 for a twelve month period and was renewed for a further twelve months in March 2016.
- The agreement may be terminated, without cause, by either party with three months' written notice.

Robert Ierace – Chief Financial Officer

- Mr Ierace is a full time employee of the Company with an annual salary of \$140,000 plus statutory superannuation.
- The agreement may be terminated, without cause, by either party with two months' written notice.

### Share-based compensation

#### Options

Options are issued at no cost to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of key management personnel of Key Petroleum Limited to increase goal congruence between key management personnel and shareholders. The following options over ordinary shares of the Company were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
<b>Directors</b>								
Kane Marshall	06/08/2012	4,000,000	(1)	06/08/2017	5.5	2.5	N/A	3.5
Kane Marshall	06/08/2012	4,000,000	(2)	06/08/2017	6.4	2.5	N/A	2.9
Kane Marshall	06/08/2012	4,000,000	(3)	06/08/2017	7.4	2.4	N/A	2.2
Dennis Wilkins	06/08/2012	1,000,000	(1)	06/08/2017	5.5	2.5	N/A	6.8
Dennis Wilkins	06/08/2012	1,000,000	(2)	06/08/2017	6.4	2.5	N/A	5.5
Dennis Wilkins	06/08/2012	1,000,000	(3)	06/08/2017	7.4	2.4	N/A	4.3
Rex Turkington	30/11/2012	2,000,000	(4)	06/08/2017	4.4	2.1	N/A	7.3
Rex Turkington	30/11/2012	2,000,000	(5)	06/08/2017	5.2	2.0	N/A	5.8
Rex Turkington	30/11/2012	2,000,000	(6)	06/08/2017	5.9	1.9	N/A	4.5
Robert Ierace	09/03/2015	5,000,000	9/3/2015	09/03/2019	1.287	0.5	-	16.8

(1) These options will vest once the market capitalisation of the Company appreciates 100% from 6 August 2012.

(2) These options will vest once the market capitalisation of the Company appreciates 150% from 6 August 2012.

(3) These options will vest once the market capitalisation of the Company appreciates 200% from 6 August 2012.

(4) These options will vest once the market capitalisation of the Company appreciates 100% from 30 November 2012.

## DIRECTORS' REPORT (CONTINUED)

(5) These options will vest once the market capitalisation of the Company appreciates 150% from 30 November 2012.

(6) These options will vest once the market capitalisation of the Company appreciates 200% from 30 November 2012.

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Key Petroleum Limited during the year.

### Performance Rights

Performance rights are issued to directors and executives as part of their remuneration. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel from obtaining mortgages in securities held in the Company.

The following performance rights were granted to or vesting with key management personnel during the year, there were no performance rights forfeited during the year:

	Grant Date	Granted Number	Vested Number	Date Vesting and Exercisable	Expiry Date	Value per right at grant date (cents) <sup>(1)</sup>	% of Remuneration
<b>Directors</b>							
Kane Marshall	06/08/2012	2,000,000	Nil	(2)	N/A	3.6	6.6
Kane Marshall	06/08/2012	2,000,000	Nil	(3)	N/A	3.6	5.5

(1) The value at grant date in accordance with AASB 2: Share Based Payments of performance rights granted during the year as part of remuneration. The value is the closing share price on grant date.

(2) These rights vest upon the satisfaction of the following performance hurdle:

“When the volume weighted average price of the Company’s shares increases by 100% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

At the grant date, the Board determined that the probability of this performance condition being met was 60%.

(3) These rights vest upon the satisfaction of the following performance hurdle:

“When the volume weighted average price of the Company’s shares increases by 150% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

At the grant date, the Board determined that the probability of this performance condition being met was 50%.

### Equity instruments held by key management personnel

#### Share holdings

The numbers of shares in the Company held during the financial year by each director of Key Petroleum Limited and other key management personnel of the Group, including their personally related parties, and any nominally held, are set out below. There were no shares granted during the reporting period as compensation.

2016	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Directors of Key Petroleum Limited</b>				
<b>Ordinary shares</b>				
Rex Turkington	-	-	-	-
Kane Marshall	17,500,000	-	-	17,500,000
Dennis Wilkins	-	-	-	-
Min Yang	141,147,588	-	-	141,147,588
Geoff Baker	141,147,588	-	-	141,147,588

## DIRECTORS' REPORT (CONTINUED)

### Executives

Robert Ierace (appointed 31 Oct 2014) - - - -

- (1) Amount held at the respective dates of appointment.
- (2) Ms Yang and Mr Baker are both directors of ASF Group Limited which is the ultimate holding company of ASF Oil & Gas Holdings Pty Ltd which holds shares in Key Petroleum Limited.

### Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Key Petroleum Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2016	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Key Petroleum Limited</b>							
Rex Turkington	6,000,000	-	-	-	6,000,000	-	6,000,000
Kane Marshall	12,000,000	-	-	-	12,000,000	-	12,000,000
Dennis Wilkins	1,500,000	-	-	-	1,500,000	-	1,500,000
Min Yang	-	-	-	-	-	-	-
Geoff Baker	-	-	-	-	-	-	-
<b>Executives</b>							
Robert Ierace (appointed 31 October 2014)	5,000,000	-	-	-	5,000,000	5,000,000	-

All vested options are exercisable at the end of the year.

