

88 ENERGY LIMITED

ABN 80 072 964 179

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018



| | |
|--|----|
| CORPORATE INFORMATION | 2 |
| CHAIRMAN'S REPORT | 3 |
| DIRECTORS' REPORT | 5 |
| AUDITOR'S INDEPENDENCE DECLARATION | 32 |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHNSIVE INCOME | 33 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 34 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 35 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 36 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 37 |
| DIRECTORS' DECLARATION | 69 |
| INDEPENDENT AUDITOR'S REPORT | 70 |
| CORPORATE GOVERNANCE STATEMENT | 74 |
| ADDITIONAL ASX INFORMATION | 75 |

DIRECTORS

Mr Michael Evans (Non-Executive Chairman)
Mr David Wall (Managing Director)
Dr Stephen Staley (Non-Executive Director)

AUDITOR

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COMPANY SECRETARY

Ms Sarah Smith

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COUNTRY OF INCORPORATION AND DOMICILE

Australia

ASX CODES

Shares 88E

LONDON STOCK EXCHANGE - AIM

Shares 88E

Dear Shareholders

It is a pleasure to present my Chairman's Report for the 2018 financial year.

As I write, Nordic Rig#3 is on location drilling the Winx-1 well. The well will test a conventional oil prospect, defined by 3D seismic, in the Nanushuk play fairway on the Alaskan north slope with a gross mean unrisks prospective resource of 400 million barrels. It is arguably one of the most significant wells to be drilled by an ASX listed entity in 2019 and offers substantial upside to 88E shareholders in the event of success.

As we approach the drilling of this well, it is worth reminding ourselves of why 88E chose to explore in Alaska. At the outset, 88E cast the net far and wide in search of a project that could make a meaningful difference; one which would capture investor attention with significant upside. The north slope of Alaska offers vast potential remaining to be discovered. 88E was early in recognising potential and now has the advantage of a strategic acreage position and operational capability, giving the company high leverage to success.

Our initiative to target Alaska has been validated by recent exploration successes and the entry of new entrants like Oil Search, one of Australia's leading oil companies, who screened over 150 projects before settling on Alaska. Access to existing infrastructure; a very supportive and stable State Government and significant exploration upside were all cited as supporting factors – these long being recognised by 88E.

Bill Armstrong, one of north America's most successful explorers has described the source rocks of Alaska as unbelievably rich and prolific, having generated and expulped about 1.5 trillion barrels of oil. Yet only a small fraction of that 1.5 trillion barrels has been found, leaving vast potential remaining to be discovered. Almost all the remaining fields in Alaska are stratigraphic traps rather than anticlines and require a subtler exploration approach, which 88E is pursuing as it targets reservoirs adjacent to those same source rocks.

During 2018, 88E continued to leverage its early mover advantage and is now Operator/Manager on 4 active Exploration Projects across 355,000 net acres. Unlike the lower 48 States, Alaskan leases have an attractive 7-10-year term with no mandatory relinquishment and a low 16.5% base royalty. Our prospective land holding is now of a size one would normally associate with the big end of town and provides scope to attract drilling partners.

Debt funding of Alaskan exploration rebates has enabled 88E to maintain leverage and reduce, to some extent, the large equity dilution normally associated with frontier exploration. The leverage from our enlarged acreage position is further enhanced due to the proximity of the all-weather Dalton Highway and the ability to connect into the trans-Alaska pipeline that can handle up to 2.1 million barrels per day and has considerable spare capacity.

The Alaskan program has been competently executed by our Managing Director, David Wall, with the assistance of a small dedicated team including senior geologist and Exploration Manager, Elizabeth Pattillo; petroleum engineer Hassan Fatahi; our Alaskan based Operations Manager, Erik Opstad and the full support of my fellow Directors. The confidence of the Board in their work and the support staff at 88E has been more than demonstrated in the exercise of options by Directors, which further aligns our risk with that of our shareholders.

88E has prudently raised additional capital in advance of the 2019 program. We all know the process of evaluation is not without risk; however, we look to the future with considerable optimism as we unlock both the conventional and unconventional potential of our Alaskan exploration acreage.

During the year our long-standing Director Brent Villemarette passed away. He was a champion and was instrumental in reviving the company. I would like to acknowledge his efforts and record that he will be missed by all at 88E.

Before closing I would like to thank the Department of Natural Resources, the Alaska Oil and Gas Conservation Commission; the North Slope Borough and other regulatory agencies that have facilitated our exploration effort in the State.

Our mission would not be possible without your support as shareholders in what has been a challenging yet exciting environment. Our dual listing on both ASX and AIM has garnered a wide investor base and we have been ably supported by our brokers and advisers Hartleys and Cenkos.

We look forward to a successful 2019 year.

Yours faithfully,



Michael Evans
Non-Executive Chairman

The Directors of 88 Energy Limited ("88E" or "the Company") present their report, together with the financial statements on the consolidated entity consisting of 88 Energy Limited and its controlled entities (the "Group") for the financial year ended 31 December 2018.

DIRECTORS AND KEY MANAGEMENT PERSONNEL

The names and details of the Company's directors and key management personnel in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Michael Evans | Non-Executive Chairman
(Appointed 9 April 2014)

Mr Michael Evans is a highly-experienced mining and resource industry executive based in Perth who has extensive executive and board level experience with publicly listed companies in the natural resources sector. Michael was until April 2012 the founding Executive Chairman of oil explorer and producer FAR Limited, a position he held from 1995. Under Mr Evan's stewardship, FAR established and built up an extensive international oil and gas portfolio spanning Africa, North America and Australia – with industry partners including Amoco, Shell, BHP, BP, Exxon, CNOOC and Woodside. He was responsible for acquiring FAR's entire West African portfolio including the Senegal acreage where significant oil discoveries were made in 2014 by Cairn Energy. Michael has a Bachelor of Business Degree from Curtin, is a Chartered Accountant, and holds the following additional qualifications: ACA, AGIA, ACIS.

Mr Evans was a non-executive director of TNG Limited between 31 May 2013 and 4 December 2015. Otherwise Mr Evans does not hold, and has not over the last 3 years held, a directorship in any other public listed company.

Mr David Wall | Managing Director
(Appointed 15 April 2014)

Mr Wall brings extensive experience with junior oil and gas companies, as a leading oil and gas equity analyst for over six years as well as his previous four and a half years as Managing Director of 88 Energy Ltd. His skillset spans asset evaluation across many fiscal regimes / play types as well as corporate advisory / M&A and equity capital markets, having led >\$300m in capital raisings. Prior to his career as an analyst, Mr Wall managed a small team at Woodside Petroleum Ltd that reported to the Executive Committee. This team was responsible for vetting reports from all departments within the business, prior to Board submission, including exploration, development, operations, commercial and M&A. The team was also responsible for generating the annual budget and providing significant input into the Five Year Plan and the Company Strategic Plan. By virtue of these experiences, Mr Wall brings strong commercial and strategic skills as well as generalist knowledge across all levels of the oil and gas industry. This is complemented by financial markets experience focussed on junior exploration companies. Mr Wall holds a Bachelor of Commerce from the University of Western Australia, majoring in Management and Finance.

Mr Wall does not hold, and has not over the last 3 years held, a directorship in any other public listed company.

Mr Brent Villemarette | Non-Executive Director
(Appointed 27 October 2010 – Ceased 29 October 2018)

Mr Brent Villemarette was a reservoir engineer with more than 35 years' experience in the oil and gas industry, both domestic and international. His experience spanned a wide range of disciplines including exploration, development, operations, marketing, acquisitions and new ventures. He had served as Chief Operations Officer for Transerv Energy, and was also previously the Operations Director for Latent Petroleum. He had held the roles of International Reservoir Engineering Manager for New Ventures with Apache Corporation based in Houston, Texas, Reservoir Engineering Manager for Apache Energy Limited based in Perth, and several senior engineering positions in the US with Apache Corporation and Oryx Energy (formerly Sun E&P).

Mr Villemarette had not over the last 3 years held, a directorship in any other public listed company.

Dr Stephen Staley | Non-Executive Director
(Appointed 9 April 2014)

Dr Staley has more than 35 years of wide-ranging management, technical and commercial experience in the international oil, gas and power sectors. He co-founded and brought to the AIM market both Fastnet Oil & Gas plc (where he was the founding CEO) and Independent Resources plc (where he was the founding Managing Director). He was also both a technical consultant to, and non-executive director of, Cove Energy plc – the highly successful East Africa focused explorer that went from having a market capitalisation of £2 million in mid-2009 to being sold to PTPP for £1.2 billion in less than three years. Dr Staley is owner and founder of Derwent Resources Limited, an upstream consultancy advising on oil and gas opportunities. Prior to this he has worked for Cinergy Corp., Conoco and BP. He holds a BSc(Hons.) in Geophysics from Edinburgh University, a PhD in Petroleum Geology from Sheffield University and an MBA from Warwick University. He is a Fellow of the Geological Society and a member of the EAGE, the PESGB and The Arctic Club.

Dr Staley is currently the CEO, and a director and co-founder, of Upland Resources Limited, a London-listed oil & gas company currently with assets onshore UK. Dr Staley is also a non-executive director of Predator Oil & Gas Holdings PLC which is a London-listed oil & gas company. Otherwise Dr Staley does not hold, and has not over the last 3 years held, a directorship in any other public listed company.

Ms Sarah Smith | Joint Company Secretary, sole Company Secretary from 4 March 2016
(Appointed 1 September 2014)

Sarah specialises in corporate advisory, company secretarial and financial management services. Sarah's experience includes company secretarial and financial management services for ASX listed companies, capital raisings and IPOs, due diligence reviews and ASX and ASIC compliance. Sarah is a Chartered Accountant, and has acted as the Company Secretary of a number of ASX listed companies.

INTEREST IN THE SHARES AND OPTIONS OF THE COMPANY

The following table sets out each current Director's relevant interest in shares, options and performance rights of the Company or a related body corporate as at the date of this report.

| Director | Ordinary Shares | Unlisted Options | Listed Options | Performance Rights |
|-------------------|-------------------|-------------------|----------------|--------------------|
| Mr Michael Evans | 21,190,478 | 5,000,000 | - | - |
| Mr David Wall | 39,404,762 | 20,000,000 | - | 21,900,000 |
| Mr Stephen Staley | 11,141,667 | 5,000,000 | - | - |
| Total | 71,736,907 | 30,000,000 | - | 21,900,000 |

PRINCIPAL ACTIVITIES

The principal activity during the year of the Company was oil and gas exploration and the continued review of opportunities available to the Company.

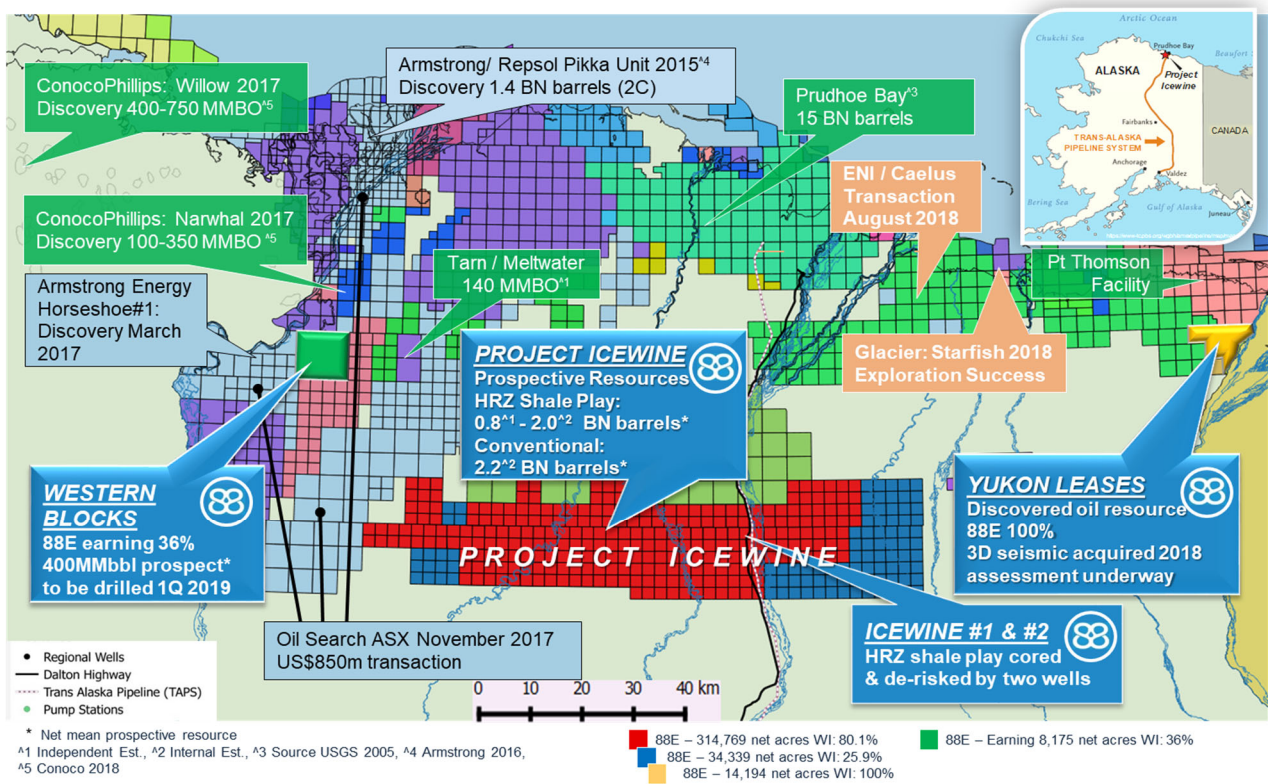
REVIEW AND RESULTS OF OPERATIONS

During the year, the Group continued its principal activities in Alaska, North America. An overview of the North Slope assets is provided below followed by a summary of significant activities.

88 ENERGY: ALASKAN NORTH SLOPE ACREAGE

The Company has been operating on the Central North Slope since 2015 having originally entered into a binding agreement in 2014 with Burgundy Xploration (BEX) to acquire a working interest in a large acreage position on a multiple objective, liquids rich exploration opportunity onshore Alaska, North America, referred to as Project Icewine. The Company has since substantially expanded its Project Icewine acreage to ~525,000 gross contiguous acres, (349,108 acres net to the Company). The Company diversified its North Slope portfolio by successfully bidding on the Yukon Leases in 2017 which includes an historic oil discovery, Yukon Gold-1, on the acreage (14,194 gross contiguous acres; 100% net to 88 Energy). In 2018, the Company diversified further by entering into an agreement with Great Bear on the Western Blocks, earning 8,175 net acres, by drilling an exploration well to test an extension of the successful Nanushuk Play Fairway.

88 Energy North Slope Acreage



Cautionary Statement: The estimated quantities of petroleum that may be potentially recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation are required to determine the existence of a significant quantity of potentially movable hydrocarbons.

OVERVIEW OF SIGNIFICANT ALASKAN NORTH SLOPE ASSETS

Project Icewine

The current gross acreage position of Project Icewine is ~525,000 contiguous acres (349,108 acres net to the Company). The Project has both conventional and unconventional oil potential. Both the Dalton Highway, providing year round operational access, and the TransAlaskan pipeline run through the acreage. The primary term for the State leases is 10 years with no mandatory relinquishment and a low 16.5% royalty.

Conventional Portfolio:

Significant conventional prospectivity has been identified on modern 2D and 3D seismic data. The Icewine 3D seismic was acquired in Q1 2018 by the Company and fast-track processed during the year. The conventional portfolio across the entire Project Icewine acreage was revised to 2.2 billion barrels of prospective oil resource (net mean unrisked). A farm-out process was initiated for the conventional portfolio Q3 and was ongoing at year end.

TABLE 1: PROJECT ICEWINE CONVENTIONALS PROSPECTIVE RESOURCES (UNRISKED) 88E OCTOBER 2018

| PROJECT ICEWINE CONVENTIONAL PORTFOLIO | | | | | | |
|--|---|-----|------|------|--------------|-----------------|
| Prospective Oil Resource MMBO (Unrisked) | | | | | | |
| Prospects and Leads | October 2018: Post 3D Inversion Results | | | | | |
| | Horizon / Play | Low | Best | High | Gross Mean | Net Mean to 88E |
| WESTERN PLAY FAIRWAY: | | | | | | |
| Victor Prospect (stacked) | Schrader / Topset | 196 | 313 | 477 | 328 | 254 |
| Indigo Discovery | Schrader / Topset | 225 | 358 | 543 | 374 | 290 |
| Charlie Prospect | Schrader / Topset | 126 | 201 | 304 | 210 | 163 |
| Bravo Prospect | Seabee / Fan | 57 | 138 | 292 | 160 | 124 |
| Mike Prospect | Seabee / Fan | 9 | 26 | 56 | 30 | 23 |
| Rose Prospect | Seabee / Fan | 7 | 21 | 44 | 24 | 19 |
| Lima Discovery/ Prospect (stacked) | Seabee / Apron Fan | 105 | 323 | 713 | 376 | 334 |
| Heavenly Discovery | Torok / Apron Fan | 23 | 62 | 120 | 68 | 58 |
| Whiskey Prospect (stacked) | Torok Apron | 62 | 112 | 192 | 118 | 101 |
| Stellar Prospect/Discovery (stacked) | Torok / Fan, Channel | 320 | 604 | 999 | 639 | 500 |
| Y Lead | Schrader / Topset | 24 | 41.2 | 67 | 44 | 34 |
| Z Lead | Schrader / Topset | 11 | 27 | 53 | 29 | 22 |
| WESTERN PLAY FAIRWAY TOTAL: | | | | | 2,400 | 1,922 |
| CENTRAL PLAY FAIRWAY: | | | | | | |
| Echo Lead | Canning / Fan | 60 | 138 | 293 | 162 | 121 |
| Golf Lead | Canning / Fan | 106 | 193 | 339 | 211 | 72 |
| CENTRAL PLAY FAIRWAY TOTAL: | | | | | 373 | 193 |
| EASTERN PLAY FAIRWAY: | | | | | | |
| Alpha Lead | Canning / Submrn Fan | 19 | 71 | 263 | 118 | 91 |
| Romeo Lead | Kuparuk / Kemik Sands | 2 | 3 | 5 | 4 | 3 |
| Sierra Lead | Kuparuk / Kemik Sands | 1 | 2 | 3 | 2 | 2 |
| EASTERN PLAY FAIRWAY TOTAL: | | | | | 124 | 96 |
| TOTAL PROSPECTIVE OIL RESOURCE MMBO (Mean Unrisked) | | | | | 2,896 | 2,211 |

Prospective Resources classified in accordance with SPE-PRMS as at 22nd October 2018 using probabilistic and deterministic methods on an unrisked basis. Prospects and Leads identified from interpretation of modern 3D seismic acquired in 2018, 2D seismic acquired in 2015/2016 and legacy 2D seismic of varying vintages post 1980 across Project Icewine, which comprises 525,000 gross acres (349,000 net acres) on the Central North Slope of Alaska. 88 Energy is Operator of record at Project Icewine (through its wholly owned subsidiary Accumulate Energy Alaska, Inc) with a ~80% working interest over the conventional play fairway where the leads have been mapped.

