

26 September 2018

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

2018 ANNUAL REPORT

Please find attached Key Petroleum Limited's 2018 Annual Report.

Regards



IAN GREGORY
Company Secretary
KEY PETROLEUM LIMITED



ANNUAL REPORT

FOR THE 12 MONTHS ENDED 30 JUNE 2018

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 3, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
Telephone: +61 8 9381 4322
Facsimile: +61 8 9381 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

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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 2018.

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. Mr Turkington is also a Non-Executive Director of TNG Limited and a Non-Executive Director of Todd River Resources Limited.

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

Mr Marshall has over 15 years' experience working in the international oil and gas industry as both a Geologist and Petroleum Engineer. In more recent times, he was contracted by Santos Limited 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 24 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid-tier gold producer and also 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.

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

Ms Yang resides in Hong Kong and has over 21 years of experience with private and state-run businesses in China and has expertise in the identification of opportunities in resources and financial investment. Currently the Director and Chairman of ASF Group Limited and a Non-Executive Chairman of Rey Resources Limited, ActivEX Limited and Metaliko Resources Limited.

Geoff Baker, BCom, LLB, MBA (Non-Executive Director, 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 and ActivEX Limited. Mr Baker has also held non-executive positions with and 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 Limited (6 years), IBJ Australia Bank Limited 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 Financial Year 2017/2018 saw a year of transition for Key Petroleum Limited ("Key"). Having initiated several strategic acquisitions, Key set its sights on the procedural requirements to reset and create value through implementing achievable near-term goals. Having established its position as a major Perth Basin explorer and near-term production company, Key is now ready for a new phase of activity centred on the recently completed L7 (R1) Mount Horner acquisition and adjacent Wye Knot-1 drilling program. Discussions with interested parties regarding potential participation in drilling over Mount Horner L7 have been ongoing during the phase of permitting and title transfer. The company also continues to provide technical support for the offshore Perth Basin permit WA-481-P where the operator Pilot has been engaged in the year 5 work commitment seismic reprocessing program with DownUnder Geophysics. The terms of the L7 licence transfer include an Option, which expires in October 2018, for AWE to farm in for 50% of Key's 40% interest in WA-481-P in return for a capped carry of Key's ongoing Year 5 and 6 costs and commitments in the permit.

The acquisition from Beach Petroleum for 100% ownership of authorities to prospect ATPs 783, 920 and 924 located in the Cooper Eromanga Basin in south west and east Queensland, saw the company on an exciting new path. Much of the technical work conducted in the last 12 months was aimed at establishing a new strategy focussed on the basin centred and conventional gas potential within Permo-Triassic reservoir targets, that could ultimately help to supply east coast energy demand. These studies over the Cooper Eromanga Basin assets were used to assist with discussions with Department of Natural Resources and Mines, Queensland ("DNRM") on the forward work commitment programs for the remainder of the permit terms.

Efforts to attract work program funding for the Cooper-Eromanga assets included a non-exclusive agreement period of four months with Six Pines Capital LLC, to raise a minimum of AUD \$5,000,000 to cover the costs of drilling, completion and testing of at least two wells within the area defined as "Area 3" of ATP 924, which surrounds the Marengo Gas Field.

Key's refocus on the northern Perth Basin and the Cooper-Eromanga assets provided an opportunity to consolidate its exposure to the more remote Lennard Shelf permits within the Canning Basin in an equity swap with Rey Resources for their EP 437 participating interest, while retaining an overriding royalty on the Canning permits, as announced in May 2018.

Outlook

The next 12 months provide an exciting opportunity for Key shareholders with the recommencement of operational activities culminating in the participation in drilling of several wells, including the assessment of any remaining oil within the Mount Horner field area.

DIRECTORS' REPORT (CONTINUED)

Finance Review

The Group has recorded an operating loss after income tax for the year ended 30 June 2018 of \$1,256,336 (2017: \$1,144,731).

At 30 June 2018 funds available totalled \$1,386,876 (2017: \$1,126,887).

Operating Results for the Year

Summarised operating results are as follows:

	2018	
	Revenues	Results
	\$	\$
Consolidated entity revenues and loss	269,335	(1,256,336)
Shareholder Returns		
	2018	2017
Basic loss per share (cents)	(0.10)	(0.11)

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 the 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:-

- Key Petroleum Limited issued 4.5 million options exercisable at \$0.013 per option or before 24 August 2022 pursuant to the Company's Employee Share Option Plan; and
- Subsequent to year end the Company received notification from DMIRS that it had approved the transfer of the L7 Mount Horner licence from the previous owner to the Key Group. The Company and the Seller have now met all condition precedents and will complete the transaction on the 27 September. Upon completion, the Key Group will receive an upfront payment of \$380,000 and will be responsible for undertaking the restoration activities at the site. The cost for these activities will be reimbursed by the original seller of the asset for a value of up to \$1.9million with any remaining cost assumed by the Key Group (if any).

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.

The executives receive a superannuation guarantee contribution required by the government, which was 9.5% for the 2018 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.

DIRECTORS' REPORT (CONTINUED)

Given the low oil price environment, effective from 1 February 2016 Non-Executive Directors agreed to reduce their fees by 25%. The Managing Director and Chief Financial Officer also reduced salaries by 30% and 20% respectively effective from 1 February 2016. On 1 January 2017 the previous reduction for the managing director's salary was reinstated and the salary package is now \$250,000 (before deductions) plus statutory 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 2018.