### Performance Right holdings

Kane Marshall was issued 4,000,000 Performance Rights for nil consideration on 6 August 2012 following shareholder approval granted at the General Meeting held on that date. Ian Paton was issued 2,500,000 performance rights for nil consideration on 6 August 2012 following shareholder approval granted at the General Meeting held on that date. The performance rights were issued in two equal tranches that will vest on the respective satisfaction of the following performance conditions:

- (1) Performance rights A:

“When the volume weighted average price of the Company’s shares increases by 100% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

- (2) Performance rights B:

“When the volume weighted average price of the Company’s shares increases by 150% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

### Loans to key management personnel

There were no loans to key management personnel during the year.

### Other transactions with key management personnel

During the previous financial year a total of \$19,256 was paid to DW Corporate Pty Ltd, a business of which Mr Wilkins is principal. There were no amounts paid to DW Corporate during the current year. DW Corporate Pty Ltd provided company secretarial, bookkeeping and other corporate services to the Key Group during the previous financial year. The amounts paid were at usual commercial rates with fees charged on an hourly basis. At 30 June 2015 there was no outstanding amount owing to DW Corporate Pty Ltd.

## DIRECTORS' REPORT (CONTINUED)

During the previous financial year a total of \$6,000 was paid to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal. Katarina Corporation Pty Ltd provided corporate consulting services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis. At 30 June 2016 there was no outstanding amount owing to Katarina Corporation Pty Ltd.

### End of audited Remuneration Report

### DIRECTORS' MEETINGS

During the year the Company held eight meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
Rex Turkington	7	7	3	3
Kane Marshall	7	7	*	*
Dennis Wilkins	6	6	3	3
Min Yang	7	7	3	3
Geoff Baker (appointed 1 March 2015, Alternate Director from 28 January 2014)	7	7	*	*

### Notes

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

\* – Not a member of the Audit Committee.

### SHARES UNDER OPTION

Unissued ordinary shares of Key Petroleum Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price (cents)	Number of options
12 March 2013	12 March 2017	2.5	500,000
7 December 2012	6 August 2017	4.4	2,000,000
7 December 2012	6 August 2017	5.2	2,000,000
8 August 2012	6 August 2017	5.5	7,000,000
7 December 2012	6 August 2017	5.9	2,000,000
8 August 2012	6 August 2017	6.4	7,000,000
8 August 2012	6 August 2017	7.4	7,000,000
9 March 2015	9 March 2019	1.287	6,000,000
<b>Total number of options outstanding at the date of this report</b>			<b>33,500,000</b>

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

## **DIRECTORS' REPORT (CONTINUED)**

### **INSURANCE OF DIRECTORS AND OFFICERS**

During the financial year, Key Petroleum Limited paid a premium of \$10,468 to insure the directors and secretary of the company.

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

### **NON-AUDIT SERVICES**

There were no non-audit services provided by the entity's auditor, Bentleys, or associated entities.

### **PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

### **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 15

Signed in accordance with a resolution of the directors for Key Petroleum Limited.



**Kane Marshall**  
Managing Director

Perth, 21 September 2016

### **CORPORATE GOVERNANCE STATEMENT**

The Company's 2016 Corporate Governance Statement has been released as a separate document and is located on our website at [http://www.keypetroleum.com.au/corporate\\_governance](http://www.keypetroleum.com.au/corporate_governance).



To The Board of Directors

### **Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

As lead audit director for the audit of the financial statements of Key Petroleum Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



**BENTLEYS**  
**Chartered Accountants**



**DOUG BELL CA**  
**Director**

Dated at Perth this 21<sup>st</sup> day of September 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2016	Notes	2016 \$	2015 \$
<b>REVENUE AND OTHER INCOME</b>	2	75,686	248,298
<b>EXPENDITURE</b>			
Depreciation expense		(43,363)	(47,863)
Salaries and employee benefits expense		(442,301)	(435,616)
Corporate expenditure		(58,944)	(52,067)
Administration costs		(300,555)	(511,719)
Exploration costs not capitalised		(244,251)	(323,196)
Exploration costs written off	9	(1,095,916)	(895,619)
Share-based payments expense	23	(64,878)	(97,101)
Finance costs		(12,187)	(2,852)
<b>LOSS BEFORE INCOME TAX</b>	3	<b>(2,186,709)</b>	<b>(2,117,735)</b>
<b>INCOME TAX BENEFIT / (EXPENSE)</b>	4	-	-
<b>LOSS FOR THE YEAR</b>		<b>(2,186,709)</b>	<b>(2,117,735)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences realised on disposal of foreign operations		-	-
Exchange differences on translation of foreign operations		(1,698)	(2,885)
Other comprehensive income for the year, net of tax		(1,698)	(2,885)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED</b>		<b>(2,188,407)</b>	<b>(2,120,620)</b>
Basic loss per share for loss from continuing operations (cents per share)	22	(0.28)	(0.35)
Basic loss per share for loss from continuing and discontinued operations (cents per share)	22	(0.28)	(0.35)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016	Notes	2016 \$	2015 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	1,573,472	2,648,442
Trade and other receivables	6	146,463	322,651
<b>TOTAL CURRENT ASSETS</b>		<b>1,719,935</b>	2,971,093
<b>NON-CURRENT ASSETS</b>			
Receivables	7	15,000	15,000
Plant and equipment	8	292,352	335,611
Capitalised exploration costs	9	4,084,087	4,504,096
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,391,439</b>	4,854,707
<b>TOTAL ASSETS</b>		<b>6,111,374</b>	7,825,800
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	154,396	449,595
Provisions	11	2,479,543	2,479,543
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,633,939</b>	2,929,138
<b>NON-CURRENT LIABILITIES</b>			
Provisions	11	349,468	341,086
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>349,468</b>	341,086
<b>TOTAL LIABILITIES</b>		<b>2,983,407</b>	3,270,224
<b>NET ASSETS</b>		<b>3,127,967</b>	4,555,576
<b>EQUITY</b>			
Issued capital	12	37,540,470	36,844,550
Reserves	13(a)	544,245	481,065
Accumulated losses		(34,956,748)	(32,770,039)
<b>TOTAL EQUITY</b>		<b>3,127,967</b>	4,555,576

