

# **88 ENERGY LIMITED**

ABN 80 072 964 179

## **ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**



|  |    |
|--|----|
| CORPORATE INFORMATION  | 2  |
| CHAIRMAN'S REPORT  | 3  |
| DIRECTORS' REPORT  | 5  |
| AUDITOR'S INDEPENDENCE DECLARATION                                     | 27 |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHNSIVE INCOME | 28 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION                           | 29 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY                            | 30 |
| CONSOLIDATED STATEMENT OF CASH FLOWS                                   | 31 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS                         | 32 |
| DIRECTORS' DECLARATION   | 65 |
| INDEPENDENT AUDITOR'S REPORT   | 66 |
| CORPORATE GOVERNANCE STATEMENT   | 70 |
| ADDITIONAL ASX INFORMATION   | 71 |

### **DIRECTORS**

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

### **COMPANY SECRETARY**

Ms Sarah Smith

### **REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS**

Level 2, 5 Ord Street  
WEST PERTH WA 6005

Telephone: +61 (8) 9485 0990  
Facsimile: +61 (8) 9321 8990  
Website: [www.88energy.com](http://www.88energy.com)

### **POSTAL ADDRESS**

PO Box 1674  
West Perth WA 6872

### **COUNTRY OF INCORPORATION AND DOMICILE**

Australia

### **AUDITOR**

BDO Audit (WA) Pty Ltd  
38 Station St  
Subiaco WA 6008

### **BANKERS**

Westpac Banking Corporation  
Level 13, 109 St Georges Terrace  
Perth WA 6000

### **SHARE REGISTRY**

Computershare Investor Services Pty Ltd  
Level 11, 172 St Georges Terrace  
PERTH WA 6000  
Telephone: +61 (8) 9323 2000  
Facsimile: +61 (8) 9323 2033

Computershare Investor Services PLC  
The Pavilions  
Bridgewater Road  
Bristol BS99 6ZZ  
United Kingdom

### **ASX CODES**

|         |      |
|---------|------|
| Shares  | 88E  |
| Options | 88EO |

### **LONDON STOCK EXCHANGE - AIM**

|        |     |
|--------|-----|
| Shares | 88E |
|--------|-----|

Dear Shareholders

It is a pleasure to present my Chairman's Report for the 2017 financial year.

When we look back on the 2017 year it is worth reminding ourselves of why we chose to explore in Alaska. I recall that 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. Many projects were reviewed; some with existing production, both in Australia and internationally. Project Icewine, as it became known, ticked three of our key boxes for a start-up project: funding flexibility, ground floor entry and huge upside potential.

The recent entry by one of Australia's leading oil companies, Oil Search, into Alaska serves to validate our own endeavours. It is noteworthy that Oil Search 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.

Oil Search investor briefings quote vendor Bill Armstrong as describing the source rocks of Alaska as unbelievably rich and prolific, having generated and expulsed 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 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 2017, 88E continued to leverage its early mover advantage building on its strategic acreage position prior to embarking upon a 3D seismic shoot to mature prospects for drilling, targeted for early 2019. Following a successful December 2017 bid round, the Company's net acreage position will be further expanded to approximately 301,000 acres. Unlike the lower 48 States, these leases have an attractive 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 introduce drilling partners once prospects have been defined.

When 88E entered Alaska, exploration was encouraged via rebates for exploration; an incentive that 88E found attractive. Debt funding of these rebates enabled 88E to maintain leverage without the larger 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.

During 2017, 88E drilled Icewine#2 targeting unconventional oil in a program that is ongoing. Concurrently we advanced our work on conventional targets where 3D seismic is being acquired as at the date of this report. Further details can be found in the Operations Review section of this Annual Report. 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 has been more than demonstrated in the recent take up of options by Directors, which further aligns our risk with that of our shareholders.

The process of evaluation is ongoing and 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. One only needs to compare this program with better known shale plays in Texas, like the Eagle Ford and Barnett, to gain an appreciation of the impact successful exploration can have on 88E as oil prices recover.

Speaking of oil prices, the consensus view is that crude oil prices will range around US\$60 a barrel in coming years, with flexible US shale oil acting as a "swing producer" to prevent spikes. Saudi oil minister Khalid al-Falih has stepped up warnings that insufficient supply and above-consensus demand are likely to severely tighten markets in the coming years, despite shale. In any event US\$60 pricing more than underpins our Alaskan endeavours.

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.

My fellow Directors and I acknowledge David and his staff for their sterling efforts in managing 88E's exciting Alaskan program on a tight budget and timeframe.

