PILOT ENERGY LIMITED
ABN 86 115 229 984
and Controlled Entities

Annual Financial Report
For the Year Ended 30 September 2018

Pilot Energy Limited

A.B.N 86 115 229 984

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For the Year Ended 30 September 2018

Pilot Energy Limited

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Corporate Directory
30 September 2018

Directors
Mr Wilson Xue
Mr Benson Wong
Mr Xingjin Wang
Mr Michael Lonergan
Dr Walker Li

Company Secretary
Lisa Dadswell

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Auditors
MNSA Pty Ltd
Level 1, 283 George Street
SYDNEY NSW 2000

Bankers
National Australia Bank Limited
Level 5, 402-410 Chapel Road
BANKSTOWN NSW 2000

Share Registry
Boardroom Pty Limited
Level 12, 225 George Street
SYDNEY NSW 2000

ASX Code
Shares: PGY

Legal Form of Entity
Public Company

Country of Incorporation and Domicile
Australia

Chairman's Report

30 September 2018

Dear Shareholder,

The last year has seen what would outwardly appear to be a material improvement in market conditions in the oil and gas sector driven by a steady improvement in oil prices. Despite this, the lack of confidence in the price trend, which was ultimately proved justified by the steep decline in prices in late 2018, did not translate into improved conditions for explorers. Continued difficulty in attracting investment for exploration has been evident across the sector and we have seen that even significant discoveries have not translated into full sustained value for shareholders and investors as market confidence in the economic conditions under which future production might be sold remains uncertain.

Through this we have, however, seen that quality resources and opportunities will continue to accrue value as risk is lowered and provided a clear and timely development path can be demonstrated. The Board and Management of Pilot has maintained its focus on minimizing risk by advancing the technical evaluation of its highest value projects to drive a fundamental increase in business value while concentrating only on areas where near term development is possible.

A key focus this year has been WA-481-P where we continue to evaluate low risk targets near existing discoveries which may be combined to form economically attractive and robust cluster developments. Through this process we have applied the learnings from nearby successes which have identified additional, and larger, opportunities in the block as look-alike exploration plays unfold across the basin. These opportunities will be high-graded and further de-risked by combining with the reprocessed seismic ahead of renewed efforts to attract potential partners to share in the drilling program.

There are times when minimizing project costs, reducing expenditure and lowering its risk exposure in assets is not enough to underpin a strong future. This year we have demonstrated we have the discipline to withdraw from non-core assets which have higher risk or longer discovery to production schedules. In order to retain shareholder value through this process we have been successful in retaining exposure to some of the upside in the event the acquiring party has success in the assets.

Land access (exacerbated by the ongoing fracking moratorium announced in 2017) remains a significant issue which has hindered activity in the onshore permits (both operated and non-operated). Despite significant efforts to progress the field exploration activities, some landholders have prevented access to key areas of the permits. Following discussions with the regulatory authorities we have successfully sought and received suspension/extensions to retain permit tenure pending resolution of the issues.

Some of the work done by the management, technical and commercial team of Pilot is not immediately seen by shareholders. Through the year we have evaluated a number of opportunities to fit into our key thematic of low cost, near term appraisal and development projects. We will continue to look for such opportunities to grow our portfolio provided they have the potential to bring near term positive cash flow to the balance sheet. Although funds for higher risk exploration may be difficult to secure, the availability of investment to underpin development or production enhancement is much more readily available and projects which can deliver this will continue to be a target for our efforts.

I would like to thank my fellow Directors Benson Wong and Xingjin Wang and their team for their hard work during the year. I would also like to welcome Walker Li to the board. Walker's wealth of experience in the industry will be of great value to the company.

Lastly, I would like to acknowledge and thank our shareholders for their support and patience as we continue to high grade our asset base and build the value of our portfolio.

Yours faithfully,

Wilson Xue
Chairman

Review of Operations

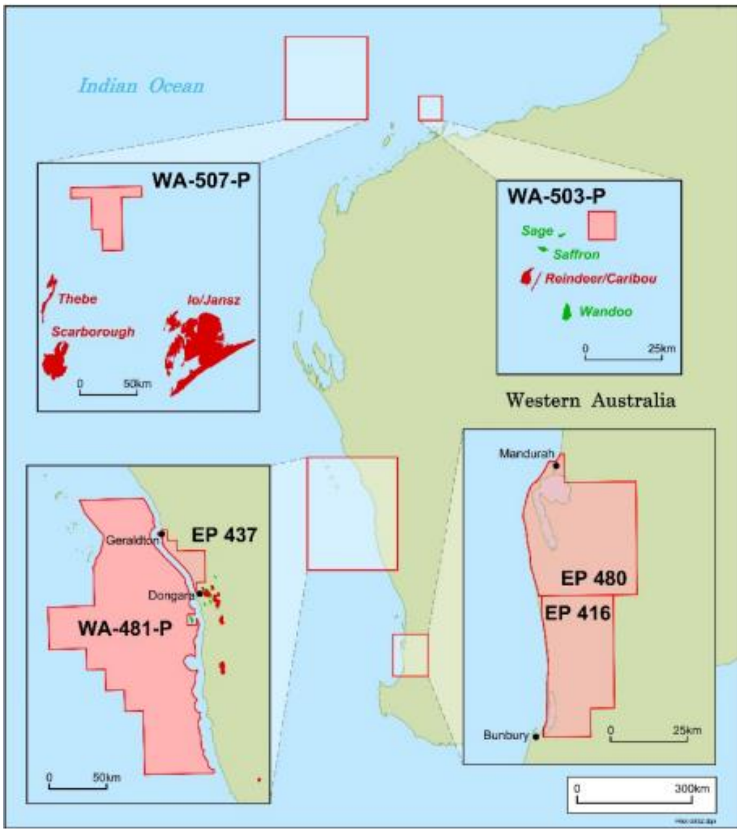
30 September 2018

Highlights

- Completed stage 1 of WA-481-P internal resource assessment
- Carried out comprehensive reprocessing of WA-481-P seismic
- Completed strategic placement of shares and appointment of non-executive director)
- Commitment to the onshore Wye Knot 1 well in EP437 remains on foot
- WA-503-P Joint Venture sale process completed
- WA-507-P Relinquishment after completion of sale process

Overview

Pilot Energy Limited is listed on the Australian Securities Exchange (ASX: PGY). The Company has one operational segment, being the exploration, evaluation and development of oil and gas interests. The Company's assets are currently focused on five exploration permits located onshore and offshore West Australia.



Company Goals and Strategy

The Board's vision for Pilot Energy is for the Company to become a leading exploration and production company.

In pursuit of that goal, the Company's strategy has been to rationalise the existing portfolio to re-focus on lower risk, low commitment opportunities with the potential to deliver near-term oil and gas production.

In keeping with this, the Company has divested its exposure to its Carnarvon Basin asset expenditure to maintain control over project cost and timing.

With the increasing difficulties with land access, Pilot has focused its efforts on the WA-481-P tenement in the shallow offshore Perth Basin.

During the year Pilot progressed efforts to find a farmin partner to participate in exploration activities in WA-481-P. This process was initially promising with a number of prospective farminees evaluating the opportunity but ultimately reinforced the need to further de-risk prospectivity by incorporating the higher quality reprocessed seismic information in order to secure a partner on reasonably attractive terms.

Review of Operations

30 September 2018

The Financial Year

Throughout the course of the financial year, prevailing market conditions have continued to be challenging and although we witnessed a steadily improving oil price, this did not flow through to market sentiment. Rapid oil price fall since the end of September has further reinforced market volatility and justified the industry's cautious approach to investment. Through this period of uncertainty, Pilot has taken the opportunity to focus on the technical assessment of its tenements to underpin the near term exploration efforts and progress with clear, robust technical views on the prospectivity of the opportunities.

In April 2018, Robert Gard was appointed Chief Executive Officer of the Company. Robert has more than 30 years experience in the Oil and Gas exploration and production industry and has a proven track record of using his strong technical background to help secure farm out and other commercial deals and of acquiring prospective exploration opportunities.

A strategic share placement was completed in September 2018 with the issue of 15.9 million ordinary shares to Walkerindo Nusatama Mandiri, PT at a price of 0.3 cents per share to raise $477,000. Following the share placement Dr. Walker Li was appointed as a Non-Executive Director of the Company.

At the end of the financial year ending 30 September 2018, the following securities were on issue:

- 63,576,514 fully paid ordinary shares
- 900,000 unlisted options exercisable at $0.10 by 30 June 2019
- 2,600,000 unlisted options exercisable at $0.20 by 31 December 2019.

Permit overview: WA-481-P (Operator, 60%)

The WA-481-P exploration permit was acquired in 2016, with $65.5 million of associated Petroleum Resource Rent Tax (PRRT) credits being transferred with the permit title (60% retained by Pilot) and is quickly becoming the primary focus of Pilot's portfolio.

The current WA-481-P exploration permit commitments comprise seismic data reprocessing and geological/geophysical studies. These studies are designed to address the primary geological risks associated with each of the various prospects and leads, such that a prioritised inventory of drill-ready prospects can be finalised.