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2016	Issued Capital	Share- Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>BALANCE AT 1 JULY 2014</b>	35,301,510	462,161	(75,312)	(30,652,304)	5,036,055
Loss for the year	-	-	-	(2,117,735)	(2,117,735)
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange differences on translation of foreign operations	-	-	(2,885)	-	(2,885)
<b>TOTAL COMPREHENSIVE INCOME</b>	-	-	(2,885)	(2,117,735)	(2,120,620)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>					
Shares issued during the year	1,549,309	-	-	-	1,549,309
Share issue transaction costs	(6,269)	-	-	-	(6,269)
Share-based payments	-	97,101	-	-	97,101
<b>BALANCE AT 30 JUNE 2015</b>	36,844,550	559,262	(78,197)	(32,770,039)	4,555,576
Loss for the year	-	-	-	(2,186,709)	(2,186,709)
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange differences on translation of foreign operations	-	-	(1,698)	-	(1,698)
<b>TOTAL COMPREHENSIVE INCOME</b>	-	-	(1,698)	(2,186,709)	(2,188,407)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>					
Shares issued during the year	700,000	-	-	-	700,000
Share issue transaction costs	(4,080)	-	-	-	(4,080)
Share-based payments	-	64,878	-	-	64,878
<b>BALANCE AT 30 JUNE 2016</b>	37,540,470	624,140	(79,895)	(34,956,748)	3,127,967

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2016	Notes	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		115,299	68,019
Payments to suppliers and employees		(797,729)	(1,148,275)
Interest received		50,033	80,823
Finance costs paid		(3,804)	(2,852)
Expenditure on petroleum interests		(1,134,446)	(1,355,368)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	21(a)	<b>(1,770,647)</b>	<b>(2,357,653)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(243)	(82,432)
Proceeds on sale of equity investment		-	35,455
Proceeds on purchase of oil and gas permit		-	100,000
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>(243)</b>	<b>53,023</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares and options		700,000	1,549,309
Payments of share issue transaction costs		(4,080)	(6,268)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>695,920</b>	<b>1,543,041</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,074,970)</b>	<b>(761,589)</b>
Cash and cash equivalents at the beginning of the financial year		2,648,442	3,410,031
Effects of exchange rate changes on cash and cash equivalents		-	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	5	<b>1,573,472</b>	<b>2,648,442</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Key Petroleum Limited and its subsidiaries. The financial statements are presented in Australian currency. Key Petroleum Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 21 September 2016. The directors have the power to amend and reissue the financial statements.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Key Petroleum Limited is a for-profit entity for the purpose of preparing the financial statements.

#### (i) Compliance with IFRS

The consolidated financial statements of the Key Petroleum Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (ii) New and amended standards adopted by the Group

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to their operations and effective for the current annual reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the first time for the annual reporting period ending 30 June 2016 that are relevant to the Group include:

- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*;
- AASB 2014-1 *Amendments to Australian Accounting Standards (Part E: Financial Instruments)*
- AASB 2014-8 *Amendments to Australian Accounting Standards from AASSB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior years. However, the above standards have affected the disclosures in the notes to the financial statements.

#### (iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

#### (iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value.

#### (v) Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the year of \$2,186,709 (2015: \$2,117,735) and net cash outflows from operating activities of \$1,770,647 (2015: \$2,357,653), and has exploration commitments due within twelve months of \$959,240. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

The Group has current provisions for rehabilitation of \$2,479,543, however as disclosed in note 11 to the financial statements subsequent to year end a renewal of Retention Lease R1 for a further 5 years was granted by the DMP resulting in a deferred of this provision until 2021.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The ability of the Group to continue to pay its debts as and when they fall due is principally dependent upon successfully farming out its expenditure commitments on selected projects, ultimately developing one of its oil and gas permits or raising additional share capital.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

In light of the Group's current projects, the Directors believe that, if required, additional capital can be raised in the market within the ordinary course of business. This has been evidenced by the Company successfully raising \$700,000 via the issue of ordinary shares during the year; and

If required, the Directors will be able to contain certain operating and exploration expenditure by farming out the Group's exploration commitments.

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Company's history of raising capital to date, the directors are confident of the Company's ability to raise additional funds as and when they are required.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

#### **(b) Principles of consolidation**

##### *(i) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

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 transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

##### *(ii) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Key Petroleum Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

##### *(iii) Interests in joint operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

#### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

#### (d) 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 Australian dollars, which is Key Petroleum Limited's functional and 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 profit or loss, 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 financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial 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 financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (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:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that 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
- all resulting exchange differences are recognised in other comprehensive income.