Cautionary Statement: The estimated quantities of petroleum that may be potentially recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation are required to determine the existence of a significant quantity of potentially movable hydrocarbons.

Unconventional Portfolio:

The HRZ liquids-rich resource play was successfully evaluated based on core obtained in the Icewine#1 exploration well (December 2015), marking the completion of Phase I of Project Icewine. Phase II comprised drilling in mid-2017 of the follow-up appraisal well, Icewine#2, which was subsequently fracture stimulated and flow tested. Production testing at Icewine#2 concluded on 30 June 2018 after retrieving 24.8% of the injected stimulation fluid vs a targeted return of at least 30%. Gas rates of up 100mcf/d were achieved during flowback; however, these are not considered representative due to limited reservoir connectivity. Further evaluation is being completed prior to launching a formal farm-out process in 2H 2019 to fund the future work program.

A Prospective Resources Report by DeGolyer and MacNaughton, was commissioned by 88 Energy to evaluate the unconventional oil resource potential of Project Icewine in February 2016. The report incorporated the results from the Icewine#1 pilot well and the additional acreage bid on in the November 2015 State of Alaska Licensing Round. The gross acreage position in 2016 of 272,422 acres was evaluated with 212,489 acres net to the Company. The results of the Independent assessment by DeGolyer & MacNaughton were released to the market on April 6, 2016. A table of the estimated recoverable liquids is summarised below.

TABLE 2: INDEPENDENT ASSESSMENT OF UNCONVENTIONAL PROSPECTIVE RESOURCES¹

| Project Icewine: HRZ Shale, North Slope Alaska | Independently Assessed Prospective Recoverable Resource: Source: DeGolyer & MacNaughton, March 31, 2016 | | | | |
|---|--|-------|-------|--------------|------|
| | MMbbl | | | | % |
| Phase | P90 | P50 | P10 | Mean | Pg # |
| Gross Wet Gas/ Condensate Window | 210.5 | 623.2 | 1,524 | 787.4 | 60 |
| Gross Volatile Oil Window | 45.2 | 149.6 | 401.4 | 197.9 | 60 |
| Total Liquids: | | | | | |
| Gross (Mean) | | | | 985.3 | |
| Net (Mean) to 88 Energy (W 77.5%) | | | | 763.1 | |

Estimated Probability of Geologic Success

Yukon Gold Acreage

The Yukon Gold leases are located on the eastern border of the Central North Slope of Alaska and were acquired in 2018. 88 Energy via its subsidiary has a 100% working interest in these leases, totalling 14,194 acres. The leases contain an historic discovery well, Yukon Gold #1, which is currently being evaluated internally. 3D seismic was acquired in early 2018 and has been fast tracked processed during the year. Provisional 3D seismic mapping delineated 90 MMBO of prospective oil resource to the Company (net mean unrisks).

Western Blocks

88 Energy is earning a 36% working interest in four leases (totalling 22,711 acres) immediately adjacent to the Horseshoe#1/1A oil discovery well drilled in 2017 which extended the proven Nanushuk Play fairway some 20 miles south of the Pikka Unit. 88 Energy, with its consortium partners Otto Energy Ltd and Red Emperor Resources NL, will fund 100% of the costs of the Winx-1 well, targeting stacked Brookian objectives with a gross mean unrisks prospective resource volume of 400MMBO (144MMBO net to 88E), to be drilled in 1Q 2019. The primary objective at Winx-1 is to test an extension of the proven Nanushuk play fairway east of the Horseshoe discovery.

¹ There is no certainty that any portion of the prospective resources estimated herein will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

2018 OPERATIONS SUMMARY

The Company had the following key operational highlights for 2018:

Project Icewine

- The Icewine 3D seismic survey, approximately 480 km² in area and covering conventional prospectivity identified on proprietary Icewine 2D seismic, was completed on the 28th March 2018 on schedule and budget. Fast track processing commenced Q2 to mature several large conventional prospects and leads previously identified on 2D seismic, with interpretation leading to a large upgrade in the conventional portfolio;
- The Icewine#2 HRZ shale flow testing re-commenced on 11 June 2018 to determine the productivity of the unconventional HRZ shale, utilising a velocity string and artificial lift. During the period June 12 to June 30 flowback comprised of gaseous hydrocarbons ranging from C1 to trace C6, predominantly 90% methane, averaging 26mcf/day since June 12, with 1,372 barrels of recovered fluid interpreted as 100% stimulation fluid;

On 30 June 2018 the Joint Venture decided to suspend the Icewine#2 well given the low assisted flowback rate, and that in total only 24.8% of the stimulation fluid injected has been lifted during the entire 2017/2018 flowback operation. The Joint Venture believes that the flowback data, combined with results to date from core and logs, demonstrates that the HRZ is comparable to other early-stage commercial unconventional plays;

- The Project Icewine Conventional Portfolio Farm-out campaign formally commenced with the data room opening in July 2018. The process was ongoing at year end with multiple parties active in the data-room;
- The Project Icewine 3D seismic inversion data was substantially complete at year end with discrete three dimensional geobodies delineated in the Schrader topset play and the Torok slope and basin floor fan play. The 3D seismic inversion calibrated by updated rock trending models highlighted better than anticipated reservoir potential within the Torok;
- In October 2018 the Company announced an updated conventional gross mean prospective oil resource at Project Icewine of 2,896 MMBO unrisks, (2,211 MMBO net to 88E);
- Project Icewine lease position expanded during the year with Western Margin Leases bid on by the Company in the December 2017 State of Alaska Licensing Round being formally awarded, as well as agreements executed for an additional 45,239 acres net to 88 Energy in the northern area of Project Icewine; and
- A further tax credit certificate of US\$5.66 million was granted by the Alaskan Department of Revenue in July 2018.

Yukon Gold Acreage

- Yukon Gold leases bid on by the Company in the December 2017 State of Alaska Licensing Round were formally awarded in June 2018;
- The Yukon 3D survey, approximately 100 km² in area, was completed on April 1 with deblending commencing in Q2 2018. As a result of the Yukon 3D seismic processing and interpretation the Cascade lead was upgraded to prospect – Brookian Turbidite Fan Play, with additional prospectivity mapped within Staines Tongue Topset Play; and
- In November 2018, the Yukon leases maiden resource was announced with the Company reporting a net mean prospective oil resource of 90 MMBO.

Western Blocks

- In July 2018 the Company executed an agreement, in conjunction with other parties, to acquire the majority of Great Bear Petroleum Ventures II LLC working interest in four leases comprising the “Western Blocks” located onshore North Slope Alaska and to drill a high impact oil prospect onshore Alaska Q1 2019;
- During the 3rd quarter the Company executed a rig contract for the drilling of the Winx prospect, with permitting and planning commencing also in the 3rd quarter. As at year-end, all major permits (excluding Permit to Drill) were granted for the drilling of the Winx-1 exploration well. The Permit to Drill was submitted prior to year-end with approval received January 2019; and
- Ice road and pad construction for the Winx-1 drilling location commenced December 2018.

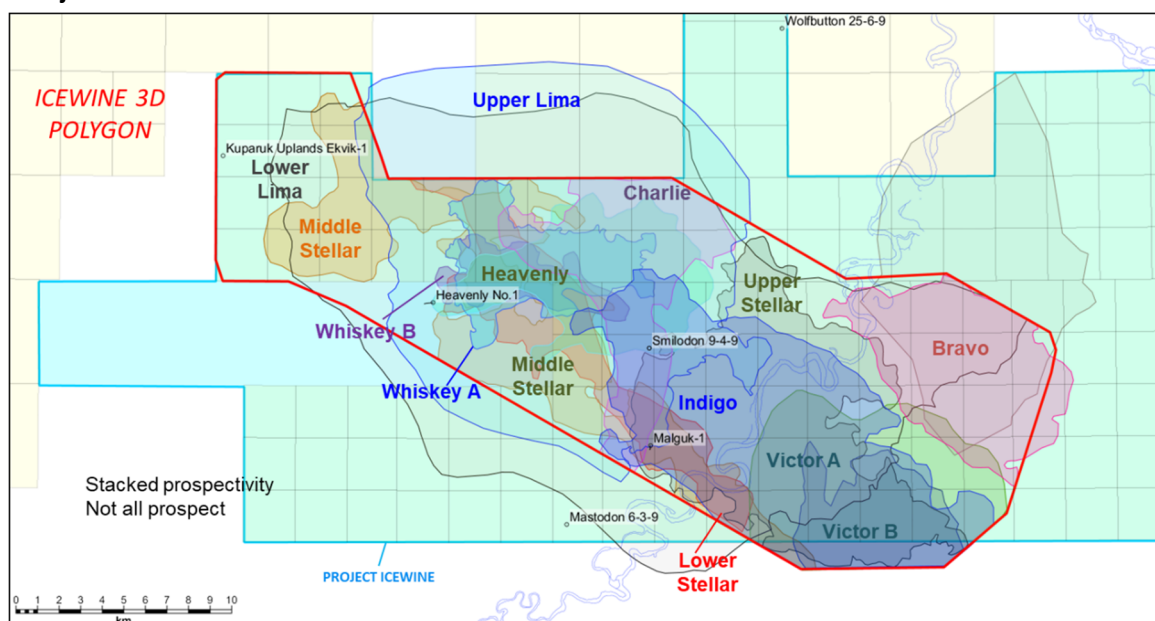
PROJECT ICEWINE 2018 OPERATIONS

Project Icewine Conventional Portfolio: Icewine 3D

Acquisition of the Icewine 3D seismic survey, approximately 480 km² in area and covering several large leads identified on 2D seismic was completed on the 28th March with processing of the 3D seismic data commencing in Q2 2018. Infield quality control, overseen by head office, has ensured that the data acquired is as clean as possible to enable fast track processing. Processing of shipments of data during early acquisition were initiated in Q2 2018 and early products, namely post stack migration, were available in mid-2018. This allowed confirmatory mapping and maturation of the stratigraphic / structural elements of the leads already identified in the conventional prospectivity portfolio.

In August a revision of the Project Icewine conventional portfolio was announced with multiple leads promoted to drillable prospects. 2 BBO gross mean prospective resource (unrisked) were reported across the entire Project Icewine acreage. The mean resource potential increased by 50% to 1.5 billion barrels net to 88E.

Project Icewine Conventional Portfolio as of October 2018 based on Icewine 3D Seismic Inversion Data



Conventional Resource Update – 2,896 MMBO (88E: 2,211 MMBO net mean prospective resource)

In the fourth quarter of 2018 the Company further updated the conventional prospective resource at Project Icewine based on the newly processed Icewine 3D inversion dataset. Mapping of the data delineated prospective geobodies and highlighted distinct features, such as feeder channels, associated with the prospects, providing further support to the geological depositional model. This 3D inversion dataset has allowed prediction of hydrocarbon saturation in the shallow Schrader Topset sequences as well as predicting where best reservoir quality is likely to be encountered in both the Schrader and deeper Torok sequences. Significantly, oil saturated sandstones in each of these sequences have been penetrated by historic wells (Malguk#1:1991 and Heavenly#1: 2002) on the Project Icewine acreage, and tie to several mapped geobodies and on this basis are considered discoveries.

Reservoir quality had been deemed a key risk factor for the conventionals, particularly in the deeper Seabee and Torok formations, due to depth of burial and compaction. However, based on the regional Brookian porosity / permeability trend and results from petrophysical analysis, good potential for productive reservoir has been identified in both the Schrader and Torok sequence at Project Icewine. For example, the Middle Stellar discovery in the Torok Formation at Icewine has average permeability ranging from 6-30md (based on 18.3% porosity) and up to 180md (based on 21.8% porosity).

These poroperm parameters compare favourably to successful discoveries in the Nanushuk topset play, such as at Tinmiaq#2 (2016) where the average permeability was 11mD with average porosity 17% (based on core data). Tinmiaq#2 was fraced with ~50,000 lbs of proppant in a vertical well and flowed at 3,220 barrels of oil per day.

Conventional Farm-out

The farmout campaign for the Project Icewine conventional portfolio formally commenced with the opening of the online data-room in July 2018. Physical datarooms were made available both in Perth, Western Australia and in Houston Texas. The key objective was to attract a farminee to fund and participate in the exploration and appraisal drilling of the significant prospectivity delineated on the Western Play Fairway and to further the exploration effort on the Central and Eastern Leases.

The level of interest and the quality of parties in the Project Icewine Conventional farm-out data-room was highly encouraging, with 88 Energy deciding in December 2018 to honour requests for an extension to the year-end deadline in order to maximise the number of bid ready parties, whilst also remaining within the logistical schedule necessary to drill multiple wells in the 2020 operating season.

Project Icewine Additional Acreage Secured

During the year, 88 Energy Ltd via its wholly owned subsidiary Accumulate Energy Alaska Inc. ("Accumulate"), expanded the Icewine acreage;

- In August 2018, Accumulate entered into an agreement with Arctic Slope Regional Corporation, ("ASRC"), to lease the hydrocarbon rights across 28,453 acres contiguous with the Western Fairway area of the Company's current Project Icewine acreage (leasehold 100% net to Accumulate). The ASRC lease terms are consistent with those awarded to the Company by the State of Alaska, post the December 2017 Licensing Round;
- In September 2018 Accumulate also entered into an agreement with Great Bear Petroleum to acquire a 69.1% working interest in 24,269 acres adjacent to, and north of, the Central Play Fairway at Project Icewine (16,786 acres net to Accumulate); and
- Leases bid on by the Company in the December 2017 State of Alaska Licensing Round were formally awarded in June 2018.

Project Icewine Unconventional Portfolio

Icewine#2 Flow Test

Flowback re-commenced on schedule on 11th June 2018 to clean-up stimulation fluids from the Icewine#2 borehole. As per the flowback design, nitrogen was introduced gradually to the wellbore from 13th June, prior to installation of the coiled tube velocity string, to artificially lift stimulation fluids and gain connectivity to the reservoir.

Flowback was interrupted, as per the program, on the 15th June to allow installation of the velocity string. Post installation, flowback was re-established and nitrogen introduced into the annulus between the 4.5" casing and the 1.75" velocity string. From the 18th June to the 22nd June, adjustments were made to the flowback system to determine the optimal settings for the nitrogen lift operation and, consequently, production rates. During this period, flowback rates fluctuated between an average rate of 50 barrels of water per day to 120 barrels of water per day.

The early results from the flowback were within the range of expectations; however, the rate of returned fluid decreased, despite optimised lift settings, and the timeline to achieve the targeted percentage of returned fluid increased significantly. After careful consideration, the Icewine Joint Venture decided to suspend the Icewine#2 well on 30 June 2018.

The Joint Venture believes that results from the well support the potential economic viability of the HRZ shale play and are within the range of outcomes achieved at other early stage unconventional plays, despite not achieving a flow rate that is representative of the capability of the reservoir. The suspension operation was designed to maximise flexibility for the future use of the wellbore, including the drilling of a horizontal side-track with a multi-stage stimulation.

Hydrocarbon gas content during the flowback period was predominantly methane (90%) with some heavier elements up to trace C6. Hydrocarbon rate achieved, with velocity string installed, ranged from 5 – 113 mcf/d of gas with an average of 26 mcf/d. Total clean up fluid returned, (net of diesel for freeze protection and any other fluids introduced as part of the current operation), since commencement of flowback on 12th June 2018 is 1,372 barrels interpreted as 100% stimulation fluid. Total fluid returned for the entire Icewine#2 flowback operation, including last year, is 6,905 barrels or 24.8% of the frac fluid injected vs a target percentage return of at least 30%.

HRZ Evaluation

The Joint Venture believes that the flowback data, combined with results to date from core and logs, demonstrates that the HRZ is comparable to other early-stage commercial unconventional plays and that, as per those plays, progressing to horizontal appraisal wells is now the best use of time and money. Future evaluation of the large potential already identified is planned to be accomplished via farm-out and this process has already commenced.