On 31 August 2018, Pilot announced that it completed Stage 1 of an internal resource assessment of the Permit. The resource assessment is the first completed across the entire Permit which considers recent industry learnings in the Perth Basin. The Waitsia and Xanadu oil discoveries coupled with the resource extensions recently announced by Triangle Energy (Global) Ltd (ASX:TEG) in the vicinity of the Cliff Head Oil Field have been incorporated in the assessment.

In parallel with the Stage 1 assessment Pilot has been advancing reprocessing of selected 2D and 3D seismic in the permit. The reprocessing has progressed well and initial results have indicated a significant improvement in imaging quality. Pilot's focus has been to get the best results possible and has allowed the work to extend beyond the initially planned completion to achieve this deliverable.

Stage 2, which comprises preparing geological mapping to incorporate results of the 2D and 3D seismic reprocessing has now commenced. This stage will allow more accurate quantification of the assessed resources and independent resource assessment and certification.

Pilot Energy Limited

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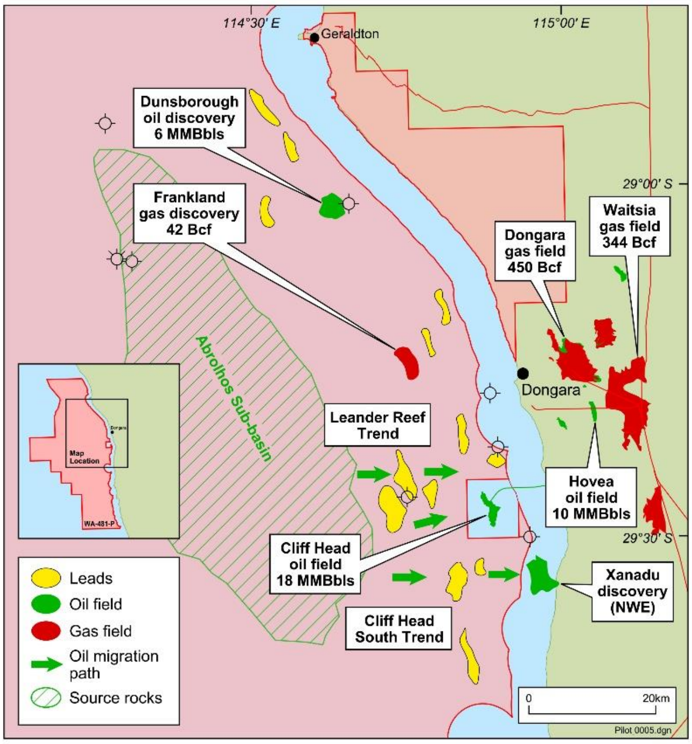
Review of Operations

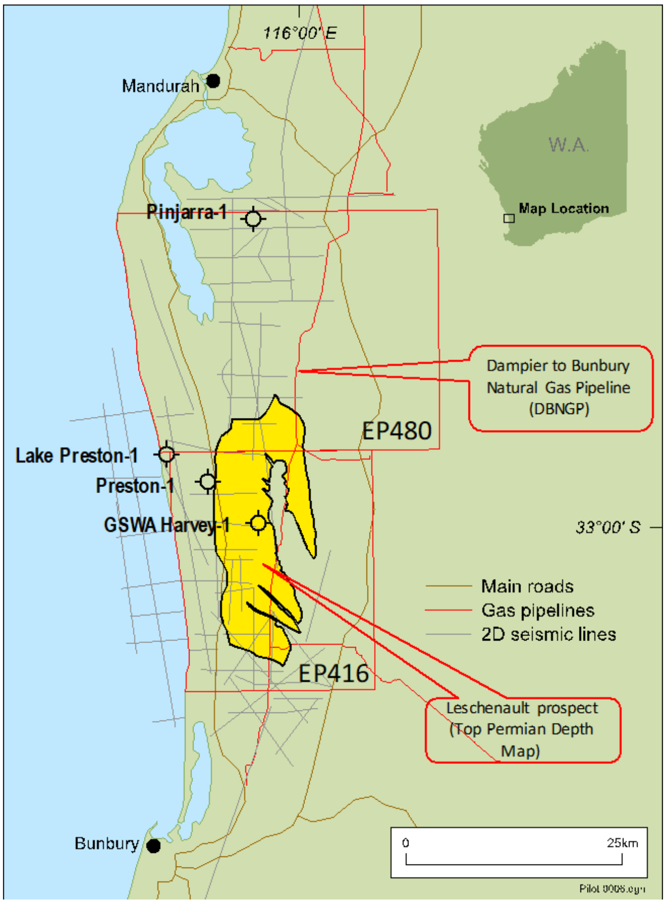
30 September 2018



WA-481-P is located adjacent to existing oil and gas infrastructure, within shallow waters to the west of numerous oil and gas fields, including the offshore Cliff Head oil field and the onshore Waitsia gas discovery. The 17,475 km2 permit covers a major portion of the offshore extension of the north Perth basin. The primary petroleum plays are for oil and/or gas within the Dongara Sandstone and the Irwin River Coal Measures (IRCM). Both oil and gas are proven within the permit, with the Frankland gas and the Dunsborough oil discoveries representing contingent resources of up to 59 Bcf gas and 9.8 MMbbls oil, respectively.

The permit is extensively covered by 2D and 3D seismic data, which confirms the presence of thirteen structural prospects in four distinct areas. Individual prospects offer potential for up to 78 MMbbls of oil, and three of the areas are substantially de-risked by prior discoveries on-block at Cliff Head, Dunsborough and Frankland.

Additional information regarding the proceptivity of WA-481-P is included in a Permit Datasheet attached to the 31 August announcement.



Permit overview: EP416 & EP480 Exploration Permits (Operator, 60%)

During the year, Pilot Energy engaged land owners to conduct a geochemical survey over the Leschenault conventional gas prospect. Difficulty with land access prevented this activity over key areas of the prospect from progressing and was further impacted by public sentiment associated with the State government's announcement in September last year of a ban on fracking in the region and the placing of a moratorium on the use of fracking throughout the rest of WA.

A 24-month suspension and extension granted to both permits to allow for resolution of the land access issues has allowed Pilot to commence an evaluation of other exploration methods which will allow the JV to progress exploration in the permits.

Leschenault is a “three-way dip” feature that relies on closure to the west by a bounding fault. The well-defined structure has two structural culminations, either of which is a potential drilling location for a vertical well to test the two conventional reservoir targets, being the Permian Sue Sandstone and the Triassic Lesueur Sandstone.

The main geological risk associated with Leschenault is one of cross-fault seal, i.e. whether the western bounding fault has sealing capacity to retain hydrocarbon gas migrating in to the structure.

As announced on 7 November 2016, RISC completed an independent assessment of prospective resources for the two main reservoir target intervals at Leschenault, confirming the potential for very significant volumes of gas, as follows:

Reservoir	Gross (100%) Bcf		
	Low	Best	High
Lesueur Sandstone	150	435	970
Sue Sandstone	120	290	625
Total	**270**	**725**	**1,595**

Permit overview: EP437 Exploration Permit (13.058%)

Activities to clear a path to allow the drilling of the Wye Knot-1 exploration well in EP437 (Operator: Key Petroleum) have continued this quarter. The preferred drilling location for Wye Knot-1 has not changed and the Operator has advised that it is continuing the formal process to seek access approval to this location in a way that adheres to its HSE requirements. The JV is considering an application to DMIRS to have the permit works suspended and extended by 12 months to allow the operator to secure access to the drilling location.

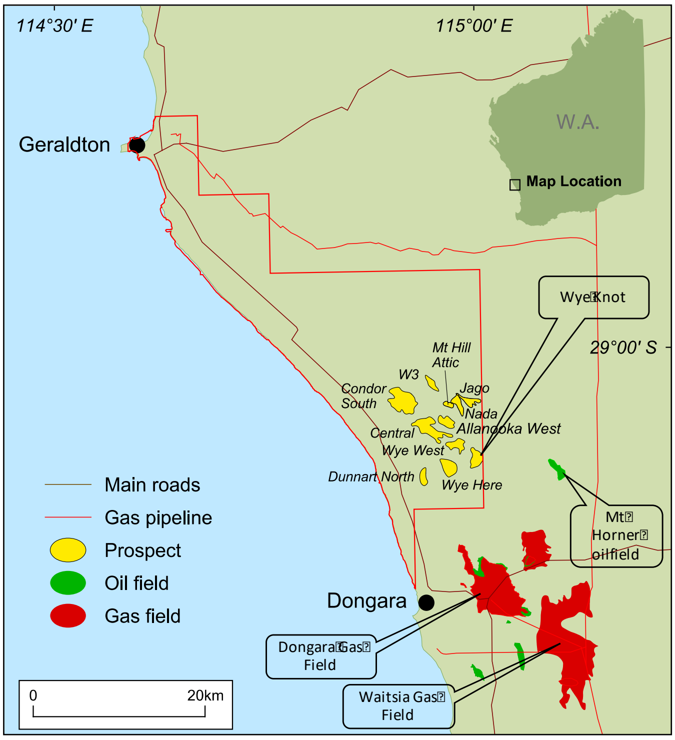
The Wye Knot Prospect exploration well is positioned at a step out distance sufficient to investigate the potential for an oil leg below the gas pay encountered in Wye-1 in the Triassic Bookara and Arranoo Sands. The well is also planned to test deeper Permian sequences, which were not fully intersected at Wye-1.