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 recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

#### (e) **Revenue recognition**

The consolidated entity's revenue is derived primarily from oil sales. Sales revenue is recognised when the physical product and associated risks and rewards of ownership pass to the purchaser. This is generally at the time of delivery to the purchaser's premises. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

#### (f) **Income tax**

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

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

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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (g) 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 profit or loss 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 shorter of the asset's useful life and the lease term.

Leases where 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 profit or loss on a straight-line basis over the period of the lease.

#### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity;

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (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 reviewed 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 that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### (j) Cash and cash equivalents

For statement of cash flows 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 insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

#### (k) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

#### (l) Investments and other financial assets

##### *Classification*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

##### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

##### *(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

##### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### *Financial assets - reclassification*

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

#### *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments are determined are disclosed in note 25.

#### *Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (i) *Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

#### (ii) *Assets classified as available-for-sale*

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

#### (m) **Plant and equipment**

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

#### (n) **Intangible assets**

##### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity'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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation.

#### (o) Petroleum assets

Petroleum assets are measured on the cost basis less amortisation and impairment losses. The carrying amount of petroleum assets is reviewed bi-annually by Directors to ensure that 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 that 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.

##### *Amortisation*

Amortisation of petroleum and gas licences, production facilities, field equipment and buildings are determined based on the proven and probable hydrocarbon reserves.

#### (p) Exploration and evaluation costs

Exploration, evaluation and development costs incurred are accumulated in respect of each identifiable area of interest.

These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which: (i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or (ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made.

#### (q) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### (r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

#### (s) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, and annual 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) *Share-based payments*

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

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

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

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

#### **(t) Provisions and Asset Retirement Obligation**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. When this provision gives access to future economic benefits, an asset is recognised and then subsequently depreciated in line with the life of the underlying producing asset, otherwise the costs are charged to the income statement. The unwinding of the discount on the provision is included in the income statement within finance costs. Any changes to estimated costs or discount rates are dealt with prospectively.

#### **(u) Issued capital**

Ordinary shares are classified as equity.

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

#### **(v) Earnings per share**

##### *(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### **(w) 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 statement of financial position.

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

#### **(x) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (y) New accounting standards and interpretations

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

#### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2016. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

##### AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the group.

##### AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the group.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (z) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

##### *Exploration and evaluation costs*

Exploration and evaluation costs are accumulated in respect of each identifiable area of interest.

These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which: (i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or (ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made.

##### *Environmental Issues*

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Group's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

##### *Taxation*

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

##### *Share-based payments*

Share-based payment transactions, in the form of options to acquire ordinary shares, are valued using the Black-Scholes option pricing model. This model uses assumptions and estimates as inputs.

##### *Provisions for rehabilitation*

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

The non-current provision for rehabilitation relates to the West Kora 1 well and disused production facilities in Production License L15. The estimate is based upon converting the well to a water well following confirmation from the pastoral lease owner and removing the tank farm and restoring the site back to its original condition. This estimate requires judgemental assumptions regarding the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and liability specific discount rates to determine the present value of these cash flows.

The current provision for rehabilitation relates to Retention Lease 1 in the Canning Basin and is based upon an estimate to plug and abandon the Stokes Bay 1 and Point Torment 1 wells using a completion rig as well as removal of the causeway to each of the well pads. The causeway removal includes replacement of gravel to the original borrow pit.

30 JUNE 2016	2016	2015
	\$	\$
<b>2. REVENUE AND OTHER INCOME</b>		
<b>From continuing operations</b>		
<i>Other revenue</i>		
Interest from financial institutions	47,456	68,897
Management fees	20,351	71,818
Fuel tax credits	7,879	9,084
Research & Development Grant	-	98,499
	75,686	248,298
<b>3. EXPENSES</b>		
<b>Loss before income tax (\$2,186,709; 2015 \$2,117,735) includes the following specific expenses:</b>		
Superannuation expense	45,287	45,017
Minimum lease payments relating to operating leases	56,324	39,814
<b>4. INCOME TAX</b>		
<b>(a) Income tax expense</b>		
Current tax	-	-
Deferred tax	-	-
	-	-
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Loss from continuing operations before income tax expense	(2,186,709)	(2,117,735)
Prima facie tax benefit at the Australian tax rate of 30%	(656,013)	(635,320)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	19,463	29,130
Sundry items	4,334	7,892
	(632,215)	(598,298)
Movements in unrecognised temporary differences	415,580	(143,930)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	216,635	742,228
Income tax expense	-	-

30 JUNE 2016		2016	2015
	Notes	\$	\$
<b>4. INCOME TAX (cont'd.)</b>			
<b>(c) Deferred Tax Assets</b>			
Sundry accruals and employee entitlements		-	4,500
Capital raising costs and other section 40-880 deductions		25,339	51,069
Tax losses		904,116	1,263,370
		<u>929,455</u>	<u>1,318,939</u>
Set off deferred tax liabilities	4(d)	<u>(929,455)</u>	<u>(1,318,939)</u>
Net deferred tax assets		<u>-</u>	<u>-</u>
<b>(d) Deferred Tax Liabilities</b>			
Accrued revenue		873	2,625
Capitalised exploration and evaluation costs		928,582	1,316,313
		<u>929,455</u>	<u>1,318,939</u>
Set-off deferred tax assets	4(c)	<u>(929,455)</u>	<u>(1,318,939)</u>
Net deferred tax liabilities		<u>-</u>	<u>-</u>
<b>(e) Tax Losses</b>			
Unused tax losses for which no deferred tax asset has been recognised		2,948,244	3,473,836
		<u>2,948,244</u>	<u>3,473,836</u>

