Ground Floor, Suite 8
Churchill Court
331-335 Hay Street
Subiaco WA 6008

T: + 61 (08) 9381 4322
F: + 61 (08) 9381 4455

27 September 2019

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

**2019 ANNUAL REPORT**

Please find attached Key Petroleum Limited's 2019 Annual Report.

Regards

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

KEY

PETROLEUM LIMITED

# ANNUAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2019

**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**

Suite 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
Telephone: +61 8 6381 4322
Facsimile: +61 8 6381 4455

**Solicitors**

Mizen & Mizen
Barristers & Solicitors
69 Mount Street
WEST PERTH WA 6005

**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 George's Terrace
PERTH WA 6000

**Internet Address**

www.keypetroleum.com.au

**Email Address**

investors@keypetroleum.com.au

**Stock Exchange Listings**

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

# CONTENTS

# DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity (referred to hereafter as the Company or Group) consisting of Key Petroleum Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019.

## 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**, BCom (Hons), BCA, GAICD, AAFSI, ADA1(ASX) (Non-Executive Director, appointed 18 July 2012 and Non-Executive Chairman, appointed 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. Within the last three years Mr Turkington was also a non-executive director of ASX listed public companies TNG Limited (resigned 31 March 2019) and Todd River Resources Ltd (resigned 14 February 2019).

**Kane Marshall**, BSc/Geology, BCom/Corp.Finance, MPetEng (Managing Director, appointed 3 April 2012)

Mr Marshall has over 20 years' experience working in the international oil and gas industry. In more recent times, he was contracted by Santos Ltd as a Consultant Petroleum and Production Engineer with the Roma Implementation Team in Brisbane, and prior to that, as a Reservoir and Petroleum Engineer for both Chevron Australia and Woodside Energy on 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 (Investment Finance and Corporate Finance) from the University of Western Australia.

**Dennis Wilkins**, BBus, AICD, ACIS (Non-Executive Director, appointed 12 January 2007)

Mr Wilkins is an accountant who has been a Director, Company Secretary and acted in a corporate advisory capacity to listed resource companies for over 25 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid-tier gold producer and spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising, specifically for the resources industry, and is the principal of DW Corporate Pty Ltd which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is also currently an alternate director of Middle Island Resources Limited.

**Min Yang**, (Non-Executive Director, appointed 28 January 2014)

Ms Yang resides in Hong Kong and has over 22 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 BSF Enterprise PLC. Within the last three years Ms Yang was also a non-executive director of former ASX listed public company Metaliko Resources Limited (resigned 27 October 2016).

**Geoff Baker**, BCom, LLB, MBA (Non-Executive Director, appointed 1 March 2015)

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 BSF Enterprise PLC. Within the last three years Mr Baker was also a non-executive director of former ASX listed public company Metaliko Resources Limited (resigned 12 January 2017).

## COMPANY SECRETARY

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

Mr Gregory 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. Mr Gregory currently consults on company secretarial and governance matters to a number of listed and unlisted companies.

Prior to founding his own consulting Company Secretarial business in 2005 Mr Gregory 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). Mr Gregory is a past member and Chairman of the Western Australian Branch Council of Governance Institute of Australia (GIA) 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 | - | - | - |
| Kane Marshall | 17,500,000 | 20,000,000 | 4,000,000 |
| Dennis Wilkins | - | - | - |
| Min Yang | 221,147,588(1) | - | - |
| Geoff Baker | 221,147,588(1) | - | - |

(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 2018/2019 Financial Year provided many positives for Key Petroleum ("Key") shareholders, and significant achievements were made in Key's two focus areas: the Perth and Cooper-Eromanga basins. Having a well-established position in the Perth Basin, Key focussed on a new phase of activity centred on the L7 (R1) Mt Horner acquisition, and the adjacent Wye Knot-1 drilling program in EP 437. Not long after the L7 transaction with AWE was finalised, Key announced that Triangle Energy (Global) Limited had agreed to commit US$3 million towards a 3D seismic acquisition program and drilling in return for 50% participation in L7 (Mt Horner). The company also commenced remediation and rehabilitations works on the existing Mt Horner infrastructure, with progress throughout the year meeting the approval of the inherited program financiers Mitsui E&P Australia Pty Ltd.

Following the acquisition of ATPs 783, 920 and 924 (authorities to prospect), located in the Queensland portion of the Cooper Eromanga Basin, Key was successful in negotiating a special amendment to the original proposed work programme activities in the permits. The revised work programs saw a huge reduction in the remaining well commitments from eleven wells to one well across all three ATP's. The remaining work program, which largely consisted of 3D and 2D seismic reprocessing, was immediately addressed and completed prior to the permit renewal period. During this period Key also announced that it had brought in a drilling participant in Pan Continental Oil and Gas NL (ASX: PCL) to contribute towards ATP 924, being the drilling of the Ace Prospect in return for a 25% beneficial interest in the Ace Area of ATP 924, as well as equity in ATP 920 that carries an option to increase from 20% to 35% by paying for the year 2 (renewal) seismic program. Studies over the Cooper Eromanga Basin assets incorporating the reprocessed seismic data are ongoing and will be used to assist with the forward work commitment programs for the renewed permit terms.

Key announced a maiden prospect to the market on 24 January 2019 for the "Tanbar" gas focussed area of the Cooper-Eromanga Basin. Efforts to attract work program funding remain ongoing and Key remains confident of attracting investment in its position within this principal east coast gas supply area.

The staggering discovery of gas intersected at West Erregulla-2 reignited interest in the Perth Basin, and a review by Key suggests that the deeper Permian play has significant running room in Key's portfolio of acreage, both onshore and offshore, in the northern Perth Basin.

### Outlook

Key is planning for drilling multiple wells across its portfolio. Access terms to the Wye Knot-1 location were agreed during the financial year and Key has made submissions for drilling approvals to DMIRS. Settlement for the L7 Mt Horner deal with Triangle Energy is expected in the next financial year where planning for 3D seismic acquisition is anticipated imminently and then ultimately the drilling of two wells. In the Cooper-Eromanga area flooding has limited access for heavy machinery, particularly in ATP 924 where the 'Wild Rivers" area transgresses. Rig slots are available for the coming financial year which would be suitable to drill the Ace Prospect and Key is preparing for the necessary approvals. Several other parties have expressed interest in the acreage and Key is hopeful of progressing transactions that will accelerate drilling of multiple wells within the renewal period of its Cooper-Eromanga portfolio.

# DIRECTORS' REPORT (CONTINUED)

### Finance Review

The Group has recorded an operating loss after income tax for the year ended 30 June 2019 of $780,637 (2018: $1,256,336).

At 30 June 2019 funds available totalled $446,895 (2018: $1,386,876).

### Operating Results for the Year

Summarised operating results are as follows:

| | 2019 | |
|---|---|---|
| | Revenues $ | Results $ |
| Consolidated entity revenues and loss | 460,377 | (780,637) |

### Shareholder Returns

| | 2019 | 2018 |
|---|---|---|
| Basic loss per share (cents) | (0.05) | (0.10) |

### 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 often meets in tandem with Audit and Risk Management Committee to discuss risk and strategy.

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; and
- 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:

- During August 2019 the Company raised a total of $463,283 from the issue of a total of 134,735,844 fully paid ordinary shares from two separate placements.
- On 13 July 2019 the Company, through its wholly owned subsidiary Key Cooper Basin Pty Ltd entered into a Farmin Agreement with Pancontinental Oil and Gas NL ("Pancon"). Pancon will acquire from Key:
  - an undivided 20% participating interest in ATP 920 (together with an option to acquire an additional undivided 15% participating interest in ATP 920); and
  - an undivided 25% participating interest in the Ace Area (collectively the "Farmin Interest").