In turn, this result 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.

Icewine, like crude itself, can be sweet and may this prove to be the case as we embark upon our exciting 2018 program.

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 2017.

### 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 two 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)

Mr Brent Villemarette is a reservoir engineer with more than 35 years experience in the oil and gas industry, both domestic and international. His experience spans a wide range of disciplines including exploration, development, operations, marketing, acquisitions and new ventures. He served as Chief Operations Officer for Transerv Energy, and has also previously been the Operations Director for Latent Petroleum. He has also 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 does not hold, and has 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 33 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 PTP 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. 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 |
|------------------------|-------------------|-------------------|----------------|
| Mr Michael Evans       | 18,541,667        | 13,000,000        | -              |
| Mr David Wall          | 32,291,666        | 60,000,000        | -              |
| Mr Brent Villemairette | 7,221,222         | 11,000,000        | -              |
| Mr Stephen Staley      | 10,141,667        | 11,000,000        | -              |
| <b>Total</b>           | <b>68,196,222</b> | <b>95,000,000</b> | -              |

### 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. A summary of significant activities is outlined below.

### Project Icewine Overview

In November 2014, the Company entered into a binding agreement with Burgundy Xploration (**BEX**) to acquire a significant working interest (87.5%, reducing to 77.5% on spud of the first well on the project) in a large acreage position on a multiple objective, liquids rich exploration opportunity onshore Alaska, North America, referred to as Project Icewine. In June 2016, the gross acreage position was expanded to 271,119 contiguous acres (210,250 acres net to the Company) and again in the second half of 2017 the acreage position was further expanded to ~458,000 gross acres (286,000 net to 88E). In December 2017, the Company successfully bid on additional acres in the Alaska State Licensing Round. On award the Company's net acreage position will be further expanded to ~304,000 acres (Operator of ~270,000 net acres). The primary term for the State leases is 10 years with no mandatory relinquishment and a low 16.5% royalty. Generous exploration incentives have been provided by the State of Alaska with up to 35% of exploration expenditure refundable in cash for activity on the North Slope.

Project Icewine is located on an all year round operational access road with both unconventional and conventional oil potential. The exploration program at Project Icewine has been twofold, firstly to de-risk and progress evaluation of the unconventional HRZ shale play and secondly develop a conventional prospectivity portfolio across the acreage.

The primary objective at Project Icewine is an untested, unconventional liquids-rich shale play in a prolific source rock, the HRZ shale (Brookian Sequence), that co-sourced the largest conventional oil field in North America; the giant Prudhoe Bay Oil Field Complex. Internal modelling and analysis during 2016 indicated that Project Icewine is located in a high liquids vapour phase sweetspot analogous to those encountered in other Tier 1 shale plays e.g. the Eagle Ford, Texas.

The HRZ shale play was successfully evaluated based on core obtained in the Icewine #1 pilot exploration well (2015), marking the completion of Phase I of the Project Icewine exploration program. Phase II commenced in 2016, with the planning and permitting of an appraisal well, Icewine#2, a vertical well designed to stimulate and flow test the HRZ shale and assess its production potential.

The Icewine#2 well designed to evaluate and production test the HRZ shale play was spudded on 24<sup>th</sup> April 2017, using the Doyon Arctic Fox drilling rig. The well reached a Total Depth of 11,450' MD on 15<sup>th</sup> May 2017, on schedule and without incident. An extensive wireline logging program was completed throughout the production interval. Stage 1 and Stage 2 stimulation operations were completed successfully, with over 98% of the intended proppant volume placed in the targeted reservoir zones in the. Flowback commenced on 19<sup>th</sup> June 2017 from Stage 2 (upper zone); with ~20% of the stimulation fluid recovered from the combined zones prior to shut in on 18<sup>th</sup> September 2017, with preliminary results encouraging, with further flow testing scheduled for April / May 2018 with an optimised completion and artificial lift.

A prospectivity review focussing on conventional plays across the Project Icewine acreage was completed in the first half of 2017 using the Icewine 2D data acquired in 2016. Significant resource potential was identified in multiple predominantly stratigraphic/ structural leads. Based on internal estimates the unrisks resource potential indicated the following:

- 1.5 billion barrels of gross mean Prospective Resources
- 1.1 billion barrels of net mean Prospective Resources to 88 Energy

The Company also acquired, reprocessed and interpreted 1,600 line kilometres of vintage 2D seismic in the second half of 2017, to further evaluate and mature the prospectivity announced in January 2017. Additional new leads, coincident with reservoir and oil shows in regional wells, were identified on the newly reprocessed data. Based on the encouraging results the Company plans to acquire 3D seismic across Project Icewine in Q1 2018 over the western area of the acreage to mature up potential drilling candidates for the Winter 2019 season.