The Operator’s assessment of the prospective resources targeted by Wye Knot-1 is as follows:

Reservoir	Gross (100%) MMbbls			Net to Pilot (13%) MMbbls		
	Low	Best	High	Low	Best	High
Triassic (Bookara & Arranoo)	0.2	1.4	6.1	0.03	0.18	0.79

Review of Operations

30 September 2018



An oil discovery at Wye Knot-1 could be commercialised rapidly, and at low cost. Pilot Energy estimates the Net Present Value of a commercial discovery at between US$15 and US$20 per barrel, at current oil prices and depending on the size of the discovered resource. Importantly, success at Wye Knot-1 will de-risk other prospects within EP437, including Becos, Updip Wattle Grove, and Ganay.

The Operator has also advised that material conventional oil exploration potential is now complimented by the Production Licence adjacent to the east. This includes prospects updip Waitsia/Senecio/Dongara oil and gas development areas within the same Permian sequences that contain the Waitsia Field.

Historical surface geochemical data has been integrated into the regional North Perth Basin model which shows a baseline anomaly over Mt Horner Oil Field. Similar anomalies have been observed over the Wye Knot and Becos prospects

Permit overview: WA-507-P Exploration Permit (Operator, 80%)

As announced on 21 February 2018, Pilot Energy executed a binding agreement for the sale of its beneficial interest in offshore exploration permit WA-507-P to Black Swan Resources Pty Ltd (**Black Swan**).

Following that agreement Black Swan completed a program of further seismic work, comprising seismic inversion and fluid substitution modelling, which was designed to de-risk a number of prospects identified in the Permit and to seek potential farminees. Black Swan subsequently notified Pilot Energy that the program was unable to further lower the geological risk associated with the prospects and, in the current industry climate, was unable to find a farminee or purchaser for the permit. In accordance with Black Swan's agreement with Pilot Energy, it elected to surrender its interest in the Permit.

Permit overview: WA-503-P Exploration Permit (Operator, 80%)

On 27 July 2018, Pilot Energy announced that it had executed a binding agreement for the sale of its beneficial interest in WA-503-P to Black Swan Resources Pty Ltd (**Black Swan**)

Under the terms of the agreement, Pilot Energy will receive a share of any net profit derived from the Permit in return for Black Swan becoming Operator and covering all costs associated with activities and management of the Permit. Pilot Energy will withdraw from the title after completion of the transaction and Black Swan will assume all risks and liabilities in respect of the Permit. Completion of the transaction is subject to normal regulatory approval and registration, which at the end of the financial year, had no yet been confirmed.

Review of Operations

30 September 2018

The agreement with Black Swan is consistent with Pilot Energy's strategy of minimizing project costs. It enables the company to reduce its risk exposure and expenditure on the Permit to essentially zero while retaining a portion of the profits which may result from Black Swan's exploration efforts should they be successful.

Block WA-503-P is located offshore Western Australia within the Dampier Sub-basin, inboard of the giant Northwest Shelf complex and on trend with numerous oil and gas discoveries; including the Legendre and Hurricane fields. The shallow water depth across the block (maximum 70 metres) allows for drilling by lower cost "jack up" drilling rigs.

The primary exploration focus of WA-503-P is Lower Cretaceous to Upper Jurassic sandstone reservoirs within the oil rich Legendre Trend, situated along the eastern flank of the Lewis Trough. The decommissioned Legendre field is situated some 20 km to the northeast of the block and produced over 40 MMbbl of oil from excellent quality sandstone reservoirs.

Competent Person Statement

This announcement contains information on conventional petroleum resources which is based on and fairly represents information and supporting documentation reviewed by Dr Xingjin Wang, a Petroleum Engineer with over 30 years experience, a Master's Degree in Petroleum Engineering from the University of New South Wales and a PhD in applied Geology from the University of New South Wales. Dr Wang is an active member of the SPE and PESA, and is qualified in accordance with ASX listing rule 5.1. He is an Executive Director of Pilot Energy Ltd, and has consented to the inclusion of this information in the form and context to which it appears.

Directors' Report

30 September 2018

The directors present their report, together with the financial statements of the Group, being Pilot Energy Limited (the Company) and its controlled entities, for the financial year ended 30 September 2018.

1. Directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Wilson Xue Non-executive Chairman Appointed: 27 June 2016 <u>Appointed positions:</u> Non-executive Director on 27 June 2016 Non-executive chairman on 2 December 2016	Mr Xue is an entrepreneur and businessman with over 26 years of senior management experience. He has an impressive record of establishing and growing businesses across a breadth of industries. In addition to Mr Xue's business acumen, his extensive international contacts will benefit the Company as it implements its growth strategy. <u>Directors holdings as at date of report</u> 7,407,600 ordinary shares (1) 400,000 options expiring 31 December 2019 (1)
Benson Wong Executive Director Chief Financial Officer Appointed: 28 April 2016 <u>Appointed positions:</u> Executive Director on 29 April 2016 Chief Financial Officer on 28 April 2016 Chief Executive Officer 12 September 2017 to 31 March 2018	Mr Wong is a management finance specialist with over 15 years' senior managerial experience and over seven years' experience in director roles. In these roles he has held overall finance, administrative and human resources responsibilities. Mr Wong holds a Masters Degree in Commerce from the University of New South Wales, and is an Associate Member of CPA Australia. <u>Directors holdings as at date of report</u> 4,061,392 ordinary shares (2) 400,000 options expiring 31 December 2019 (3)
Xingjin Wang Executive Director Chief Technical Officer Appointed: 9 August 2017 <u>Appointed positions:</u> Executive Director on 9 August 2017 Chief Technical Officer on 12 September 2017	Xingjin is a petroleum engineer with more than 26 years of international experience in petroleum exploration and production. He has extensive experience in the petroleum basins of Australia, and previously held senior management positions with Arrow Energy. More recently, Xingjin has provided consulting services to a number of companies in the areas of asset evaluation and petroleum engineering. He holds a PhD in Applied Geology from the University of New South Wales. <u>Directors holdings as at date of report</u> 740,520 ordinary shares (4) 400,000 options expiring 31 December 2019 (4)

(1) held in related entity, Billion Power Capital Limited

(2) 3,703,740 shares are held in related entity, Sunpex International Pty Ltd

(3) held in related entity, Sunpex International Limited

(4) held in related entity, Austar Nominees Pty Ltd

Directors' Report

30 September 2018

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Michael Lonergan Non-executive Director Appointed:8 December 2017 Appointed positions: Non-executive Director on 8 December 2017	Michael is a Petroleum Geophysicist with over 31 years of domestic and international oil and gas experience. He has held senior technical and project management roles during his career, having worked for Delhi Petroleum, Oil Company of Australia, Origin Energy, Rohöl-Aufsuchungs Aktiengesellschaft, Mosaic Oil, AGL and Pangaea Resources. Directors holdings as at date of report Nil ordinary shares
Walker Li Non-executive Director Appointed:20 September 2018 Appointed positions: Non-executive Director on 20 September 2018	Dr Li has more than 11 years of overseas work experience and is currently Chief Representative of the China Resource Fund in Indonesia. He is a senior-level executive with extensive experience in administration, management and operations. He was previously a Joint-Venture Oilfield Project Manager of CNOOC Oil Base-Oilfield Technology Services Co. and is Project Supervisor of PT Kamundan Energy and PT Wiriagar Energy at Mirach Energy Limited (SGX Listed Code: C68). Dr. Li is a graduate of Huazhong University of Science & Technology, China in Materials Physics and Chemistry and obtained a Ph.D in 2008. Directors holdings as at date of report 15,894,128 ordinary shares (5)

(5) held in related entity, Walkerindo Nusatama Mandiri, PT

2. Chief Executive Officer

Robert Gard was appointed Chief Executive Officer of the Company on 1 April 2018. Prior to this, the position was held by Benson Wong.

Robert is an experienced Petroleum Industry Professional with more than 30 years experience in all aspects of the industry. His experience includes 23 years with ExxonMobil where he worked across the whole value chain including exploration, drilling, workovers, project design, corporate affairs, tax and commercial. He also spent 8 years with ASX listed small cap Melbana Energy Limited where he was responsible for a number of high value farm-out deals with industry majors such as Petrobras, ENI and Origin Energy and was instrumental in securing exploration acreage in Australia, Indonesia, Thailand and Cuba. Recently he has worked as AGL Energy's Manager of Upstream Commercial where he was responsible for all commercial aspects of AGL's Upstream assets and for the site selection for AGL's Proposed LNG Import terminal. Most recently Robert has been providing advisory assistance to a number of small upstream oil and gas exploration and development companies and has assisted with acquisition and due diligence of a number of upstream assets.

3. Company Secretary

Lisa Dadswell has been the company secretary since 1 September 2017. Lisa Dadswell is a Chartered Secretary recognised by the Institute of Chartered Secretaries and Administrators with over 16 years of corporate governance experience.