  In consideration of the assignment of the Farmin Interest, Pancon will undertake the following obligations (collectively Farmin Obligations):

  - pay to Key, $150,000 on the execution of the terms sheet to cover costs in relation to seismic reprocessing in respect of the Ace Area and the area of ATP 920 as well as other permitting costs. $100,000 will be refundable if ATP 920 and ATP 924 are not renewed; and
  - fund 26.67 % of the total costs and expenses of drilling a to be selected, exploration well to target depth including plugging and abandoning the well (Dry Hole Costs) but excluding success case costs associated with testing and completing the well, with such well costs to be capped at gross $3,000,000 ("on a 100% basis").

## 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 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 Committee Charter 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 strategic goals. 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. 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.

# DIRECTORS' REPORT (CONTINUED)

The executives receive a superannuation guarantee contribution required by the government, which was 9.5% for the 2019 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.

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 Option Pricing 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.

In addition, Mr Marshall received 20,000,000 options for nil consideration following shareholder approval granted at the Annual General Meeting on 22 November 2016. The options will vest where the average 30 consecutive day VWAP of the Company's shares is equal or greater than 1.5 cents.

***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 2019.

***Voting and comments made at the Company's 2018 Annual General Meeting***

The Company received 94.9% of "yes" votes on its remuneration report for the 2018 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Profit Share & Bonuses | Non-Monetary | Other | Pension & Super-annuation | Other | Incentive Plans | LSL | Shares/ Units | Options/ Rights | Total |
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Directors** | | | | | | | | | | | | |
| **Rex Turkington** | **2019** | **60,000** | - | - | - | - | - | - | - | - | - | **60,000** |
| | 2018 | 60,000 | - | - | - | - | - | - | - | - | 1,302 | 61,302 |
| **Kane Marshall** | **2019** | **235,431** | - | - | - | **22,580** | - | - | **10,700** | - | **7,911** | **276,622** |
| | 2018 | 235,431 | - | - | - | 22,580 | - | - | 21,250 | - | 10,915 | 290,176 |
| **Dennis Wilkins** (1) | **2019** | **32,000** | - | - | - | - | - | - | - | - | - | **32,000** |
| | 2018 | 32,000 | - | - | - | - | - | - | - | - | 751 | 32,751 |
| **Min Yang** | **2019** | **32,000** | - | - | - | - | - | - | - | - | - | **32,000** |
| | 2018 | 32,000 | - | - | - | - | - | - | - | - | - | 32,000 |
| **Geoff Baker** | **2019** | **32,000** | - | - | - | - | - | - | - | - | - | **32,000** |
| | 2018 | 32,000 | - | - | - | - | - | - | - | - | - | 32,000 |
| **Total key management personnel** | **2019** | **391,431** | - | - | - | **22,580** | - | - | **10,700** | - | **7,911** | **432,622** |
| | 2018 | 391,431 | - | - | - | 22,580 | - | - | 21,250 | - | 12,968 | 448,229 |

(1) In addition to Mr Wilkins’ remuneration as a director, a total of $30,694 (2018: nil) was paid to DWCorporate Pty Ltd, a business of which Mr Wilkins is principal. DWCorporate Pty Ltd provided bookkeeping and accounting services to the Group during the 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 $60,000 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 was since renewed for a further twelve months in each of the following three years. Since January 2018 the contract is a rolling month by month agreement with the Company; and
- The agreement may be terminated, without cause, by either party giving written notice.

Kane Marshall, Managing Director:

- Mr Marshall is a full-time employee of the Company with an annual salary of $250,000, plus statutory superannuation;
- Mr Marshall’s original employment agreement expired in April 2018 and has been renewed on the same terms for a further 2 years; and
- The agreement may be terminated, without cause, by either party with three months’ written notice.

Min Yang, Non-Executive Director:

- Annual consulting fee of $32,000 to be paid to Luxe Hill Ltd, a business of which Ms Yang is principal;
- Agreement commenced 28 January 2014 for a twelve month period and was since renewed for a further twelve months in each of the following three years. Since January 2018 the contract is a rolling month by month agreement with the Company; and
- The agreement may be terminated, without cause, by either party giving written notice.

# DIRECTORS' REPORT (CONTINUED)

Geoff Baker, Non-Executive Director:

- Annual consulting fee of $32,000 to be paid to Gold Star Industry Limited, a business of which Mr Baker is principal;
- Agreement commenced 3 March 2015 for a twelve month period and was since renewed for a further twelve months in each of the following two years. Since March 2018 the contract is a rolling month by month agreement with the Company; and
- The agreement may be terminated, without cause, by either party giving written notice.

Dennis Wilkins – Non-Executive Director

- Annual consulting fee of $32,000 to be paid to DW Corporate Pty Ltd, a business of which Mr Wilkins is principal;
- The contract is a rolling month by month agreement with the Company; and
- The agreement may be terminated, without cause, by either party giving 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 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 |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Kane Marshall | 22/11/2016 | 20,000,000 | (1) | 22/11/2020 | 1.5 | 0.4 | N/A | 2.9 |

(1) The options will vest where the average 30 consecutive day VWAP of the Company's shares is equal or greater than 1.5 cents.

(2) 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) (1) | % of Remuneration |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Kane Marshall | 06/08/2012 | 2,000,000 | Nil | (2) | N/A | 3.6 | - |
| Kane Marshall | 06/08/2012 | 2,000,000 | Nil | (3) | N/A | 3.6 | - |

(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%.

# DIRECTORS' REPORT (CONTINUED)

(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.

| 2019 | 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 |
|---|---|---|---|---|
| ***Directors of Key Petroleum Limited*** | | | | |
| **Ordinary shares** | | | | |
| Rex Turkington | - | - | - | - |
| Kane Marshall | **17,500,000** | - | - | **17,500,000** |
| Dennis Wilkins | - | - | - | - |
| Min Yang (1) | **221,147,588** | - | - | **221,147,588** |
| Geoff Baker (1) | **221,147,588** | - | - | **221,147,588** |

(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.

***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:

| 2019 | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| ***Directors of Key Petroleum Limited*** | | | | | | | |
| Rex Turkington | - | - | - | - | - | - | - |
| Kane Marshall | **20,000,000** | - | - | - | **20,000,000** | - | **20,000,000** |
| Dennis Wilkins | - | - | - | - | - | - | - |
| Min Yang | - | - | - | - | - | - | - |
| Geoff Baker | - | - | - | - | - | - | - |

***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. 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

The Company has a lease agreement for a vehicle relating to an associate of Mr Marshall. The value of the lease payments for the year was $14,364 (2018: $14,364) and this total plus related FBT contribution was taken from Mr Marshall's gross salary as a deduction for the year. There are no other related party transactions during the year.

DWCorporate Pty Ltd, a business of which Mr Wilkins is principal, provided bookkeeping and accounting services to the Key Petroleum Group during the year. The amounts paid of $30,694 (2018: nil) were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Wilkins' compensation. At 30 June 2019 there was $1,412 (2018: nil) owing to DWCorporate Pty Ltd.

### End of audited Remuneration Report

# DIRECTORS' REPORT (CONTINUED)

## DIRECTORS' MEETINGS

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

| | Directors Meetings | | Audit & Risk Committee Meetings | | Remuneration Committee Meetings | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Rex Turkington | 5 | 5 | 3 | 3 | 3 | 3 |
| Kane Marshall | 5 | 5 | * | * | * | * |
| Dennis Wilkins | 5 | 5 | 3 | 3 | 3 | 3 |
| Min Yang | 4 | 5 | 3 | 3 | * | * |
| Geoff Baker | 5 | 5 | * | * | 2 | 3 |

**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 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 |
|---|---|---|---|
| 22 November 2016 | 30 November 2020 | 1.5 | 20,000,000 |
| 24 August 2018 | 24 August 2022 | 1.3 | 4,500,000 |
| 28 March 2019 | 27 March 2023 | 1.3 | 1,000,000 |
| **Total number of options outstanding at the date of this report** | | | **25,500,000** |

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

## INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Key Petroleum Limited paid a premium of $19,264 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*.