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2016 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- i. the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- ii. the Group continues to comply with conditions for deductibility imposed by law; and
- iii. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

#### 5. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	125,461	500,431
Short-term deposits	1,448,011	2,148,011
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<u>1,573,472</u>	<u>2,648,442</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

30 JUNE 2016	Notes	2016 \$	2015 \$
<b>6. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES</b>			
Trade receivables		-	59,417
Other receivables		146,643	263,234
		146,643	322,651

#### Credit Risk – Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counterparties other than those receivables specifically provided for and mentioned within note 26. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered to be 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31 - 60	61 - 90	> 90	
			\$	\$	\$	\$	
<b>2016</b>							
Trade receivables	-	-	-	-	-	-	-
Other receivables	146,643	-	-	-	-	-	146,643
Total	146,643	-	-	-	-	-	146,643
<b>2015</b>							
Trade receivables	59,417	-	-	-	-	-	59,417
Other receivables	263,234	-	-	-	-	-	262,234
Total	322,651	-	-	-	-	-	322,651

(1) The balance is not impaired as the amount was received subsequent to year-end.

30 JUNE 2016	2016 \$	2015 \$
<b>7. NON-CURRENT ASSETS – RECEIVABLES</b>		
Bank guarantees	15,000	15,000
	15,000	15,000

30 JUNE 2016	Notes	2016 \$	2015 \$
<b>8. NON-CURRENT ASSETS - PLANT AND EQUIPMENT</b>			
<b>Plant and equipment</b>			
Cost		409,215	408,972
Accumulated depreciation		(116,863)	(73,361)
Net book amount		292,353	335,611
<b>Plant and equipment</b>			
Opening net book amount		335,611	301,041
Additions		243	82,432
Depreciation charge		(43,501)	(47,862)
Closing net book amount		292,353	335,611

#### 9. NON-CURRENT ASSETS – CAPITALISED EXPLORATION COSTS

Exploration, evaluation and development costs carried forward in respect of areas of interest

##### *Pre-production*

Opening net book amount	4,504,095	1,886,183
Capitalised exploration and evaluation costs	675,910	1,120,829
Asset Retirement Obligation	-	2,392,702
Exploration and evaluation costs written off	(1,095,917)	(895,619)
Closing net book amount	4,084,088	4,504,095

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective petroleum interests. Subsequent to the end of the financial year the Company surrendered EP448. As a result, \$1,095,917 carried forward exploration was written off.

Capitalised exploration and evaluation costs include the asset restoration obligation relating to L15 Production Licence and R1 Retention lease.

#### (a) Joint operations

The Group accounts for the assets, liabilities, revenues and expenses relating to its interests in Joint Operations in accordance with the accounting policy of the Group (refer note 1(b)(iii)). The Group has the following interests in Joint Operations:

30 JUNE 2016	2016 %	2015 %
EP448	78.00	78.00
EP104	89.23	89.23
R1	85.23	85.23
L15	85.40	85.40
EP437	43.47	43.47

**30 JUNE 2016**

	Notes	2016 \$	2015 \$
<b>10. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES</b>			
Trade payables		44,271	144,338
Other payables and accruals		110,124	305,257
		154,395	449,595

**11. PROVISIONS**

	\$
Year ended 30 June 2016	
Carrying amount at start of year	2,820,628
Change in provision	8,383
Carrying amount at end of year	2,829,011
Current	2,479,543
Non-current	349,468
	2,829,011
Year ended 30 June 2015	
Carrying amount at start of year	400,000
Change in provision	2,420,628
Carrying amount at end of year	2,820,628
Current	2,479,543
Non-current	341,085
	2,820,628

The current liability in the Financial Statements relates to the rehabilitation estimate for Retention Lease 1 in the Canning Basin. The current provision is based upon an estimate to plug and abandon the Stokes Bay 1 and Point Torment 1 wells using a completion rig as well as removal of the causeway to each of the well pads. The causeway removal includes replacement of gravel to the original borrow pit.

Subsequent to the end of the financial year the renewal of Retention Lease R1 for a further five year was granted by the DMP. As at the date of this report the rehabilitation current liability relating to R1 (\$2,479,543) is deferred until 2021.

The non-current provision for rehabilitation relates to the West Kora 1 well and disused production facilities in Production Licence L15. The estimate is based upon converting the well to a water well following confirmation from the pastoral lease owner and removing the tank farm and restoring the site back to its original condition.