**Independent Resource Report by DeGolyer and MacNaughton**

A Prospective Resources Report by DeGolyer and MacNaughton, was commissioned by 88 Energy to evaluate the unconventional 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. Gross acreage position 272,422 acres 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 1: INDEPENDENT ASSESSMENT OF UNCONVENTIONAL PROSPECTIVE RESOURCES<sup>1</sup>**

| Project Icewine:<br>HRZ Shale, North Slope Alaska | Independently Assessed Prospective Recoverable Resource:<br>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   |
| <b>Total Liquids:</b>                             |  |       |       |              |      |
| <b>Gross (Mean)</b>                               |  |       |       | <b>985.3</b> |      |
| <b>Net (Mean) to 88 Energy (WM 77.5%)</b>         |  |       |       | <b>763.1</b> |      |

# Estimated Probability of Geologic Success

2D seismic was commissioned and acquired by the Company across the Project Icewine acreage in 2016. As a result of seismic mapping and interpretation a significant conventional prospectivity portfolio has been developed across the leasehold.

Large conventional leads at Project Icewine have been mapped within the same Brookian petroleum system and shallow to the HRZ shale, including potential high porosity channel and turbiditic sands associated with slope apron and deepwater fan plays (Seabee and Torok Formations). Additional conventional potential may be matured in the Brookian delta topset play, (Nanushuk), and the deeper Kuparuk sands.

The Brookian conventional plays are proven on the North Slope. In 2013 the United States Geological Survey, (USGS), estimated the remaining oil potential to be 2.1 billion barrels within the Brookian sequence alone. Recent multiple discoveries, between 2015 – 2017, within the Brookian Nanushuk and Torok formations have already exceeded those estimates.

Significant oil discoveries included the Pikka oil pool within the Nanushuk Formation announced in 2015, (Armstrong/Repsol); followed up in January 2017 with an ambitious step-out well, Horseshoe 1 some 21 miles south, apparently confirming an extension of the Pikka pool (USGS,2017). The Pikka-Horseshoe play is estimated by industry to hold more than 1,000 million barrels of oil (USGS,2017). Caelus announced the Smith Bay oil discovery within the Torok Formation in 2016 now estimated to contain 1,000 million barrels of oil. The Willow oil pool discovered in 2017 within the Nanushuk Formation, (ConocoPhillips), has resources estimated to be in excess of 300 million barrels of oil.

A reassessment by the USGS in late 2017 now estimates the undiscovered oil and gas resource potential of the Nanushuk and Torok formations, North Slope and within the adjacent National Petroleum Reserve (NPRA), to be 8.7 billion barrels of oil and 25 trillion cubic feet of gas.

These recent oil discoveries in combination with the upgraded resource assessment by the USGS are testament to the significant exploration potential for undiscovered conventional Brookian resource plays extensively deposited across the North Slope acreage.

<sup>1</sup> 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.

### 2017 Operations Summary

#### Highlights:

The Company had the following key operational highlights for 2017:

The Icewine#2 appraisal well, designed to test the productivity potential of the unconventional HRZ shale, was spudded on 24<sup>th</sup> April 2017 and achieved the following key project milestones;

- The Arctic Fox drilling rig reached a Total Depth of 11,450' MD on 15<sup>th</sup> May 2017, on schedule and without incident;
- A sophisticated wireline logging program was successfully acquired throughout the production interval;
- The multi-stage, cluster stimulation operations were completed successfully, with over 98% of the intended proppant volume placed in the HRZ reservoir;
- The HRZ shale was the first time an unconventional source reservoir rock on the North Slope had been fractured and stimulated;
- Flowback commenced on 19<sup>th</sup> June 2017 from Stage 2 (upper zone), with ~20% of the stimulation fluid recovered from the combined zones prior to shut in on 18<sup>th</sup> September 2017, with preliminary results encouraging, but not definitive;
- The Icewine#2 well was shut in for the Arctic Winter on September 18<sup>th</sup>, 2017; flow testing is scheduled to be re-initiated in April / May 2018 in more favourable weather conditions with an optimised completion using artificial lift; and
- Drilling and production testing expenditure at Icewine#2 remains within budget.