# DIRECTORS' REPORT (CONTINUED)

## 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 14.

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

**JL Kane Marshall**
Managing Director

Perth, 27 September 2019

## CORPORATE GOVERNANCE STATEMENT

The Company's 2019 Corporate Governance Statement has been released as a separate document and is located on our website at http://www.keypetroleum.com.au/corporate_governance.

Bentleys
THINKING AHEAD

**Bentleys Audit & Corporate (WA) Pty Ltd**
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

To The Board of Directors

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

As lead audit partner for the audit of the financial statements of Key Petroleum Limited for the financial year ended 30 June 2019, 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 | Mark Delaurentis |
| **BENTLEYS** | **MARK DELAURENTIS CA** |
| **Chartered Accountants** | **Partner** |

Dated at Perth this 27th day of September 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| YEAR ENDED 30 JUNE 2019 | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **REVENUE FROM CONTINUING OPERATIONS** | 2 | **460,377** | 269,335 |
| **EXPENDITURE** | | | |
| Depreciation expense | | **(30,490)** | (35,038) |
| Salaries and employee benefits expense | | **(195,278)** | (493,654) |
| Corporate expenditure | | **(34,899)** | (112,484) |
| Administration costs | | **(489,009)** | (529,096) |
| Contracting costs | | **(161,259)** | (138,117) |
| Exploration costs not capitalised | | **(223,098)** | (166,390) |
| Share-based payments expense | 22 | **(38,284)** | (14,470) |
| Finance costs | | **(5,968)** | (13,777) |
| Loss on disposal of subsidiaries | 19 | **(62,729)** | - |
| Loss on sale of petroleum interests | 9 | - | (22,645) |
| **LOSS BEFORE INCOME TAX** | 3 | **(780,637)** | (1,256,336) |
| **INCOME TAX BENEFIT / (EXPENSE)** | 4 | - | - |
| **LOSS FOR THE YEAR** | | **(780,637)** | (1,256,336) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | **20,425** | (3,487) |
| *Items that have been reclassified to profit or loss* | | | |
| Exchange differences realised on disposal of foreign operations | | **62,729** | - |
| Other comprehensive income for the year, net of tax | | **83,154** | (3,487) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED** | | **(697,483)** | (1,259,823) |
| Basic and diluted loss per share attributable to the members of Key Petroleum Limited (cents per share) | 21 | **(0.05)** | (0.10) |

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 2019 | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | **446,895** | 1,386,876 |
| Trade and other receivables | 6 | **1,508,545** | 28,832 |
| **TOTAL CURRENT ASSETS** | | **1,955,440** | 1,415,708 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 7 | **178,562** | 21,257 |
| Plant and equipment | 8 | **197,092** | 227,148 |
| Capitalised exploration costs | 9 | **3,673,214** | 2,396,526 |
| **TOTAL NON-CURRENT ASSETS** | | **4,048,868** | 2,644,931 |
| **TOTAL ASSETS** | | **6,004,308** | 4,060,639 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | **699,337** | 363,101 |
| Provisions | 11 | **1,382,750** | - |
| **TOTAL CURRENT LIABILITIES** | | **2,082,087** | 363,101 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 11 | **433** | 30,790 |
| **TOTAL NON-CURRENT LIABILITIES** | | **433** | 30,790 |
| **TOTAL LIABILITIES** | | **2,082,520** | 393,891 |
| **NET ASSETS** | | **3,921,788** | 3,666,748 |
| **EQUITY** | | | |
| Issued capital | 12 | **41,314,075** | 40,399,836 |
| Reserves | 13(a) | **746,165** | 624,727 |
| Accumulated losses | | **(38,138,452)** | (37,357,815) |
| **TOTAL EQUITY** | | **3,921,788** | 3,666,748 |

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 2019 | Issued Capital<br>$ | Share-Based Payments Reserve<br>$ | Foreign Currency Translation Reserve<br>$ | Accumulated Losses<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2017** | 38,535,283 | 693,411 | (79,667) | (36,101,479) | 3,047,548 |
| Loss for the year | - | - | - | (1,256,336) | (1,256,336) |
| Exchange differences on translation of foreign operations | - | - | (3,487) | - | (3,487) |
| **TOTAL COMPREHENSIVE INCOME** | - | - | (3,487) | (1,256,336) | (1,259,823) |
| **TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS** | | | | | |
| Shares issued during the year | 2,000,000 | - | - | - | 2,000,000 |
| Share issue transaction costs | (135,447) | - | - | - | (135,447) |
| Share-based payments | - | 14,470 | - | - | 14,470 |
| **BALANCE AT 30 JUNE 2018** | 40,399,836 | 707,881 | (83,154) | (37,357,815) | 3,666,748 |
| Loss for the year | - | - | - | **(780,637)** | **(780,637)** |
| Exchange differences on translation of foreign operations | - | - | **20,425** | - | **20,425** |
| Exchange differences realised on disposal of foreign operations | - | - | **62,729** | - | **62,729** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | - | - | **83,154** | **(780,637)** | **(697,483)** |
| **TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS** | | | | | |
| Shares issued during the year | **1,010,519** | **-** | - | - | **1,010,519** |
| Share issue transaction costs | **(96,280)** | - | - | - | **(96,280)** |
| Share-based payments | **-** | **38,284** | - | - | **38,284** |
| **BALANCE AT 30 JUNE 2019** | **41,314,075** | **746,165** | - | **(38,138,452)** | **3,921,788** |

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 2019 | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **74,806** | 251,216 |
| Payments to suppliers and employees | | **(686,019)** | (980,086) |
| Interest received | | **8,620** | 13,760 |
| Finance costs paid | | **(5,909)** | (3,399) |
| Expenditure on petroleum interests | | **(1,323,126)** | (901,038) |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 5(a) | **(1,931,628)** | (1,619,547) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for plant and equipment | | **(435)** | (7,216) |
| Payments for guarantees | | **(157,305)** | (21,257) |
| Receipt of cash on acquisition of petroleum interests | 9 | **380,000** | 43,456 |
| Payments for rehabilitation expenses | | **(408,893)** | - |
| Reimbursement of rehabilitation expenses | | **264,041** | - |
| NET CASH INFLOW FROM INVESTING ACTIVITIES | | **77,408** | 14,983 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issues of ordinary shares and options | | **1,010,519** | 2,000,000 |
| Payments of share issue transaction costs | | **(96,280)** | (135,447) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | **914,239** | 1,864,553 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | **(939,981)** | 259,989 |
| Cash and cash equivalents at the beginning of the financial year | | **1,386,876** | 1,126,887 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 5 | **446,895** | 1,386,876 |

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 2019

### 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 27 September 2019. 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 the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 9 Financial Instruments and related amending Standards;
- AASB 15 Revenue from Contracts with Customers and related amending Standards; and
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.

*AASB 9 Financial Instruments and related amending Standards*

In the current year, the Group has applied AASB 9 Financial Instruments (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

Additionally, the Group adopted consequential amendments to AASB 7 Financial Instruments: Disclosures.

In summary AASB 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets; and
- General hedge accounting.

*AASB 15 Revenue from Contracts with Customers and related amending Standards*

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios.