Voting and comments made at the Company's 2017 Annual General Meeting

The Company received 99.4% of "yes" votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

Details of remuneration

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

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

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

DIRECTORS' REPORT (CONTINUED)

Key management personnel of the Group

		Short Term Benefits				Post-Employment Benefits		Long-Term Benefits		Equity-Settled Share-Based Payments		Cash-Settled Share Based Payments	Termination Benefits	Total
		Salary & Fees	Profit Share & Bonuses	Non-Monetary	Other	Pension & Super-annuation	Other	Incentive Plans	LSL	Shares/Units	Options/Rights			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors														
Rex Turkington (appointed 18 July 2013)	2018	60,000	-	-	-	-	-	-	-	-	1,302	-	-	61,302
	2017	45,000	-	-	-	-	-	-	-	-	12,844	-	-	57,844
Kane Marshall	2018	235,431	-	-	-	22,580	-	-	21,250	-	10,915	-	-	290,176
	2017	213,542	-	-	-	19,792	-	-	-	-	34,203	-	-	267,537
Dennis Wilkins	2018	32,000	-	-	-	-	-	-	-	-	751	-	-	32,751
	2017	24,000	-	-	-	-	-	-	-	-	7,408	-	-	31,408
Min Yang (appointed 28 January 2014)	2018	32,000	-	-	-	-	-	-	-	-	-	-	-	32,000
	2017	24,000	-	-	-	-	-	-	-	-	-	-	-	24,000
Geoff Baker (appointed 28 January 2014)	2018	32,000	-	-	-	-	-	-	-	-	-	-	-	32,000
	2017	24,000	-	-	-	-	-	-	-	-	-	-	-	24,000
Executives														
Robert Ierace (1)	2018	-	-	-	-	-	-	-	-	-	-	-	-	-
	2017	94,498	-	-	-	8,447	-	-	-	-	-	-	-	102,945
Total key management personnel	2018	391,431	-	-	-	22,580	-	-	21,250	-	12,968	-	-	448,229
	2017	425,040	-	-	-	28,239	-	-	-	-	54,455	-	-	507,734

(1) Resigned on 10 February 2017.

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 has since been renewed for a further twelve months in each of the last three years. The directors now have a contract that 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 consulting 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.

DIRECTORS' REPORT (CONTINUED)

Min Yang, Non-Executive Director:

- Annual consulting fee of \$32,000 to be paid to Luxe Hill Limited, a business of which Ms Yang is principal;
- Agreement commenced 28 January 2014 for a twelve month period and has since been renewed for a further twelve months in each of the last three years. The directors now have a contract that is a rolling month by month agreement with the company; and
- The agreement may be terminated, without cause, by either party giving written notice.

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 has since been renewed for a further twelve months in each of the last two years. The directors now have a contract that 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 directors now have a contract that is a rolling month by month agreement with the company; and
- The agreement may be terminated, without cause, by either party giving written notice.

Robert Ierace – Chief Financial Officer (resigned 10 February 2017)

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

Share-based compensation

Options

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

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Directors								
Kane Marshall	22/11/2016	20,000,000	(1)	22/11/2020	1.5	0.4	N/A	3.8

(1) The options will vest once the market price of the shares is above 1.5 cents for a period of 30 consecutive days trading on ASX.

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.

DIRECTORS' REPORT (CONTINUED)

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	-

Performance Rights (continued)

- (1) The value at grant date in accordance with AASB 2: Share Based Payments of performance rights granted during the year as part of remuneration. The value is the closing share price on grant date.
- (2) These rights vest upon the satisfaction of the following performance hurdle:
 "When the volume weighted average price of the Company's shares increases by 100% for a consecutive period of at least 30 business days during each calendar year of the directors' term."
 At the grant date, the Board determined that the probability of this performance condition being met was 60%.
- (3) These rights vest upon the satisfaction of the following performance hurdle:
 "When the volume weighted average price of the Company's shares increases by 150% for a consecutive period of at least 30 business days during each calendar year of the directors' term."
 At the grant date, the Board determined that the probability of this performance condition being met was 50%.

Equity instruments held by key management personnel

Share holdings

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

2018	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.

DIRECTORS' REPORT (CONTINUED)

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:

2018	Balance at start of the year	Granted as compensation	Exercised	Other changes (1)	Balance at end of the year	Vested and exercisable	Unvested
Directors of Key Petroleum Limited							
Rex Turkington ⁽¹⁾	6,000,000	-	-	(6,000,000)	-	-	-
Kane Marshall	32,000,000	-	-	(12,000,000)	20,000,000	-	20,000,000
Dennis Wilkins ⁽¹⁾	1,500,000	-	-	(1,500,000)	-	-	-
Min Yang	-	-	-	-	-	-	-
Geoff Baker	-	-	-	-	-	-	-

(1) Options expired on 6 August 2017.

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 entered into a lease for a vehicle relating to an associate of Mr Marshall. The value of the lease payments for the year was \$14,364 and this total plus related FBT contribution was taken from Mr Marshall gross salary as a deduction for the year. There are no other related party transactions during the year.

End of audited Remuneration Report

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

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

	Directors Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Rex Turkington	5	5	3	3	1	1
Kane Marshall	5	5	*	*	*	*
Dennis Wilkins	5	5	3	3	1	1
Min Yang	5	5	3	3	*	*
Geoff Baker	5	5	*	*	1	1

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
9 March 2015	9 March 2019	1.287	1,000,000
22 November 2016	30 November 2020	1.5	20,000,000
24 August 2018	24 August 2022	1.3	4,500,000
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 \$19,500 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.