A conventional prospectivity review was completed in the first half of the year on Icewine 2D seismic data (2016). Based on internal estimates the resource potential identified (unrisked) in the conventional portfolio comprises;

- 1.5 billion barrels of gross mean Prospective Resources;
- 1.1 billion barrels of net mean Prospective Resources to 88 Energy.

Mid-year the Company licensed 1,600 line kilometres of vintage multi-survey 2D seismic across the Project Icewine acreage & reprocessed the data to mature the conventional portfolio. This data was mapped and interpreted in the latter half of 2017. The mapping effort led to a revision of the Conventional Portfolio with new leads identified coincident with reservoir and oil shows in regional wells. The resource potential identified (unrisked) was revised to:

- 1.89 billion barrels gross mean prospective recoverable resources, with
- 1.045 billion barrels net mean to 88 Energy.

The Project Icewine acreage position was augmented in the year, with the Company's net acreage position expanding to approximately 286,000 net acres;

- In August 2017 the Icewine Joint Venture acquired and paid for an additional 76,996 gross acres (48,864 net to 88E);
- In October 2017 the Icewine Joint Venture further expanded its acreage position by acquiring and paying for a further 109,982 acres (27,473 net to 88E), and
- 88 Energy via its subsidiary companies was announced highest bidder on an additional ~32,800 acres from the December 2017 State of Alaska Bid Round, formal award is expected in mid-2018.

### *Icewine#2 Operations*

On 16th February 2017, Accumulate Energy Alaska Inc. entered into a contract with Doyon Drilling Inc to utilise the Arctic Fox rig to drill the Icewine#2 appraisal well, with the rig mobilised to site in late March 2017.

On 6<sup>th</sup> April 2017, approval of the Permit to Drill was granted by the Alaskan Oil and Gas Conservation Commission ('AOGCC') and shortly thereafter on 24<sup>th</sup> April the Icewine#2 well was spudded to evaluate, stimulate and flow test the HRZ liquids rich resource play intersected in Icewine#1 (Accumulate Energy Alaska Inc, 2015).

Icewine#2 reached a Total Depth of 11,450' MD on the 15<sup>th</sup> of May, on schedule and without incident. Wireline logging of the production interval; the cementing of the 4.5" production liner, in preparation stimulation and flow testing, and demobilisation of the Arctic Fox rig was completed by the end of May 2017.

Log interpretation to finalise the stimulation design was completed in early June, and the two-stage multi perforation cluster stimulation of the unconventional HRZ shale reservoir was successfully completed on 19<sup>th</sup> June, with over 98% of the intended proppant volume placed.

Initial clean-up and flow back from the upper zone commenced on 19<sup>th</sup> June, with approximately 8% of the total stimulation fluid recovered before it became apparent that the upper and lower zones were in communication. As a consequence, the plug was drilled out between the upper and lower zones.

On 10th July 2017 the Icewine#2 well was shut in for a period of 7 weeks, to allow for pressure build up and imbibition (or soaking) to occur. Imbibition has proven effective in other unconventional shale plays by allowing frac fluid to be absorbed and displace in-situ water that may be blocking hydrocarbon molecules from being able to freely flow through the reservoir.

Clean up of Icewine#2 recommenced on 31st August, with the well initially flowed back on a 6/64 inch choke which was subsequently reduced to 4/64 inch choke to maintain pressure. Approximately 370 barrels of frac fluid had been recovered as at 17:30 on 3rd September at an average rate of 100 barrels/day. The choke was subsequently stepped up to 8/64 inch on 10 September.

Flow back fluid was run through the test separator due to minor gas indications being evident. The rate of flow achieved was unstabilised ranging from 2 to 4mcf of gas/ day, made up of 76% hydrocarbons, 20% atmospheric gases and 4% inorganics. The produced hydrocarbons comprised 93% methane with 7% heavier fractions. The choke was increased to favourably lower the bottom hole pressure below reservoir pressure to increase drawdown on the formation and potentially improve the flow rate. The well head pressure fell below that required to support flow and Icewine#2 ceased flowing naturally. The well was shut in on 18 September 2017 for a planned extended period over the Arctic winter.

Average flow during the test period was 1.85mcf/d with an increasing ratio of heavy components measured in the gas. A total of 5,533 barrels, 19.9%, of injected stimulation fluids were recovered during the overall testing period prior to shut-in. Results are not considered representative of potential flow rate nor hydrocarbon composition at Icewine#2 due to the low recovery of stimulation fluids to date. To achieve connectivity to the reservoir a minimum of 30% recovery of stimulation fluids injected is anticipated to attain representative flowback from the reservoir.