There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

*(iii) Early adoption of standards*

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2019. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

*(iv) Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the amount of share based payments expense, 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 $780,637 (2018: $1,256,336) and net cash outflows from operating activities of $1,931,628 (2018: $1,619,547).

The directors have prepared an estimated cash flow forecast for the period to September 2020 to determine if the Company will require additional funding during the next 15 month period. Where this cash flow forecast includes the likelihood that additional amounts will be needed and these funds have not yet been secured, it creates uncertainty as to whether the Company will continue to operate in the manner it has planned over the next 15 months.

Where the cash flow forecast includes these uncertainties, the directors are required to make an assessment of whether it is reasonable to assume that the Company will be able to continue its normal operations. The directors are satisfied that the going concern basis of preparation is appropriate based on the following factors and judgements:

- The Company has access to cash reserves of $446,895 as at 30 June 2019 (30 June 2018: $1,386,876);
- The Company has successfully raised $463,283 (refer note 20) subsequent to the end of the reporting period;
- The Company has the ability to adjust its exploration expenditure subject to results of its exploration activities and has a history of attracting Farm-in partners to assist in funding exploration commitments;
- The Company has raised $1,010,519 during the year via the issue of shares; and
- The Directors anticipate the support of the Company's major shareholders to continue with the advancement of the Company's assets.

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 annual report. The annual report does 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, 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. They are deferred in equity if they 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.

*(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

Sales revenue from providing services to external parties is recognised in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is based on the actual labour hours spent relative to the total expected labour hours. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

### (f) Income tax

The Company formed a tax consolidated Group on 1 July 2016. The effect of the transition from single taxable entities to a tax consolidated group is the re-setting of the tax bases for assets within the group and an adjustment to the available carry forward losses under the available fraction calculation.

The head entity, Key Petroleum Limited, and the controlled entities in the tax consolidated group account for their own current and deferred taxes and are measured on a stand-alone taxpayer basis. The Group currently does not have a tax sharing or tax funding arrangement.

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 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.

### (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 to the former owners of the acquired businesses;
- 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 the:

- 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 re-measurement are recognised in profit or loss.

**(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. Exploration and Evaluation Expenditure is assessed for impairment indicators under AASB 6 paragraph 20 and where there are indicators of impairment the Company will test for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at 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) Investments and other financial assets**

*(i) Classification*

From 1 July 2018 the Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

*(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*(iii) Measurement*

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income or expenses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income or expenses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income or expenses and impairment losses are presented as a separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income or expenses in the period in which it arises.

*Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

Changes in the fair value of financial assets at FVPL are recognised in other income or expenses in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

*(iv) Impairment*

From 1 July 2018 the Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology depends on whether there has been a significant increase in credit risk.

*(v) Accounting policies applied until 30 June 2018*

The Company has applied AASB 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

***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.

***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.

***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.

*(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.

**(l) Plant and equipment**

All plant and equipment are 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.

**(m) Exploration and evaluation costs**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied.

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

 (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

 (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, salaries of exploration personnel, exploratory drilling and sampling and associated activities and depreciation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The policy on impairment can be found at Note 1(i). The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

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.

**(n) 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. They are recognised initially at fair value and subsequently at amortised cost. The amounts are unsecured and are paid on normal commercial terms.

### (o) 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) *Other long-term employee benefit obligations*

The group also has liabilities for long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

*(iii) 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.

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.

### (p) 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 profit or loss and other comprehensive income within finance costs. Any changes to estimated costs or discount rates are dealt with prospectively.

### (q) 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.

### (r) 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.

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (s) 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.

### (t) Comparative figures

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

### (u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

| Title and Reference | Nature of Change | Application date for entity |
|---|---|---|
| AASB 16 (issued February 2016) Leases | AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases.<br><br>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.<br><br>Lessor accounting remains largely unchanged from AASB 117.<br><br>As at 30 June 2019, the Company has identified two contracts that would be classified as leases under the new standard. The office premises and some office equipment. The Company will record the asset and associated liability at the transition date for this standard. | 1 July 2019 |

### (v) 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. The write-off or carrying forward of exploration expenditure is based on a periodic assessment of the viability of an area of interest and/or the existence of economically recoverable reserves. This assessment is based on pre-determined impairment indicators, taking into account the requirements of the accounting standard, and with the information available at the time of preparing this report. Information may come to light in subsequent periods which requires the asset to be impaired or written down for which the directors are unable to predict the outcome. 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*

Deferred tax assets are recognised for deductible temporary differences and taxation losses when the directors and management consider that it is probable that sufficient future tax profits will be available to utilise those temporary differences and losses. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the future period together with future tax planning strategies and the impact of the current income taxation legislation. Where there are significant variables relating to generating taxable profits in the future and there is limited operating history, the Group will disclose the unrecognised deferred taxes.

*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 based on historical information available at the time the valuation was undertaken. This historical information may not be indicative of the future result.

*Provisions for rehabilitation*

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value (including an appropriate discount rate relevant to the time value of money plus any risk premium associated with the liability) of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 2. REVENUE AND OTHER INCOME

**From continuing operations**

*Other revenue*

| | 2019 | 2018 |
|---|---|---|
| Interest from financial institutions | **8,620** | 13,760 |
| Management fees | **39,952** | 3,613 |
| Fuel tax credits | **9,219** | 10,239 |
| Gain on acquisition of permit | **380,000** | - |
| Consulting services | **13,650** | 160,658 |
| Other Income | **8,936** | 81,065 |
| | **460,377** | 269,335 |

## 3. EXPENSES

**Loss before income tax includes the following specific expenses:**

| | 2019 | 2018 |
|---|---|---|
| Directors fees | **156,000** | 156,000 |
| Superannuation expense | **51,895** | 33,012 |
| Minimum lease payments relating to operating leases | **56,963** | 105,236 |

## 4. INCOME TAX

### (a) Income tax expense

| | 2019 $ | 2018 $ |
|---|---|---|
| Current tax | - | - |
| Deferred tax | - | - |
| | - | - |

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

| | 2019 $ | 2018 $ |
|---|---|---|
| Loss before income tax expense | **(780,637)** | (1,256,336) |
| Prima facie tax (benefit)/expense at the Australian tax rate of 27.5% (2018: 27.5%) | **(214,675)** | (345,492) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share based payments | **10,528** | 3,979 |
| Loss on disposal of subsidiaries | **17,250** | 191,593 |
| Other | **213** | - |
| | **(186,684)** | (149,920) |
| Movements in unrecognised temporary differences | **(423,470)** | (136,261) |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | **610,154** | 286,181 |
| Income tax expense | - | - |

### (c) Deferred tax assets not brought to account

| | 2019 $ | 2018 $ |
|---|---|---|
| Capital raising costs | **43,530** | 31,448 |
| Provision and accruals | **39,841** | 28,753 |
| Tax losses | **2,143,668** | 1,347,968 |
| Total | **2,227,039** | 1,408,169 |

| | 2019 $ | 2018 $ |
|---|---|---|

## 4. INCOME TAX (cont'd)

**(d) Deferred tax liabilities**

| | 2019 $ | 2018 $ |
|---|---|---|
| Capitalised exploration and evaluation costs | **614,027** | 1,353,490 |
| Total | **614,027** | 1,353,490 |

**(e) Offset provisions**

| | 2019 $ | 2018 $ |
|---|---|---|
| Deferred tax liabilities | **(614,027)** | (1,353,490) |
| Deferred tax assets (portion off-set deferred tax liabilities) | **614,027** | 1,353,490 |
| Unused tax losses for which no deferred tax asset has been recognised | **-** | - |

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2019 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 nature and of an amount sufficient to enable the benefits to be utilised;

(ii) the Group continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in income tax legislation adversely affect the Group in utilising the benefits.