30 JUNE 2016

12. ISSUED CAPITAL

(i) Share capital	Number of shares	\$	Number of shares	\$
	2016		2015	
Ordinary shares fully paid	897,358,441	37,540,470	722,358,441	36,844,550
Total issued capital	897,358,441	37,540,470	722,358,441	36,844,550
<b>(ii) Movements in ordinary share capital</b>				
Beginning of the financial year	722,358,441	36,844,550	567,427,487	35,301,510
– Share placement	175,000,000	700,000	154,930,954	1,549,309
– Share issue transaction costs	-	(4,080)	-	(6,269)
End of the financial year	897,358,441	37,540,470	722,358,441	36,844,550
<b>(iii) Movements in options on issue</b>				
			Number of options	
			2016	2015
Beginning of the financial year			33,500,000	27,500,000
Issued during the year:				
– Exercisable at 1.287 cents, on or before 9 March 2019			-	6,000,000
End of the financial year			33,500,000	33,500,000
<b>(iv) Movements in performance rights on issue</b>				
			Number of performance rights	
			2016	2015
Beginning of the financial year			4,000,000	6,500,000
Expired during the year:				
– Performance Rights A			-	(1,250,000)
– Performance Rights B			-	(1,250,000)
End of the financial year			4,000,000	4,000,000
<b>(v) Ordinary shares</b>				

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.



### 30 JUNE 2016

#### 12. ISSUED CAPITAL (cont'd)

##### (vi) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being petroleum exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Refer to Note 1 for managements plans to remain a going concern. The working capital position of the Group at 30 June 2016 and 30 June 2015 are as follows:

	2016	2015
	\$	\$
Cash and cash equivalents	1,573,472	2,648,442
Trade and other receivables	146,463	322,651
Trade and other payables	(154,395)	(449,595)
Provisions	(2,479,543)	(2,479,543)
Working capital position	<u>(914,003)</u>	<u>41,955</u>

The current provision relates to the rehabilitation estimate for Retention Lease 1 in the Canning Basin which has an expiry date of 31 January 2016. Subsequent to the end of the financial year the DMP granted a renewal of Retention Lease R1 for a further 5 years and as such the current liability of \$2,479,543 is deferred for a further 5 years .

#### 13. RESERVES

##### (a) Reserves

Foreign currency translation reserve	(79,895)	(78,197)
Share-based payments reserve	624,140	559,262
	<u>544,245</u>	<u>481,065</u>

##### (b) Nature and purpose of reserves

###### (i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated within a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

###### (vii) Share-based payments reserve

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

#### 14. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

30 JUNE 2016

2016

2015

Notes

\$

\$

## 15. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

### Audit services

Bentleys – audit of financial reports	28,728	23,834
Total remuneration for audit services	28,728	23,834

## 16. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at the reporting date.

## 17. COMMITMENTS

### (a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

Within one year	959,240	7,842,290
Later than one year but not later than five years	13,788,463	13,616,695
	14,747,703	21,458,985

### (b) Lease commitments: Group as lessee

*Operating leases (non-cancellable):*

Minimum lease payments

within one year	67,012	51,379
later than one year but not later than five years	46,028	93,417
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	113,040	144,796

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to increase by 3.5% on each annual anniversary of the commencement date. An option exists to renew the lease at the end of the three-year term for an additional term of one year. The lease allows for subletting of all lease areas.

## 18. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity within the Group is Key Petroleum Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 19.

30 JUNE 2016

2016

2015

\$

\$

## 18. RELATED PARTY TRANSACTIONS (cont'd)

### (c) Key management personnel compensation

Short-term benefits	520,373	525,889
Post-employment benefits	36,159	35,151
Share-based payments	50,021	76,885
	<b>606,553</b>	<b>637,925</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 13.

### (d) Transactions and balances with other related parties

Transactions with key management personnel are disclosed in the Directors' Report.

## 19. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding*	
			2016 %	2015 %
Gulliver Productions Pty Ltd	Australia	Ordinary	100	100
Puma Petroleum S.r.L.	Italy	Ordinary	100	100
Key Petroleum (Australia) Pty Ltd	Australia	Ordinary	100	100
Key Petroleum Offshore Pty Ltd	Australia	Ordinary	100	100
Key Petroleum Taranaki Limited	New Zealand	Ordinary	100	100
Key Petroleum Services Pty Ltd	Australia	Ordinary	100	100

## 20. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the end of the financial year the items occurred:-

- Key was offered a renewal of Retention lease R1 subject to a revised work program. Key accepted the offer and the Retention Lease was renewed for a further 5 years to 2021.
- Key surrendered Exploration permit EP448 in the Canning Basin, Western Australia.
- Key acquired a 40% interest in offshore Perth Basin Exploration permit WA-481-P. The acquisition is subject to NOPTA approval.

30 JUNE 2016	2016	2015
	\$	\$
<b>21. CASH FLOW INFORMATION</b>		
<b>(a) Reconciliation of net loss after income tax to net cash outflow from operating activities</b>		
Net loss for the year	(2,186,709)	(2,117,735)
<b>Non-Cash Items</b>		
Depreciation of non-current assets	43,363	47,863
Share-based payments expense	64,878	97,101
Impairment of Exploration	1,095,916	895,619
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	176,188	(73,803)
(Increase) in petroleum permits and capitalised exploration costs	(669,084)	(1,120,829)
Increase/(decrease) in trade and other payables	(295,198)	(85,869)
Net cash outflow from operating activities	<u>(1,770,646)</u>	<u>(2,357,653)</u>
<b>22. LOSS PER SHARE</b>		
<b>(a) Reconciliation of earnings used in calculating loss per share</b>		
Loss attributable to the owners of the Company used in calculating basic loss per share:		
• From continuing operations	(2,186,709)	(2,117,735)
	<u>(2,186,709)</u>	<u>(2,117,735)</u>
	<b>Number of shares</b>	<b>Number of shares</b>
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	<u>781,453,556</u>	<u>593,176,780</u>