DIRECTORS' REPORT (CONTINUED)

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14

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



Kane Marshall
Managing Director

Perth, 26 September 2018

CORPORATE GOVERNANCE STATEMENT

The Company's 2018 Corporate Governance Statement has been released as a separate document and is located on our website at http://www.keypetroleum.com.au/corporate_governance.

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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 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



BENTLEYS
Chartered Accountants



MARK DELAURENTIS CA
Partner

Dated at Perth this 26th day of September 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
REVENUE FROM CONTINUING OPERATIONS	2	269,335	57,882
EXPENDITURE			
Depreciation expense		(35,038)	(37,383)
Salaries and employee benefits expense		(493,654)	(364,881)
Corporate expenditure		(112,484)	(54,681)
Administration costs		(529,096)	(408,884)
Contracting costs		(138,117)	-
Exploration costs not capitalised		(166,390)	(230,581)
Share-based payments expense	22	(14,470)	(69,271)
Finance costs		(13,777)	(36,932)
Loss on sale	9	(22,645)	-
LOSS BEFORE INCOME TAX	3	(1,256,336)	(1,144,731)
INCOME TAX BENEFIT / (EXPENSE)	4	-	-
LOSS FOR THE YEAR		(1,256,336)	(1,144,731)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(3,487)	228
Other comprehensive income for the year, net of tax		(3,487)	228
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED		(1,259,823)	(1,144,503)
Basic loss per share for loss (cents per share)	21	(0.10)	(0.11)
Dilutive loss per share for loss (cents per share)	21	(0.10)	(0.11)

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 2018	Notes	2018 \$	2017 \$
CURRENT ASSETS			
Cash and cash equivalents	5	1,386,876	1,126,887
Trade and other receivables	6	28,832	54,905
TOTAL CURRENT ASSETS		1,415,708	1,181,792
NON-CURRENT ASSETS			
Receivables	7	21,257	15,000
Plant and equipment	8	227,148	254,970
Capitalised exploration costs	9	2,396,526	4,675,209
TOTAL NON-CURRENT ASSETS		2,644,931	4,945,179
TOTAL ASSETS		4,060,639	6,126,971
CURRENT LIABILITIES			
Trade and other payables	10	363,101	212,641
TOTAL CURRENT LIABILITIES		363,101	212,641
NON-CURRENT LIABILITIES			
Provisions	11	30,790	2,866,782
TOTAL NON-CURRENT LIABILITIES		30,790	2,866,782
TOTAL LIABILITIES		393,891	3,079,423
NET ASSETS		3,666,748	3,047,548
EQUITY			
Issued capital	12	40,399,836	38,535,283
Reserves	13(a)	624,727	613,744
Accumulated losses		(37,357,815)	(36,101,479)
TOTAL EQUITY		3,666,748	3,047,548

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 2018	Issued Capital	Share- Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
BALANCE AT 1 JULY 2016	37,540,470	624,140	(79,895)	(34,956,748)	3,127,967
Loss for the year	-	-	-	(1,144,731)	(1,144,731)
Exchange differences on translation of foreign operations	-	-	228	-	228
TOTAL COMPREHENSIVE INCOME	-	-	228	(1,144,731)	(1,144,503)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	1,000,000	-	-	-	1,000,000
Share issue transaction costs	(5,187)	-	-	-	(5,187)
Share-based payments	-	69,271	-	-	69,271
BALANCE AT 30 JUNE 2017	38,535,283	693,411	(79,667)	(36,101,479)	3,047,548
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 LOSS FOR THE YEAR	-	-	(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

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 2018	Notes	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		251,216	31,246
Payments to suppliers and employees		(980,086)	(735,761)
Interest received		13,760	19,135
Finance costs paid		(3,399)	(1,990)
Expenditure on petroleum interests		(901,038)	(754,028)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	5(a)	(1,619,547)	(1,441,398)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(7,216)	-
Payment for guarantees		(21,257)	-
Receipt of cash on acquisition of petroleum interests	9	43,456	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		14,983	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares and options		2,000,000	1,000,000
Payments of share issue transaction costs		(135,447)	(5,187)
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,864,553	994,813
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		259,989	(446,585)
Cash and cash equivalents at the beginning of the financial year		1,126,887	1,573,472
Effects of exchange rate changes on cash and cash equivalents		-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	1,386,876	1,126,887

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 2018

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 26 September 2018. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

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

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior years.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2017.

(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 \$1,256,336 (2017: \$1,144,731) and net cash outflows from operating activities of \$1,619,547 (2017: \$1,441,398).

The directors have prepared an estimated cash flow forecast for the period to September 2019 to determine if the Company may 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- The Company has access to cash reserves of \$1,386,876 as at 30 June 2018 (30 June 2017: \$1,126,887).
- 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 \$2,000,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(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, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(iii) *Group companies*

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

(e) **Revenue recognition**

The Group's revenue recognition policy under AASB 118

The consolidated entity's revenue is derived primarily from services to external parties. Sales revenue is recognised on a proportionally basis over the period to which the services are provided. 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 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 substantively 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(f) Income tax (continued)

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

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

Acquisition-related costs are expensed as incurred.