Further evaluation and analysis was conducted post Icewine#2 shut-in 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. Pore throat size and fracture half-length analysis has been conducted, with no impediments to productivity performance identified.

Flow testing of the HRZ at Icewine#2 will be re-initiated in April/May 2018 via an optimised completion using coiled tubing and artificial lift at an estimated cost of USD1.5M (net).

The Icewine#2 well was completed on time and remains under budget at year end.

### *Conventional Prospectivity Portfolio & Reprocessing of Vintage 2D*

88 Energy completed the interpretation of the Icewine 2D seismic data, acquired by the Company early in 2016 across Project Icewine, and was encouraged by the results of the technical evaluation. The principal objective of the seismic acquisition program, to evaluate the conventional prospectivity across Project Icewine, was achieved. A conventional Prospect and Lead Portfolio has been developed to complement the unconventional Prospective Resource potential already recognised in the HRZ liquids rich resource play. Stacking of Leads mapped in the Central region and on the Western margin of Project Icewine may, on maturation, offer the opportunity to test multiple stacked objectives with one exploration well.

The conventional leads mapped are predominantly stratigraphic and the majority are considered to be associated with slope apron, turbidites and basin floor fan development. The Tarn Oil Pool, Kuparuk River Unit to the north west of Project Icewine is considered a proven and productive analogue. The Tarn Oil Pool comprises multiple stacked sands within the Seabee Formation of the Brookian Group.

Additional resource potential (unrisked) identified for conventional leads across Project Icewine acreage, based on internal estimates and was announced in Q1 2017. This comprised:

- 710 million barrels of gross mean Prospective Resources (unrisked);
- 550 million barrels of net mean Prospective Resources to 88 Energy (unrisked).

The overall Conventional Resource Potential for Project Icewine, including previously reported leads, was reported as:

- 1.47 billion barrels gross mean Prospective Resources (unrisked);
- 1.14 billion barrels net mean Prospective Resources to 88 Energy (unrisked);

Mid-year a further 1600line kilometres of multi-survey 2D vintage seismic was licensed by the Company and reprocessed with the intention to improve seismic coverage across the Project Icewine acreage and mature the Conventional Prospects and Lead Portfolio to identify potential drilling candidates.

During the latter half of 2017, seismic interpretation and mapping of the licensed 2D data was finalised across the Project Icewine acreage. The final seismic interpretation was highly encouraging and resulted in a revision of the prospective resources (unrisked) in the Project Icewine Conventional Portfolio. The portfolio of multiple large conventional leads, principally stratigraphic/ structural, was matured comprising:

- 1.89 billion barrels gross mean prospective recoverable resources;
- 1.045 billion barrels net mean to 88 Energy.

| PROJECT ICEWINE CONVENTIONAL PORTFOLIO |  |      |      |              |                 |
|--|--|------|------|--------------|-----------------|
| Prospective Recoverable Resources MMBO |  |      |      |              |                 |
| Leads                                  | NOVEMBER 2017: Post Mapping & Interpretation of Reprocessed 2D |      |      |              |                 |
|  | Unrisked   |      |      |              |                 |
| Q4 2017 REVIEW                         | Low  | Best | High | Gross Mean   | Net Mean to 88E |
| <b>WESTERN PLAY FAIRWAY</b>            |  |      |      |              |                 |
| Bravo                                  | 129  | 215  | 357  | 232          | 180             |
| Lima                                   | 281  | 457  | 731  | 488          | 190             |
| Stellar                                | 64   | 150  | 353  | 187          | 136             |
| Mike                                   | 90   | 166  | 293  | 182          | 54              |
| Rose                                   | 98   | 171  | 287  | 185          | 103             |
| Victor                                 | 20   | 31   | 47   | 33           | 25              |
| Charlie West                           | 15   | 25   | 42   | 27           | 21              |
| Oscar                                  | 15   | 27   | 47   | 29           | 23              |
| Papa                                   | 8  | 14   | 25   | 15           | 12              |
| Charlie 4 Way                          | 9  | 15   | 24   | 16           | 12              |
| <b>CENTRAL PLAY FAIRWAY</b>            |  |      |      |              |                 |
| Echo                                   | 60   | 138  | 293  | 162          | 121             |
| Golf                                   | 106  | 193  | 339  | 211          | 72              |
| <b>EASTERN PLAY FAIRWAY</b>            |  |      |      |              |                 |
| Alpha                                  | 19   | 71   | 263  | 118          | 91              |
| Romeo                                  | 2  | 3    | 5    | 4            | 3               |
| Sierra                                 | 1  | 2    | 3    | 2            | 2               |
| <b>FINAL TOTAL</b>                     |  |      |      | <b>1,891</b> | <b>1,045</b>    |