4. Director's Meetings

During the financial year, 3 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Full meetings of directors	
	Number of meetings attended	Number of meetings held whilst a director
Wilson Xue	3	3
Benson Wong	3	3
Michael Lonergan (appointed 08/12/2017)	3	3
Xingjin Wang	3	3
Walker Li (appointed 29/09/2018)	-	-

The audit, finance, remuneration, nomination, risk management and environmental functions are handled by the full board of the Company.

5. Principal Activities

The principal activity of the Group during the course of the financial year was oil and gas exploration.

The Group is currently engaged in the acquisition, exploration and development of various petroleum exploration projects, targeting conventional oil and gas resources.

There were no significant changes in the nature of the Group's principal activities during the financial year.

6. Operating Results and Financial Review

Operating and financial review

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

The consolidated loss of the Group amounted to $1,162,778 (2017: loss of $1,368,008).

7. Significant Changes in State of Affairs

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the Group during the financial year, other than those matters referred to in the overview above.

8. Dividends

The Directors recommend that no dividend be provided for the year ended 30 September 2018 (2017: Nil).

9. Events After the Reporting Date

As announced on the 2nd October 2018, 15,894,128 shares were issued to Walkerindo Nusatama Mandiri, PT under a share placement.

10. Environmental Issues

The Group is subject to significant environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

11. Indemnification and Insurance of Officers and Auditors

During the financial year, the Company paid an insurance premium of $14,150 (2017: $17,962) to insure the directors and key management of the Group.

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 Group, 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 Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the directors and the company secretary of the Company and its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

12. Likely Developments and Expected Results

The Group will continue to pursue its strategy to further develop its exploration portfolio.

13. Share Options

Unissued shares under options

At the date of this report, the unissued ordinary shares of Pilot Energy Limited under option are as follows:

Date of Expiry	Exercise Price	Number under Option
30 June 2019	$0.10	900,000
31 December 2019	$0.20	2,600,000
		3,500,000

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

Shares issued on exercise of options

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

Options Expired

During the year ended 30 September 2018, no options expired (2017: 32,500,000 expired).

14. Proceedings on behalf of the Group

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 part of those proceedings.

15. Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

16. Remuneration Report - Audited

The Directors are pleased to present your Company's 2018 Remuneration Report prepared in accordance with the *Corporations Act 2001*. The Report sets out the detailed remuneration information for Pilot Energy's Non-executive Directors, Executive directors and other Key Management Personnel (KMP) of the Group. The remuneration disclosures in this Report cover the following persons:

	Position	Date Appointed
Wilson Xue	Non-executive Chairman	27 June 2016
Benson Wong	Executive Director	29 April 2016
Xingjin Wang	Executive Director/ Chief Technical Officer	9 August 2017
Michael Lonergan	Non-executive Director	8 December 2017
Robert Gard	Chief Executive Officer	1 April 2018
Walker Li	Non-executive Director	20 September 2018

The Report contains the following sections:

(a) Remuneration governance
(b) Executive remuneration strategy and framework
(c) Board and management changes
(d) Service contracts
(e) Non-executive director remuneration
(f) Key management personnel remuneration
(g) Other KMP disclosures

16. Remuneration Report – Audited (continued)

(a) Remuneration Governance

The remuneration of directors and key management is the responsibility of the Remuneration and Nomination Committees.

(b) Executive remuneration strategy and framework

Remuneration is referred to as compensation in this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives. As the Group's principal activities during the year were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience

Executive remuneration mix
The remuneration of the Managing Director and other KMP was structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

Fixed compensation
Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

Performance-linked compensation
Performance-linked compensation consists of both short-term and longer-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the exploration and development stage. Vesting of long term incentives is based on the market conditions, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

Short-term incentive
Short term incentives (STI) reward employees for their individual achievements and contributions to business success and organisation outcomes during the financial year. STI's are a variable reward and are not guaranteed.

Each year, the Board considers the appropriate targets and Key Performance Indicators (KPI's) to link the STI and the level of payout if targets are met. This includes capping the maximum payout under the STI scheme and determining the minimum levels of performance to trigger payment of the STI's. Depending upon the level of management, KPI's include the following:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience

The Managing Director has a target STI opportunity depending on achieving various corporate objectives.

16. Remuneration Report – Audited (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive

Long-term incentives (LTI) are comprised of share options and performance rights (PR), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company adopted an Employee Share Options Scheme (ESOS) effective 23 February 2010. Under the ESOS, the Company may grant options to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black Scholes Option Pricing model.

(i) Performance Rights

On 1 July 2014, 45,000,000 Performance Rights were granted to key management personnel under the ESOS. The balance of rights expired on 30 June 2018.

(ii) New options

There were no new options granted during the reporting period.

(iii) Vested options

There were no options that vested during the reporting period.

(iv) Expired options or forfeited

There were no options which expired during the period.

Consequences of performance on shareholder wealth

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years, however as the Company is not a petroleum producer, does not specifically relate to financial performance.

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns	**2018**	**2017**	**2016**	**2015 Restated**	**2014 Restated**
Net (loss) / profit attributable to equity holders ($)	(1,162,778)	(1,368,008)	(1,864,313)	5,498,312	(17,187,866)
Basic (loss) / earnings per share (cents)	(1.83)	(2.29)	(0.09)	0.74	n/a
Share price at year end	0.021	0.05	0.20	0.10	0.80
Market capitalisation ($)	1,589,413	2,988,096	5,877,634	158,547,683	335,593,822
Net tangible assets / (liabilities) (NTA) ($)	(249,622)	705,756	1,254,228	(277,943)	(6,095,105)
NTA Backing (cents)	(0.004)	0.011	0.043	(0.018)	(1.453)

During the financial years noted above, there were no dividends paid or other returns of capital made by the Group to shareholders. The Group's financial performance is impacted by a number of factors.

As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the share price and thus the Company's market capitalisation is the only indicator of the Group's overall performance.

16. Remuneration Report – Audited (continued)

(c) Board and Management Changes

On 1 April 2018, Mr Robert Gard was appointed as Chief Executive Officer of the Company.

On 20 September 2018, Dr Walker Li was appointed as a Non-executive Director of the Company.

(d) Service contracts

On appointment to the Board, all non-executive directors enter into a consultancy agreement with the Group in the form of a contract of appointment. The contract summarises the Board's policies and terms, including compensation, relevant to the officer or director.

Executive remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy.

The major provisions of the agreements relating to remuneration are set out below:

Name	Term of agreement	Employee notice period	Employer notice period	Base salary	Termination Benefit **
Mr Benson Wong	Ongoing from September 2017	3 months	6 months	$180,000 *	6 months' base salary
Mr Xingjin Wang	Ongoing from September 2017	3 months	6 months	$153,600 *	6 months' base salary

* The base salary figures of Mr Benson Wong and Mr Xingjin Wang do not include superannuation.

** Termination benefits are payable upon early termination by the Group, other than for gross misconduct. For both Mr Benson Wong and Mr Xingjin Wang, this would be equal to base salary for the notice period.

In addition to their base salary, each executive director is paid a standard director's fee of $40,000 per annum inclusive of superannuation.

(e) Non-executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee.

The current base fees were last reviewed with effect from 1 May 2015. The fees approved by the Board are inclusive of the statutory superannuation amount.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $340,000 per annum and was approved by shareholders at the Annual General Meeting on 27 February 2015.

Non-executive directors' base fees are currently $40,000 (including superannuation) per annum and they do not receive cash performance related compensation. Directors' fees cover all main board activities and memberships of sub-committees.

In addition to their base fees, non-executive directors may also receive payment for consultancy services at the lesser of $200 per hour or $1,500 per day plus any reimbursable expenses.

The Chairman's fees are determined independently to the fees paid to the non-executive directors, based on comparative roles in the external market.

Directors' Report

30 September 2018

16. Remuneration Report – Audited (continued)

(f) Key Management Personnel Remuneration

Name		Short-term employee benefits			Post-employment benefits	Share based payments				
		Salary and fees (A)	Short term incentive bonus (B)	Non-monetary benefits (C)	Superannuation	Rights D)	Options (D)	Total	Fixed Remuneration %	Performance based remuneration %
Executive directors										
Benson Wong	2018	216,530	-	-	3,470	-	-	220,000	100%	-
	2017	165,196	-	6,345	14,269	-	20,645	206,455	90%	10%
Xingjin Wang[1]	2018	190,130			3,470	-	-	193,600	100%	-
	2017	41,936	-	887	504		20,645	63,972	68%	32%
Sub-total executive directors' remuneration	2018	406,660	-	-	6,940	-	-	413,600		
	2017	207,132	-	7,232	14,773		41,290	270,427		
Non-executive directors										
Michael Lonergan (appointed 08/12/2017)	2018	119,126	-	-	2,868	-	-	121,994	100%	-
	2017	-	-	-	-	-	-	-	-	-
Wilson Xue	2018	36,530	-	-	3,470	-	-	40,000	100%	-
	2017	46,224	-	6,345	4,391	-	20,644	77,604	73%	27%
Walker Li (appointed 20/09/2018)	2018	-	-	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-	-	-
Sub-total non-executive directors' remuneration	2018	155,656	-	-	6,338	-	-	161,994		
	2017	46,224	-	6,345	4,391	-	20,644	77,604		
Total current directors' remuneration	2018	562,316	-	-	13,278	-	-	575,594		
	2017	253,356	-	13,577	19,164		61,934	348,031		