The excess of:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(i) Impairment of non-financial 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) Trade and other receivables

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

(l) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial assets - reclassification

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

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

Recognition and derecognition

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

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

Measurement

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

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

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

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

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(i) *Assets carried at amortised cost*

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

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

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

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

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

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

(m) **Plant and equipment**

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(n) 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 exploration 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 amortised 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 1(i) above. 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.

(o) Trade and other payables

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

(p) Employee benefits

(i) *Wages and salaries and annual leave*

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

(ii) *Share-based payments*

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(v) New accounting standards and interpretations

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

Title and Reference	Nature of Change	Application date for entity
AASB 9 Financial Instruments AASB 9	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. The entity has a number of receivables which will be subject to the assessment of recoverability under the new standard. This assessment of expected credit losses will be undertaken at each reporting date to determine if, in the directors' opinion, an impairment should be recorded in the financial statements. As at 30 June 2018, if the Company were to make this assessment using the future requirements, the Company would not record a provision for expected credit losses on consolidation as there is no history of debtors defaulting and amounts outstanding have been collected. The Company has significant inter-company loans with subsidiaries that do not generate cash flows. In the event that these receivables are not considered to be equity contributions under AASB 132, the Company will make an assessment of the lifetime expected credit loss for the loan. The facts and circumstances for each subsidiary and its operations, assets and ability to repay will be take into consideration when determining the probability of default and the expected loss percentage when applied to the carrying value of the loan.	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Title and Reference	Nature of Change	Application date for entity
AASB 15 Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. The Group intends to apply IFRS 15 using the cumulative effective method and therefore comparative information will not be restated and will continue to be reported under AASB 118. The Company has made an assessment of the impact of the revenue standard and: The Company generates revenue from the delivery of services as follows: (i) Revenue from contracting services The Company contracts to external parties for services rendered in relation to oil and gas consulting. Each individual contract is specific to the client's requirements and the performance obligations will depend on each contract and the requirements of the client. Where the performance obligations require the services to produce a final outcome for the client the recognition of the revenue and associated costs will be deferred until the completion of that outcome. Where the contract has clear milestone events where a discrete element of the contract has been completed, the Company will recognise the revenue when the milestones are met. The Company did not have any service contracts open as at 30 June 2018 and all matters relating to this category of revenue has been completed.	1 July 2018
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. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117. As at 30 June 2018, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(w) 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 considers 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 Company 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 – Prior period only

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.

The non-current provision for rehabilitation relates to the West Kora 1 well and disused production facilities in Production Licence L15. The estimate is based upon converting the well to a water well following confirmation from the pastoral lease owner and removing the tank farm and restoring the site back to its original condition. This is the best estimate of the engineering methodology for estimating cost and future removal technologies in determining the removal cost. The provision for rehabilitation also includes the Retention Lease 1 in the Canning Basin and is based upon an estimate to plug and abandon the Stokes Bay 1 and Point Torment 1 wells using a completion rig as well as removal of the causeway to each of the well pads. The causeway removal includes replacement of gravel to the original borrow pit.

30 JUNE 2018	2018	2017
	\$	\$
2. REVENUE AND OTHER INCOME		
From continuing operations		
<i>Other revenue</i>		
Interest from financial institutions	13,760	19,135
Management fees	3,613	20,350
Fuel tax credits	10,239	8,197
Consulting services	160,658	10,200
Other Income	81,065	-
	269,335	57,882
3. EXPENSES		
Loss before income tax includes the following specific expenses:		
Directors fees	156,000	117,000
Employee expenses (net of amount capitalised)	304,643	208,944
Superannuation and leave entitlements expense	33,012	38,937
Minimum lease payments relating to operating leases	105,236	67,610
4. INCOME TAX		
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) Numerical reconciliation between tax expense to pre-tax net loss payable		
Loss before income tax expense	(1,256,336)	(1,144,731)
Income tax benefit calculate at 27.5% (2017: 27.5%)	(345,492)	(314,801)
Effect of non-deductible or assessable item		
Share based payments:	3,979	19,050
Gain on sale of subsidiary	191,593	1,139
	(149,920)	(294,612)
Movements in unrecognised temporary differences	(136,261)	(520,691)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	286,181	815,303
Income tax expense	-	-

30 JUNE 2018	2018	2017
	\$	\$
4. INCOME TAX (cont'd.)		
(c) Deferred tax assets not brought to account		
Capital raising costs	31,448	4,477
Provision and accruals	28,753	15,365
Tax losses	1,347,968	3,633,907
Total	1,408,169	3,653,749
(d) Deferred tax liabilities		
Accrued revenue	-	-
Capitalised exploration and evaluation costs	1,353,490	1,585,952
Total	1,353,490	1,585,952
(e) Offset provisions		
Deferred tax liabilities	(1,353,490)	(1,585,952)
Deferred tax assets (portion off-set deferred tax liabilities)	1,353,490	1,585,952
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 2018 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 Company derives future assessable income of nature and of an amount sufficient to enable the benefits to be utilised;
- (ii) the Company continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in income tax legislation adversely affects the Company in utilising the benefits.

5. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	840,685	590,179
Short-term deposits	546,191	536,708
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	1,386,876	1,126,887

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

A-1+	1,386,876	1,126,887
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1. 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 2018	2018	2017
	\$	\$
5. CURRENT ASSETS – CASH AND CASH EQUIVALENTS (cont'd)		
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(1,256,336)	(1,144,731)
Non-cash items		
Depreciation of non-current assets	35,038	37,383
Share-based payments expense	14,470	69,271
Impairment of Exploration	-	-
Unwind of discount in provision for restoration	10,378	37,337
Loss on sale of subsidiary	22,645	-
Change in operating assets and liabilities		
Decrease in trade and other receivables	41,073	91,558
(Increase) in petroleum permits and capitalised exploration costs	(637,277)	(591,121)
Increase/(decrease) in trade and other payables	150,462	58,905
Net cash outflow from operating activities	(1,619,547)	(1,441,398)

(b) Non-cash items

During the year there was one non-cash transaction being the disposal (and acquisition) 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

Trade receivables	-	8,250
Other receivables	28,832	46,655
	28,832	54,905

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 assess 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.

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

	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31 - 60	61 - 90	> 90	
	\$	\$	\$	\$	\$	\$	\$
2018							
Trade receivables	-	-	-	-	-	-	-
Other receivables	28,832	-	-	-	-	-	28,832
Total	28,832	-	-	-	-	-	28,832
2017							
Trade receivables	8,250	-	-	-	-	-	8,250
Other receivables	46,655	-	-	-	-	-	46,655
Total	54,905	-	-	-	-	-	54,905
					2018	2017	
					\$	\$	

7. NON-CURRENT RECEIVABLES

Bank guarantees	21,257	15,000
	21,257	15,000

The guarantee is held by the Company financial institution in cash. The credit rating has been disclosed above in Note 5.

8. PLANT AND EQUIPMENT

Plant and equipment

Cost	416,431	409,215
Accumulated depreciation	(189,283)	(154,245)
Net book amount	227,148	254,970

Reconciliation of movements in Plant and Equipment

Opening net book amount	254,970	292,353
Additions	7,216	-
Disposals	-	-
Depreciation charge	(35,038)	(37,383)
Closing net book amount	227,148	254,970

30 JUNE 2018

2018

2017

\$

\$

9. CAPITALISED EXPLORATION COSTS

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

2,396,526

4,675,209

Reconciliation - Pre-production

Carrying amount at the beginning of the year

4,675,209

4,084,087

Additions to the exploration and evaluation costs

2,677,475

588,293

Asset Retirement Obligation (movement)

-

2,829

Exploration and sold during the year

(4,956,158)

-

Carrying amount at the end of the year

2,396,526

4,675,209

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. The prior period capitalised exploration and evaluation costs include the asset restoration obligation relating to L15 Production Licence and R1 Retention lease.

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 resulting in the Company disposing of a subsidiary which held the Canning Basin assets and acquiring a further interest in the EP437 Perth Basin asset.

Transaction values

Consideration received – Fair value of the EP 437 assets

1,600,000

-

Carrying Value of the net assets sold

(1,542,750)

-

Transaction costs

(78,895)

-

Loss on disposal

(22,645)

-

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

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:

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.

30 JUNE 2018

2018

2017

\$

\$

9. CAPITALISED EXPLORATION COSTS (cont'd)

(a) Joint operations

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

	2018	2017
	%	%
EP104	0.00	89.23
R1	0.00	85.23
L15	0.00	85.40
EP437	86.94	43.47
ATP 783/920/924	100.00	100.00
WA-481-P	40.00	40.00

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.

EP104

Balance sheet

NON-CURRENT ASSETS

Exploration assets	-	357,298
TOTAL NON-CURRENT ASSETS	-	357,298

CURRENT LIABILITIES

Trade and other payables	-	71,586
TOTAL NON-CURRENT LIABILITIES	-	71,586

R1

Balance sheet

NON-CURRENT ASSETS

Exploration assets	-	492,258
TOTAL NON-CURRENT ASSETS	-	492,258

CURRENT LIABILITIES

Trade and other payables	-	23,544
TOTAL NON-CURRENT LIABILITIES	-	23,544

30 JUNE 2018	2018	2017
	\$	\$
9. CAPITALISED EXPLORATION COSTS (cont'd)		
L15		
Balance sheet		
NON-CURRENT ASSETS		
Exploration assets	-	349,265
TOTAL NON-CURRENT ASSETS	-	349,265
CURRENT LIABILITIES		
Trade and other payables	-	40,657
TOTAL NON-CURRENT LIABILITIES	-	40,657
EP437		
Balance sheet		
CURRENT ASSETS		
Cash and cash equivalents	92,004	29,669
Receivables	13,294	-
TOTAL CURRENT ASSETS	105,298	29,669
NON-CURRENT ASSETS		
Exploration assets	1,834,746	1,299,659
TOTAL NON-CURRENT ASSETS	1,834,746	1,299,659
CURRENT LIABILITIES		
Trade and other payables	-	37,222
TOTAL NON-CURRENT LIABILITIES	-	37,222

Commitments and contingencies

There are not capital commitments or contingencies as at 30 June 2018 and 30 June 2017 for the Joint Ventures outside the work programme commitments listed as part of Note 17 below.

30 JUNE 2018

2018

2017

\$

\$

10. TRADE AND OTHER PAYABLES

Trade payables	43,781	24,101
Other payables and accruals	319,320	188,540
	363,101	212,641

11. PROVISIONS

Restoration provision (L15) – non-current	-	466,929
Restoration provision (R1) – non-current	-	2,399,853
Long service leave	30,790	-
	30,790	2,866,782

JV provisions – current (due for payment within 12 months)

Reconciliation		
Balance brought forward	-	2,479,543
Transferred to non-current	-	(2,479,543)
Balance carried forward	-	-

Restoration provisions – non-current liabilities (debts payable after 12 months)

Reconciliation		
Balance brought forward	2,866,782	349,468
Transferred from current	-	2,479,543
Adjustment to rates	22,813	2,829
Unwind of discount	10,378	-
Additions – exploration	502,073	-
Additions – long service leave	30,790	-
Disposal of interest in exploration assets (a)	(3,402,046)	34,942
Balance carried forward	30,790	2,866,782

(a) The Company disposed of its Canning Basin assets as part of a transaction with Rey Resources Limited (see note 9).