The Project Icewine Joint Venture engaged Baker Hughes, a GE Company, to undertake a comprehensive, ground-floor peer review of data and analysis, both internal and third-party, related to the HRZ shale. This analysis included the pre-drilling work completed by Burgundy Xploration as well as data obtained from the Icewine-1 and Icewine-2 wells. Baker Hughes brings global experience from both longstanding and burgeoning unconventional plays to provide integrated geological, structural, petrophysical, and geomechanical interpretations for evaluation of the HRZ shale. The initial review was completed in the 4th quarter and is consistent with the prior work done.

Given the rapid advancement of unconventional assessment technologies over the past several years, Baker Hughes has recommended several new state-of-the-art laboratory tests to augment the current body of work on the HRZ shale. The main thrust of the work being undertaken is to better understand the producibility of the formation by advanced electron microscope analysis, which will allow for a spatial understanding of potential landing zones in any future horizontal lateral. This work incorporates an integrated producibility, fracability and geohazards model for optimal placement of a lateral well in addition to a completion and stimulation program.

The Joint Venture also collaborated with the U.S. Geological Survey (USGS) in the quarter, to gain access to specialist testing equipment to gain better definition of quantitative oil and gas biomarkers, kerogen type, age dating, as well as variability in source rock geochemistry, both vertically within the core due to changes in lithofacies and laterally across the fairway.

The HRZ shale remains prospective and will continue to be a focus for 88 Energy in order to unlock its considerable value for shareholders, with ongoing studies and analysis at year end expected to be complete in 1st half of 2019 ahead of commencing an unconventional farm-out campaign.

YUKON ACREAGE 2018 OPERATIONS

Inhouse evaluation continued during the year in relation to the recently acquired and awarded Yukon leases, which contains an historic oil discovery.

Yukon 3D

In March 2018, the Company awarded a seismic contract to SAExploration to acquire ~100km² of 3D seismic, predominantly over the Yukon Gold leases. The Yukon 3D seismic acquisition was fast tracked to opportunistically benefit from an available seismic crew in the latter part of the 2018 acquisition season on the North Slope. Acquisition commenced on March 24 and was completed on April 1. The seismic data will allow for assessment of the volumetric potential of the Yukon Gold oil discovery as well as to identify and map any additional prospectivity over the broader lease position.

Maiden Conventional Resource – 90 MMBO (100% 88E mean prospective resource)

The Yukon 3D seismic was fast track processed and mapping undertaken to assess the maiden prospective resource associated with three sand bodies. The largest of these is the Cascade Prospect, which contains ~92% of the preliminary mapped resource on the Yukon Leases. The Cascade prospect is interpreted to have been intersected in a downdip distal location by the vintage Yukon Gold-1 oil discovery well.

Yukon Gold-1 was drilled in 1993 and discovered two oil saturated sands in the Canning Formation with porosities exceeding 18%. Up until the recent commissioning of infrastructure at the nearby Point Thomson gas/condensate/oil field in 2016, an accumulation of this size and location would have been considered stranded. Internal modelling suggests that break-even development price is now less than US\$40/bbl.

| YUKON LEASES | | | | | |
|---|-----------------------------------|-------------|-------------|--------------|------------------------|
| Prospective Oil Resource MMBO (Unrisked) | | | | | |
| Prospects and Leads | November 2018 | | | | |
| | Horizon / Play | Low | Best | High | Net Mean to 88E |
| Cascade Prospect | Canning / Fan, channelised | 23.7 | 64.0 | 162.0 | 82.3 |
| PETM 1 | Staines Tongue / Topset | 3.3 | 5.7 | 9.9 | 6.2 |
| PETM 2 | Staines Tongue / Topset | 0.2 | 0.8 | 2.3 | 1.1 |
| YUKON LEASES TOTAL: | | | | | 89.6 |

Prospective Resources classified in accordance with SPE-PRMS as at 7th November 2018 using probabilistic and deterministic methods on an unrisked basis. Prospects and Leads identified from interpretation of modern 3D seismic acquired in 2018 across the Yukon Leases, which comprises 14,194 gross acres on the Central North Slope of Alaska. 88 Energy is Operator of record at the Yukon Leases (through its wholly owned subsidiary Regenerate Alaska, Inc) with a 100% working interest.

Yukon Gold Leases Formally Awarded

88 Energy, via its subsidiary Regenerate Alaska, Inc., was formally awarded acreage from its successful bid in the State of Alaska North Slope Licensing round December 2017. Lease documents were executed and the balance of funds were transferred to the Alaska Department of Natural Resources in June 2018. Subsequent to year-end Regenerate Alaska, Inc. was also announced as high bidder on an additional contiguous lease of ~1,920 gross acres in January 2019, as part of the North Slope Areawide 2018W lease sale.

WESTERN BLOCKS 2018 OPERATIONS

Agreement Executed to Drill High Impact Oil Prospect in Q1 2019

The Company announced on 25th June, along with Otto Energy Ltd (ASX:OEL) and Red Emperor Limited (ASX/AIM:RMP), collectively the "Consortium Partners", that it had executed a binding term sheet agreement with Great Bear Petroleum Ventures II LLC ("Great Bear") to acquire the majority of Great Bear's working interest in the four leases comprising the Western Blocks (ADL 391718; ADL 391719; ADL 391720; ADL 391721). The leases are located immediately adjacent to the Horseshoe#1/1A well, which discovered oil in 2017 and is considered an extension of the Pikka Unit to the North.

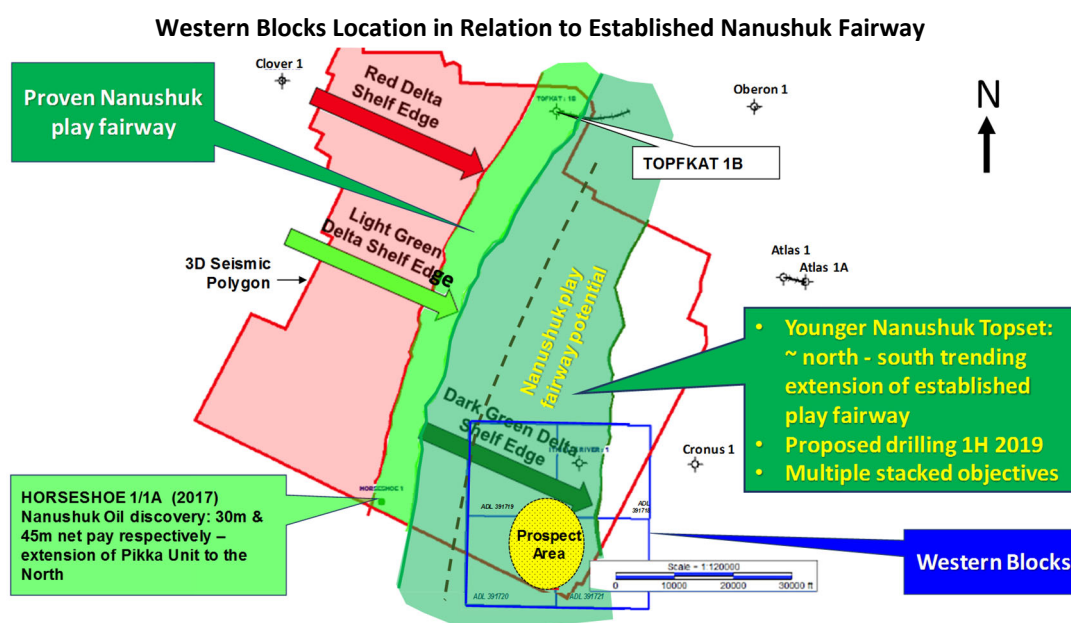
In consideration for acquiring the above interests in the Western Block leases, the Consortium Partners agreed to undertake the following:

- Provide a performance bond to the State of Alaska of US\$3.0 million by 31 July 2018; and
- Drill an exploration well in the Western Block leases by 31 May 2019.

The Consortium Partners agreed to provide the following consideration to Great Bear:

- Free carry Great Bear for a 10% working interest in the leases for the initial test well; including all associated costs such as permitting, ice road access and test production disposition;
- Pay US\$500,000 upon execution of the definitive agreements;
- Pay US\$500,000 upon receipt of final permits necessary to drill the initial test well, in any case by no later than 31 December 2018; and
- Provide an option for Great Bear to acquire a further 10% working interest prior to the spud of the initial test well by paying the pro-rata share of all costs of the initial test well, including all associated costs, or if exercised within 6 months of completing the initial test well by paying 200% of the pro-rata share of all costs of the initial test well, including all associated costs.

Technical evaluation and 3D seismic interpretation of the Western Blocks by our Consortium Partner, Otto Energy Ltd, generated a large oil prospect in the successful Nanushuk Play, which is located approximately 4 miles east of the Horseshoe#1/1A Nanushuk oil discovery well drilled in 2017.



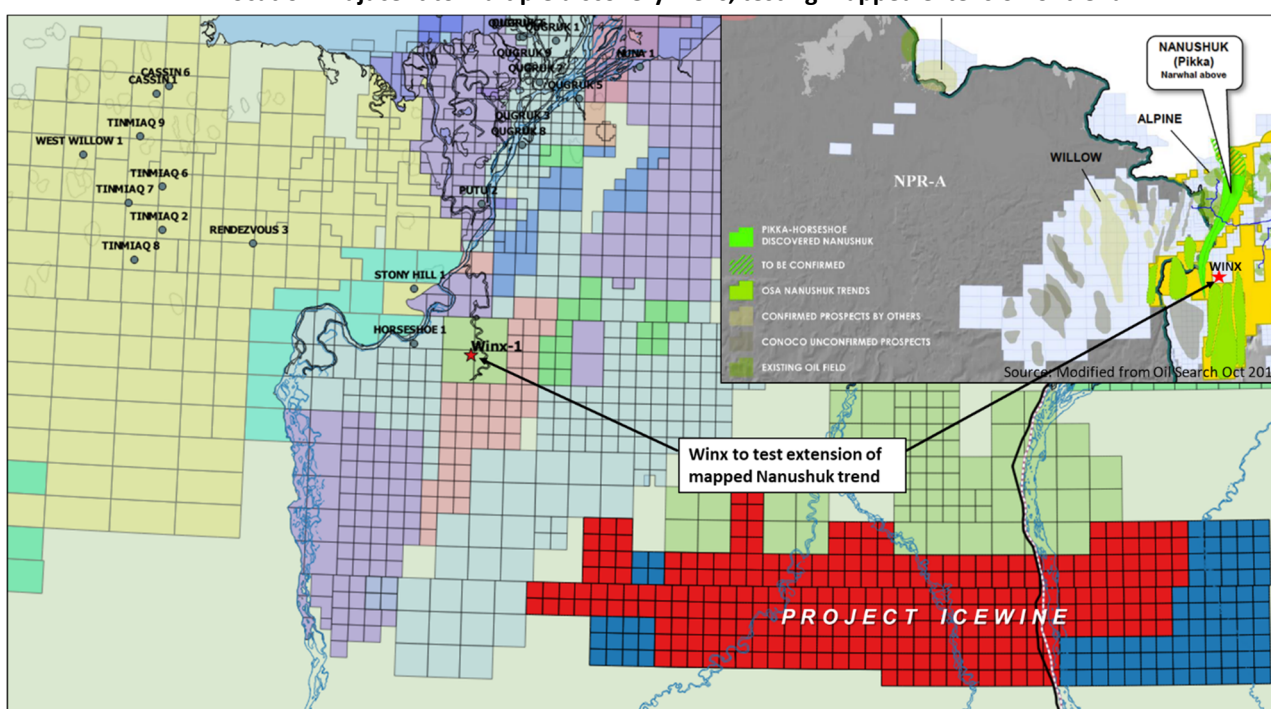
Winx-1 Exploration Well on Track for February Spud

During the last quarter of 2018, 88 Energy, in its capacity as Drilling Manager, has now received approval for all the major permits required for the drilling of the Winx-1 exploration well, except for the 'Permit to Drill'.

The Permit to Drill for Winx-1 was submitted to the Alaska Oil and Gas Conservation Commission (AOGCC) on schedule, prior to the end of calendar year 2018. At year end all logistics and permitting remained on schedule for a mid-late February 2019 spud date. The Permit to Drill was approved in January 2019 subsequent to year-end.

Post year end construction of the ~11 mile ice road to the Winx-1 well location commenced on the 2nd January 2019. The ice road was scheduled to take approximately three weeks to complete, ahead of ice pad construction.

Winx Location: Adjacent to multiple discovery wells, testing mapped extension of trend



Additional Credit Certificates Granted

On the 24th July, the Company was informed by the Alaska Department of Revenue that it had issued a Credit Certificate to Accumulate Energy Alaska Inc., (100% owned subsidiary of 88 Energy Ltd), for US\$5.66m related to CY2017 expenditure. An amount of US\$2.83m is available to be cashed out at such time that cash payments are made by the State of Alaska. The total expected cashable credits owed by the State to 88E is US\$20.7 million versus debt of US\$16.7 million.

NEW VENTURES

The Company continued to review and evaluate a number of new ventures opportunities during 2018.

CORPORATE SUMMARY

The Corporate highlights for the company during the year included:

Oversubscribed Placement Raised A\$17 million in Q2 2018:

On the 2nd May 2018, the Company announced that it had successfully completed a capital raise of A\$17 million (before costs), with the placement made to domestic and international institutional and sophisticated investors through the issue of 460 million ordinary shares at A\$0.037 (equivalent to £0.02) per New Ordinary Share.

Funds raised under the Placement will be used to fund the Company's ongoing evaluation of the conventional and unconventional prospectivity of the acreage, and to enable the Company to identify and exploit new opportunities on the North Slope of Alaska.

Non-Renounceable Rights Issue and Shortfall Placement Raised \$13.6 Million in Q4 2018:

During the 4th quarter end the Company announced a 1 for 7 non-renounceable rights issue / open offer to raise up to \$14.33m / £7.96m to fund ongoing activity across its portfolio of oil and gas exploration assets, located on the North Slope of Alaska.

On 29th October 2018 the company announced that total applications for new shares 202 million as part of the Rights Issue raised a total of \$3.6 million before costs.

Subsequently on 12th November 2018 88 Energy Limited announced that it has successfully completed a bookbuild to domestic and international institutional and sophisticated investors to raise approximately A\$10 million before costs through the issue of approximately 556 million ordinary shares at A\$0.018 (equivalent to £0.01) per new ordinary share.

The net proceeds will be applied towards:

- Drilling and/or production testing, if appropriate, at the upcoming Winx-1 exploration well;
- Ongoing lease rental payments to maintain the current lease portfolio in good standing;
- Continued evaluation of geological potential across the asset portfolio;
- Fund interest payments on the Company's debt facility; and
- Finance the Company's ongoing working capital requirements and provide capital for any additional growth initiatives.

Debt Refinancing:

On 23 March 2018, the Company refinanced the outstanding US\$16.5 million loan with Bank of America, on substantively similar terms to the original agreement with the maturity date extended from 30 June 2018 to 30 December 2022. The exact terms of the agreement remain confidential for commercial reasons.

Concurrently, 88 Energy has agreed to assign the loan, from Bank of America to FCS Advisors, LLC (d/b/a Brevet Capital Advisors).

Option Conversions:

A total of A\$9.0 million gross in proceeds from option conversions was received in 2018, with A\$8.0 million in proceeds coming from the conversion of the \$0.02 listed options (88EO) by holders as well as the remaining options taken up under the Option Underwriting Agreement with Hartleys Limited (refer to announcement on 12 February 2018). In addition, A\$1.0 million in proceeds was received from the conversion of listed and unlisted options by Directors.

FINANCIAL PERFORMANCE

The financial results of the Group for the year ended 31 December 2018 are:

| | 31-Dec-18 \$ | 31-Dec-17 \$ | Change % |
|---------------------------|--------------------|-----------------|-------------|
| Cash and cash equivalents | 21,722,211 | 14,014,422 | 55% |
| Net Assets | 94,114,195 | 55,531,300 | 69% |
| Revenue and other income | 1,362,745 | 56,711 | 2,303% |
| Net loss after tax | (5,993,593) | (8,408,915) | 28% |

The loss for the year was \$5,993,593 (2017: \$8,408,915). The loss was largely attributable to administrative expenditure and finance costs associated with the debt facility.

At the end of the financial year, the Group had cash on hand of \$21,722,211 (2017: \$14,014,422), net assets of \$94,114,195 (2017: \$55,531,300) and current liabilities of \$6,257,302 (2017: \$26,028,563). The significant increase in assets is largely due capital raising during the year with the Company subsequently spending approximately \$24,093,718 million on exploration on the Icewine Project, Yukon Gold acreage and the Western Blocks acreage (net of partner contributions). Current liabilities have decreased as a result of the Bank of America debt being refinanced with Brevet Capital Advisors LLC ('Brevet') and moving to Non-Current Liabilities.

During the year, the Company raised approximately \$39.6 million net of costs through the issue of new shares.

DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year.

No dividend is recommended in respect of the current financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Apart from as stated above, no other matters or circumstances have arisen during the financial year which significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in the financial period.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

- The Permit to Drill in relation to the Winx-1 well was approved in January 2019, and construction of the ~11 mile ice road to the Winx-1 exploration well location commenced on the 2nd January 2019;
- On 9th January 2019 the Alaskan Department of Revenue announced a further cash purchase of Tax Credit Certificates in the amount of US\$1.575 million. The payment was applied directly against the Brevet debt facility with the remaining outstanding balance totalling US\$15 million;
- Regenerate Alaska Inc, a wholly owned subsidiary of 88 Energy, was announced highest bidder in early January 2019 on an additional ~1,920 gross acres in the State of Alaska December 2018 Licensing Round, with formal award expected in mid-2019; and
- The Winx-1 exploration well commenced drilling on the 15th February 2019 at 15:15 (AK time) – on schedule.