Directors' Report

30 September 2018

16. Remuneration Report – Audited (continued)

(f) Key Management Personnel Remuneration (continued)

		Short-term employee benefit			Post-employment benefits	Share based payments				
Name		**Salary and fees (A)**	**Short term incentive bonus (B)**	**Non-monetary benefits (C)**	**Superannuation/ Termination Payments***	**Rights (D)**	**Options (D)**	**Total**	**Fixed Remuneration %**	**Performance based remuneration %**
Former directors										
Gavin Harper[(2)] (Resigned 02/12/2016)	2018	-	-	-	-	-	-	-	-	-
	2017	30,000	-	1,095	57,000	-	-	88,095	90%	10%
Iain Smith[(3)] (Resigned 09/08/2017)	2018	-	-	-	-	-	-	-	-	-
	2017	165,000	45,333	5,458	164,601	-	9,401	389,793	98%	2%
Sub-total former directors' remuneration	2018	-	-	-	-	-	-	-	-	-
	2017	195,000	45,333	6,553	221,601	-	9,401	477,888		
Chief Executive Officer										
Robert Gard (Appointed 01/04/2018)	2018	50,943	-	-	-	-	-	50,943	100%	-
	2017	-	-	-	-	-	-	-	-	-
Sub-total Chief Executive Officer Remuneration	2018	50,943	-	-	-	-	-	50,943		
	2017	-	-	-	-	-	-	-		
Total key management remuneration	2018	613,259	-	-	13,278	-	-	626,537		
	2017	448,356	45,333	20,130	240,765	-	71,335	825,919		

(1) – Xingjin Wang appointed 10 August 2017. $36,633 was paid before being appointed as Director.

(2) – Gavin Harper retired 2 December 2016

(3) – Iain Smith resigned 10 August 2017

*$49,734 of these termination payments to Mr Iain Smith were paid after 30 September 2017

Directors' Report

30 September 2018

16. Remuneration Report – Audited (continued)

(g) Other KMP disclosures (continued)

KMP option holdings

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

	Held at 1 October 2017	Options cancelled	Options expired	Held at 30 September 2018	Vested during the year	Vested and Exercisable at 30 September 2018
Executive directors						
Benson Wong	400,000	-	-	400,000	-	400,000
Xingjin Wang	400,000	-	-	400,000	-	400,000
Non-executive directors						
Wilson Xue	400,000	-	-	400,000	-	400,000

KMP shareholdings

	Held at 1 October 2017	Held on Appointment or (resignation)	Acquired / Purchases	Held at 30 September 2018
Executive directors				
Benson Wong	4,061,392	-	-	4,061,392
Xingjin Wang	740,520	-	-	740,520
Non-executive directors				
Michael Lonergan (appointed 08/12/2017)	-	-	-	-
Wilson Xue	7,407,600	-	-	7,407,600
Walker Li (appointed 20/09/2018)	-	-	-	-
Chief Executive Officer				
Robert Gard (appointed 01/04/2018)	-	-	-	-

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

Directors' Report

30 September 2018

17. Lead Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* can be found on page 21 of the financial report. .

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

18. Corporate Governance Statement

The company's corporate governance practices and policies have been made publicly available on the company's website at http://www.pilotenergy.com.au/corporate-governance

BENSON WONG
Executive Director

Dated at Sydney, New South Wales this 18th day of December 2018.

MNSA

PILOT ENERGY LIMITED ABN 86 115 229 984
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PILOT ENERGY LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 September 2018 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
ii. any applicable code of professional conduct in relation to the audit.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney

Dated this 18th day of December 2018

MNSA Pty Ltd
ABN 59 133 605 400

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Sydney NSW 2000
GPO Box 2943 Sydney 2001

Tel (02) 9299 0901
Fax (02) 9299 8104
Email admin@mnsa.com.au

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 September 2018

	Note	2018 $	2017 $
Revenue from continuing operations	5	**400,642**	5,963
R & D tax refund	4	**74,603**	805,455
Administrative expenses		**(199,191)**	(256,554)
Personnel expenses		**(671,436)**	(813,761)
Professional fees		**(270,796)**	(543,926)
Exploration expenses		**(495,816)**	(535,550)
Finance expenses	6	**-**	(1,533)
Other expenses		**(784)**	(28,102)
Loss before income tax		**(1,162,778)**	(1,368,008)
Income tax expense	7	**-**	-
Loss from continuing operations		**(1,162,778)**	(1,368,008)
Loss from discontinued operations		**-**	-
Loss for the year		**(1,162,778)**	(1,368,008)
Other comprehensive income			
Foreign currency translation difference of foreign operations		**-**	-
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive loss for the year		**(1,162,778)**	(1,368,008)
(Loss) / earnings per share (cents per share)			
From continuing operations			
Basic and diluted	17	**(1.83)**	(2.29)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 September 2018

	Note	2018 $	2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	**601,549**	635,623
Trade and other receivables	10	**20,740**	51,641
TOTAL CURRENT ASSETS		**622,289**	687,264
NON-CURRENT ASSETS			
Trade and other receivables	10	**85,758**	97,258
TOTAL NON-CURRENT ASSETS		**85,758**	97,258
TOTAL ASSETS		**708,047**	784,522
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	**129,371**	57,093
Employee benefits	12	**10,734**	21,673
Other liabilities	13	**704,964**	-
Unearned revenue	14	**320,000**	-
TOTAL CURRENT LIABILITIES		**1,165,069**	78,766
NON-CURRENT LIABILITIES			
TOTAL LIABILITIES		**1,165,069**	78,766
NET ASSETS/(DEFICIENCY)		**(457,022)**	705,756
EQUITY			
Issued capital	15	**43,672,930**	43,672,930
Reserves	16	**215,725**	(604,953)
Accumulated losses		**(44,345,677)**	(42,362,221)
TOTAL EQUITY		**(457,022)**	705,756

Consolidated Statement of Changes in Equity

For the Year Ended 30 September 2018

2018	Ordinary Shares $	Accumulated Losses $	Foreign Currency Translation Reserve $	Share-based Payments Reserve $	Total $
Balance at 1 October 2017	**43,672,930**	**(42,362,221)**	**(820,678)**	**215,725**	**705,756**
Profit attributable to members of the parent entity	**-**	**(1,162,778)**	**-**	**-**	**(1,162,778)**
Transactions with owners in their capacity as owners					
Transfer to accumulated losses	-	(820,678)	820,678	**-**	**-**
Balance at 30 September 2018	**43,672,930**	**(44,345,677)**	**-**	**215,725**	**(457,022)**

2017	Ordinary Shares $	Accumulated Losses $	Foreign Currency Translation Reserve $	Share-based Payments Reserve $	Total $
Balance at 1 October 2016	42,952,930	(41,470,280)	(820,678)	592,256	1,254,228
Profit attributable to members of the parent entity	-	(1,368,008)	-	-	(1,368,008)
Transactions with owners in their capacity as owners					
Shares issued during the year	720,000	-	-	-	720,000
Transfers to accumulated losses on lapse of options	-	476,067	-	(476,067)	-
Share based payment transactions	-	-	-	99,536	99,536
Balance at 30 September 2017	43,672,930	(42,362,221)	(820,678)	215,725	705,756

Consolidated Statement of Cash Flows

For the Year Ended 30 September 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**720,000**	-
Payments to suppliers and employees		**(841,668)**	(1,653,947)
Payments for exploration, evaluation and development		**(469,678)**	(535,550)
Interest received		**642**	5,963
Interest paid		**-**	(992)
R&D Tax Incentive		**74,603**	805,455
Net cash provided by/(used in) operating activities	26	**(516,101)**	(1,379,071)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for security deposits		**-**	(30,592)
Net cash provided by/(used in) investing activities		**-**	(30,592)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares and options		**476,824**	720,000
Repayment of borrowings		**-**	(8,130)
Net cash provided by/(used in) financing activities		**476,824**	711,870
Net increase/(decrease) in cash and cash equivalents held		**(39,277)**	(697,793)
Effect of exchange rate fluctuations on cash held		**5,203**	(1,780)
Cash and cash equivalents at beginning of year		**635,623**	1,335,196
Cash and cash equivalents at end of financial year	9	**601,549**	635,623

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 September 2018

The financial report covers Pilot Energy Limited and its controlled entities ('the Group'). Pilot Energy Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepares their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 18 December 2018.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001.*

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of Significant Accounting Policies

(a) Basis for consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent 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 relevant activities of the entity.

Associates

Interests in associates, where the investor has significant influence over the investee, are accounted for using the equity method in accordance with AASB 128 *Investments in Associates and Joint Ventures*. Under this method, the investment is initially recognised as cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

2 Summary of Significant Accounting Policies (continued)

(b) Exploration & evaluation expenditure

Exploration and evaluation expenditure comprises costs that are directly attributable to:

- researching and analysing existing exploration data
- conducting geological studies, exploratory drilling and sampling
- examining and testing extraction and treatment methods; and/or
- compiling pre-feasibility and feasibility studies.