Prospective Resources classified in accordance with SPE-PRMS as at 24th November 2017 using probabilistic and deterministic methods on an unrisked basis. Leads identified from interpretation of modern 2D seismic acquired in 2015/2016 and legacy reprocessed 2D seismic of varying vintages post 1980 across Project Icewine, which comprises 460,000\* gross 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 ~75% working interest over the majority\* of 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

\* Operator on ~252,000 net acres

The conventional leads are predominantly a combination of stratigraphic / structural traps, a portion of the leads correlate with potential reservoir and oil shows in neighbouring regional wells and are AVO supported. Deeper potential was identified on the reprocessed 2D vintage dataset, including stacked Torok and Seabee Formation basin floor sands associated with lowstand events. This provides the opportunity to test multiple objectives by an exploratory well in the Western Play fairway. This play type is broadly analogous to the Meltwater/ Tarn depositional system to the north of our acreage.

The results of the Project Icewine Conventional Portfolio review Q4 2017 were extremely promising and, as a consequence, planning commenced to acquire a ~500km2 vibroseis 3D survey across a number of the more prospective leads in the Western Play Fairway. After a seismic acquisition tendering process, the award was made to Geokinetics Inc. and is scheduled to commence in February 2018. The 3D seismic data is considered crucial to mitigate exploration risk, work up conventional drilling candidates for the 2019 Winter season, and attract a high calibre farm-in partner.

*New Ventures*

The Company continued to review a number of new ventures opportunities during 2017.

*Project Icewine – Further Increase in Acreage Position*

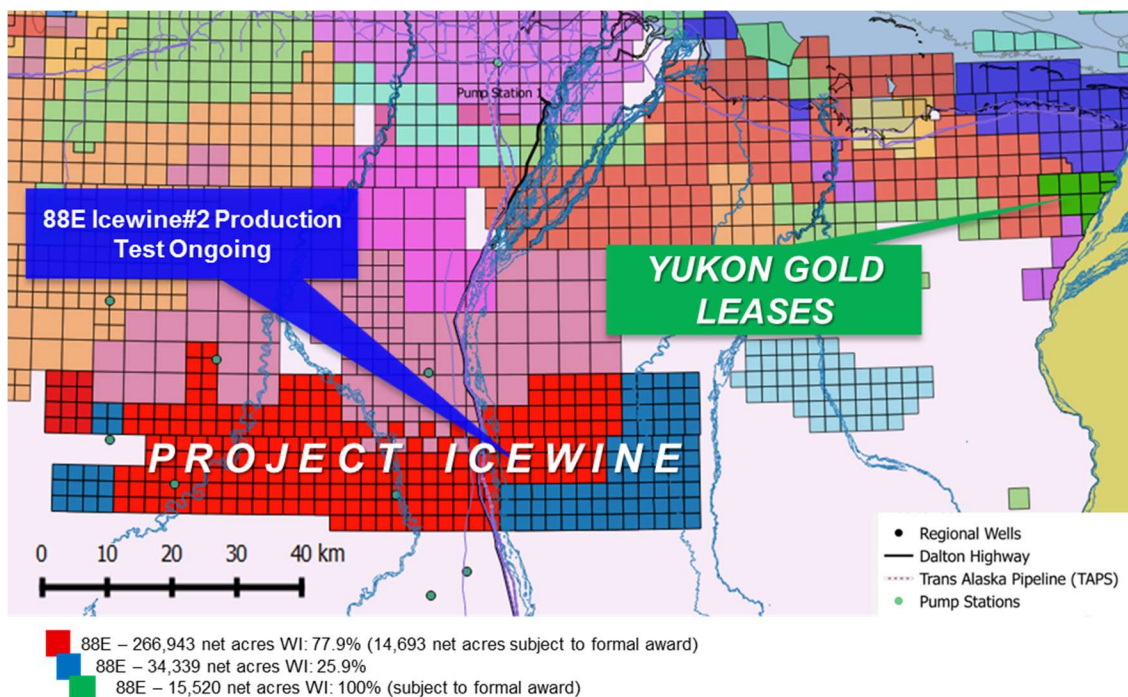
During the second half of 2017 the Company expanded its strategic footprint on the North Slope of Alaska, with the Project Icewine Joint Venture expanding its acreage position to ~ 460,000 gross acres, with the Company's net acreage position expanding to approximately 286,000 net acres (Operator of ~252,000 net acres).