The Directors are not aware of any other matters or circumstances at the date of the report, other than those referred to in this report or the financial statements or notes thereto, that have significantly affected or may significantly affect the operations, the result of operations or the state of affairs of the Group in subsequent financial years.

LIKELY DEVELOPMENTS AND FUTURE STRATEGY

Project Icewine;

The farm-out process covering the conventional Project Icewine portfolio that was underway at year end, will continue in early 2019 with a deal targeted in the first quarter. Permitting is in place to drill two exploration/ appraisal wells next winter season, (2020).

Further evaluation is being completed on the Project Icewine HRZ liquids-rich unconventional resource play in the first half of 2019, prior to launching a formal farm-out process to fund the future work program.

Yukon Acreage;

The Yukon Gold leases are located on the eastern border of the Central North Slope of Alaska and were acquired in 2018. 88 Energy via its subsidiary Regenerate Energy Alaska Inc. has a 100% working interest in these leases, totalling 14,194 acres. The leases contain an historic discovery well, Yukon Gold #1, which will continue to be evaluated internally. The 3D seismic that was acquired in early 2018 to assist with this process, with preliminary results in 4Q2018. Conventional prospectivity will be matured on 3D seismic inversion data in the first half of 2019.

Western Blocks;

88 Energy is earning a 36% working interest in four leases (totalling 22,711 acres) immediately adjacent to the Horseshoe#1/1A oil discovery well, drilling the Winx-1 prospect in Q1 2019 with a gross mean unrisks prospective resource volume of 400MMBO (144MMBO net to 88E).

The Company continues to review any other opportunities that may arise.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations and proposed activities of the Company are subject to state and federal laws and regulations concerning the environment. As with most exploration projects, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

The Company's current activities are not subject to any particular and significant environmental regulation under the laws of any country in which it operates.

SHARE OPTIONS

Unissued shares

As at 31 December 2018, the following Company options were on issue:

| Type | Number | Exercise Price | Expiry Date |
|-----------------------|--------------------|----------------|-------------|
| Placement options | 131,500,000 | \$0.055 | 27-10-21 |
| Placement fee options | 22,000,000 | \$0.05 | 27-10-21 |
| Unlisted Options | 90,000,000 | \$0.06 | 14-03-20 |
| Unlisted Options | 10,000,000 | \$0.03 | 31-7-20 |
| Performance Rights | 53,149,110 | \$0.00 | 24-10-22 |
| TOTAL | 306,649,110 | | |

Option and Performance Right holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

At the date of this report, 463,114,602 shares were issued as a result of the exercise of options, raising a total of \$8,986,892 for 2018 year.

DIRECTORS' MEETINGS

The number of Directors' meetings held during the financial year and the number of meetings attended by each Director during the time the Director held office are:

| Director | Number Eligible to Attend | Number Attended |
|---------------------|---------------------------|-----------------|
| Michael Evans | 5 | 5 |
| David Wall | 5 | 5 |
| Brent Villemarette* | 4 | 4 |
| Stephen Staley | 5 | 5 |

* Ceased 29 October 2018

In addition to the scheduled Board meetings, Directors regularly communicate by telephone, email or other electronic means, and where necessary, circular resolutions are executed to effect decisions.

Due to the size and scale of the Company, there is no Remuneration and Nomination Committee or Audit Committee at present. Matters typically dealt with by these Committees are, for the time being, managed by the Board. For details of the function of the Board, please refer to the Corporate Governance Statement.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2018 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The Remuneration Report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

Key Management Personnel Disclosed in this Report

Key Management Personnel of the Group during or since the end of the financial year were:

| | |
|-----------------------|---|
| Mr David Wall | Managing Director |
| Mr Michael Evans | Non-Executive Chairman |
| Mr Brent Villemarette | Non-Executive Director (ceased 29 October 2018) |
| Dr Stephen Staley | Non-Executive Director |
| Mr Ashley Gilbert | Chief Financial Officer |

There have been no other changes after reporting date and up to the date that the financial report was authorised for issue.

The Remuneration Report is set out under the following main headings:

- A Remuneration Philosophy
- B Remuneration Governance, Structure and Approvals
- C Remuneration and Performance
- D Details of Remuneration
- E Service Agreements
- F Share-based Compensation
- G Equity Instruments Issued on Exercise of Remuneration Options
- H Voting and comments made at the Company's 2018 Annual General Meeting
- I Loans with KMP
- J Other Transactions with KMP

A Remuneration Philosophy

KMP have authority and responsibility for planning, directing and controlling the activities of the Group. KMP of 88E comprise of the Board of Directors and the Chief Financial Officer.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

No remuneration consultants were employed during the financial year.

B Remuneration Governance, Structure and Approvals

Remuneration of Directors is currently set by the Board of Directors. The Board has not established a separate Remuneration Committee at this point in the Group's development, nor has the Board engaged the services of an external remuneration consultant. It is considered that the size of the Board along with the level of activity of the Group renders this impractical. The Board is primarily responsible for:

- The over-arching executive remuneration framework;
- Operation of the incentive plans which apply to executive directors and senior executives, including key performance indicators and performance hurdles;
- Remuneration levels of executives; and
- Non-Executive Director fees.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

❖ Non-Executive Remuneration Structure

The remuneration of Non-Executive Directors consists of Directors' fees, payable in arrears. The total aggregate fixed sum per annum to be paid to Non-Executive Directors in accordance with the Company's Constitution shall initially be no more than A\$300,000 and may be varied by ordinary resolution of the Shareholders in a General Meeting.

Remuneration of Non-Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors. In accordance with the Company's Constitution, the Directors may at any time, subject to the Listing Rules, adopt any scheme or plan which they consider to be in the interests of the Company and which is designed to provide superannuation benefits for both present and future Non-Executive Directors, and they may from time to time vary this scheme or plan.

The remuneration of Non-Executive is detailed in Table 1(a) and their contractual arrangements are disclosed in "Section E – Service Agreements".

Remuneration may also include an invitation to participate in share-based incentive programmes in accordance with Company policy.

The nature and amount of remuneration is collectively considered by the Board of Directors with reference to relevant employment conditions and fees commensurate to a company of similar size and level of activity, with the overall objective of ensuring maximum stakeholder benefit from the retention of high performing Directors.

❖ Executive Remuneration Structure

The nature and amount of remuneration of executives are assessed on an annual basis or as otherwise determined by the Board, with the overall objective of ensuring maximum stakeholder benefit from the retention of high performance Directors.

The main objectives sought when reviewing executive remuneration is that the Company has:

- Coherent remuneration policies and practices to attract and retain Executives;
- Executives who will create value for shareholders;
- Competitive remuneration offered benchmarked against the external market; and
- Fair and responsible rewards to Executives having regard to the performance of the Group, the performance of the Executives and the general pay environment.

The remuneration of Executives is detailed in Table 1(a) and their contractual arrangements are disclosed in "Section E – Service Agreements".

❖ Executive Remuneration Approvals

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and aligned with market practice. Executive contracts are reviewed annually by the Board, in the absence of a Remuneration Committee, for their approval. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and where appropriate, external advice independent of management.

Executive remuneration and incentive policies and practices must be aligned with the Company's vision, values and overall business objectives. Executive remuneration and incentive policies and practices must be designed to motivate management to pursue the Company's long-term growth and success and demonstrate a clear relationship between the Company's overall performance and performance of the executives.

C Remuneration and Performance

Due to the current early stage of the Company's growth it is not appropriate at this time to evaluate the Company's financial performance using generally accepted measures such as EBITDA and profitability; this assessment will be developed over the next few years.

The following information provides a summary of the Company's financial performance for the last five years:

| | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 | 31-Dec-14 |
|----------------------------|------------------------|-----------------|-----------------|----------------|---------------|
| Loss after income tax (\$) | (5,993,593) | (8,408,915) | (9,401,264) | (6,304,712) | (27,713,105) |
| EPS (cents per share) | (0.001) | (0.002) | (0.003) | (0.002) | (9.65) |
| Share price | \$0.019 | \$0.026 | \$0.045 | \$0.008 | \$0.01 |
| Market capitalisation | \$120.2 million | \$120.9 million | \$187.6 million | \$24.7 million | \$4.5 million |

Relationship between Remuneration and Company Performance

Given the recent listing of the Company and the current phase of the Company's development, the Board does not consider earnings during the current and previous financial year when determining, and in relation to, the nature and amount of remuneration of KMP.

The pay and reward framework for key management personnel may consist of the following areas:

- a) Fixed Remuneration – base salary
- b) Variable Short Term Incentives
- c) Variable Long Term Incentives

The combination of these would comprise the key management personnel's total remuneration.

a) Fixed Remuneration – Base Salary

The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary inclusive of statutory superannuation. It is structured as a total employment cost package.

Key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants may provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. No external advice was taken this year. Base salary for key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in any key management personnel's contract.

b) Variable Remuneration – Short Term Incentives (STI)

Discretionary cash bonuses may be paid to senior executives annually, subject to the requisite Board and shareholder approvals where applicable. Bonus payments were made in the 2017 and 2018 financial years as detailed in this remuneration report. In determining the extent of cash bonuses paid in 2017 and 2018, the Board took into consideration performance of each individual in the period and the Company performance.

c) Variable Remuneration – Long Term Incentives (LTI)

The Company adopted a Performance Rights Scheme during the year ended 31 December 2018. The Performance Rights Scheme allows eligible participants to be granted Performance Rights to acquire Shares in the Company subject to certain vesting conditions. The Board may grant Performance Rights to any Director, full or part time employee, or casual employee or contractor who falls within the definition of an Eligible Participant as defined in ASIC Class Order 14/1000 and the Scheme rules. Each Performance granted under the Scheme will be granted for nil consideration and each Performance Right is exercisable into one Share in the Company with an exercise price and expiry date for the Performance Rights granted under the Scheme determined by the Board prior to the grant of the Performance Rights.

The Company adopted an Incentive Option Scheme during the year ended 31 December 2015. The Options Scheme allows eligible participants to be granted Options to acquire Shares in the Company. The Board may grant Options to any Director, full or part time employee, or casual employee or contractor who falls within the definition of an Eligible Participant as defined in ASIC Class Order 14/1000. Each Option granted under the Scheme will be granted for nil or nominal consideration. Each Option is exercisable into one Share in the Company and the exercise price and expiry date for Options granted under the Scheme will be determined by the Board prior to the grant of the Options.

The Options granted may be subject to conditions on exercise as may be fixed by the Directors prior to grant of the Options. The Options will not be quoted on ASX.

D Details of Remuneration

Details of the nature and amount of each major element of the remuneration of each KMP of the Group during the financial year are:

Table 1(a) – Remuneration of KMP – Directors of the Group for the years ended 31 December 2018 and 31 December 2017 is set out below:

| <u>Directors</u> | Year | Short-term Employee Benefits | | | | Post-Employment Benefits | Share Based Payments | Total |
|-----------------------------|------|------------------------------|-----------------------|-----------------------------|-----------------------|--------------------------|---|----------------|
| | | Salary & fees | Non-monetary benefits | Annual & Long Service Leave | Other ^(iv) | Superannuation | Performance Rights & Options ⁽ⁱⁱⁱ⁾ | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Michael Evans | 2018 | 140,000 | - | - | - | 13,300 | - | 153,300 |
| | 2017 | 140,000 | - | - | 15,000 | 13,300 | 112,000 | 280,300 |
| David Wall | 2018 | 400,000 | - | 32,762 ⁽ⁱⁱ⁾ | 79,500 ⁽ⁱ⁾ | 28,500 | 8,962 | 549,724 |
| | 2017 | 400,000 | - | 48,270 | 25,000 | 38,000 | 448,000 | 959,270 |
| Brett Villemarette | 2018 | 54,167 | - | - | - | 5,146 | - | 59,313 |
| | 2017 | 65,000 | - | - | - | 6,175 | 112,000 | 183,175 |
| Stephen Staley | 2018 | 65,000 | - | - | - | - | - | 65,000 |
| | 2017 | 65,000 | - | - | - | - | 112,000 | 177,000 |
| Total - Remuneration | 2018 | 659,167 | - | 32,762 | 79,500 | 46,946 | 8,962 | 827,337 |
| | 2017 | 670,000 | - | 48,270 | 40,000 | 57,475 | 784,000 | 1,599,745 |

- (i) Mr Wall was paid a cash bonus of \$63,926 in April 2018 and elected to cash out super of \$15,574.
- (ii) Includes annual leave - \$26,426 and long service leave - \$6,336.
- (iii) Share based payments are the options and performance rights expensed over the vesting period.
- (iv) Cash bonuses paid in 2017 and 2018 based on individual and the Company performance.

Table 1(b) – Remuneration of KMP – Executives of the Group for the years ended 31 December 2018 and 31 December 2017 is set out below:

| Executives | Year | Short-term Employee Benefits | | | | Post-Employment Benefits | Share Based Payments | Total |
|---------------------|-------------|------------------------------|-----------------------|-----------------------------|-----------------------|--------------------------|---|----------------|
| | | Salary & fees | Non-monetary benefits | Annual & Long Service Leave | Other ^(iv) | Superannuation | Performance Rights & Options ⁽ⁱⁱⁱ⁾ | |
| | | \$ | \$ | | \$ | \$ | \$ | |
| Ashley Gilbert | 2018 | 275,000 | - | 8,544 ⁽ⁱⁱ⁾ | 51,125 ⁽ⁱ⁾ | 25,000 | 4,929 ⁽ⁱⁱⁱ⁾ | 364,598 |
| | 2017 | 254,761 | - | 20,219 | - | 23,586 | 448,000 | 746,566 |
| Total | 2018 | 275,000 | - | 8,544 | 51,125 | 25,000 | 4,929 | 364,598 |
| Remuneration | 2017 | 254,761 | - | 20,219 | - | 23,586 | 448,000 | 746,566 |

- (i) Mr Gilbert was paid a cash bonus of \$45,662 in April 2018 and elected to cash out superannuation of \$5,463.
(ii) Includes annual leave - \$6,888 and long service leave - \$1,656.
(iii) Share based payments are the options and performance rights expensed over the vesting period.
(iv) Cash bonuses paid in 2017 and 2018 based on individual and the Company performance.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the tables above:

Table 2 – Relative proportion of fixed vs variable remuneration expense

| Name | Fixed Remuneration | | At Risk – STI (%) | | At Risk – LTI (%) | |
|--------------------|--------------------|------|-------------------|------|-------------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Directors | | | | | | |
| Michael Evans | 100% | 55% | - | 5% | - | 40% |
| David Wall | 84% | 51% | 14% | 3% | 2% | 47% |
| Brett Villemarette | 100% | 39% | - | - | - | 61% |
| Stephen Staley | 100% | 37% | - | - | - | 63% |
| Executives | | | | | | |
| Ashley Gilbert | 85% | 40% | 14% | - | 1% | 60% |

The proportion of STI and LTI of performance based remuneration forfeited in 2018 was nil.

Table 3 – Shareholdings of KMP (direct and indirect holdings)

| 31 December 2018 | Balance at 01/01/2018 | Granted as Remuneration | On Exercise of Options | Net Change – Other | Balance at 31/12/2018 |
|-----------------------------------|-----------------------|-------------------------|------------------------|--------------------|-----------------------|
| Directors | | | | | |
| Michael Evans | 8,416,667 | - | 10,125,000 | 2,648,811 | 21,190,478 |
| David Wall | 11,666,666 | - | 23,125,000 | 4,613,096 | 39,404,762 |
| Brett Villemarette ⁽ⁱ⁾ | 1,221,222 | - | 6,000,000 | (7,221,222) | - |
| Stephen Staley | 5,816,667 | - | 4,325,000 | 1,000,000 | 11,141,667 |
| Total | 27,121,222 | - | 43,575,000 | 1,040,685 | 71,736,907 |

- (i) Number held at date ceasing to be a Director.

Table 4 – Option holdings of KMP (direct and indirect holdings)

| 31 December 2018 | Balance at 01/01/2018 | Granted as Remuneration | Exercised | Expired / Other Change | Balance at 31/12/2018 | Vested & Exercisable |
|-----------------------------------|-----------------------|-------------------------|---------------------|------------------------|-----------------------|----------------------|
| Directors | | | | | | |
| Michael Evans | 23,125,000 | - | (10,125,000) | (8,000,000) | 5,000,000 | 5,000,000 |
| David Wall | 87,125,000 | - | (23,125,000) | (44,000,000) | 20,000,000 | 20,000,000 |
| Brett Villemarette ⁽ⁱ⁾ | 17,000,000 | - | (6,000,000) | (11,000,000) | - | - |
| Stephen Staley | 17,825,000 | - | (4,325,000) | (8,500,000) | 5,000,000 | 5,000,000 |
| Executives | | | | | | |
| Ashley Gilbert | 20,000,000 | - | - | - | 20,000,000 | 20,000,000 |
| Total | 165,075,000 | - | (43,575,000) | (71,500,000) | 50,000,000 | 50,000,000 |

- (i) Number held at date ceasing to be a Director.