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure relates to a detailed assessment of deposits or other projects that have been identified as having economic potential. It is the policy of the Group to expense all exploration and evaluation expenditure as it is incurred.

This treatment is compliant with AASB 6 *Exploration for Evaluation of Minerals Resources*, which permits a choice of accounting policy.

(c) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(d) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(e) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

2 Summary of Significant Accounting Policies (continued)

(e) Employee Benefits (continued)

Defined contribution schemes

Obligations for contributions to defined contribution superannuation plans are recognised as an employee benefit expense in profit or loss in the periods in which services are provided by employees.

(f) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(g) Foreign currency transactions and balances

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

2 Summary of Significant Accounting Policies (continued)

(h) New Accounting Standards and Interpretations

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9: *Financial Instruments and associated Amending Standards* (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The Group expects to adopt the new requirements from its mandatory reporting date, the financial year beginning 1 October 2018. Management has finalised their assessment of the impact of ASSB9 and the impact is predicted to be immaterial.

– AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards* .

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The Group expects to adopt the new requirements from its mandatory reporting date, the financial year beginning 1 October 2018. Management has finalised their assessment of the impact of ASSB15 and the impact is predicted to be immaterial.

2 Summary of Significant Accounting Policies (continued)

(h) New Accounting Standards and Interpretations (continued)

– AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases and related Interpretations*. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116*: Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The directors anticipate that the adoption of AASB 16 will not have an impact the Group's financial statements.

3 Critical Accounting Estimates and Judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included below.

Going Concern

The directors have prepared the financial report on a going concern basis, which contemplates the realisation of assets and payment of liabilities in the normal course of business. The group has no debt obligations. The Group has a working capital deficit of $542,780 and net cash outflows for the 30 September 2018 financial year of $ 39,277 (2017: outflow $697,793). The Group incurred a loss for the year of $1,162,778 and has net operating cash outflows for the year of $516,101.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group’s ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors are aware that the Group's ability to continue as a going concern, and to fund its exploration and evaluation activities is dependent on the Group securing further working capital sourced from one or more of the following alternatives:

Capital market raising such as:

- Private placement
- Entitlements issue
- Share purchase plan

Borrowings from related or third parties.

Farming out assets to recoup past costs and reduce expenditure obligations.

The Directors have reviewed the Groups' financial position and forecast cash flows and reasonably expect that the Group will be able to raise additional funds to meet future costs. The directors are therefore of the opinion that the use of going concern basis is appropriate in the circumstances.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

Share-based payments

The fair value of share options is measured using the binomial options pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk-free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

4 Research and Development Expenditure

The Group undertakes expenditure or activities that are categorised as 'eligible expenditure' under the Research & Development Tax Concession which dependent upon certain criteria may be subject to a tax offset. Under AASB 120, where a tax offset has been received or receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset shall be deducted from the carrying amount of the asset;
- Where a grant is received or receivable in relation to research and development costs which have been charged to the profit and loss account during this or the prior financial year, the tax offset shall be credited to the profit and loss account.

	2018 $	2017 $
R&D Tax Incentive		
2018 Grant	**74,603**	-
2016 Grant	-	96,609
2017 Grant	-	708,846
Total R&D Incentive	**74,603**	**805,455**

Notes to the Financial Statements

For the Year Ended 30 September 2018

5 Revenue and Other Income

Accounting Policy

Other income is recognised when the amount can be reliably measured and the right to receive the income is passed to the Group.

Revenue from continuing operations

	2018	2017
	$	$
Administrative services*	400,000	-
Interest received	642	5,963
Total Revenue	$400,642	5,963

*During the year, the Group entered into a service agreement resulting in the upfront payment of $720,000. The balance of $320,000 as detailed in note 14 to the financial statements is to be earned during the 2019 financial year.

6 Net Finance Costs

Accounting Policy

Net finance costs comprise income on funds invested and interest expense on borrowings. Interest income and interest expense on short term borrowings is recognised as it accrues in profit or loss, using the effective interest method.

The result for the year was derived after charging / (crediting) the following items:

	2018	2017
	$	$
Finance Costs		
Financial liabilities measured at amortised cost:		
- Interest paid	-	1,533
Total finance costs	-	1,533

7 Income Tax Expense

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(a) Amounts recognised in profit or loss:

	2018 $	2017 $
Current tax benefit		
Current period	-	-
Deferred tax benefit		
Origination and reversal of temporary differences	-	-
Total income tax benefit	-	-

(b) Reconciliation of effective tax rate:

	2018 $	2017 $
Loss for the period	(1,162,778)	(1,368,008)
Applicable Group domestic income tax rate	27.50%	27.50%
Loss excluding income tax	(1,162,778)	(1,368,008)
Add:		
Tax effect of:		
- Income tax using the Group's domestic tax rate of 27.5% (2017: 27.5%)	(319,764)	(376,202)
- non-deductible expenses	(8,478)	577
- Tax losses carried forward and other timing differences not brought to account	328,242	375,625
Income tax expense	-	-

7 Income Tax Expense (continued)

(b) Reconciliation of effective tax rate (continued)

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits up to $8,278,941 (2017: $8,523,988) attributed to tax losses have not been brought to account.

The benefit of these tax losses will only be obtained if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
ii) the conditions for the deductibility imposed by tax legalisation continue to be complied with;
iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
iv) satisfaction of either the continuity of ownership or the same business.

(c) Unrecognised deferred tax assets and liabilities:

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2018 $	2017 $
Deferred tax liabilities (DTLs)		
Prepaid expenditure	-	-
Set-off against DTAs	-	-
	-	-
Deferred tax assets (DTAs)		
Share issue costs	**28,508**	52,791
Exploration expenditure	**74,395**	85,837
Carry forward tax losses	**8,174,172**	8,373,507
Other	**1,866**	11,853
DTAs not brought to account	**8,278,941**	8,523,988

There were no unregistered deferred tax liabilities.

The Group does not recognise deferred tax.

Notes to the Financial Statements

For the Year Ended 30 September 2018

8 Operating Segments

Information about reportable segments

The Group has identified its operating segments 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.

The Group currently operates in one operating segment being oil and gas exploration and evaluation.

Reportable segments disclosed are based on aggregating tenements where the evaluation and exploration interests are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same petroleum resource or type of petroleum resource; and
- exploration programs targeting the tenements as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the tenements.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating tenements, are determined in accordance with *AASB 8 Operating Segments.*

Information provided to the Board of Directors is consistent with information presented in the Consolidated Profit & Loss and Consolidated Statement of Financial Position on pages 22 and 23 respectively.

9 Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

	2018	2017
	$	$
Cash at bank and in hand	**601,549**	635,623
	601,549	635,623

10 Trade and Other Receivables

Accounting Policy

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the consolidated statement of profit or loss.

	2018	**2017**
	$	**$**
Current		
GST	**20,740**	**51,641**
Total current trade and other receivables	**20,740**	**51,641**

Notes to the Financial Statements

For the Year Ended 30 September 2018

10 Trade and Other Receivables (continued)

Non-Current		
Deposits	**85,758**	**97,258**
Total non-current trade and other receivables	**85,758**	**97,258**

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.
The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

11 Trade and Other Payables

Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	2018	2017
	$	$
Current		
Trade payables	**129,371**	28,218
GST payable	**-**	2,278
PAYG withholding	**-**	5,097
Accrued expense	**-**	21,500
	129,371	57,093

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

12 Employee Benefits

	2018	2017
	$	$
Current liabilities		
Provision for employee benefits	**10,734**	**21,673**
	10,734	**21,673**

13 Other Liabilities

	2018	2017
	$	$
Other liabilities		
Accrued withheld invoices	**228,140**	**-**
Deposit for unissued shares	**476,824**	**-**
	704,964	**-**

Notes to the Financial Statements

For the Year Ended 30 September 2018

14 Unearned Revenue

Accounting Policy

Unearned revenue is the liability for services to be rendered. The amount deferred is that which will cover the expected future servicing costs. Deferred income is recognised in profit or loss evenly over the period of the service agreement.

	2018	2017
	$	$
Unearned revenue		
Southernpec (Australia) Pty Ltd – Back Office Support	240,000	
Southernpec (Australia) Pty Ltd – Duly Authorised Agent	80,000	-
	320,000	-

15 Issued Capital

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

	2018	2017
	$	$
Ordinary shares	43,672,930	42,952,930
Placement of fully paid ordinary shares at 0.3 cents each	-	720,000
Total	43,672,930	43,672,930

(a) Ordinary shares

	2018	2017
	No.	No.
At the beginning of the reporting period	63,576,514	2,938,816,834
Shares issued during the year		
Share Consolidation (50:1)	-	(2,880,040,320)
Placement of fully paid ordinary shares at 0.3 cents each	-	4,800,000
At the end of the reporting period	63,576,514	63,576,514

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

Notes to the Financial Statements

For the Year Ended 30 September 2018

15 Issued Capital (continued)

(b) Capital Management

The key objectives of the Company when managing capital is to safeguard its ability to continue as a going concern and maintain optimal benefits to stakeholders. The Company defines capital as its equity and net debt.