30 JUNE 2016

### 23. SHARE-BASED PAYMENTS

#### (a) Employees and contractors options

The Group provides benefits to employees (including Directors) and contractors of the Group in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. The exercise prices of the options granted range from 2.5 cents to 7.4 cents, and the expiry dates range from 12 March 2017 to 6 August 2017.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	2016		2015	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	33,500,000	5.2	27,500,000	6.1
Granted	-	-	6,000,000	1.287
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	33,500,000	5.2	33,500,000	5.2
Exercisable at year-end	6,500,000	2.5	6,500,000	2.5

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.4 years (2015: 2.4 years), and the exercise prices range from 1.287 to 7.4 cents.

During the previous financial year 6,000,000 options were granted. The weighted average fair value of the options granted during the 2015 financial year was 0.5 cents. The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2015
Weighted average exercise price (cents)	1.287
Weighted average life of the option (years)	4
Weighted average underlying share price (cents)	0.9
Expected share price volatility	89.37%
Risk free interest rate	2.00%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

#### (b) Employees and contractors performance rights

The Group provides benefits to employees (including directors) and contractors of the Group in the form of share-based payment transactions, whereby performance rights over ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. Performance rights granted to directors have no expiration date.

Performance rights granted carry no dividend or voting rights. When each performance condition is satisfied, each performance right is converted into one ordinary share of the Company with full dividend and voting rights.

30 JUNE 2016

24. SHARE-BASED PAYMENTS (cont'd)

Set out below are summaries of the performance rights granted:

	2016	2015
	\$	\$
Outstanding at the beginning of the year	4,000,000	6,500,000
Granted	-	-
Forfeited/cancelled	-	-
Exercised	-	-
Expired	-	(2,500,000)
Outstanding at year-end	<u>4,000,000</u>	<u>4,000,000</u>

There were no performance rights granted during the 2016 financial year

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

Options granted to employees and contractors	64,878	97,101
	<u>64,878</u>	<u>97,101</u>

25. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Key Petroleum Limited, at 30 June 2016. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	3,176,494	4,052,865
Non-current assets	730,431	954,934
<b>Total assets</b>	<u>3,906,925</u>	<u>5,007,799</u>
Current liabilities	130,808	270,765
<b>Total liabilities</b>	<u>130,808</u>	<u>270,765</u>
Issued capital	37,540,471	36,844,552
Share-based payments reserve	624,140	559,262
Accumulated losses	(34,388,494)	(32,666,780)
<b>Total equity</b>	<u>3,776,117</u>	<u>4,737,034</u>
Loss for the year	(1,721,715)	(1,931,933)
<b>Total comprehensive loss for the year</b>	<u>(1,721,715)</u>	<u>(1,931,933)</u>

The parent entity is responsible for the contingent liabilities outlined in note 16.

The parent entity is responsible for the commitments outlined in note 17.

Interests in subsidiaries are set out in note 19.

30 JUNE 2016

2016

2015

\$

\$

## 26. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

### Financial Assets

Cash and cash equivalents	1,573,472	2,648,442
Loans and Receivables	146,463	154,482
<b>Total Financial Assets</b>	<b>1,719,935</b>	<b>2,802,924</b>

### Financial Liabilities

Trade and other payables	154,395	449,595
<b>Total Financial Liabilities</b>	<b>154,395</b>	<b>449,595</b>

NZD  
2016

NZD  
2015

Cash and cash equivalents	22,112	16,587
Trade and other receivables	-	-
Trade and other payables	-	-

### Sensitivity analysis

At 30 June 2016, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$14,647 lower/higher (2015: \$18,096 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

#### (a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is minimised by investing surplus funds in financial institutions that maintain AAA credit ratings and by ensuring customers and counterparties to transactions are of sound credit worthiness.

#### Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

All cash holdings within the Group are currently held with AAA rated financial institutions.

#### (b) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being oil and gas exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. Refer to Note 1 for managements plans to remain a going concern.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

*Financial Liability and Financial Asset Maturity Analysis*

	Within 1 Year		1 to 5 Years		Total	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
<b>Financial liabilities due for payment</b>						
Trade and other payables (excluding estimated annual leave)	100,414	397,052	-	-	100,414	397,052
Total contractual outflows	100,414	397,052	-	-	100,414	397,052
<b>Financial assets – cash flows realisable</b>						
Cash and cash equivalents	1,573,472	2,648,442	-	-	1,573,472	2,648,442
Trade and loan receivables	146,463	322,651	-	-	146,463	322,651
Total anticipated inflows	1,719,935	2,971,093	-	-	1,719,935	2,971,093
Net inflow on financial instruments	1,619,521	2,574,041	-	-	1,619,521	2,574,041

**(c) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their fair value.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

As disclosed in note 1 should the Company not continue as a going concern then the fair value of financial assets and financial liabilities may not reflect the true fair value of financial assets and financial liabilities on a liquidation basis.

**27. SEGMENT INFORMATION**

**Identification of reportable segments**

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. During the period, the Company is managed primarily on the basis of one segment being oil and gas exploration in Australia.