Table 5 – Performance Rights Issued to KMP as at 31 December 2018 (direct and indirect holdings)

| 31 December 2018 | Balance at 01/01/2018 | Granted as Remuneration | Exercised | Expired | Balance at 31/12/2018 | Vested & Exercisable |
|-------------------|-----------------------|-------------------------|-----------|---------|-----------------------|----------------------|
| Directors | | | | | | |
| David Wall | - | 21,900,000 | - | - | 21,900,000 | - |
| Executives | | | | | | |
| Ashley Gilbert | - | 12,045,000 | - | - | 12,045,000 | - |
| Total | - | 33,945,000 | - | - | 33,945,000 | - |

E Service Agreements

❖ Mr Michael Evans – Non-Executive Chairman

- Contract: Commenced on 9 April 2014.
- Director's Fee: A\$140,000 per annum plus superannuation.
- Refer to Note 1 below for details pertaining to re-appointment and termination.

❖ Mr David Wall – Managing Director

- Contract: Commenced on 15 April 2014.
- Director's Fee: Effective from 1 May 2016 A\$400,000 per annum plus superannuation.
- Performance Based Bonuses: The Company may at any time pay Mr Wall a performance based bonus over and above his salary. In determining the extent of any performance based bonus, the Company shall take into consideration the key performance indicators of Mr Wall and the Company.
- Termination Benefit: Termination benefits to the extent permitted under the ASX Listing Rules and Corporations Act are included in the contract in the event of certain termination events.

❖ Mr Brett Villemarette – Non-Executive Director

- Contract: Commenced on 27 October 2010 and ceased 29 October 2018.
- Director's Fee: \$65,000 per annum plus superannuation.

❖ Mr Stephen Staley – Non-Executive Director

- Contract: Commenced on 9 April 2014.
- Director's Fee: \$65,000 per annum
- Refer to Note 1 below for details pertaining to re-appointment and termination.

❖ Mr Ashley Gilbert – Chief Financial Officer

- Contract: Engaged as an employee with employment commencing 28 January 2017.
- Employee Salary: \$275,000 per annum plus superannuation.
- Performance Based Bonuses: The Company may at any time pay Mr Gilbert a performance-based bonus over and above his salary. In determining the extent of any performance-based bonus, the Company shall take into consideration the performance of Mr Gilbert and the Company.
- Termination by Company is with 3 months' notice or payment in lieu thereof. Termination by Mr Gilbert is with 3 months' notice.
- Termination Benefit: Termination benefits to the extent permitted under the ASX Listing Rules and Corporations Act are included in the contract in the event of certain termination events

Note 1: The term of each Non-Executive Director is open to the extent that they hold office subject to retirement by rotation, as per the Company's Constitution, at each AGM and are eligible for re-election as a Director at that meeting. Appointment shall cease automatically in the event that the Director gives written notice to the Board, or the Director is not re-elected as a Director by the shareholders of the Company. There are no entitlements to termination or notice periods.

F Share-based Compensation

The Company rewards Directors and Key Management Personnel for their performance and aligns their remuneration with the creation of shareholder wealth by issuing share options and/or performance rights. Share-based compensation is at the discretion of the Board and no individual has a contractual right to receive any guaranteed benefits.

Unlisted Options:

No options were issued to KMP in 2018.

Options were issued to KMP in the 2017 financial year per the table below.

| Directors & Executives | Options | Issue Date | Fair Value per Option (\$) | Total Fair Value (\$) | Exercise Price (\$) | Expiry Date | Employee Benefits Expense ⁽ⁱ⁾ | | Number of Options Vested | % Vested |
|------------------------|-------------------|------------|----------------------------|-----------------------|---------------------|-------------|--|--------------------|--------------------------|----------|
| | | | | | | | During the year | Not yet recognised | | |
| M Evans | 5,000,000 | 11-03-17 | 0.0224 | 112,000 | 0.06 | 14-03-20 | - | - | 5,000,000 | 100% |
| D Wall | 20,000,000 | 11-03-17 | 0.0224 | 448,000 | 0.06 | 14-03-20 | - | - | 20,000,000 | 100% |
| B Villemarette | 5,000,000 | 11-03-17 | 0.0224 | 112,000 | 0.06 | 14-03-20 | - | - | 5,000,000 | 100% |
| S Staley | 5,000,000 | 11-03-17 | 0.0224 | 112,000 | 0.06 | 14-03-20 | - | - | 5,000,000 | 100% |
| A Gilbert | 20,000,000 | 11-03-17 | 0.0224 | 448,000 | 0.06 | 14-03-20 | - | - | 20,000,000 | 100% |
| Total | 55,000,000 | | | 1,232,000 | | | - | - | 55,000,000 | |

* Options issued in connection with the Company's share placement as approved by shareholders meeting on 12 February 2015.

(i) The value of expense recognised is the fair value of the options recognised over the expected vesting period.

Unlisted Performance Rights:

Performance Rights were issued to KMP in the 2018 financial year per the table below.

| Directors and Executives | Tranche A | Tranche B | Tranche C | Tranche D | Tranche E | Tranche F | Tranche G | Total |
|-------------------------------------|-------------|------------|------------|------------|------------|------------|------------|-------------------|
| | Share Price | | | Resources | Reserves | Production | Tenure | |
| Grant Date* | 15/10/2018 | 16/10/2018 | 17/10/2018 | 18/10/2018 | 19/10/2018 | 20/10/2018 | 21/10/2018 | |
| Expiry Date | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | |
| Fair Value per Performance Right \$ | 0.00020 | 0.00010 | - | 0.01900 | 0.01900 | 0.01900 | 0.01900 | |
| Exercise Price | Nil | Nil | Nil | Nil | Nil | Nil | Nil | |
| Performance Rights (ii) | | | | | | | | |
| - D Wall | 4,380,000 | 4,380,000 | 4,380,000 | 4,380,000 | 2,190,000 | 1,095,000 | 1,095,000 | 21,900,000 |
| - A Gilbert | 2,409,000 | 2,409,000 | 2,409,000 | 2,409,000 | 1,204,500 | 602,250 | 602,250 | 12,045,000 |
| Number of Performance Rights Vested | - | - | - | - | - | - | - | - |
| % Vested | - | - | - | - | - | - | - | - |
| Fair Value \$; | | | | | | | | |
| - D Wall | 876 | 438 | - | 83,220 | 41,610 | 20,805 | 20,805 | 167,754 |
| - A Gilbert | 482 | 241 | - | 45,771 | 22,886 | 11,443 | 11,443 | 92,265 |
| Total Fair Value \$ | 1,358 | 679 | - | 128,991 | 64,496 | 32,248 | 32,248 | 260,019 |
| Employee Benefits Expense \$ (i); | | | | | | | | |
| - During the Year: D Wall | 47 | 23 | - | 4,446 | 2,223 | 1,112 | 1,112 | 8,962 |
| - During the Year: A Gilbert | 26 | 13 | - | 2,445 | 1,223 | 611 | 611 | 4,929 |
| Total \$ | 73 | 36 | - | 6,891 | 3,446 | 1,723 | 1,723 | 13,891 |
| Employee Benefits Expense \$ (i); | | | | | | | | |
| - Not Yet Recognised: D Wall | 829 | 415 | - | 78,774 | 39,387 | 19,694 | 19,694 | 158,792 |
| - Not Yet Recognised: A Gilbert | 456 | 228 | - | 43,326 | 21,663 | 10,831 | 10,831 | 87,335 |
| Total \$ | 1,285 | 643 | - | 122,100 | 61,050 | 30,525 | 30,525 | 246,127 |

* Performance Rights issued in connection with the Company's share placement as approved by shareholders meeting on 15 October 2018.

- (i) The value of expense recognised is the fair value of the Performance Rights recognised over the expected vesting period.
- (ii) Refer to ASX release dated 13 and 28 September 2018 for specific terms and conditions of Performance Rights issued.
- (iii) Performance Rights were issued under five tranches with the following performance conditions;
 - Tranche A, B and C (Share Price tranche): tranches have a performance period of 12 months for tranche A, 24 months for tranche B and 36 months for tranche C, at which point the vesting conditions relating to absolute share price growth will be tested with total number of rights to vest dependant on outcome of testing;
 - Tranche D (Resources tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources;
 - Tranche E (Reserves tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources;
 - Tranche F (Production tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources; and
 - Tranche G (Tenure tranche): tranche has non-market based vesting conditions attached that require the employee to remain employed with the Company up to including 3 years from date of issue.;

No Performance Rights were issued in 2017.

G Equity Instruments Issued on Exercise of Remuneration Options

A total of 43,575,000 new shares were issued on exercise of Options during the 2018 financial year.

No remuneration options were exercised during the 2017 financial year.

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

The adoption of the Remuneration Report for the financial year ended 31 December 2017 was put to the shareholders of the Company at the AGM held 18 April 2018. The resolution was passed without amendment, on a poll. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices however did receive its first strike in 2017 relating to the 2016 Remuneration Report with only 72% of shareholders voting in favour of the adoption of the remuneration report. No strike occurred in 2018 against the 2017 Remuneration Report.

I Other Transactions with KMP - Loans

There were no loans made to any KMP during the year ended 31 December 2018 (2017: nil).

There were no loans from any KMP during the year ended 31 December 2018 (2017: nil).

J Other Transactions with KMP

In addition to the director service agreements, the Company's Non-Executive Directors are engaged to provide consultancy services to the Company as follows:

- Mr Brent Villemarette had a consultancy agreement for a maximum term of 3 years commencing 24 September 2014 and was renewed on 1 November 2017 for a further term ceasing on 29 October 2018. The agreement may have been terminated at any time by either party giving a minimum 14 days' written notice. There were no termination benefits payable. In accordance with the agreement, Mr Villemarette received \$2,000 per week (equivalent to \$8,000 per calendar month) based on a 20 hour work week, exclusive of GST, during the term of the agreement which ceased on 29 October 2018. The Managing Director must pre-approve any time worked above the 20 hours per week.

- Dr Stephen Staley has a consultancy agreement for an indefinite term commencing 2 November 2012. The agreement may be terminated at any time by either party giving three months clear notice. There are no termination benefits payable. In accordance with the agreement, Dr Staley is to receive a minimum fee of £2,315.20 (\$A4,522) per calendar month, plus Value Added Tax or other sales tax if applicable, based on 2.5 working days per month. Any work that is carried out by the Consultant in excess of 2.5 working days per calendar month must be pre-approved by the Managing Director. Approved days will be remunerated at a rate of £1,000 (\$A 2,033) per day.

The following transactions occurred with related parties:

| | 2018 | 2017 |
|--|---------------|---------|
| | \$ | \$ |
| Derwent Resources Limited ⁽ⁱ⁾ | 45,667 | 108,478 |
| Villemarette Nominees Pty Ltd | 31,049 | 71,290 |

- (i) During the year, the Company paid £25,583 (2017: £64,598) to Derwent Resources Limited for consultancy services. The amount has been translated to Australian Dollars at the average rate.

Consultant fees paid to associated entities were on normal commercial terms.

End of Audited Remuneration Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the court under section 237 of the *Corporation Act 2001* ("the Act") for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the Act.

INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

During the year ended 31 December 2018, the Company paid premiums in respect of a contract insuring the directors and officers of the Company against liabilities incurred as directors or officers to the extent permitted by the Corporations Act 2001.

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 entities in the consolidated entity, 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 them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is set out on page 32 and forms part of the Directors' Report for the financial year ended 31 December 2018.

NON-AUDIT SERVICES

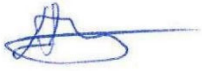
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important. Details of the amounts paid or payable to the auditors, BDO (WA) Pty Ltd, for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditor independent requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board of Directors to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to the auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

| | 31-Dec-18 | 31-Dec-17 |
|--|------------------|-----------|
| Non-Audit Services | | |
| <i>Remuneration for other services</i> | | |
| BDO Corporate Finance (WA) Pty Ltd | 5,244 | 1,570 |
| Total Non-Audit Services | 5,244 | 1,570 |

This report is signed in accordance with a resolution of Board of Directors.



Mr David Wall
Managing Director
25 February 2019

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF 88 ENERGY LIMITED

As lead auditor of 88 Energy Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of 88 Energy Limited and the entities it controlled during the period.



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 25 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | Note | 2018 \$ | 2017 \$ |
|--|------|--------------------|--------------|
| Revenue from continuing operations | | | |
| Other income | 3(a) | 1,362,745 | 56,711 |
| Administrative expenses | 3(b) | (1,524,870) | (930,848) |
| Occupancy expenses | | (44,958) | (154,689) |
| Employee benefit expenses | 3(c) | (1,879,007) | (1,676,706) |
| Share-based payment expense | 18 | (21,750) | (2,020,772) |
| Depreciation and amortisation expense | | (50,609) | (3,952) |
| Finance cost | | (4,224,698) | (2,703,317) |
| Other expenses | | (149,010) | (269,358) |
| Foreign exchange (loss) / gain | | 538,564 | (705,984) |
| Loss before income tax | | (5,993,593) | (8,408,915) |
| Income tax expense | 4 | - | - |
| Loss after income tax for the year | | (5,993,593) | (8,408,915) |
| Other comprehensive income / (loss) for the year | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Exchange differences on translation of foreign operations | | 6,961,354 | (2,644,471) |
| Other comprehensive income / (loss) for the year, net of tax | | 6,961,354 | (2,644,471) |
| Total comprehensive income / (loss) for the year attributable to members of 88 Energy Limited | | | |
| | | 967,761 | (11,053,386) |
| Loss per share for the year attributable to the members of 88 Energy Limited: | | | |
| Basic and diluted loss per share | 5 | (0.001) | (0.002) |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| | Note | 2018 \$ | 2017 \$ |
|--|------|--------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 21,722,211 | 14,014,422 |
| Trade and other receivables | 7 | 2,101,501 | 357,723 |
| Total Current Assets | | 23,823,712 | 14,372,145 |
| Non-Current Assets | | | |
| Plant and equipment | 8 | 11,172 | 4,575 |
| Exploration and evaluation expenditure | 9 | 76,983,981 | 46,934,162 |
| Other receivables | 10 | 22,977,103 | 20,248,981 |
| Total Non-Current Assets | | 99,972,256 | 67,187,718 |
| TOTAL ASSETS | | 123,795,968 | 81,559,863 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 11 | 6,001,949 | 4,667,815 |
| Provisions | 12 | 255,353 | 195,865 |
| Borrowings | 13 | - | 21,164,883 |
| Total Current Liabilities | | 6,257,302 | 26,028,563 |
| Non-Current Liabilities | | | |
| Borrowings | 13 | 23,424,471 | - |
| Total Non-Current Liabilities | | 23,424,471 | - |
| TOTAL LIABILITIES | | 29,681,773 | 26,028,563 |
| NET ASSETS | | 94,114,195 | 55,531,300 |
| EQUITY | | | |
| Contributed equity | 14 | 179,304,850 | 141,711,466 |
| Reserves | 15 | 22,628,390 | 15,645,286 |
| Accumulated losses | | (107,819,045) | (101,825,452) |
| TOTAL EQUITY | | 94,114,195 | 55,531,300 |

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | Issued Capital \$ | Reserves \$ | Accumulated Losses \$ | Total \$ |
|--|-------------------------|--------------------|-----------------------------|---------------------|
| At 1 January 2018 | 141,711,466 | 15,645,286 | (101,825,452) | 55,531,300 |
| Loss for the year | - | - | (5,993,593) | (5,993,593) |
| Other comprehensive income | - | 6,961,354 | - | 6,961,354 |
| Total comprehensive income for the year after tax | - | 6,961,354 | (5,993,593) | 967,761 |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of share capital | 39,678,216 | - | - | 39,678,216 |
| Share-based payments | - | 21,750 | - | 21,750 |
| Share issue costs | (2,084,832) | - | - | (2,084,832) |
| Balance at 31 December 2018 | 179,304,850 | 22,628,390 | (107,819,045) | 94,114,195 |
| At 1 January 2017 | 125,157,965 | 16,268,985 | (93,416,537) | 48,010,413 |
| Loss for the year | - | - | (8,408,915) | (8,408,915) |
| Other comprehensive loss | - | (2,644,471) | - | (2,644,471) |
| Total comprehensive loss for the year after tax | - | (2,644,471) | (8,408,915) | (11,053,386) |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of share capital | 17,792,774 | - | - | 17,792,774 |
| Share-based payments | - | 2,020,772 | - | 2,020,772 |
| Share issue costs | (1,239,273) | - | - | (1,239,273) |
| Balance at 31 December 2017 | 141,711,466 | 15,645,286 | (101,825,452) | 55,531,300 |

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

| | <i>Note</i> | 2018 | 2017 |
|---|-------------|---------------------|---------------------|
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Payment to suppliers and employees | | (4,333,868) | (3,729,444) |
| Interest received | | 16,896 | 12,359 |
| Interest & finance costs | | (2,267,612) | (814,137) |
| Other income | | - | 101,792 |
| Net cash flows used in operating activities | 6(b) | (6,584,584) | (4,429,430) |
| Cash flows from investing activities | | | |
| Payments for exploration and evaluation activities | | (35,110,843) | (34,080,618) |
| Contribution from JV Partners in relation to Exploration | | 12,156,384 | 11,324,969 |
| Net cash flows used in investing activities | | (22,954,459) | (22,755,649) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 39,677,293 | 17,644,774 |
| Share issue costs | | (2,124,000) | (1,250,296) |
| Payment of borrowing costs | | (1,126,456) | (665,868) |
| Net cash flows from financing activities | | 36,426,837 | 15,728,610 |
| Net increase/(decrease) in cash and cash equivalents | | 6,887,794 | (11,456,469) |
| Cash and cash equivalents at the beginning of the year | | 14,014,422 | 27,303,178 |
| Effect of exchange rate fluctuations on cash held | | 819,995 | (1,832,287) |
| Cash and cash equivalents at end of year | 6(a) | 21,722,211 | 14,014,422 |

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

88 Energy Limited (referred to as “88 Energy” or the “Company”) is a company domiciled in Australia. The address of the Company’s registered office and principal place of business is disclosed in the Corporate Directory of the Annual Report. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Consolidated Entity” or the “Group”). The Group is primarily involved oil and gas exploration in Alaska.