There has been no change to capital risk management policies during the year.

The Company manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk. These include maintaining a diversified debt portfolio, the ability to adjust the size and timing of dividends paid to shareholders and the issue of new shares.

The Board monitors a range of financial metrics including return on capital employed and gearing ratios. A key objective of the Company's capital risk management is to maintain compliance with the covenants attached to the Company's debts. Throughout the year, the Company has complied with these covenants.

16 Reserves

(a) Reserves

	2018 $	2017 $
Translation Reserve	-	(820,678)
Share-based Payments Reserve	215,725	215,725
Total	**215,725**	**(604,953)**

(b) Share-based Payments Reserve

Equity-settled share option programme

The Company adopted an Employee Share Options Scheme (ESOS) effective 23 February 2010. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

The options and rights vest on a time scale as specified in the ESOS and is granted for no consideration. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and are settled in cash.

Options may not be transferred other than to an associate of the holder.

16 Reserves (continued)

(b) Share-based Payments Reserve (continued)

Accounting Policy

The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated statement of comprehensive profit or loss can be broken down as follows:

	2018 $	2017 $
(a) Expensed in personnel expenses (director remuneration)		
Options issued to directors	-	80,735
(b) Expensed in professional fees		
Options issued to advisors	-	18,801
Total	-	99,536

No new options have been issued during the year.

Notes to the Financial Statements

For the Year Ended 30 September 2018

16 Reserves (continued)

(b) Share-based Payments Reserve (continued)

Options (continued)

At 30 September 2018, a summary of the Company options issued and not exercised are as follows:

Grant Date	Vesting Date	Expiry Date	Exercise price (cents)	Balance at the start of the year	Granted during the year	Forfeited or exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year
06 August 2015	7 August 2015	30 June 2019	0.10	500,000	-	-	500,000	500,000
17 November 2015	18 November 2015	30 June 2019	0.10	400,000	-	-	400,000	400,000
23 June 2016	23 June 2017	31 December 2019	0.20	1,200,000	-	-	1,200,000	1,200,000
23 June 2016	23 June 2018	31 December 2019	0.20	1,400,000	-	-	1,400,000	1,400,000
				3,500,000	-	**-**	**3,500,000**	**3,500,000**

During the year ended 30 September 2018, no options expired, and no options were modified (2017: 32,500,000 options expired, no options modified).

Notes to the Financial Statements

For the Year Ended 30 September 2018

16 Reserves (continued)

(b) Share-based Payments Reserve (continued)

Options (continued)

At 30 September 2017, a summary of the Company options issued and not exercised are as follows:

Grant Date	Vesting Date	Expiry Date	Exercise price (cents)	Balance at the start of the year	Granted during the year	Forfeited or exercised during the year	Consolidation (50:1)	Balance at the end of the year	Vested and exercisable at the end of the year
26 September 2013	6 December 2013	31 October 2016	12.00	12,500,000	-	(12,500,000)	-	-	-
08 October 2014	17 October 2014	30 September 2017	3.00	10,000,000	-	(10,000,000)	-	-	-
06 August 2015	7 August 2015	30 June 2019	0.10	25,000,000	-	-	(24,500,000)	500,000	500,000
17 November 2015	18 November 2015	30 June 2019	0.10	20,000,000	-	-	(19,600,000)	400,000	400,000
23 June 2016	23 June 2017	31 December 2019	0.20	70,000,000	-	(10,000,000)	(58,800,000)	1,200,000	1,200,000
23 June 2016	23 June 2018	31 December 2019	0.20	70,000,000	-	-	(68,600,000)	1,400,000	-
				207,500,000	-	**(32,500,000)**	**(171,500,000)**	**3,500,000**	**2,100,000**

16 Reserves (continued)

(b) Share-based Payments Reserve (continued)

Performance Rights

2018

No performance rights were on issue as at 30 September 2018.

2017

At 30 September 2017, a summary of the Group's performance rights issued and not exercised are as follows:

2017 Grant Date	End of performance period	Vesting year	Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
01 July 2014	30 June 2018	2015	10,000,000	-	-	(10,000,000)	-	-
01 July 2014	30 June 2018	2016	10,000,000	-	-	(10,000,000)	-	-
01 July 2014	30 June 2018	2017	10,000,000	-	-	(10,000,000)	-	-
			30,000,000	-	-	(30,000,000)	-	-

The above grants will vest subject to the satisfaction of the following vesting hurdles:

Subject to remaining in tenure as a director of the Company:
- 5,000,000 to vest on 30 June 2015;
- 5,000,000 to vest on 30 June 2016; and
- 5,000,000 to vest on 30 June 2017 (Tenure Vested Performance Rights).

Tranche 1, 5,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 3.5 cents for five consecutive days prior to Expiry Date.

Tranche 2, 10,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 5 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 2.

Tranche 3, 15,000,000 Tenure Vested Performance Rights to convert to fully paid shares if the Company's share price remains above 8 cents for five consecutive days prior to Expiry Date – less any performance rights that may have converted under Hurdle 3.

The rights vested 100% on 30 September 2015. Each PR represents a right to be issued one ordinary share at the end of the performance period. No exercise price will be payable and the applicable performance hurdles must be met in order to be eligible to receive the shares.

Notes to the Financial Statements

For the Year Ended 30 September 2018

17 Loss per Share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

As the Group is in a loss position, there is no diluted EPS calculated.

(a) Reconciliation of earnings to profit or loss from continuing operations

	2018 $	2017 $
Loss from continuing operations	**(1,162,778)**	(1,368,008)
(b) Earnings used to calculate overall earnings per share		
Loss used to calculate overall loss per share	**(1,162,778)**	(1,368,008)

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2018 No.	2017 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**63,576,514**	59,765,348

18 Capital and Other Commitments

(a) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the requirements specified by the State Government. These obligations are subject to negotiation when application for a petroleum exploration lease is made and at other times. These commitments are not provided for in the financial report and are payable as follows:

	2018 $	2017 $
Not later than one year	330,000	2,010,000
Between one and five years	7,210,000	1,200,000
	7,540,000	3,210,000

(b) Contracted Commitments

	2018 $	2017 $
Office rent		
Not later than one year	-	76,601
Between one and five years	-	86,325
	-	162,926

19 Financial Risk Management

Accounting Policy

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 139 *Financial Instruments:*

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities
The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The most significant financial risks to which the Group is exposed to are described below:

Specific risks
- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

The principal categories of financial instrument used by the Group are:
- Trade receivables
- Cash at bank
- Trade and other payables

Objectives, policies and processes

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Mitigation strategies for specific risks faced are described on the following pages:

Notes to the Financial Statements

For the Year Ended 30 September 2018

19 Financial Risk Management (continued)

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

The Group's liabilities have contractual maturities which are summarised below excluding the impact of netting arrangements:

	Carrying amount		Contractual cash flows		12 months or less	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**	**$**	**$**
Non-derivative financial liabilities						
Trade and other payables	**129,371**	57,093	**129,371**	57,093	**129,371**	57,093
Unearned revenue	**320,000**	-	**320,000**	-	**320,000**	-
Other liabilities	**704,964**	-	**704,964**	-	**704,964**	-
Salary and superannuation accrual	**10,734**	21,673	**10,734**	21,673	**10,734**	21,673
Total	**1,165,069**	78,766	**1,165,069**	78,766	**1,165,069**	78,766

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

Notes to the Financial Statements

For the Year Ended 30 September 2018

19 Financial Risk Management (continued)

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties .

On a geographical basis, the Group has significant credit risk exposures in Australia given the substantial operations in those regions.

The balances of receivables that remain within initial trade terms are considered to be of high credit quality.

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

There are no balances within trade receivables that contain assets that are not impaired and are past due. It is expected that these balances will be received when due.

19 Financial Risk Management (continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US Dollars.

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored, and a USD bank account is maintained.

Generally, the Group‘s risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

In order to monitor the effectiveness of this policy, the Board receives a monthly report showing the settlement date of transactions denominated in non-Australian Dollar currencies and expected cash reserves in that currency.

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

2018	**USD** **$**
Nominal amounts	
Financial assets	**56,094**
2017	
Nominal amounts	
Financial assets	86,636

19 Financial Risk Management (continued)

Market Risk (continued)

Foreign exchange risk (continued)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the US Dollar – Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

It assumes a +/- 10% change of the Australian Dollar / US Dollar exchange rate for the year ended 30 September 2018 (30 September 2017: 10%). This percentage has been determined based on the average market volatility in exchange rates in the previous 12 months. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

The year-end rate is 1 USD: 1.3845 AUD.

If the Australian Dollar had strengthened and weakened against the USD by 10% (30 September 2017: 10%) then this would have had the following impact:

	2018		**2017**	
	+10%	**-10%**	**+10%**	**-10%**
USD				
Net results	**(5,609)**	**13,802**	(14,053)	26,050

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Notes to the Financial Statements

For the Year Ended 30 September 2018

20 Fair Value Measurement

A number of The Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

21 Key Management Personnel Remuneration

Accounting Policy

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Share-based payments

The policy relating to share-based payments is set out in note 16(b).