The non-current liability for the prior period in the annual report related to the rehabilitation estimate for Retention Lease R1 and the rehabilitation related to the West Kora 1 well and disused production facilities in Production License L15 in the Canning Basin.

The first provision was based upon an estimate to plug and abandon the Stokes Bay 1 and Pont Torment 1 wells using a completion rig as well as removal of the causeway to each of the well pads. The causeway removal includes replacement of gravel to the original borrow pit.

The second provision is an estimate is based upon converting the well to a water well following confirmation from the pastoral lease owner and removing the tank farm and restoring the site back to its original condition.

30 JUNE 2018

12. ISSUED CAPITAL

(i) Share capital	Number of shares	\$	Number of shares	\$
	2018		2017	
Ordinary shares fully paid	1,347,358,441	40,399,835	1,147,358,441	38,535,283
Total issued capital	1,347,358,441	40,399,835	1,147,358,441	38,535,283
(ii) Movements in ordinary share capital				
Beginning of the financial year	1,147,358,441	38,535,283	897,358,441	37,540,470
– Share placement	200,000,000	2,000,000	250,000,000	1,000,000
– Share issue transaction costs	-	(135,447)	-	(5,187)
End of the financial year	1,347,358,441	40,399,836	1,147,358,441	38,535,283
(iii) Movements in options on issue				
			Number of options	
			2018	2017
Beginning of the financial year			48,000,000	33,500,000
Issued during the year:				
– Exercisable at 1.287 cents, on or before 9 March 2019			-	-
– Options expired			(27,000,000)	(500,000)
– Options lapsed			-	(5,000,000)
– Exercisable at 1.5 cents, on or before 22 November 2020			-	20,000,000
End of the financial year			21,000,000	48,000,000
(iv) Movements in performance rights on issue				
			Number of performance rights	
			2018	2017
Beginning of the financial year			4,000,000	4,000,000
Expired during the year:				
– Performance Rights A			-	-
– Performance Rights B			-	-
End of the financial year			4,000,000	4,000,000
(v) 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.

30 JUNE 2018

12. ISSUED CAPITAL (cont'd)

(vi) Capital risk management

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

Due to the 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 2018 and 30 June 2017 are as follows:

	2018	2017
	\$	\$
Cash and cash equivalents	1,386,876	1,126,887
Trade and other receivables	28,832	54,905
Trade and other payables	(363,101)	(212,640)
Provisions	-	-
Working capital position	1,052,607	969,152

In the comparative year the provision related to the rehabilitation estimate for Retention Lease 1 in the Canning Basin which has an expiry date of 31 January 2016. At the beginning of this financial year the DMP granted a renewal of the Retention Lease R1 for a further 5 years and as such the current liability of \$2,479,543 was deferred for a further 5 years.

13. RESERVES

(a) Reserves

Foreign currency translation reserve	(83,154)	(79,667)
Share-based payments reserve	707,881	693,411
	624,727	613,744

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share based payments reserve

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

14. DIVIDENDS

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

30 JUNE 2018

2018

2017

\$

\$

15. REMUNERATION OF AUDITORS

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

Audit services

Bentleys – audit of financial reports	28,520	31,584
Total remuneration for audit services	28,520	31,584

16. CONTINGENCIES

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

17. COMMITMENTS

(a) Exploration commitments

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

Within one year	4,671,733	1,644,350
Later than one year but not later than five years	1,511,040	13,476,413
	6,182,773	15,120,763

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

Minimum lease payments

within one year	56,290	46,028
later than one year but not later than five years	98,672	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	154,962	46,028

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 3.5% on each annual anniversary of the commencement date. An option exists to renew the lease at the end of the three-year term for an additional term of one year. The lease allows for subletting of all lease areas.

18. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 19.

30 JUNE 2018

2018

2017

\$

\$

18. RELATED PARTY TRANSACTIONS (cont'd)

(c) Key management personnel compensation

Short-term benefits	391,431	425,040
Post-employment benefits	43,830	28,239
Share-based payments	12,968	54,455
	448,229	507,734

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*	
			2018	2017
			%	%
Gulliver Productions Pty Ltd	Australia	Ordinary	-	100
Puma Petroleum S.r.L.	Italy	Ordinary	100	100
Key Petroleum (Australia) Pty Ltd	Australia	Ordinary	100	100
Cooper Basin Pty Ltd	Australia	Ordinary	100	100
Key Petroleum Taranaki Limited	New Zealand	Ordinary	100	100
Key Petroleum Services Pty Ltd	Australia	Ordinary	100	100
Key Midwest Pty Ltd	Australia	Ordinary	100	-

20. EVENTS OCCURRING AFTER THE REPORTING DATE

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

- Key Petroleum Limited issued 4.5 million options at \$0.013 per option exercisable on or before 24 August 2022 pursuant to the Company's Employee Share Option Plan; and
- Subsequent to year end the Company received notification from DMIRS that it had approved the transfer of the L7 Mount Horner licence from the previous owner to the Key Group. The Company and the Seller have now met all condition precedents and will complete the transaction on the 26 September. Upon completion, the Key Group will receive an upfront payment of \$380,000 and will be responsible for undertaking the restoration activities at the site. The cost for these activities will be reimbursed by the original seller of the asset for a value of up to \$1.9 million with any remaining cost assumed by the Key Group (of any).