(b) Basis of Preparation

Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”). 88 Energy Limited is a for-profit entity for the purpose of preparing the financial statements.

The annual report was authorised for issue by the Board of Directors on 25 February 2019.

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis in accordance with the historical cost convention, unless otherwise stated.

New, revised or amended standards and interpretations adopted by the group

A number of new or amended standards became applicable for the current reporting period for which the Company has adopted;

- AASB 15 Revenue from Contracts with Customers; and
- AASB 9 Financial Instruments.
- AASB 16 Leases

The new accounting policies are disclosed in Note 1 below. There is no impact on the Company for the year ended 31 December 2018.

Basis of preparation and changes to the Group’s accounting policies

- **AASB 15 Revenue from contracts with Customers**

AASB 15 Revenue from contracts with Customers replaces AASB 118 Revenue. AASB 15 was adopted by the Group on 1 January 2018. AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers.

The Group has considered AASB 15 in detail and determined that the impact on the Group’s sales revenue from contracts under AASB 15 is insignificant for the year.

The Group’s new revenue accounting policy is detailed below:

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

- **AASB 9 Financial Instruments**

AASB 9 Financial Instruments replaces the provisions of AASB 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 did not give rise to any material transitional adjustments. The new accounting policies (applicable from 1 January 2018) are set out below.

In accordance with the transitional provisions in AASB 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Classification and measurement

Except for certain trade receivables the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Group's trade and other receivables and other receivables.

On transition to AASB 9 the assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

- **Impairment**

From 1 January 2018 the group assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience.

The Group's Other Receivables include Tax Credit Receivables (refer note 10) receivable from the Alaskan Government that are considered as investment grade and, therefore, are considered to be low credit risk receivables. It is the Group's policy to measure such instruments on a 12-month ECL basis.

- **AASB 16 Leases**

AASB 16 Leases was adopted by the Group on 1 January 2018.

The Group has considered AASB 16 in detail and determined that the impact on the Group is insignificant for the year (an immaterial Right of Use Asset for Lease on Premises has been recognised on the Statement of Financial Position).

Significant Judgements and Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of 88 Energy Limited ('Company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. 88 Energy and its subsidiaries together are referred to in this financial report as the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition method of accounting is used to account for business combinations by the consolidated entity. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. Management has determined that based on the report reviewed by the Board and used to make strategic decisions, that the consolidated entity has two reportable segments.

(e) Foreign Currency Translation

i) Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars. 88 Energy Limited's functional currency is AUD and subsidiaries with operations in the US have a functional currency of USD.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

iii) Consolidated entity companies

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

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

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

(f) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost. Any difference between the proceeds (net of transactions costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. In all other cases the fee is expensed.

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

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

(g) Exploration & Evaluation Expenditure

The accounting policy adopted by the Group is as follows:

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalised in exploration and evaluation expenditure.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is underway to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

The Company accounts for exploration and evaluation activities as follows:

Acquisition costs - Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment of economically recoverable reserves.

Exploration and evaluation expenditure - Costs arising from on-going exploration and evaluation activities are assessed on a project basis.

Project Icewine, Yukon Gold leases and Western Block leases: Exploration and evaluation expenditure associated with these project are capitalised to the Statement of Financial Position in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

There are currently no other active projects.

(h) Income Tax

(i) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

(ii) Deferred tax

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- a. when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- b. when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- a. when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- c. when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes relating to items recognised directly in other comprehensive income or equity are recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) Goods and Services Tax

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

Receivables and payables area stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Consolidated Statement of Financial Position.

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

(j) Revenue recognition

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period..

(i) Interest income

Interest revenue is recognised as it accrues, using the effective interest method.

(ii) Dividends

Revenue is recognised from dividends when the Group's right to receive the dividend payment is established, which is generally when shareholders approve the dividend.

(k) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

For trade and other receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience.

(m) Plant and Equipment

Each class of plant and equipment is carried at cost or recoverable amount less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment is recognised at fair value on initial recognition and subsequently on the cost basis.

Subsequent directly attributable costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation of plant and equipment is calculated on a straight-line basis so as to write off the net costs of each asset over the expected useful life. The following estimated useful lives are used in the calculation of depreciation:

| | |
|---------------------|--------------|
| Plant and Equipment | 2 to 5 years |
|---------------------|--------------|

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the statement of profit or loss and other comprehensive income.

(n) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(o) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(p) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(q) Employee Benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(r) Contributed equity

Ordinary shares are classified as equity.

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

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(s) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to the members of the parent, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(t) Share-based Payments

Equity-settled and cash-settled share-based compensation benefits are provided to Key Management Personnel and employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(u) Financial Instruments

(i) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(ii) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.

(v) Comparative figures

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

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

(i) Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale or whether activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Factors which could impact the future recoverability include the level of reserves and resources, future technological changes which could impact the cost of production, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made. Refer to Note 9.

(ii) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 18.

Non-market based performance conditions are assessed by the Company for the best estimate of likelihood of conditions being met and vesting, and timing of recognition of expense. The Company has applied a 100% volatility assumption and an expected vesting period of 4 years for the non-market based tranches, which will be reassessed each reporting period.

(iii) Income taxes

The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity estimates its tax liabilities based on the consolidated entity's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(iv) Alaska's Clear and Equitable Share ("ACES") tax rebate program

The Alaskan Legislator in 2007 enacted Alaska's Clear and Equitable Share ("ACES"), in 2013 ACES was amended under Alaskan Statute 43/55. The ACES program was designed to encourage investment in Alaska's untapped resources by providing tax credits to companies that have qualifying capital expenditure.

The ACES program provides up to 85% tax credit for eligible capital expenditure. All expenditure is audited and must be approved by the Alaskan Department of Revenue. Once approved, the benefit can be exercised in one of the following forms:

- Apply the credit against the production tax, hence reducing total production tax liability in a given year; or
- For unused tax credit, apply a transferrable certificate. This certificate does not have an expiry date and can be sold to a new third party; or
- For unused tax credit, apply to sell the tax credit to the Alaskan Department of Revenue.

The ACES rebate is presented separately and deducted from exploration and evaluation assets. As at 31 December 2018, A\$26,032,985 (2017; A\$19,895,400) is available under the ACES rebate scheme. As at the reporting date, management have considered whether there is any objective evidence as to whether there are any indicators of impairment in accordance with AASB 9 *Financial Instruments* and believe this amount will be recoverable from the Alaskan DOR as a tax rebate in full based on the current legislative arrangements in Alaska. Management anticipate the rebates to be received in a period greater than 12 months, however the timing of payment is dependent on a statutory minimum formula and government approvals which could be for amounts greater than the minimum. Thus, the tax credit has been classified as a non-current receivable in the Statement of Financial Position.

(v) Going Concern

As at 31 December 2018, the Group had working capital of \$17,566,410 (current assets less current liabilities) with cash on hand of \$21,722,211 and a comprehensive net gain of \$967,761 with cash out flow from operating activities for the year of \$(6,584,584).

Of note during the year ended 31 December 2018 the debt facility was renegotiated (refer to ASX release dated 26th of March 2018) and is now due to expire on 30 December 2022, as well as the Group raised over \$37.5 million net from a placements to sophisticated and institutional investors, rights issues and also from option conversions.

The Directors are satisfied the Group is a going concern and therefore have prepared the financial statements on the basis the Group will continue to meet its commitments and can therefore continue normal business activities and realise its assets and settle liabilities in the normal course of business.

NOTE 3 REVENUE AND EXPENSES

(a) Income

Interest revenue
Other income (i)

| 2018 | 2017 |
|------------------|--------|
| \$ | \$ |
| 16,971 | 6,396 |
| 1,345,774 | 50,315 |
| 1,362,745 | 56,711 |

(i) Unwind of the effect of present value discounting of tax receivable

NOTE 3 REVENUE AND EXPENSES (Continued)

| | 2018 | 2017 |
|--|------------------|----------------|
| | \$ | \$ |
| (b) Administrative expenses | | |
| Consultancy and professional fees | 515,102 | 681,639 |
| Legal fees | 173,992 | 7,321 |
| Travel costs | 32,759 | 20,131 |
| General and administration expenses, net of recoveries * | 803,017 | 221,757 |
| | 1,524,870 | 930,848 |

* General and administrative expenses are shown net of recoveries of \$808,705 from the Icewine Joint Venture and the Western Blocks JV. The recoveries represent costs, including time spent by the Consolidated Group's employees on exploration and appraisal interest of the Joint Venture Projects, which get capitalised to the applicable exploration and appraisal area of interest.

(c) Employee benefit expenses

| | | |
|-------------------------|------------------|------------------|
| Wages and salaries | 1,629,320 | 1,390,804 |
| Superannuation | 113,675 | 119,806 |
| Annual leave accrued | 59,488 | 105,781 |
| Other employee expenses | 76,524 | 60,315 |
| | 1,879,007 | 1,676,706 |

NOTE 4 INCOME TAX
(a) The components of tax expense comprise:

| | | |
|---|--------------------|--------------------|
| Current tax | - | - |
| Deferred tax | - | - |
| Income tax expense reported in the of profit or loss and other comprehensive income | - | - |
| Loss before income tax expense | (5,993,426) | (8,408,915) |
| Prima facie tax benefit on loss before income tax at 30% (2017: 30%) | (1,798,028) | (2,522,675) |

| | 2018 | 2017 |
|---|--------------|--------------|
| | \$ | \$ |
| Under provision in prior year | 112,011 | 4,081,717 |
| Tax effect of: | | |
| Investments | | |
| Non-assessable/deductible items: | | |
| Non-deductible entertainment expenses | 1,027 | 1,065 |
| Share based payments | 6,525 | 606,232 |
| Other non-deductible expenses | - | 416 |
| Deferred tax asset on temporary differences and tax losses not brought to account | 1,678,465 | (2,166,756) |
| Income tax expense for the year | - | - |
| (b) Deferred income tax | | |
| Deferred tax liabilities | (136,146) | (127,991) |
| Deferred tax assets | 20,162,317 | 18,968,053 |
| Deferred tax assets not recognised on temporary differences and tax losses | (20,026,171) | (18,840,062) |
| Net deferred tax assets | - | - |

NOTE 4 INCOME TAX (Continued)

The Group has unutilised tax losses for which no deferred tax asset is recognised on the reporting date of \$38,222,368 (2017: \$37,672,978) which are available indefinitely for offset against future tax gains subject to continuing to meet relevant statutory tests.

The deferred tax asset not brought to account will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) the Company is able to meet the continuity of business tests and/ or continuity of ownership.

NOTE 5 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

| | 2018 | 2017 |
|---|----------------------|---------------|
| | \$ | \$ |
| Net (loss) for the year | (5,993,593) | (8,408,915) |
| Weighted average number of ordinary shares for basic and diluted loss per share. | 6,186,428,480 | 4,541,161,228 |
| Options on issue are not considered dilutive to the earnings per share as the Company is in a loss-making position. | | |
| Continuing operations | | |
| - Basic loss per share (\$) | (0.001) | (0.002) |

NOTE 6 CASH AND CASH EQUIVALENTS

(a) Cash details

| | | |
|---|-------------------|------------|
| Cash at bank and in hand ⁽ⁱ⁾ | 21,722,211 | 14,014,422 |
| | 21,722,211 | 14,014,422 |

Cash at banks earns interest at floating rates based on daily deposit rates. Short-term deposits are made in varying periods between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

- (i) Includes \$4.7m of cash restricted for JV Operations.

NOTE 6 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of net loss after tax to net cash flows from operations

| | 2018 | 2017 |
|---|--------------------|-------------|
| | \$ | \$ |
| Loss for the financial year | | |
| <i>Adjustments for:</i> | | |
| Other Income | (1,345,774) | (50,315) |
| Depreciation | 50,609 | 3,952 |
| (Loss)/Gain on foreign exchange | (538,564) | 705,984 |
| Share based payments | 21,750 | 2,020,772 |
| Finance costs | 1,434,921 | 1,851,969 |
| <i>Changes in assets and liabilities</i> | | |
| Decrease / (increase) in receivables | (1,743,777) | (45,083) |
| Increase / (decrease) in trade and other payables | 1,470,356 | (613,574) |
| Increase / (decrease) in provisions | 59,488 | 105,780 |
| Net cash used in operating activities | (6,584,584) | (4,429,430) |

NOTE 7 TRADE AND OTHER RECEIVABLES

| | 2018 | 2017 |
|---|------------------|---------|
| | \$ | \$ |
| Goods and Services Tax (GST) receivable | 116,249 | 45,651 |
| Other deposits and receivables | 1,985,252 | 312,072 |
| | 2,101,501 | 357,723 |

Other receivables are non-interesting bearing and are generally on terms of 30 days.

Other deposits relate largely to refundable deposit on acquisition of acreage for Project Icewine.

Due to the short-term nature of other receivables, the expected fair value approximates their carrying values as at 31 December 2018 and 2017.

(a) Allowance for impairment loss

Expected credit losses in accordance with the Group's new accounting policy (refer Note 1) are nil (2017: Nil).

NOTE 8 PLANT AND EQUIPMENT

| | 2018 | 2017 |
|------------------------------------|---------------|--------------|
| Year ended 31 December 2018 | \$ | \$ |
| Opening net book amount | 4,574 | 6,131 |
| Additions | 9,456 | 2,396 |
| Depreciation charge | (2,858) | (3,952) |
| Closing net book amount | 11,172 | 4,575 |
| At 31 December 2018 | | |
| Cost | 189,389 | 179,935 |
| Accumulated depreciation | (178,217) | (175,360) |
| Net book amount | 11,172 | 4,575 |

NOTE 9 EXPLORATION AND EVALUATION EXPENDITURE

| | | |
|--|-------------------|--------------|
| Carrying amount of exploration and evaluation expenditure | 76,983,981 | 46,934,162 |
| Movement reconciliation | | |
| Balance at the beginning of the financial year | 46,934,162 | 38,227,059 |
| Additions | 24,093,718 | 22,583,765 |
| Tax credit receivable net of present value adjustment ⁽ⁱ⁾ | 899,716 | (11,886,087) |
| Foreign currency translation | 5,056,385 | (1,990,575) |
| Closing balance | 76,983,981 | 46,934,162 |

- (i) Tax credit certificates issued in 2018 and 2017, net of present value adjustment. This amount has been offset against capitalised Exploration and Evaluation Expenditure and recognised within Trade and Other Receivables. The amount when paid by the Alaskan Government will be applied directly against the Brevet loan outstanding.

NOTE 10 OTHER RECEIVABLES

| | | |
|---|-------------------|-------------------|
| North Slope Bid Round Deposit | 29,743 | 353,581 |
| Investments | 425,411 | - |
| ROU Asset – Lease 5 Ord St | 56,434 | - |
| Tax credit receivable ^{(i) (ii)} | 22,465,515 | 19,895,400 |
| | 22,977,103 | 20,248,981 |

- (i) The Alaskan Government has approved a tax credit of A\$26.03 million as at 31 December 2018 (US\$18.35 million). This amount has been fair valued as at 31 December 2018 and recognised as an offset against Exploration & Evaluation capitalised and recognised above within Other Non-Current Assets. The amount paid will be directly applied against the outstanding loan with Brevet.
- (ii) Refer to significant estimate and judgement Note.

NOTE 11 TRADE AND OTHER PAYABLES

| | 2018 | 2017 |
|--------------------------------|------------------|-----------|
| | \$ | \$ |
| Current | | |
| Trade payables ⁽ⁱ⁾ | 403,935 | 123,320 |
| Other payables ⁽ⁱⁱ⁾ | 5,598,014 | 4,544,495 |
| | 6,001,949 | 4,667,815 |

(i) Trade payables are non-interest bearing and are normally settled on 60 day terms.

(ii) On 29 May 2015, the Company received notification that the Moroccan Minister for Energy and Minister for Finance had executed the assignment document, finalising the divestment of the interests of DVM International SARL (“DVM”, 88 Energy’s subsidiary in Morocco) in the Tarfaya Offshore Block. A liability of the Company remains subject to the market capitalisation of 88 Energy reaching a determined level before September 2021 which would trigger a potential liability of the Company of US\$3.4m in cash or 88 Energy stock. In the prior year, this amount was recognised as a contingent liability.

NOTE 12 PROVISIONS

Current

| | | |
|--------------------|----------------|---------|
| Annual Leave | 226,584 | 179,619 |
| Long Service Leave | 28,769 | 16,246 |
| | 255,353 | 195,865 |

NOTE 13 BORROWINGS

Current

| | | |
|----------------------------------|---|------------|
| Bank facility ⁽ⁱ⁾⁽ⁱⁱ⁾ | - | 21,164,883 |
| | - | 21,164,883 |

Non-Current

| | | |
|-------------------------------|-------------------|---|
| Bank facility ⁽ⁱⁱ⁾ | 23,424,471 | - |
| | 23,424,471 | - |

(i) On 20 August 2015, 88 Energy Limited entered into a US\$ 50 million credit agreement (“the Facility”) with Bank of America. The Facility expired 29 June 2018. The Facility contains financial covenants which have been met and borrowings (as at 31 December 2017, US\$17.71 million) are secured by available Tax Credits and Accumulate and Burgundy acreage (refer to Note 26).