Specifically, the Project Icewine Joint Venture was awarded 109,817 gross acres on the 7th July as part of a broader package of successful bids submitted in the December 2016 North Slope lease sale. Of these 109,817 gross acres, 76,996 gross acres (48,864 net to 88E) were taken up and paid for. Given the ongoing testing and analysis of Icewine#2, a decision was made to accept award on acreage where the coincidence of prospectivity for both the conventional and unconventional was greatest.

Further, the Project Icewine Joint Venture took up and paid for a further 109,982 gross acres (27,473 acres net to 88 Energy) in October 2017, which were part of a broader package of successful bids submitted in the December 2016 North Slope lease sale.

In addition, 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 on 6<sup>th</sup> December 2017, as part of the State of Alaska North Slope Areawide 2017W lease sale. Formal award is anticipated in mid-2018.

The current awarded lease position for the Joint Venture as at 31 December 2017 is summarised below;





### *Oversubscribed Placement to Raise A\$17 million*

On the 6<sup>th</sup> of March, the Company announced that it had successfully completed a capital raise of A\$17 million, with the placement made to domestic and international institutional and sophisticated investors through the issue of 463,513,514 ordinary shares of no par value at A\$0.037 (equivalent to £0.023) per New Ordinary Share.

Funds raised under the Placement strengthened the Company's balance sheet ahead of the drilling of the Icewine#2 well. Specifically, the proceeds will provide the Company with the financial flexibility to cover any unexpected costs arising from the drilling of Icewine#2, lease payments due in respect of the significant new acreage awarded and ongoing exploration activities.

### Corporate Summary

The Corporate highlights for the company during the year included:

- On the 6th of March, the Company announced that it had successfully completed a capital raise of A\$17 million, with the placement made to domestic and international institutional and sophisticated investors through the issue of 463,513,514 ordinary shares of no par value at A\$0.037 (equivalent to £0.023) per New Ordinary Share. Funds raised under the Placement strengthened the Company's balance sheet ahead of the drilling of the Icewine#2 well.

### Financial Performance

The financial results of the Group for the year ended 31 December 2017 are:

|                           | <b>31-Dec-17</b>   | 31-Dec-16   | Change |
|---------------------------|--------------------|-------------|--------|
|                           | \$                 | \$          | %      |
| Cash and cash equivalents | <b>14,014,422</b>  | 27,303,178  | (49)%  |
| Net Assets                | <b>55,531,300</b>  | 48,010,413  | 16%    |
| Revenue and other income  | <b>56,711</b>      | 158,627     | (64)%  |
| Net loss after tax        | <b>(8,408,915)</b> | (9,401,264) | (11)%  |

The loss for the year was \$8,411,952 (2016: \$9,401,264). The loss was largely attributable to administrative expenditure, share based payments and finance costs associated with the debt facility.

At the end of the financial year, the Group had cash on hand of \$14,014,422 (2016: \$27,303,178), net assets of \$55,531,300 (2016: \$48,010,413) and current liabilities of \$26,028,563 (2016: \$6,218,028). The significant increase in assets is largely due to the Company spending approximately \$22,755,649 million on exploration on the Icewine Project (net of partner contributions). Current liabilities have increased as a result of the Bank of America debt moving from Non-Current Liabilities due to the debt maturing on 30 June 2018, however note there has also been a significant increase in tax credit receivables to A\$19,895,400, which will be applied against the debt.

During the year, the Company raised approximately \$16.4 million net of costs through the issue of new shares, predominately from the Company completing an oversubscribed placement to raise \$17 million (before costs) in March 2017, with the funds raised used to fund continued exploration of Project Icewine.

### 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

- 88 Energy Ltd entered into an option underwriting agreement in February 2018, to underwrite the Company's listed option series (88EO) up to the value of A\$6.75 million (refer to ASX announcement on 12<sup>th</sup> February 2018). As at the date of this report a total of 405 million of the 88EO option series had been converted raising a total of A\$8.1 million, and pursuant to the Option Underwriting Agreement, the underwriter Hartleys Limited or its sub-underwriters, will now take up 8.7m shares in the Company comprising the Shortfall. In addition, 45 million unlisted options exercisable at \$0.015 were converted raising an additional A\$675,000 in funds; and
- On the 23rd of March 2018 (U.S.A. time zone), 88 Energy Ltd's 100% controlled subsidiary Accumulate Energy Alaska Inc entered into a US\$ 16.5 million debt refinancing agreement to replace the existing Bank of America debt facility. The key terms to the facility are noted in the ASX announcement released on 26th of March 2018.