## 5. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | 2019 $ | 2018 $ |
|---|---|---|
| Cash at bank and in hand | **431,895** | 840,685 |
| Short-term deposits | **15,000** | 546,191 |
| Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows | **446,895** | 1,386,876 |

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.

Credit risk

| | 2019 $ | 2018 $ |
|---|---|---|
| A-1+ | **446,895** | 1,386,876 |

The equivalent S&P rating of the financial assets represent that rating of the counterpart with whom the financial asset is held rather than the rating of the financial asset itself.

| 30 JUNE 2019 | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 5. CURRENT ASSETS – CASH AND CASH EQUIVALENTS (cont'd)

**(a) Reconciliation of net loss after income tax to net cash outflow from operating activities**

| | 2019 $ | 2018 $ |
|---|---|---|
| Net loss for the year | **(780,637)** | (1,256,336) |
| **Non-cash items** | | |
| Depreciation of non-current assets | **30,490** | 35,038 |
| Share-based payments expense | **38,284** | 14,470 |
| Gain on acquisition of permit | **(380,000)** | - |
| Unwinding of discount in provision for restoration | **-** | 10,378 |
| Loss on sale of subsidiary | **62,729** | 22,645 |
| Net exchange differences | **20,425** | - |
| **Change in operating assets and liabilities** | | |
| Decrease in trade and other receivables | **1,640** | 41,073 |
| (Increase) in petroleum permits and capitalised exploration costs | **(1,276,688)** | (637,277) |
| Increase/(decrease) in trade and other payables | **336,236** | 150,462 |
| Increase in provisions | **15,893** | - |
| Net cash outflow from operating activities | **(1,931,628)** | (1,619,547) |

**(b) Non-cash items**

During the 2018 financial year there was one non-cash transaction being the disposal (and acquisition) of the interests in the Canning Basin and Perth Basin. Details of the transaction can be found in note 9.

## 6. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | 2019 $ | 2018 $ |
|---|---|---|
| L7 restoration reimbursement receivable | **1,481,352** | - |
| Other receivables | **27,193** | 28,832 |
| | **1,508,545** | 28,832 |

Refer to note 9 for further information on the L7 restoration reimbursement receivable.

## 6. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (cont'd)

**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 24. 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 quality.

The table below outlines the amounts due, past due and not impaired.

| | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) | | | | Within initial trade terms |
|---|---|---|---|---|---|---|---|
| | | | < 30 | 31 - 60 | 61 - 90 | > 90 | |
| | $ | $ | $ | $ | $ | $ | $ |
| **2019** | | | | | | | |
| L7 restoration reimbursement receivable | **1,481,352** | - | - | - | - | - | **1,481,352** |
| Other receivables | **27,193** | - | - | - | - | - | **27,193** |
| Total | **1,508,545** | - | - | - | - | - | **1,508,545** |
| **2018** | | | | | | | |
| Other receivables | 28,832 | - | - | - | - | - | 28,832 |
| Total | 28,832 | - | - | - | - | - | 28,832 |

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **7. NON-CURRENT RECEIVABLES** | | |
| Bank guarantees | **178,562** | 21,257 |
| | **178,562** | 21,257 |

The guarantee is held by the Group's financial institution in cash. The credit rating has been disclosed above in note 5.

## 8. PLANT AND EQUIPMENT

| | 2019 $ | 2018 $ |
|---|---|---|
| **Plant and equipment** | | |
| Cost | **416,866** | 416,431 |
| Accumulated depreciation | **(219,774)** | (189,283) |
| Net book amount | **197,092** | 227,148 |
| **Reconciliation of movements in plant and equipment** | | |
| Opening net book amount | **227,148** | 254,970 |
| Additions | **434** | 7,216 |
| Depreciation charge | **(30,490)** | (35,038) |
| Closing net book amount | **197,092** | 227,148 |

## 9. CAPITALISED EXPLORATION COSTS

| | 2019 $ | 2018 $ |
|---|---|---|
| Exploration, evaluation and development costs carried forward in respect of areas of interest | **3,673,214** | 2,396,526 |
| *Reconciliation - Pre-production* | | |
| Carrying amount at the beginning of the year | **2,396,526** | 4,675,209 |
| Additions to exploration and evaluation costs | **1,276,688** | 2,677,475 |
| Disposals during the year | **-** | (4,956,158) |
| Carrying amount at the end of the year | **3,673,214** | 2,396,526 |

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.

During the 2019 financial year the Group completed the acquisition of Production Licence L7 (“L7”) for which Key received an exit payment of $380,000 and assumed responsibility for the restoration activities at the site. The estimated cost for these activities has been recognised in provisions (refer note 11), with a corresponding amount included in trade and other receivables as Key will be reimbursed by the original seller of the asset up to a value of $1,900,000.

Also, during the 2019 financial year, the Group executed a Farmout Agreement with the Triangle Energy (Global) Limited group (“Triangle”, ASX: TEG) in respect of L7. Triangle may earn a 50% interest in L7 by funding 100% of a work programme consisting of two new wells and the acquisition of 3D seismic to a capped amount of US$3 million. Key will retain operatorship during the farmin period, whilst Triangle has the right to cost recover out of oil production on a staged basis the expenditure it incurred on the farmin work programme.

| 30 JUNE 2019 | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 9. CAPITALISED EXPLORATION COSTS (cont'd)

The Cooper Basin project comprises ATP's 783, 920 and 924 for which total capitalised exploration at 30 June 2019 included above is $1,161,339. Four-year renewals have been submitted to the Queensland Regulator, Department of Natural Resources, Mines and Energy for these ATP's. Work programme commitments as estimated on the renewals are included within the exploration commitments as shown in note 17(a).

On 14 May 2018 the Company completed a share swap with Rey Resources Limited to dispose of its interest in R1, L15 and EP104. The transaction resulted in the Company disposing of a subsidiary which held the Canning Basin assets and acquiring a further interest in the EP 437 Perth Basin asset.

**Transaction values**

| | 2019 | 2018 |
|---|---|---|
| Consideration received – Fair value of the EP 437 assets | - | 1,600,000 |
| Carrying Value of the net assets sold | - | (1,542,750) |
| Transaction costs | - | (79,895) |
| Loss on disposal | - | (22,645) |

The amount of the carrying value of the assets at the date of disposal was as follows:

| | 2019 | 2018 |
|---|---|---|
| Carrying value of cash | - | 36 |
| Carrying value of exploration assets | - | 4,956,158 |
| Carrying value of provision for restoration | - | (3,402,046) |
| Carrying value of liabilities | - | (11,398) |
| | - | 1,542,750 |

The amount of the carrying value of the assets at the date of acquisition was as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash acquired | - | 43,456 |
| Exploration asset | - | 1,561,898 |
| Payables | - | (5,354) |
| Fair Value | - | 1,600,000 |

The fair value was derived using a valuation provided by an external third party based on level 3 inputs of a likely target within the prospect, an estimated resource for this target, an estimated oil price and a commercial risk factor to derive a fair value for the asset.