30 JUNE 2018

2018

2017

\$

\$

21. LOSS PER SHARE

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

Loss attributable to the owners of the Company used in calculating basic and diluted loss per share:

(1,256,336) (1,144,731)

(1,256,336) (1,144,731)

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

1,253,111,866

995,988,578

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 a incentive to improve employee and shareholder goal congruence. The exercise of the options granted range from 1.5 cents to 7.4 cents, and the expiry dates range from 6 August 2017 to 22 November 2020.

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:

	2018		2017	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	48,000,000	4.11	33,500,000	5.20
Granted	-	-	20,000,000	0.63
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired / lapsed	(27,000,000)	(6.15)	(5,500,000)	(1.40)
Outstanding at year-end	21,000,000	1.49	48,000,000	4.11
Exercisable at year-end	1,000,000	1.29	1,000,000	2.50

In the prior year, the Company issued 20,000,000 to the managing director. The Options issued during the year have been valued using a Black Scholes Option Pricing model. The inputs to the model are listed on the following page.

30 JUNE 2018

22. SHARE-BASED PAYMENTS (cont'd)

2017

Exercise price	1.5 cents
Life of options	4 years
Underlying share price	0.4 cents
Expected volatility	91%
Risk free rate	1.79%

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

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

(b) Employees and contractors performance rights

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

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

Set out below are summaries of the performance rights granted:

	2018 \$	2017 \$
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 2018 and 2017 financial years.

(c) Expense arising from share based payment transactions

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

Total expense arising from share-based payments	14,470	69,271
	14,470	69,721

30 JUNE 2018

2018

2017

\$

\$

23. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Key Petroleum Limited, at 30 June 2017. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	2,257,483	1,996,653
Non-current assets	1,769,634	1,012,981
Total assets	4,027,117	3,009,634
Current and non-current liabilities	357,388	188,851
Total liabilities	357,388	188,851
Issued capital	40,399,837	38,535,283
Share-based payments reserve	707,881	693,411
Accumulated losses	(37,437,989)	(36,407,911)
Total equity	3,669,729	2,820,783
Loss for the year	(1,030,077)	(2,240,571)
Total comprehensive income	(1,030,077)	(2,240,571)

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.

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 139 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets

Cash and cash equivalents	1,386,876	1,126,887
Loans and Receivables	28,832	54,905
Total Financial Assets	1,415,708	1,181,792

Financial Liabilities

Trade and other payables	43,781	24,101
Total Financial Liabilities	43,781	24,101

Foreign currency

2018

2017

NZD

NZD

Cash and cash equivalents	20,016	20,922
Trade receivables	-	-
Trade payables	-	-

30 JUNE 2018

24. FINANCIAL RISK MANAGEMENT (cont'd)

Sensitivity analysis

At 30 June 2018, 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 \$6,880 lower/higher (2017: \$6,422 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 managements plans to remain a going concern.

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

Financial Liability and Financial Asset Maturity Analysis

	Within 1 Year		1 to 5 Years		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables (excluding estimated annual leave)	43,781	24,101	-	-	43,781	24,101
Total contractual outflows	43,781	24,101	-	-	43,781	24,101
Financial assets – cash flows realisable						
Cash and cash equivalents	1,386,876	1,126,887	-	-	1,386,876	1,126,887
Trade and loan receivables	28,832	54,905	-	-	28,832	54,905
Total anticipated inflows	1,415,708	1,181,792	-	-	1,415,708	1,181,792
Net inflow on financial instruments	1,371,927	1,157,691	-	-	1,371,927	1,157,691

(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.

30 JUNE 2018

25. SEGMENT INFORMATION

Identification of reportable segments

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

26. COMPANY DETAILS

The registered office of the company is:

Key Petroleum Limited
Suite 3, Churchill Court
331-335 Hay Street,
SUBIACO WA 6008

The principal place of business is:

Key Petroleum Limited
Suite 3, Churchill Court
331-335 Hay Street,
SUBIACO WA 6008

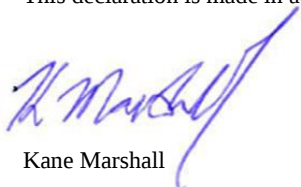
DIRECTORS' DECLARATION

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 2018 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.

A handwritten signature in blue ink, appearing to read "K. Marshall", written over a horizontal line.

Kane Marshall

Managing Director

Perth, 26 September 2018

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 2018, 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 2018 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.