Key management personnel remuneration included within employee expenses for the year is shown below:

	2018	2017
	$	$
Short-term employee benefits	613,259	513,819
Post-employment benefits	13,278	240,765
Share-based payments	-	80,735
	626,537	835,319

Notes to the Financial Statements

For the Year Ended 30 September 2018

22 Auditor's Remuneration

	2018 $	2017 $
MNSA		
Audit and other assurance services		
Audit and review of financial reports	26,000	-
Total remuneration for audit and other assurance services	26,000	-
Total remuneration of MNSA	**26,000**	**-**
BDO Australia		
Audit and other assurance services		
Audit and review of financial reports	-	31,492
Total remuneration for audit and other assurance services	-	31,492
Taxation services		
Tax compliance services	-	16,085
Total remuneration for taxation services	-	16,085
Other		
Independent Experts Report	-	17,850
Total remuneration of BDO Australia	**-**	**65,427**

23 Subsidiaries

The subsidiary's listed below are parties to a deed of cross guarantee under which each company guarantees the debts of the others. Under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 there is no requirement for these subsidiaries to prepare or lodge a financial report and directors' report.

The subsidiaries subject to the deed are:

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2018 %	2017 %
Rampart Energy (USA) Pty Ltd	Dormant	Australia	30 September	100	100
Rampart Alaska LLC	Dormant	USA	31 December	100	100
Spring River Resources	Dormant	USA	31 December	100	100

These companies represent a closed group for the purposes of the class order.

24 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 September 2018 (30 September 2017: None).

Notes to the Financial Statements

For the Year Ended 30 September 2018

25 Related Parties

(a) The Group's main related parties are as follows:

Key management personnel can be found in Note 21.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

- Orient Energy Pty Ltd paid Pilot Energy Limited $91,834 (2017:$124,754) during the financial year under a sublease agreement for office premises. Dr Xingjin Wang and Mr Benson Wong are directors of this company.
- Southernpec (Australia) Pty Ltd paid Pilot Energy Limited $240,000 to conduct all operations for the Waldegrave Joint Venture as a duly authorised agent. Dr Xingjin Wang and Mr Benson Wong are directors of this company.
- Southernpec (Australia) Pty Ltd paid Pilot Energy Limited $480,000 for providing office administration and office support. Dr Xingjin Wang and Mr Benson Wong are directors of this company.

26 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net loss to net cash provided by operating activities:

	2018	2017
	$	$
Loss for the year	(1,162,778)	(1,368,008)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation	-	721
- Net profit in foreign exchange translation	(5,203)	-
- share options expensed	-	99,536
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	42,401	(35,539)
- (increase)/decrease in other assets	-	41,678
- increase/(decrease) in trade and other payables	300,418	(119,671)
- increase/(decrease) in unearned revenue	320,000	-
- increase/(decrease) in employee benefits	(10,939)	2,212
Cash flows from operations	(516,101)	(1,379,071)

27 Events Occurring After the Reporting Date

As announced on the 2 October 2018, 15,894,128 shares were issued to Walkerindo Nusatama Mandiri, PT under a share placement.

Notes to the Financial Statements

For the Year Ended 30 September 2018

28 Parent Entity

The following information has been extracted from the books and records of the parent, Pilot Energy Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Pilot Energy Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

	2018 $	2017 $
Statement of Financial Position		
Assets		
Current assets	622,289	687,264
Non-current assets	85,758	97,258
Total Assets	708,047	784,522
Liabilities		
Current liabilities	1,165,069	78,766
Total Liabilities	1,165,069	78,766
Equity		
Issued capital	43,672,930	43,672,930
Reserves	215,725	(604,953)
Accumulated losses	(44,345,677)	(42,362,221)
Total Equity	(457,022)	705,756
Statement of Profit or Loss and Other Comprehensive Income		
Total loss for the year	(1,162,778)	(1,368,008)
Total comprehensive loss	(1,162,778)	(1,368,008)

Guarantees

The parent entity has entered into a Deed of Cross-Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross-Guarantee and the entity subject to the deed are disclosed in note 23.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 September 2018 or (2017: Nil).

Contractual commitments

The parent entity did not have any commitments as at 30 September 2018 or (2017: Nil).

Pilot Energy Limited

A.B.N 86 115 229 984

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes for the year ended 30 September 2018 are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards, which, as stated in basis of preparation Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position and performance of the consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A that:

    a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

    b. the financial statements and notes for the financial year comply with the Accounting Standards; and

    c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

BENSON WONG
Managing Director

Dated at Sydney, New South Wales this 18th day of December 2018.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PILOT ENERGY LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of Pilot Energy Limited (the Company), which comprises the consolidated statement of financial position as at 30 September 2018, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

(a) the 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 performance for the year ended on that date; and

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

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

Material Uncertainty Regarding to Going Concern

We draw attention to Note 3 in the financial report which describes the events and/ or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realize its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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 Responsibility section of our report. We are independent of the Group in accordance with *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.

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

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
Going Concern Following operating losses and cash flow deficits there is a heightened degree of judgment as to the group's ability to repay loans and liabilities throughout the going concern assessment period. Accordingly, we considered the appropriateness of the going concern assumption, the question as to whether there is a material uncertainty and the adequacy of management's disclosure to be a key risk.	We have challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside possibilities) by: • comparing the cash flow forecasts with the Board approved budget, and obtaining explanations for any significant differences; • assessing the historical accuracy of forecasts prepared by management; • testing the mechanical accuracy of the model used; • performing stress tests for a range of reasonably possible scenarios on management's cash flow for the going concern period; • challenging management's plans for mitigating any identified exposures, including their ability to obtain additional sources of financing or undertake additional asset disposals; and • considering whether the disclosures relating to going concern referred to in the basis of preparation section of the accounting policies are balanced, proportionate and clear. We have determined that there are material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

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Other Information

The directors of Pilot Energy Limited are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 September 2018, but does not include the financial report and the 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 (including the Australian Accounting Interpretations) 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 Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 September 2018.

In our opinion the remuneration report of Pilot Energy Limited for the year ended 30 September 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Pilot Energy Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney

Dated this 18th day of December 2018

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Additional Information for Listed Public Companies
30 September 2018

The shareholder information set out below was applicable as at 7 December 2018.

Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 – 1,000	169	23,444	0.03
1,001 – 5,000	83	277,912	0.35
5,001 – 10,000	141	1,094,978	1.38
10,001 – 100,000	248	7,748,616	9.75
100,001 and over	69	70,325,692	88.49
Total	**710**	**79,470,642**	**100**

There were 512 holders of less than marketable parcel of ordinary shares.

Substantial shareholders
The number of substantial shareholders and their associates are set out below:

Shareholders	Number of Shares
Walkerindo Nustama Mandiri	15,894,128
GS Energy Pty Ltd	14,814,940
Billion Power Capital Investment Pty Ltd	7,407,600
Giant Rainbow Investments Limited	5,464,750
Sunpex International Pty Ltd & Benson Wong	4,061,392

Voting rights

Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options and rights

No voting rights.

Options

Grant Date	Number	Number of holders	Expiry date	Exercise price
7 August 2015	500,000	7	30 June 2019	0.1
17 November 2015	400,000	1	30 June 2019	0.1
23 June 2016	2,600,000	7	31 December 2019	0.2

There are 3,500,000 options issued to 15 holders under the Pilot Energy long-term option plan to take up ordinary shares.

Additional Information for Listed Public Companies
30 September 2018

Twenty Largest Shareholders

	Ordinary Shares	
Shareholders	**Number Held**	**% of issued shares**
Walkerindo Nustama Mandiri	15,894,128	20.00
GS Energy Pty Ltd	14,814,940	18.64
Billion Power Capital Investment Limited	7,407,600	9.32
Giant Rainbow Investments Limited	5,465,740	6.88
Sunpex International Pty Ltd & Benson Wong	4,061,392	5.11
HSBC Custody Nominees	2,285,687	2.88
Mr Thomas Ensmann	1,980,000	2.49
Mr Brian Laurence Eibisch	1,506,503	1.90
Rosetti Super Holdings Pty Ltd <Rosetti Super Fund>	1,325,400	1.67
Mr Mark Andrew Tkocz	1,158,541	1.46
Sergent Holdings Pty Ltd <Sergent Family S/F>	1,000,321	1.26
BNP Paribas Nominees Pty Ltd	885,201	1.11
Petra Cotes Pty Ltd <Macondo A/C>	869,000	1.09
Mr Shadi Sayadi	694,557	0.87
Melinda Louise Patton Pty Ltd	656,640	0.83
Austar Nominees Pty Ltd <The Wang Family A/C>	518,920	0.65
Navigator Australia Ltd	435,839	0.55
Mr Peter Hadleigh Reid	400,000	0.50
Mr Tiong Sing Tang	400,000	0.50
Dr Dennis Jonathan Kar Que Lum	311,001	0.39

Permits Listing

Permit Location	Permit Numbers	Status	Percentage Interest %
South Perth Basin	EP 416	Granted	60
South Perth Basin	EP 480	Granted	60
North Perth Basin	EP 437	Granted	13.058
Offshore WA	WA 507-P	Granted	80
Offshore WA	WA 481-P	Granted	60