**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 2019 | 2019 | 2018 |
|---|---|---|
| | % | % |
| **9. CAPITALISED EXPLORATION COSTS (cont'd)** | | |
| EP 437 | **86.94** | 86.94 |
| ATP 783/920/924 | **100.00** | 100.00 |
| WA-481-P | **40.00** | 40.00 |
| L7 | **50.00** | - |

All joint operations do not have any profit or loss items as the costs are capitalised to exploration assets. The amounts below represent the Group's interests in each joint operation.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **EP 437** | | |
| **Balance sheet** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **15,887** | 92,004 |
| Receivables | **-** | 13,294 |
| **TOTAL CURRENT ASSETS** | **15,887** | 105,298 |
| **NON-CURRENT ASSETS** | | |
| Exploration assets | **1,474,703** | 1,834,746 |
| **TOTAL NON-CURRENT ASSETS** | **1,474,703** | 1,834,746 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | **17,170** | - |
| **TOTAL NON-CURRENT LIABILITIES** | **17,170** | - |

**Commitments and contingencies**

There are no capital commitments or contingencies as at 30 June 2019 and 30 June 2018 for the Joint Operations outside the work programme commitments listed as part of note 17 below.

| 30 JUNE 2019 | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 10. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | **267,927** | 43,781 |
| Other payables and accruals | **431,410** | 319,320 |
| | **699,337** | 363,101 |

## 11. PROVISIONS

| | | |
|---|---|---|
| **Current** | | |
| Restoration provision (L7) | **1,336,500** | - |
| Long service leave | **46,250** | - |
| | **1,382,750** | - |
| **Non-Current** | | |
| Long service leave | **433** | 30,790 |
| **Total Provisions** | **1,383,183** | 30,790 |

<u>Reconciliation – provision for restoration</u>

| | | |
|---|---|---|
| Opening balance | - | 2,866,782 |
| Adjustment to rates | - | 22,813 |
| Unwind of discount | - | 10,378 |
| Additions – exploration | **1,718,016** | 502,073 |
| Restoration expenses incurred | **(381,516)** | - |
| Disposal of interest in exploration assets (a) | - | (3,402,046) |
| Closing balance | **1,336,500** | - |

(a) The increase in the restoration provision during the year relates to the acquisition of Production Licence L7, refer to note 9.

(b) The Company disposed of its Canning Basin assets as part of a transaction with Rey Resources Limited (see note 9). The provision for restoration for the Canning Basin assets was disclosed as a non-current liability.

<u>Reconciliation – provision for long service leave</u>

| | | |
|---|---|---|
| Opening balance | **30,790** | - |
| Additional provision for the year | **15,893** | 30,790 |
| Closing balance | **46,683** | 30,790 |

## 12. ISSUED CAPITAL

### (a) Share capital

| | Number of shares | $ | Number of shares | $ |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Ordinary shares fully paid | **1,549,462,207** | **41,314,075** | 1,347,358,441 | 40,399,836 |
| Total issued capital | **1,549,462,207** | **41,314,075** | 1,347,358,441 | 40,399,836 |

### (b) Movements in ordinary share capital

| | Number of shares | $ | Number of shares | $ |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Beginning of the financial year | **1,347,358,441** | **40,399,836** | 1,147,358,441 | 38,535,283 |
| – Share placements | **202,103,766** | **1,010,519** | 200,000,000 | 2,000,000 |
| – Share issue transaction costs | **-** | **(96,280)** | - | (135,447) |
| End of the financial year | **1,549,462,207** | **41,314,075** | 1,347,358,441 | 40,399,836 |

### (c) Movements in options on issue

| | Number of options | |
|---|---|---|
| | 2019 | 2018 |
| Beginning of the financial year | **21,000,000** | 48,000,000 |
| Issued during the year: | | |
| – Exercisable at 1.3 cents, on or before 24 August 2022 | **4,500,000** | - |
| – Exercisable at 1.3 cents, on or before 27 March 2023 | **1,000,000** | - |
| Options expired during the year: | | |
| – On 9 March 2019, exercisable at 1.287 cents | **(1,000,000)** | - |
| – On 6 August 2017, exercisable at 4.4 cents | - | (2,000,000) |
| – On 6 August 2017, exercisable at 5.2 cents | - | (2,000,000) |
| – On 6 August 2017, exercisable at 5.5 cents | - | (7,000,000) |
| – On 6 August 2017, exercisable at 5.9 cents | - | (2,000,000) |
| – On 6 August 2017, exercisable at 6.4 cents | - | (7,000,000) |
| – On 6 August 2017, exercisable at 7.4 cents | - | (7,000,000) |
| End of the financial year | **25,500,000** | 21,000,000 |

## 12. ISSUED CAPITAL (cont'd)

### (d) Movements in performance rights on issue

| | Number of performance rights | |
|---|---|---|
| | 2019 | 2018 |
| Beginning of the financial year | **4,000,000** | 4,000,000 |
| End of the financial year | **4,000,000** | 4,000,000 |

### (e) Ordinary shares

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.

### (f) 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 natures of the Group's activities, being petroleum exploration, the Group does not have the 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 management plans to remain a going concern. The working capital position of the Group as 30 June 2019 and 30 June 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | **446,895** | 1,386,876 |
| Trade and other receivables | **1,508,545** | 28,832 |
| Trade and other payables | **(699,337)** | (363,101) |
| Provisions - current | **(1,382,750)** | - |
| Working capital position | **(126,647)** | 1,052,607 |

## 13. RESERVES

### (a) Reserves

| | | |
|---|---|---|
| Foreign currency translation reserve | - | (83,154) |
| Share-based payments reserve | **746,165** | 707,881 |
| | **746,165** | 624,727 |

| 30 JUNE 2019 | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 13. RESERVES (cont'd)

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

*(i) Foreign currency translation reserve*

Exchange differences arising on translation of foreign controlled entities 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.

*(ii) Foreign currency translation 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.

## 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**

| | 2019 | 2018 |
|---|---|---|
| Bentleys – audit and review of financial reports | **21,539** | 28,520 |
| Total remuneration for audit services | **21,539** | 28,520 |

## 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:

| | 2019 | 2018 |
|---|---|---|
| Within one year | **3,992,600** | 4,671,733 |
| Later than one year but not later than five years | **12,084,040** | 1,511,040 |
| | **16,076,640** | 6,182,773 |

The Cooper Basin project is comprised ATP's 783, 920 and 924 for which four-year renewals have been submitted to the Queensland Regulator, Department of Natural Resources, Mines and Energy. Work programme commitments as estimated on the renewals are included within the exploration commitments as shown above.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 17. COMMITMENTS (cont'd)

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

*Operating leases (non-cancellable):*

| | | |
|---|---|---|
| Minimum lease payments | | |
| within one year | **63,217** | 56,290 |
| later than one year but not later than five years | **37,916** | 98,672 |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | **101,133** | 154,962 |

The property lease is a non-cancellable lease with a three-year term, with a rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to increase by 3% 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. The Group also has a lease for an item of office equipment with a five-year fixed term, with no provision for increases during the term.

## 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.

### (c) Key management personnel compensation

| | | |
|---|---|---|
| Short-term benefits | **391,431** | 391,431 |
| Post-employment benefits | **22,580** | 22,580 |
| Long-term benefits | **10,700** | 21,250 |
| Share-based payments | **7,911** | 12,968 |
| | **432,622** | 448,229 |

Detailed remuneration disclosures are provided in the remuneration report within the Directors' Report.

### (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* | |
|---|---|---|---|---|
| | | | 2019 | 2018 |
| | | | % | % |
| Puma Petroleum S.r.L. (1) | Italy | Ordinary | - | 100 |
| Key Petroleum (Australia) Pty Ltd | Australia | Ordinary | **100** | 100 |
| Key Cooper Basin Pty Ltd | Australia | Ordinary | **100** | 100 |
| Key Petroleum Taranaki Limited (2) | New Zealand | Ordinary | - | 100 |
| Key Petroleum Services Pty Ltd | Australia | Ordinary | **100** | 100 |
| Key Midwest Pty Ltd | Australia | Ordinary | **100** | 100 |

(1) Puma Petroleum S.r.L. ("Puma") was deregistered during the year. At the time of deregistration Puma did not have any assets or liabilities, nor did it contribute to the Group's profit or loss during the year. A loss on disposal of $57,372 was recognised by the Group, being the realisation of the foreign currency translation reserve upon deregistration.