(ii) On 23 March 2018, 88 Energy Limited refinanced the Facility and entered into a credit agreement with FCS Advisors, LLC (d/b/a Brevet Capital Advisors). The Facility expires Dec 2022. The Facility contains financial covenants which have been met. As at 31 December 2018, US\$16.50 million has been drawn down under the Facility. Borrowings are secured by available Production Tax Credits and Accumulate and Burgundy acreage (refer Note 26).

Refer to Note 16 for further information on financial instruments.

NOTE 14 CONTRIBUTED EQUITY

(a) Issued and fully paid

| | 2018 | | 2017 | |
|-----------------|----------------------|--------------------|---------------|-------------|
| | No. | \$ | No. | \$ |
| Ordinary shares | 6,331,540,324 | 179,304,850 | 4,649,763,932 | 141,711,466 |

NOTE 14 CONTRIBUTED EQUITY (Continued)

Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the share hold.

(b) Movement reconciliation

| | Number | \$ |
|--|----------------------|--------------------|
| At 1 January 2017 | 4,169,180,418 | 125,157,965 |
| Options exercised on 15 th March at 0.02 cents | 2,350,000 | 47,000 |
| Options exercised on 15 th March at \$0.055 cents | 1,000,000 | 55,000 |
| Options exercised on 19 th March at \$0.02 cents | 6,350,000 | 127,000 |
| Options exercised on 21 st March at \$0.055 cents | 5,000,000 | 275,000 |
| Options exercised on 30 th June at \$0.02 cents | 1,070,000 | 21,400 |
| Placement of 463,513,514 ordinary shares at \$0.037 | 463,513,514 | 17,241,374 |
| Options exercised on 18 th August at \$0.02 cents | 900,000 | 18,000 |
| Options exercised on 14 th November at \$0.02 | 250,000 | 5,000 |
| Options exercised on 14 th November at \$0.02 | 150,000 | 3,000 |
| Less equity raising costs | - | (1,239,273) |
| At 31 December 2017 | 4,649,763,932 | 141,711,466 |
| At 1 January 2018 | 4,649,763,932 | 141,711,466 |
| Options exercised with expiry 2nd March 0.02 cents | 402,389,651 | 8,047,793 |
| Options exercised with expiry 2nd March 0.015 cents | 44,999,999 | 675,000 |
| Placement of 460,811,112 ordinary shares at \$0.037 | 460,811,112 | 17,050,011 |
| Options exercised with expiry 31 August 18 at \$0.016 | 13,224,952 | 211,599 |
| Unlisted Options exercised with expiry 1 November 18 | 2,500,000 | 52,500 |
| Rights Offer 1 for 7 at \$0.018 | 202,295,078 | 3,641,313 |
| Shortfall Shares Issued at \$0.018 | 555,555,600 | 10,000,000 |
| Less equity raising costs | - | (2,084,832) |
| At 31 December 2018 | 6,331,540,324 | 179,304,850 |

NOTE 15 RESERVES

| | 2018 | 2017 |
|--|--------------------|-------------|
| | \$ | \$ |
| Share-based payments | 17,487,389 | 17,465,639 |
| Foreign currency translation reserve | 5,141,001 | (1,820,353) |
| | 22,628,390 | 15,645,286 |
| <u>Movement reconciliation</u> | | |
| Share-based payments reserve | | |
| Balance at the beginning of the year | 17,465,639 | 15,444,867 |
| Equity settled share-based payment transactions (Note 18) | 21,750 | 2,020,772 |
| Balance at the end of the year | 17,487,389 | 17,465,639 |
| Foreign currency translation reserve | | |
| Balance at the beginning of the year | (1,820,353) | 824,118 |
| Effect of translation of foreign currency operations to group presentation | 6,961,354 | (2,644,471) |
| Balance at the end of the year | 5,141,001 | (1,820,353) |

Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. Refer to Note 18 for further details.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future cash flow forecasts.

Risk management is carried out by Management and overseen by the Board of Directors with assistance from suitably qualified external advisors.

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The carrying values of the Group's financial instruments are as follows:

| | 2018 \$ | 2017 \$ |
|------------------------------|-------------------|-------------------|
| Financial Assets | | |
| Cash and cash equivalents | 21,722,211 | 14,014,422 |
| Other receivables | 25,078,604 | 20,606,704 |
| | 46,800,815 | 34,621,126 |
| Financial Liabilities | | |
| Borrowings | 23,424,471 | 21,164,883 |
| Trade and other payables | 6,001,949 | 4,667,815 |
| | 29,426,420 | 25,832,698 |

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US Dollar and Great British Pounds.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

| | 2018 | | 2017 | |
|---------------------------|------------|----------|------------|----------|
| | USD \$ | GBP £ | USD \$ | GBP £ |
| Cash and cash equivalents | 6,841,141 | 341,051 | 9,810,801 | 228,072 |
| Other receivables | 18,358,641 | - | 15,528,121 | - |
| Trade and other payables | - | 14,443 | 122,258 | - |
| Borrowings | 16,518,937 | - | 16,518,937 | - |

Interest rate risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group's exposure to this risk relates primarily to the Group's cash and any cash on deposit. The Group does not use derivatives to mitigate these exposures. The Group manages its exposure to interest rate risk by holding certain amounts of cash in fixed and floating interest rate facilities. The Group has a debt facility with a variable interest rate.

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

| | 2018 | | 2017 | |
|---------------------------|--------------------------------|------------|--------------------------------|------------|
| | Weighted average interest rate | Balance \$ | Weighted average interest rate | Balance \$ |
| Cash and cash equivalents | 1.02% | 21,722,211 | 1.09% | 14,014,422 |
| Borrowings | 13.07% | 23,424,471 | 9.35% | 21,164,883 |

Sensitivity

Within the analysis, consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1% increase and 1% decrease in rates is based on reasonably expected possible changes over a financial year, using the observed range of historical rates for the preceding five-year period.

At 31 December 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax losses and equity would have been affected as follows:

| | Post-tax profit higher/(lower) | | Other comprehensive higher/(lower) | |
|---|--------------------------------|-----------|------------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| <i>Judgements of reasonably possible movements:</i> | \$ | \$ | \$ | \$ |
| Cash and cash equivalents: | | | | |
| + 1.0% (100 basis points) | 152,055 | 98,101 | - | - |
| - 1.0% (100 basis points) | (152,055) | (98,101) | - | - |
| Borrowings: | | | | |
| + 1.0% (100 basis points) | (236,081) | (215,390) | - | - |
| - 1.0% (100 basis points) | 236,081 | 215,390 | - | - |

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with maximum exposure equal to the carrying amount of the financial assets.

The Group's policy is to trade only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group except for cash and cash equivalents held in reputable major banks in Australia and Alaska (AA ratings), and other financial assets relating to the Group's tax credit receivable which is recoverable from the State of Alaska under the ACES rebate scheme. The State of Alaska has a credit rating of AA.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings.

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following are the contractual maturities of financial liabilities:

| | 6 months | 6-12 months | 1-5 years | > 5 years | Total |
|--------------------------|------------|-------------|------------|-----------|------------|
| 2018 | | | | | |
| Trade and other payables | 6,001,949 | - | - | - | 6,001,949 |
| Borrowings | - | - | 23,424,472 | - | 23,424,471 |
| 2017 | | | | | |
| Trade and other payables | 4,667,815 | - | - | - | 4,667,815 |
| Borrowings | 21,164,883 | - | - | - | 21,164,883 |

(c) Capital risk management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the stage of the Company's development there are no formal targets set for return on capital. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The net equity of the Company is equivalent to capital. Net capital is obtained through capital raisings on the Australian Securities Exchange ("ASX").

In determining the funding mix of debt and equity (total borrowings/total equity), consideration is given to the relative impact of gearing ratio on the ability of the consolidated entity to service loan interest and repayment schedules, credit facility covenants and to generate adequate free cash available for corporate and oil and gas exploration. The debt to equity ratio is 25% at 31 December 2018.

(d) Fair values

The management assessed that the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values largely due to the short-term maturities of these instruments. The carrying amounts are determined in accordance with accounting policies disclosed in Note 1. As the borrowings have been entered into during the period it is expected the fair value of the groups borrowings approximates it's carrying value at 31 December 2018.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. prices), or indirectly (i.e. derived from prices); or
- Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

As at 31 December 2018 and 31 December 2017, the Group did not have financial liabilities measured and recognised at fair value. Due to their short-term nature, the carrying amount of the current receivables and payables is assumed to approximate their fair value.

The Alaskan Government has approved a tax credit of A\$26.03 million as at 31 December 2018 (US\$18.35 million). This amount has been fair valued as a level 1 instrument as at 31 December 2018 (refer note 10).

The Group does not have any level 2 or 3 assets or liabilities.

NOTE 17 RELATED PARTY DISCLOSURE

(a) Transactions with related parties

Mr Brent Villemarette* and Dr Stephen Staley were engaged to provide consultancy services to the Company. Derwent Resources Limited is a company in which Stephen Staley is a Director and Villemarette Nominees Pty Ltd was a company in which Brent Villemarette* was a Director. Transactions with related parties were arm's length and on normal commercial terms.

* Brent Villemarette passed away and ceased being a Director of 88 Energy on 29 October 2018

The following transactions occurred with related parties:

| | 2018 \$ | 2017 \$ |
|-------------------------------|-----------------------|------------|
| Derwent Resources Limited | 45,667 ⁽ⁱ⁾ | 108,478 |
| Villemarette Nominees Pty Ltd | 31,049 | 71,290 |

(ii) During the year, the Company paid £25,583 (2017: £64,598) to Derwent Resources Limited for consultancy services. The amount has been translated to Australian Dollars at the average rate.

Consultant fees paid to associated entities were on normal commercial terms.

(b) Key Management Personnel Compensation

Details relating to key management personnel, including remuneration paid, are below.

| | 2018 \$ | 2017 \$ |
|--------------------------|------------------|------------------|
| Short-term benefits | 1,106,098 | 1,033,250 |
| Post-employment benefits | 71,946 | 81,061 |
| Share-based payments | 13,891 | 1,232,000 |
| | 1,191,935 | 2,346,311 |

Information regarding individual Directors compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

(c) Loans to Key Management Personnel

None.

NOTE 18 SHARE-BASED PAYMENTS

(a) Recognised share-based payment transactions

| | 2018 \$ | 2017 \$ |
|---|---------------|------------------|
| Options issued to Directors ⁽ⁱ⁾ | - | 785,856 |
| Options issued to employees ⁽ⁱ⁾ | - | 1,234,916 |
| Performance Rights issued to Directors ⁽ⁱⁱ⁾ | 8,962 | - |
| Performance Rights issued to employees ⁽ⁱⁱⁱ⁾ | 12,788 | - |
| | 21,750 | 2,020,772 |

NOTE 18 SHARE-BASED PAYMENTS (Continued)

(i) Options issued to employees and Directors

During the 2017 year the Company granted 90 million options to Directors and employees (as agreed by shareholders in the Annual General Meeting on 9 March 2017), which have vested and have an exercise price of \$0.06, with expiry on 14 March 2020. The fair value of these shares was treated as a share-based payment expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The fair value per option was calculated using the market price of listed shares at grant date (\$0.038). The total value of options issued was \$2,020,772. The following inputs were used in the Black Scholes valuation model; Expected Volatility 110%, Risk-free interest rate 2.14% Time to expiry 3 years, underlying security spot price at issue \$0.038.

(ii) Performance Rights issued to Director and employees

During the year the Company granted 53.1 million Performance Rights to Directors and employees (as agreed by shareholders in the Annual General Meeting on 15 October 2018). The total value of Performance Rights issued was \$407,122. The Performance Rights are subject to certain vesting conditions noted below. The fair value of these Performance Rights was treated as a share-based payment expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The fair value per Performance Right and the following inputs were used in the Black Scholes valuation model;

| Performance Rights Issued 2018 | Tranche A | Tranche B | Tranche C | Tranche D | Tranche E | Tranche F | Tranche G |
|---|-------------|------------|------------|------------|------------|------------|------------|
| | Share Price | | | Resources | Reserves | Production | Tenure |
| Grant Date | 15/10/2018 | 16/10/2018 | 17/10/2018 | 18/10/2018 | 19/10/2018 | 20/10/2018 | 21/10/2018 |
| Expiry Date | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 | 24/10/2022 |
| Fair Value per Performance Right (\$) | 0.0002 | 0.0001 | - | 0.0190 | 0.0190 | 0.0190 | 0.0190 |
| Exercise Price | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Expected volatility | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Risk-free rate | 2.03% | 2.03% | 2.08% | 2.30% | 2.30% | 2.30% | 2.08% |
| Life of rights | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years |
| Underlying security price at issue (\$) | 0.019 | 0.019 | 0.019 | 0.019 | 0.019 | 0.019 | 0.019 |
| Vesting period ⁽ⁱ⁾ | 1 | 2 | 3 | 4 | 4 | 4 | 3 |

(i) Refer note 2(ii) for significant estimates and judgements with regards to expected vesting periods.

Performance Rights were issued under five tranches with the following vesting conditions;

- Tranche A, B and C (Share Price tranche): tranches have a performance period of 12 months for tranche A, 24 months for tranche B and 36 months for tranche C, at which point the vesting conditions relating to absolute share price growth will be tested with total number of rights to vest dependant on outcome of testing;
- Tranche D (Resources tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources;
- Tranche E (Reserves tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources;
- Tranche F (Production tranche): tranche has non-market based vesting conditions attached that relate to the growth in the Company's Resources; and
- Tranche G (Tenure tranche): tranche has non-market based vesting conditions attached that require the employee to remain employed with the Company up to including 3 years from date of issue.;

NOTE 18 SHARE-BASED PAYMENTS (Continued)

(b) Summary of Options and Performance Rights granted during the year

| | Date of Expiry | Exercise Price | Balance at the start of the year | Granted during the year | Exercised during the year | Expired during the year | Balance at the end of the year |
|---------------------------------------|----------------|----------------|----------------------------------|-------------------------|---------------------------|-------------------------|--------------------------------|
| Unlisted | 02-03-18 | \$0.01 | 1,000,000 | - | - | - | - |
| Listed | 02-03-18 | \$0.02 | 392,389,650 | - | - | - | - |
| Unlisted | 18-02-18 | \$0.02 | 45,000,000 | - | - | - | - |
| Unlisted | 31-08-18 | \$0.02 | 13,224,952 | - | - | - | - |
| Unlisted | 01-11-18 | \$0.02 | 62,965,301 | - | - | - | - |
| Employee options ⁽ⁱⁱ⁾ | 02-03-18 | \$0.02 | 10,000,000 | - | - | - | - |
| Placement options ⁽ⁱ⁾ | 27-10-21 | \$0.06 | 131,500,000 | - | - | - | 131,500,000 |
| Placement fee options ⁽ⁱⁱ⁾ | 27-10-21 | \$0.05 | 22,000,000 | - | - | - | 22,000,000 |
| Unlisted | 14-3-2022 | \$0.06 | 90,000,000 | - | - | - | 90,000,000 |
| Performance Rights | 24-10-2022 | - | - | 53,149,110 | - | - | 53,149,110 |
| | | | 768,079,903 | 53,149,110 | - | - | 296,649,110 |

Weighted average exercise price \$0.03

- (i) Placement options; On 27 October 2016, the Company issued 137.5 million unlisted options at an exercise price of A\$0.055 expiring on the five-year anniversary of completion to investors.
- (ii) Refer to Note 18(a).

Unlisted Performance Rights issued to employees & Directors⁽ⁱ⁾

| 2018 | |
|----------------------------------|--|
| Value recognised during the year | Value to be recognised in future years |
| \$ | \$ |
| 21,750 | 385,120 |
| 21,750 | 385,120 |

Unlisted options issued to employee ⁽ⁱ⁾

| 2017 | |
|----------------------------------|--|
| Value recognised during the year | Value to be recognised in future years |
| \$ | \$ |
| 2,020,772 | - |
| 2,020,772 | - |

- (i) Refer to Note 18(a).

NOTE 19 SEGMENT INFORMATION

Identification of reportable segments

For management purposes the Group is organised into the following strategic unit:

- Oil and Gas exploration in the United States of America.

Such structural organisation is determined by the nature of risks and returns associated with each business segment and define the management structure as well as the internal reporting system. It represents the basis on which the group reports its primary segment information to the Board.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the group is managed and provides a meaningful insight into the business activities of the group.