**28. COMPANY DETAILS**

The registered office of the company is:

Key Petroleum Limited  
Level 2, 47 Stirling Highway  
NEDLANDS WA 6009

The principal place of business is:

Key Petroleum Limited  
Level 2, 47 Stirling Highway  
NEDLANDS WA 6009



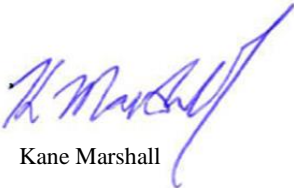
## DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 46 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Consolidated Entity's will be able to pay its debts as and when they become due and payable; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors for Key Petroleum Limited.

A handwritten signature in blue ink, appearing to read "Kane Marshall".

Kane Marshall

Managing Director

Perth, 21 September 2016

## Independent Auditor's Report

### To the Members of Key Petroleum Limited

We have audited the accompanying financial report of Key Petroleum Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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### Directors Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a)(i), the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

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

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

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

## Independence

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

## Opinion

In our opinion:

- a. The financial report of Key Petroleum Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- b. The financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 1(a)(i).

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(a)(v) in the financial report which indicates that the Consolidated Entity incurred a net loss of \$2,186,709 during the year ended 30 June 2016. This condition, along with other matters as set forth in Note 1(a)(v), indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Key Petroleum Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



**BENTLEYS**  
Chartered Accountants



**DOUG BELL CA**  
Director

Dated at Perth this 21<sup>st</sup> day of September 2016

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 9 September 2016.

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Ordinary shares	
			Number of holders	Number of shares
1	-	1,000	65	11,177
1,001	-	5,000	95	315,062
5,001	-	10,000	142	1,281,685
10,001	-	100,000	657	29,007,238
100,001	and over		469	866,743,279
			<b>1,428</b>	<b>897,358,441</b>
The number of equity security holders holding less than a marketable parcel of securities are:			989	34,053,660

### (b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Star Surpass Limited	175,000,000	19.50
2	ASF Oil & Gas Holdings Pty Ltd	141,147,588	15.73
3	Forever New Limited	92,500,000	10.31
4	Renown Capital Holdings Ltd	32,500,000	3.62
5	Eyeon No 2 Pty Ltd	31,347,080	3.49
6	HSBC Custody Nominees (Australia) Ltd	23,153,458	2.58
7	BNP Paribas Noms Pty Ltd <UOB KH P/L AC UOB KH DRP>	18,908,867	2.11
8	Bellaire Capital Pty Ltd <Bellaire Capital Invest>	14,171,561	1.58
9	HC Investment Holdings Pty Limited>	12,190,159	1.36
10	Jerele Mining Pty Ltd <Ellyard Super Fund	11,875,000	1.32
11	Granborough Oty Ltd <AJ & J King S/F A/C> >	10,000,000	1.11
12	KJM Consultants Pty Ltd <The Kane Marshall S/F A/C>	7,500,000	0.84
13	Seaville Investments Pty Ltd <Seaville Super Fund A/C>	7,500,000	0.84
14	Jerele Mining Pty Ltd <Ellyard Super Fund>	7,000,000	0.78
15	Odyssey Oil Pty Ltd	6,875,000	0.77
16	Mr Andrew Christopher Mayes + Miss Carolyn Law Mr Herbert Archie Mayes<The Andrew Mayes Family A/c>	6,500,000	0.72
17	Dr Rosamund Julian Banyard & Mr Phillip Stanley Holten <R Banyard Super Fund A/C>	6,287,012	0.70
18	RHB Securities Singapore Pte Ltd <Clients A/C>	5,611,041	0.63
19	Mr Hercules Philippus Bronn & Mrs Charmaine Bronn <Bronn Superannuation A/C>	4,500,000	0.50
20	Mr Shuping Huang + Mrs Hui Wang	4,495,736	0.50
		<b>619,062,502</b>	<b>68.99</b>

## ASX ADDITIONAL INFORMATION

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Star Surpass Limited	175,000,000
ASF Oil & Gas Holdings Pty Ltd	141,147,588
Forever New Limited	92,500,000

### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

### (e) Schedule of interests in petroleum blocks

Location	Block	Percentage held/earning
Australia – Onshore	EP437	43.47%
Australia – Onshore	EP448	78.00%
Australia – Onshore	EP104	89.23%
Australia – Onshore	R1	85.23%
Australia – Onshore	L15	85.40%
Australia – Offshore	WA-481-P**	40.00%

\*\* Interest is subject to NOPTA approval.

### (f) Unquoted Securities

Class	Number of Securities	Number of Holders	Holders of 20% or more of the class	
			Holder Name	Number of Securities
Unlisted 2.5 cent Options, Expiry 12 March 2017	500,000	1	Michelle Armitage	500,000
Unlisted 4.4 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 5.2 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 5.5 cent Options, Expiry 6 August 2017	7,000,000	5		
Unlisted 5.9 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 6.4 cent Options, Expiry 6 August 2017	7,000,000	5		
Unlisted 7.4 cent Options, Expiry 6 August 2017	7,000,000	5		
Unlisted 1.287 cent Options, Expiry 9 March 2019	6,000,000	2	Robert Ierace	5,000,000
Performance Rights A	3,250,000	2	JL Kane Marshall	2,000,000
Performance Rights B	3,250,000	2	JL Kane Marshall	2,000,000