(2) Key Petroleum Taranaki Limited ("Taranaki") was deregistered during the year. At the time of deregistration Taranaki did not have any assets or liabilities, nor did it contribute to the Group's profit or loss during the year. A loss on disposal of $5,357 was recognised by the Group, being the realisation of the foreign currency translation reserve upon deregistration.

## 20. EVENTS OCCURRING AFTER THE REPORTING DATE

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

- During August 2019 the Company raised a total of $463,283 from the issue of a total of 134,735,844 fully paid ordinary shares from two separate placements.
- On 13 July 2019 the Company, through its wholly owned subsidiary Key Cooper Basin Pty Ltd entered into a Farmin Agreement with Pancontinental Oil and Gas NL ("Pancon"), Pancon will acquire from Key:
  - an undivided 20% participating interest in ATP 920 (together with an option to acquire an additional undivided 15% participating interest in ATP 920); and
  - an undivided 25% participating interest in the Ace Area (collectively the "Farmin Interest").

In consideration of the assignment of the Farmin Interest, Pancon will undertake the following obligations (collectively Farmin Obligations):

- pay to Key, $150,000 on the execution of the terms sheet to cover costs in relation to seismic reprocessing in respect of the Ace Area and the area of ATP 920 as well as other permitting costs. $100,000 will be refundable if ATP 920 and ATP 924 are not renewed; and
- fund 26.67 % of the total costs and expenses of drilling a to be selected, exploration well to target depth including plugging and abandoning the well (Dry Hole Costs) but excluding success case costs associated with testing and completing the well, with such well costs to be capped at gross $3,000,000 ("on a 100% basis").

| 30 JUNE 2019 | 2019 $ | 2018 $ |
|---|---|---|

## 21. LOSS PER SHARE

**(a) Reconciliation of earnings used in calculating loss per share**

| | 2019 $ | 2018 $ |
|---|---|---|
| Loss attributable to the owners of the Company used in calculating basic and diluted loss per share: | **(780,637)** | (1,256,336) |
| | **(780,637)** | (1,256,336) |

| | Number of shares | Number of shares |
|---|---|---|
| **(b) Weighted average number of shares used as the denominator** | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | **1,419,955,027** | 1,253,111,866 |

**(c Information on the classification of options**

As the Group made a loss for the year ended 30 June 2019, the options on issue were considered anti-dilutive and were not included in the calculation of diluted earnings per share. The options currently on issue could potentially dilute basic earnings per share in the future.

## 22. 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 and on issue at 30 June 2019 range from 1.3 to 1.5 cents per option, with expiry dates ranging from 30 November 2020 to 27 March 2023.

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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price cents | Number of options | Weighted average exercise price cents |
| Outstanding at the beginning of the year | **21,000,000** | **1.49** | 48,000,000 | 4.11 |
| Granted | **5,500,000** | **1.30** | - | - |
| Forfeited/cancelled | - | - | - | - |
| Exercised | - | - | - | - |
| Expired / lapsed | **(1,000,000)** | **(1.29)** | (27,000,000) | (6.15) |
| Outstanding at year-end | **25,500,000** | **1.46** | 21,000,000 | 1.49 |
| Exercisable at year-end | **25,500,000** | **1.46** | 1,000,000 | 1.29 |

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.8 years (2018: 2.3), and the exercise prices range from 1.3 cents to 1.5 cents.

The weighted average fair value of options granted during the year was 0.6 cents. There were no options granted during the 2018 financial year. The prices were calculated using a Black Scholes Option Pricing model applying the following inputs:

| | 2019 |
|---|---|
| Weighted average exercise price (cents) | **1.3** |
| Weighted average life of the options | **4.0** |
| Weighted average underlying share price (cents) | **0.8** |
| Weighted average expected volatility | **137.3%** |
| Weighted average risk free rate | **1.9%** |

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. The performance rights granted to directors and on issue at 30 June 2019 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.

Set out below are summaries of the performance rights granted:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Outstanding at the beginning of the year | **4,000,000** | 4,000,000 |
| Granted | - | - |
| Forfeited/cancelled | - | - |
| Exercised | - | - |
| Expired | - | - |
| Outstanding at year-end | **4,000,000** | 4,000,000 |

There were no performance rights granted during the 2019 and 2018 financial years.

**(c) Expenses arising from share-based payment transactions**

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

| | | |
|---|---|---|
| Options and performance rights issued to or vesting with employees and contractors | **38,284** | 14,470 |
| | **38,284** | 14,470 |

## 23. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Key Petroleum Limited, at 30 June 2018. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Current assets | **387,459** | 2,257,483 |
| Non-current assets | **4,167,854** | 1,769,634 |
| **Total assets** | **4,555,313** | 4,027,117 |
| Current liabilities | **633,092** | 326,598 |
| Non-current liabilities | **433** | 30,790 |
| **Total liabilities** | **633,525** | 357,388 |
| Issued capital | **41,314,075** | 40,399,837 |
| Share-based payments reserve | **746,165** | 707,881 |
| Accumulated losses | **(38,138,452)** | (37,437,989) |
| **Total equity** | **3,921,788** | 3,669,729 |
| Loss for the year | **(700,463)** | (1,030,077) |
| **Total comprehensive income** | **(700,463)** | (1,030,077) |

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

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

Interests in subsidiaries are set out in Note 19.

| 30 JUNE 2019 | 2019 | 2018 |
|---|---|---|
| | $ | $ |

## 24. 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 9 as detailed in the accounting policies to these financial statements, are as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| **Financial Assets** | | |
| Cash and cash equivalents | **446,895** | 1,386,876 |
| Loans and receivables | **1,508,545** | 28,832 |
| **Total Financial Assets** | **1,955,440** | 1,415,708 |
| **Financial Liabilities** | | |
| Trade payables | **267,927** | 43,781 |
| **Total Financial Liabilities** | **267,927** | 43,781 |

| | 2019 NZD | 2018 NZD |
|---|---|---|
| **Foreign currency** | | |
| Cash and cash equivalents | - | 20,016 |

*Sensitivity analysis*

At 30 June 2019, if interest rates had changed by -/+ 50 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 $3,636 lower/higher (2018: $6,880 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 a minimum of an A 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 A-1+ 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 management's 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 | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | $ | $ | $ | $ | $ | $ |
| **Financial liabilities due for payment** | | | | | | |
| Trade payables (excluding estimated annual leave) | **267,927** | 43,781 | - | - | **267,927** | 43,781 |
| Total contractual outflows | **267,927** | 43,781 | - | - | **267,927** | 43,781 |
| **Financial assets – cash flows realisable** | | | | | | |
| Cash and cash equivalents | **446,895** | 1,386,876 | - | - | **446,895** | 1,386,876 |
| Trade and loan receivables | **1,508,545** | 28,832 | - | - | **1,508,545** | 28,832 |
| Total anticipated inflows | **1,955,440** | 1,415,708 | - | - | **1,955,440** | 1,415,708 |
| Net inflow on financial instruments | **1,687,513** | 1,371,927 | - | - | **1,687,513** | 1,371,927 |

**(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 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.

## 25. SEGMENT INFORMATION

**Identification of reportable segments**

The Group 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 Group is managed primarily based on one segment being oil and gas exploration in Australia.

## 26. COMPANY DETAILS

The registered office of the company is:

Key Petroleum Limited
Suite 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008

The principal place of business is:

Key Petroleum Limited
Suite 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008

# DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 15 to 48 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 Company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; 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 managing director and equivalent 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.