The following table presents details of revenue and operating profit by business segment as well as reconciliation between the information disclosed for reportable segments and the aggregated information in the financial statements. The information disclosed in the table below is derived directly from the internal financial reporting system used by the Board of Directors to monitor and evaluate the performance of our operating segments separately.

| Year ended 31 December 2018 | USA \$ | Unallocated \$ | Total \$ |
|------------------------------------|------------------|--------------------------|--------------------|
| Other revenue | 1,346,043 | 16,702 | 1,362,745 |
| Inter-segment revenue | - | 808,705 | 808,705 |
| Total segment revenue | 1,346,043 | 825,407 | 2,171,450 |
| Inter-segment eliminations | | | (808,705) |
| Total revenue | | | 1,362,745 |
| Loss before income tax expense | (3,126,642) | (2,866,951) | (5,993,593) |
| Total Segment assets | 103,845,629 | 19,950,339 | 123,795,968 |
| Total Segment liabilities | 23,985,109 | 5,696,665 | 29,681,774 |

| Year ended 31 December 2017 | USA \$ | Unallocated \$ | Total \$ |
|------------------------------------|------------------|--------------------------|--------------------|
| Other revenue | 50,563 | 6,148 | 56,711 |
| Inter-segment revenue | - | 738,853 | 738,853 |
| Total segment revenue | 50,563 | 745,001 | 795,564 |
| Inter-segment eliminations | | | (738,853) |
| Total revenue | | | 56,711 |
| Loss before income tax expense | (2,841,947) | (5,566,968) | (8,408,915) |
| Total Segment assets | 67,997,983 | 13,561,880 | 81,559,863 |
| Total Segment liabilities | 21,379,643 | 4,648,920 | 26,028,563 |

NOTE 20 COMMITMENTS AND CONTINGENCIES

Exploration commitments

Exploration Commitments as at year end 2018 are as follows:

Leases:

Holding costs for the acreage currently held by 88 Energy's subsidiaries is US\$10 per acre for the first six years and increase up to a maximum holding costs per acre of US\$250 in the final year of the leases. The anticipated lease payment for 2018 totals US\$3.2 million, however the payment is discretionary and the Company may choose to relinquish the acreage or a portion of acreage at any time, and therefore the Company has commitments for the remaining portion of the tenement life only.

All additional payments for exploration will be at the discretion of the Company, other than what is noted below, as the Company. The Company can exit the leases at any time with no penalty.

Western Blocks leases Winx-1 well:

88 Energy is earning a 36% working interest (paying 40%) in four leases (totalling 22,711 acres), and will fund the costs of the Winx-1 exploration well together with its consortium partners, Otto Energy Ltd and Red Emperor Resources NL, with anticipated expenditure in 2019 of USD\$4.6 million net to 88 Energy and net of the refund of the bond posted with the State of Alaska of USD\$3 million gross (USD\$1.2 million net to 88 Energy).

Exploration Commitments as at year end 2017 are as follows:

Leases:

In December 2017, 88 Energy Ltd via its subsidiary companies, Accumulate Energy Alaska Inc and Regenerate Alaska Inc, was announced as highest bidder on 32,800 gross acres as part of the North Slope Areawide 2017W lease sale. A non-refundable 20% down-payment of US\$275,959 to secure the rights to the acreage. As per the previous bid rounds, finalisation of the acquisition is subject to formal award and payment of the remainder of the bid (80%) plus US\$10 per acre rentals (~US\$1.4m in total).

Holding costs for the acreage is US\$10 per acre for the first six years. In year seven, holding costs per acre increase to US\$200. The anticipated lease payment for 2018 totals US\$2.9 million, however the payment is discretionary and the Company may choose to relinquish the acreage or a portion of acreage at any time, and therefore the Company has commitments only for the first six years, or remaining portion, of the tenement life only.

All additional payments for exploration will be at the discretion of the Company as the Company will be the operator of the project. The Company can exit the leases at any time with no penalty.

Icewine#2 well:

As at the end of CY2017, Icewine#2 was shut in on 18 September 2017 for the winter period, with further evaluation and analysis being conducted to determine the impact, if any, of the productivity performance of the Icewine#2 well on the probability of success of the HRZ play at the Franklin Bluffs location and over the wider acreage position. Flow testing of the HRZ at Icewine#2 will recommence in April/ May 2018 via an optimised completion and artificial lift at an estimated cost of US\$2 million.

3D Seismic Acquisition:

In December 2017 the Company secured a contract to acquire ~200 sq miles of 3D seismic in February 2018, at a total cost of US\$8 million.

NOTE 20 COMMITMENTS AND CONTINGENCIES (Continued)

Corporate commitments

Commitments at 31 December 2018 are as follows:

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| Within one year | 111,060 | 128,208 |
| After one year but not more than five years | 116,332 | - |
| | 227,392 | 128,208 |

Exploration contingencies

Exploration Contingencies as at year end 2018 are as follows:

None.

Exploration Contingencies as at year end 2017 are as follows:

None.

NOTE 21 CONTINGENT ASSETS

Alaska’s Clear and Equitable Shares (“ACES”) Production tax and Available Credits

The Alaskan Legislator in 2007 enacted Alaska’s Clear and Equitable Share (“ACES”), in 2013 ACES was amended under Alaskan Statute 43/55. The ACES program was designed to encourage investment in Alaska’s untapped resources by providing tax credits to companies that have qualifying capital expenditure.

The ACES program provides up to 85% tax credit for eligible capital expenditure. All expenditure is audited and must be approved by the Alaskan Department of Revenue. The tax credit is available as either:

- A tax refund received in cash;
- A tax credit against the future production tax, thereby reducing the total production tax in any given year; or
- A transferrable certificate, subject to certain conditions being met.

The ACES rebate is to be presented separately and deducted from exploration and evaluation assets. As at 31 December 2018, the approved rebate is US\$18,358,461 as noted in Other Non-current Assets and the contingent rebate applied for and as yet unapproved is US\$2,375,765 (2017: US\$2,375,765) and has been lodged with the Alaska Department of Revenue. The Group believes this amount will be recoverable from the Alaskan Government as a tax rebate in full and will be recognised as a receivable once approval has been received.

The Group has no other contingent assets as at 31 December 2018.

NOTE 22 EVENTS AFTER THE REPORTING DATE

The following events were noted subsequent to the reporting date;

- The Permit to Drill in relation to the Winx-1 well was approved in January 2019, and construction of the ~11 mile ice road to the Winx-1 exploration well location commenced on the 2nd January 2019;
- On 9th January 2019 the Alaskan Department of Revenue announced a further cash purchase of Tax Credit Certificates in the amount of US\$1.575 million. The payment was applied directly against the Brevet debt facility with the remaining outstanding balance totalling US\$15 million;
- Regenerate Alaska Inc, a wholly owned subsidiary of 88 Energy, was announced high bidder in early January 2019 on an additional ~1,920 gross acres in the State of Alaska December 2018 Licensing Round, with formal award expected in mid-2019; and
- The Winx-1 exploration well commenced drilling on the 15th February 2019 at 15:15 (AK time) – on schedule.

NOTE 23 AUDITOR'S REMUNERATION

| | 2018 | 2017 |
|--|--------|--------|
| | \$ | \$ |
| Amounts received or due and receivable to BDO Audit (WA) Pty Ltd for: | | |
| Audit and review of the annual and half-year financial report | 42,468 | 45,120 |
| Total audit services | 42,468 | 45,120 |
| Non-audit services: | | |
| Due diligence & other services | 5,244 | 1,570 |
| Total non-audit services | 5,244 | 1,570 |
| Total auditor remuneration | 47,712 | 46,690 |

NOTE 24 INVESTMENT IN CONTROLLED ENTITIES

| | Principal Activities | Country of Incorporation | Ownership interest | |
|---------------------------------------|----------------------|--------------------------|--------------------|------|
| | | | 2018 | 2017 |
| | | | % | % |
| Fotis Nominees Pty Ltd ⁽ⁱ⁾ | Investment | Australia | 100 | 100 |
| Accumulate Energy USA, Inc | Oil exploration | USA | 100 | 100 |
| Accumulate Energy Alaska, Inc | Oil exploration | USA | 100 | 100 |
| Regenerate Energy USA, Inc | Oil Exploration | USA | 100 | 100 |
| Regenerate Alaska, Inc | Oil exploration | USA | 100 | 100 |
| Captivate Energy Alaska, Inc | Oil Exploration | USA | 100 | - |

(i) This subsidiary is dormant.

NOTE 25 PARENT ENTITY

| | 2018 | 2017 |
|---------------------------------|---------------------|---------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | 94,153,614 | 53,070,922 |
| Non-current assets | 6,444,878 | 8,153,855 |
| Total assets | 100,598,492 | 61,224,777 |
| Liabilities | | |
| Current liabilities | 6,484,297 | 5,693,477 |
| Total liabilities | 6,484,297 | 5,693,477 |
| Equity | | |
| Contributed equity | 179,304,850 | 141,711,466 |
| Reserves | 23,166,467 | 15,495,660 |
| Accumulated losses | (108,357,122) | (101,675,826) |
| Total equity | 94,114,195 | 55,531,300 |
| Loss for the year | (13,123,274) | (12,008,943) |
| Total comprehensive loss | (13,123,274) | (12,008,943) |

Comparative Figures

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

Other Commitments and Contingencies

The Parent has no commitments to acquire property, plant and equipment, and has no contingent liabilities apart from the amounts disclosed in Note 20.

NOTE 26 ASSETS PLEDGED AS SECURITY

The carrying amount of assets pledged as a security interest in and a lien over for current and non-current borrowings are;

| | 2018 | 2017 |
|---|-------------------|------------|
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | - | - |
| Total current assets pledged as security | - | - |
| Non-current assets | | |
| Exploration and evaluation expenditure | 68,736,112 | 46,934,162 |
| Investments in subsidiaries | 127,624 | 128,125 |
| Other assets | 22,465,515 | 19,895,400 |
| Total non-current assets pledged as security | 91,329,251 | 66,957,687 |
| Total assets pledged as security | 91,329,251 | 66,957,687 |

In the Directors' opinion:

- a) The financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:
 - i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
 - ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the year ended on that date
- b) The financial statements and notes comply with International Financial Reporting Standards as disclosed in Note 1.
- c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Mr Michael Evans
Non-Executive Chairman

25 February 2019

INDEPENDENT AUDITOR'S REPORT

To the members of 88 Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of 88 Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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.

Recoverability of exploration and evaluation expenditure

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| <p>As disclosed in Note 9 to the Financial Report, the carrying value of capitalised exploration and evaluation expenditure represents a significant asset of the Group.</p> <p>Refer to Notes 1(g) and 2 (i) to the Financial Report for a description of the accounting policy and significant judgements applied to capitalised exploration and evaluation expenditure.</p> <p>In accordance with AASB 6 Exploration for and Evaluation of Mineral Resources (AASB 6), the recoverability of exploration and evaluation expenditure requires significant judgement by management in determining whether there are any facts or circumstances that exist to suggest that the carrying amount of this asset may exceed its recoverable amount. As a result, this is considered a key audit matter.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group’s exploration budgets, ASX announcements and director’s minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Considering whether any facts or circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Notes 1 (g), 2 (i) and 9 to the Financial Report. |

Carrying Value of Alaska's Clear and Equitable Share ("ACES") Tax Credits

| Key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>As disclosed in Note 10 to the Financial Report, the carrying value of ACES Tax Credits represents a significant asset of the Group.</p> <p>Refer to Notes 1 (b) and 2 (iv) to the Financial Report for a description of the accounting policy and significant judgements applied to ACES Tax Credits.</p> <p>AASB 9 Financial Instruments (AASB 9) applies to the Group from 1 January 2018. The adoption of the new standard is inherently complex due to the need to apply the requirements of the new standard to the ACES Tax Credits. The impact of the adoption of this new standard is disclosed in Note 1(b) to the Financial Report.</p> <p>Due to the quantum of the asset and the subjectivity involved in determining whether there has been a significant increase in the credit risk of the ACES Tax Credits since initial recognition, we have determined that the carrying value of ACES Tax Credits a key audit matter.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Verifying the existence and entitlement to the ACES Tax Credits to signed certificates of approval from the Department of Revenue of the State of Alaska; • Evaluating the Group's assessment in relation to the credit risk assessment and adoption of the expected credit loss model in accordance with AASB 9; • Holding discussions with management to understand the credit risk and financial outlook of the State of Alaska and corroborating the Group's position to external data; • Considering whether there were any other data that exists which constitute a significant increase in credit risk of the ACES Tax Credits since initial recognition; and • Assessing the adequacy of the related disclosures in Notes 1 (b), 2 (iv) and 10 to the Financial Report. |

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 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 we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Report

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

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/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 29 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of 88 Energy Limited, for the year ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

BDO Audit (WA) Pty Ltd



Phillip Murdoch

Director

Perth, 25 February 2019

CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement can be found at the following URL <http://88energy.com/about-us/corporate-governance/>.

Additional information required by the Australian Securities Exchange and not shown elsewhere in this Annual Report is as follows. The information is current as of 15 February 2019.

TWENTY LARGEST SHAREHOLDERS

| | Number Held | Percentage |
|---|----------------------|--------------|
| 1. HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942> | 662,491,852 | 10.46 |
| 2. HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA> | 337,387,572 | 5.33 |
| 3. INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTISAS> | 333,422,987 | 5.27 |
| 4. HARGREAVES LANSDOWN (NOMINEES) LIMITED <HLNOM> | 318,783,984 | 5.04 |
| 5. INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTISAS> | 306,541,955 | 4.84 |
| 6. BARCLAYS DIRECT INVESTING NOMINEES LIMITED <CLIENT1> | 266,070,275 | 4.20 |
| 7. HSDL NOMINEES LIMITED <MAXI> | 216,238,255 | 3.42 |
| 8. HSDL NOMINEES LIMITED | 201,432,916 | 3.18 |
| 9. HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED <731504> | 149,883,491 | 2.37 |
| 10. SHARE NOMINEES LIMITED | 128,503,097 | 2.03 |
| 11. VIDACOS NOMINEES LIMITED <IGUKCLT> | 80,851,746 | 1.28 |
| 12. LAWSHARE NOMINEES LIMITED <SIPP> | 68,984,386 | 1.09 |
| 13. J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 68,776,950 | 1.09 |
| 14. WEALTH NOMINEES LIMITED <WRAP> | 64,806,488 | 1.02 |
| 15. JAMES CAPITAL (NOMINEES) LIMITED <PC> | 64,032,783 | 1.01 |
| 16. LAWSHARE NOMINEES LIMITED <ISA> | 63,613,644 | 1.01 |
| 17. HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRADDDOWN> | 52,843,679 | 0.84 |
| 18. JIM NOMINEES LIMITED <JARVIS> | 41,332,959 | 0.65 |
| 19. DAVID JAMES WALL | 39,404,762 | 0.62 |
| 20. INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <TDWHSIPP> | 38,113,649 | 0.60 |
| Totals: Top 20 holders of ORDINARY FULLY PAID SHARES | 3,503,516,330 | 55.34 |

DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

- 6,331,540,324 fully paid shares held by 6,887 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding, is:

| Range | Total holders | Units | % of Issued Capital |
|-------------------------|---------------|----------------------|------------------------|
| 1 - 1,000 | 428 | 51,563 | 0.00 |
| 1,001 - 5,000 | 291 | 947,915 | 0.01 |
| 5,001 - 10,000 | 370 | 3,110,674 | 0.05 |
| 10,001 - 100,000 | 3,201 | 146,639,415 | 2.32 |
| 100,001 - 9,999,999,999 | 2,597 | 6,180,790,757 | 97.62 |
| Total | 6,887 | 6,331,540,324 | 100.00 |

(ii) Unlisted Options

- 90,000,000 Unlisted Options with an exercise price of \$0.06 and an expiry of 14 March 2020
- 22,000,000 Unlisted Options with an exercise price of \$0.05 and an expiry of 27 October 2021
- 131,500,000 Unlisted Options with an exercise price of \$0.055 and an expiry of 27 October 2021
- 10,000,000 Unlisted Options with an exercise price of \$0.03 and an expiry of 31 July 2020

(iii) Performance Rights

There are 53,149,110 Performance Rights on issue. The Performance Rights are subject to vesting conditions.

UNMARKETABLE PARCELS

(i) Ordinary share capital

| | Minimum Parcel Size | Holders | Units |
|---|--------------------------------|----------------|--------------|
| Minimum \$ 500.00 parcel at \$ 0.018 per unit | 27,777 | 2,230 | 25,232,827 |

RESTRICTED SECURITIES

The Company has no Restricted Securities on issue.

SUBSTANTIAL SHAREHOLDERS

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

| | Number of Shares |
|-----|------------------|
| N/A | |

ON-MARKET BUY-BACK

There is no current on-market buy-back.

ACQUISITION OF VOTING SHARES

No issues of securities have been approved for the purposes of Item 7 of Section 611 of the Corporations Act 2001.

TAX STATUS

The Company is treated as a public company for taxation purposes.

FRANKING CREDITS

The Company has no franking credits.

TENEMENT SCHEDULE

| Reference | Project Name | Location | Company Interest |
|--|-----------------|----------|------------------|
| Onshore Alaska, North Slope ¹ | Project Icewine | Alaska | 66% |
| Onshore Alaska, North Slope ² | Yukon Gold | Alaska | 100% |
| Onshore Alaska, North Slope ³ | Western Blocks | Alaska | - |

¹~528,000 acres

² 14,194 acres

³ Currently earning a 36% interest in four leases (totalling 22,711 acres)

COMPETENT PERSONS STATEMENT

Pursuant to the requirements of the ASX Listing Rules Chapter 5 and the AIM Rules for Companies, the technical information and resource reporting contained in this announcement was prepared by, or under the supervision of, Dr Stephen Staley, who is a Non-Executive Director of the Company. Dr Staley has more than 35 years' experience in the petroleum industry, is a Fellow of the Geological Society of London, and a qualified Geologist / Geophysicist who has sufficient experience that is relevant to the style and nature of the oil prospects under consideration and to the activities discussed in this document. Dr Staley has reviewed the information and supporting documentation referred to in this announcement and considers the prospective resource estimates to be fairly represented and consents to its release in the form and context in which it appears. His academic qualifications and industry memberships appear on the Company's website and both comply with the criteria for "Competence" under clause 3.1 of the Valmin Code 2015. Terminology and standards adopted by the Society of Petroleum Engineers "Petroleum Resources Management System" have been applied in producing this document.