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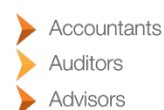
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Material Uncertainty Related to Going Concern

We draw attention to Note 1(a)(v) in the financial report, which indicates that the Group incurred a net loss of \$1,256,336 during the year ended 30 June 2018. As stated in Note 1(a)(v), these events or conditions, along with other matters as set forth in Note 1, 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 As disclosed in note 9 to the financial statements, as at 30 June 2018, the Group's capitalised exploration costs were carried at \$2,396,526. The recognition and recoverability of the capitalised exploration costs was considered a key audit matter due to: ➤ 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 ➤ Determining whether impairment indicators exist involves significant judgement by management	Our audit procedures included but were not limited to: ➤ 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"); ➤ Assessing the Group's rights to tenure for a sample of tenements; ➤ 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; ➤ 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: ➤ The licenses for the rights to explore expiring in the near future or are not expected to be renewed; ➤ 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 ➤ 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. We also assessed the appropriateness of the related disclosures in the notes to the financial statements.
Transaction with Rey Resources Limited On 14 May 2018 the Group completed a transaction with Rey Resources Limited to dispose of a subsidiary of the Group which contained Retention Lease 1 ("RL1"), Production Licence 15 ("L15") and Exploration Permit 104 ("EP104") in exchange for acquiring a further interest in the EP 437 Perth Basin asset. As disclosed in note 9, as part of the disposal, all rehabilitation liabilities associated with RL1 and L15 with an estimated rehabilitation cost of \$3,402,046 were transferred to the acquirer. In return, the Group received an additional 43.47% interest in EP 437 by way of acquiring a subsidiary from Rey Resources which held the Exploration Permit. The fair value of the assets acquired were determined with consultation from an independent expert. Accounting for the transaction constituted a key audit matter due to: ➤ The size and scope of the transaction; ➤ The complexities inherent in such a transaction; and ➤ The judgement required in determining the value of the consideration transferred.	Our audit procedures included but were not limited to the following regarding the asset swap: Acquisition of EP 437 Interest: ➤ Reviewing the Share Sale and Purchase Agreement ("the agreement") to obtain an understanding of the key terms and conditions; ➤ Critically evaluating the accounting treatment in accordance with the relevant Australian Accounting Standards; ➤ Assessing the work of management's expert used in determining the fair value of EP 437. Disposal of its interest in R1, L15 and EP104: ➤ Evaluation of management's assumptions regarding the disposal including reviewing of minutes and other relevant documentation; ➤ Reviewing the Share Sale and Purchase Agreement to obtain an understanding of the key terms and conditions; ➤ Assessing the associated assets and liabilities derecognized on sale and the related calculation of the gain/(loss) on disposal of the interest. Assessing the appropriateness of relevant disclosures in note 9 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 2018, 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 2018. 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.

Independent Auditor's Report

To the Members of Key Petroleum Limited *(Continued)*



Auditor's Opinion

In our opinion, the Remuneration Report of the Company, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

A handwritten signature in blue ink that reads "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink that reads "Mark DeLaurentis".

MARK DELAURENTIS CA
Partner

Dated at Perth this 26th day of September 2018

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 14 September 2018.

(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	12,123
1,001	-	5,000	95	313,904
5,001	-	10,000	130	1,168,573
10,001	-	100,000	597	26,626,742
100,001 and over				
			1,316	1,347,358,441
The number of equity security holders holding less than a marketable parcel of securities are: (Minimum \$500.00 parcel at \$0.008 per unit – minimum parcel size 62,500)			768	16,012,153

(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	16.41
2	STAR SURPASS LIMITED	175,000,000	12.99
3	START GRAND GLOBAL LIMITED	170,000,000	12.62
4	ELITE RAY INVESTMENTS LIMITED	100,000,000	7.42
5	FOREVER NEW LIMITED	92,500,000	6.87
6	MR JIARONG HE	57,325,075	4.25
7	BNP PARIBAS NOMS PTY LTD <UOB KH P/L AC UOB KH DRP>	48,873,541	3.63
8	RENOWN CAPITAL HOLDINGS LTD	32,500,000	2.41
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,263,094	2.17
10	BELLAIRE CAPITAL PTY LTD <BELLAIRE CAPITAL INVEST A/C>	24,261,134	1.80
11	MUNCHA CRUNCHA PTY LTD	15,600,000	1.16
12	HC INVESTMENT HOLDINGS PTY LIMITED <THE JC A/C>	15,190,159	1.13
13	MR BIN LIU	12,900,000	0.96
14	GRANBOROUGH PTY LTD <AJ & J KING S/F A/C>	10,000,000	0.74
15	MR KENNETH RAYMOND PETTIT	8,696,464	0.65
16	KJM CONSULTANTS PTY LTD <THE KANE MARSHALL S/F A/C>	7,500,000	0.56
17	SEAVILLE INVESTMENTS PTY LTD <SEAVILLE SUPER FUND A/C>	7,500,000	0.56
18	MR ANDREW CHRISTOPHER MAYES	7,000,000	0.52
19	MS HONGQING WANG	7,000,000	0.52
20	ODYSSEY OIL PTY LTD	6,875,000	0.51
		1,049,130,055	77.87

ASX ADDITIONAL INFORMATION

(b) 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
Elite Ray Investments Limited	100,000,000
Forever New Limited	92,500,000

(c) Voting rights

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

(d) Schedule of interests in petroleum blocks

Location	Block	Percentage held/earning
Australia – Onshore	EP437	86.94%
Australia – Onshore	L7	100.00%
Australia – Onshore	ATP 783/920/924	100.00%
Australia – Onshore	WA-481-P	40.00%

(e) Unquoted Securities

Class	Number of Securities	Number of Holders	Holders of 20% or more of the class	
			Holder Name	Number of Securities
Unlisted 1.287 cent Options, Expiry 9 March 2019	1,000,000	1	M Armitage	1,000,000
Unlisted 1.5 cent Options, Expiry 30 November 2020	20,000,000	1	JL Kane Marshall	20,000,000
Unlisted 1.3 cent Options, Expiry 24 August 2022	4,500,000	1	R Jason	4,500,000
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