**JL Kane Marshall**
Managing Director

Perth, 27 September 2019

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

# Independent Auditor's Report

## To the Members of Key Petroleum Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Key Petroleum Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1(a)(v) in the financial report, which indicates that the Group incurred a net loss of $780,637 during the year ended 30 June 2019. As stated in Note 1(a)(v), these events or conditions, along with other matters as set forth in Note 1(a)(v), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Capitalised Exploration Costs**<br>As disclosed in note 9 to the financial statements, as at 30 June 2019, the Group's capitalised exploration costs were carried at $3,673,214.<br>The recognition and recoverability of the capitalised exploration costs was considered a key audit matter due to:<br>– The carrying value of capitalised exploration costs represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest the carrying amount of this asset may exceed the recoverable amount; and<br>– Determining whether impairment indicators exist involves significant judgement by management | Our audit procedures included but were not limited to:<br>– Assessing management's determination of its areas of interest for consistency with the definition in AASB 6 Exploration and Evaluation of Mineral Resources ("AASB 6");<br>– Assessing the Group's rights to tenure for a sample of tenements;<br>– Testing the Group's additions to capitalised exploration costs for the year by evaluating a sample of recorded expenditure for consistency to underlying records, the capitalisation requirements of the Group's accounting policy and the requirements of AASB 6;<br>– By testing the status of the Group's tenure and planned future activities, reading board minutes and discussions with management we assessed each area of interest for one or more of the following circumstances that may indicate impairment of the capitalised exploration costs:<br>  – The licenses for the rights to explore expiring in the near future or are not expected to be renewed;<br>  – Substantive expenditure for further exploration in the area of interest is not budgeted or planned; |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | – Decision or intent by the Group to discontinue activities in the specific area of interest due to lack of commercially viable quantities of resources; and<br>– Data indicating that, although a development in the specific area is likely to proceed, the carrying amount of the exploration asset is unlikely to be recorded in full from successful development or sale.<br><br>We also assessed the appropriateness of the related disclosures in the notes to the financial statements. |
| **Transaction with AWE Perth Pty Ltd**<br><br>During the period the Group completed a transaction with AWE Perth Pty Ltd ("AWE") for the Production License L7. As part of the agreement Key Petroleum received an exit payment of $380,000 and is required to decommission and perform rehabilitation work on the wells outlined in the agreement. AWE has agreed to reimburse Key Petroleum up to $1,900,000 in costs incurred.<br><br>On initial recognition a rehabilitation provision and corresponding restoration reimbursement receivable for $1,718,016 was recognised and determined with consultation from an independent expert.<br><br>As at 30 June 2019 the rehabilitation provision was $1,336,500 (refer note 11) and the restoration reimbursement receivable was $1,481,352 (refer note 6).<br><br>Accounting for the transaction constituted a key audit matter due to:<br>– The size and scope of the transaction;<br>– The complexities inherent in such a transaction; and<br>– The judgement required in determining the value of the decommissioning and rehabilitation. | Our audit procedures included but were not limited to the following:<br>– Reviewing the Share Sale and Purchase Agreement ("the agreement") to obtain an understanding of the key terms and conditions;<br>– Critically evaluating the accounting treatment in accordance with the relevant Australian Accounting Standards;<br>– Assessing the work of management's expert used in determining the rehabilitation value adopted<br>– Testing the Group's rehabilitative work conducted by evaluating on a sample basis to underlying supporting documentation and compliance with the requirements of the agreement;<br>– Discussions with management and the board Assessing the appropriateness of relevant disclosures in note 6 and 11 to the financial statements |

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors 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, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

### Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Bentleys

**BENTLEYS**
**Chartered Accountants**

Mark Delaurentis

**MARK DELAURENTIS CA**
**Partner**

Dated at Perth this 27th day of September 2019

# 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 19 September 2019.

**(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 | 68 | 11,176 |
| 1,001 | - | 5,000 | 91 | 296,904 |
| 5,001 | - | 10,000 | 125 | 1,126,518 |
| 10,001 | - | 100,000 | 592 | 27,251,730 |
| 100,001 and over | | | 534 | 1,645,775,879 |
| | | | **1,410** | **1,674,462,207** |

| | | |
|---|---|---|
| The number of equity security holders holding less than a marketable parcel of securities are (minimum $500.00 parcel at $0.01 per unit – minimum parcel size 50,000): | **633** | **10,306,719** |

**(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 | ASF OIL & GAS HOLDINGS PTY LTD | 221,147,588 | 13.13 |
| 2 | STAR SURPASS LIMITED | 175,000,000 | 10.39 |
| 3 | START GRAND GLOBAL LIMITED | 170,000,000 | 10.09 |
| 4 | FOREVER NEW LIMITED | 152,500,000 | 9.05 |
| 5 | ELITE RAY INVESTMENTS LIMITED | 100,000,000 | 5.94 |
| 6 | GREAT SCHEME INVESTMENTS LIMITED | 78,125,000 | 4.64 |
| 7 | FOREVER GRAND GROUP LIMITED | 60,000,000 | 3.56 |
| 8 | RENOWN CAPITAL HOLDINGS LTD | 32,500,000 | 1.93 |
| 9 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 24,703,094 | 1.47 |
| 10 | MRS LUYE LI | 15,065,844 | 0.89 |
| 11 | HC INVESTMENT HOLDINGS PTY LIMITED <THE JC A/C> | 14,690,159 | 0.87 |
| 12 | MR ANDREW CHRISTOPHER MAYES | 12,500,000 | 0.74 |
| 13 | MR KENNETH RAYMOND PETTIT | 12,000,000 | 0.71 |
| 14 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 11,525,018 | 0.68 |
| 15 | MUNCHA CRUNCHA PTY LTD | 11,400,000 | 0.68 |
| 16 | GRANBOROUGH PTY LTD <AJ & J KING S/F A/C> | 10,000,000 | 0.59 |
| 17 | JAMESON BOYCE PARTNERS PTY LTD | 10,000,000 | 0.59 |
| 18 | BNP PARIBAS NOMS PTY LTD <UOB KH P/L AC UOB KH DRP> | 8,022,808 | 0.48 |
| 19 | KJM CONSULTANTS PTY LTD <THE KANE MARSHALL S/F A/C> | 7,500,000 | 0.45 |
| 20 | SEAVILLE INVESTMENTS PTY LTD <SEAVILLE SUPER FUND A/C> | 7,500,000 | 0.45 |
| | | **1,134,179,511** | **67.34** |

# 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 |
|---|---|
| ASF Oil & Gas Holdings Pty Ltd | 221,147,588 |
| Star Surpass Limited | 175,000,000 |
| Start Grand Global Limited | 170,000,000 |
| Forever New Limited | 152,500,000 |
| Elite Ray Investments Limited | 100,000,000 |

**(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 | EP 437 | 86.94% |
| Australia – Onshore | L7 | 50.00% |
| Australia – Onshore | ATP 783/920/924 | 100.00% |
| Australia – Onshore | WA-481-P | 40.00% |

**(f) Unquoted Securities**

| | | | Holders of 20% or more of the class | |
|---|---|---|---|---|
| Class | Number of Securities | Number of Holders | Holder Name | Number of Securities |
| 1.5 cent Options, Expiry 30 November 2020 | 20,000,000 | 1 | JL Kane Marshall | 20,000,000 |
| 1.3 cent Options, Expiry 24 August 2022 | 4,500,000 | 1 | R Jason | 4,500,000 |
| 1.3 cent Options, Expiry 27 March 2023 | 1,000,000 | 1 | M Armitage | 1,000,000 |
| Performance Rights A | 2,000,000 | 1 | JL Kane Marshall | 2,000,000 |
| Performance Rights B | 2,000,000 | 1 | JL Kane Marshall | 2,000,000 |