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 Company in subsequent financial years.

### LIKELY DEVELOPMENTS AND FUTURE STRATEGY

During the Alaskan winter shut-in period further evaluation and analysis will be 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 using artificial lift.

In December 2017 the Company awarded a 3D seismic contract to acquire approximately 200 square miles 3D seismic which is scheduled for February 2018. The 3D seismic will contribute to reducing exploration risk and allow the firming up of 2019 drilling candidates.

Further, in December 2017 the Company successfully bid on additional acres in the Alaska State Licensing Round which is anticipated to be awarded in mid-2018. On award the Company's net acreage position will be further expanded to ~304,000 acres (Operator of ~270,000 net acres).

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 2017, the following Company options were on issue:

| Type                  | Number             | Exercise Price | Expiry Date |
|-----------------------|--------------------|----------------|-------------|
| Unlisted              | 1,000,000          | \$0.014        | 02-03-18    |
| Listed                | 402,389,650        | \$0.02         | 02-03-18    |
| Unlisted              | 45,000,000         | \$0.015        | 18-02-18    |
| Unlisted              | 13,224,952         | \$0.016        | 31-08-18    |
| Unlisted              | 62,965,301         | \$0.021        | 01-11-18    |
| Placement options     | 131,500,000        | \$0.055        | 27-10-21    |
| Placement fee options | 22,000,000         | \$0.05         | 27-10-21    |
| Unlisted              | 90,000,000         | \$0.06         | 14-03-20    |
| <b>TOTAL</b>          | <b>768,079,903</b> |                |             |

Option 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, 447,389,650 shares were issued as a result of the exercise of options, raising a total of A\$8,722,793.

### 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      | 4                         | 4               |
| David Wall         | 4                         | 4               |
| Brent Villemarette | 4                         | 4               |
| Stephen Staley     | 4                         | 4               |

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 2017 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                              |
| Dr Stephen Staley     | Non-Executive Director                              |
| Mr Ashley Gilbert     | Chief Financial Officer (appointed 30 January 2017) |

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 2016 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 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 two years:

|                            | 31-Dec-17              | 31-Dec-16       |
|----------------------------|------------------------|-----------------|
| Loss after income tax (\$) | <b>(8,408,915)</b>     | (9,401,264)     |
| EPS (cents per share)      | <b>(0.002)</b>         | (0.003)         |
| Share price                | <b>\$0.026</b>         | \$0.045         |
| Market capitalisation      | <b>\$120.9 million</b> | \$187.6 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 financial year as detailed in this remuneration report.

In the 2016 financial year, a \$200,000 performance based bonus was paid to David Wall. In determining the extent of his performance based bonus, the Company took into consideration the key performance indicators of Mr Wall and the Company.

**c) Variable Remuneration – Long Term Incentives (LTI)**

The Company adopted an Incentive Option Scheme during the year ended 31 December 2015. The 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 2017 and 31 December 2016 is set out below:

| Directors            | Year | Short-term Employee Benefits |                       |                             |                          | Post-Employment Benefits | Share Based Payments   | Total     |
|----------------------|------|------------------------------|-----------------------|-----------------------------|--------------------------|--------------------------|------------------------|-----------|
|                      |      | Salary & fees                | Non-monetary benefits | Annual & Long Service Leave | Other                    | Superannuation           | Options <sup>(i)</sup> |           |
|                      |      | \$                           | \$                    | \$                          | \$                       | \$                       | \$                     | \$        |
| Michael Evans        | 2017 | 140,000                      | -                     |                             | 15,000 <sup>(ii)</sup>   | 13,300                   | 112,000                | 280,300   |
|                      | 2016 | 123,333                      | -                     |                             | -                        | 11,717                   | -                      | 135,050   |
| David Wall           | 2017 | 400,000                      |                       | 48,270 <sup>(iv)</sup>      | 25,000 <sup>(ii)</sup>   | 38,000                   | 448,000                | 959,270   |
|                      | 2016 | 366,667                      | -                     | 34,506 <sup>(iv)</sup>      | 200,000 <sup>(iii)</sup> | 34,833                   | -                      | 636,006   |
| Brent Villemarette   | 2017 | 65,000                       |                       |                             |                          | 6,175                    | 112,000                | 183,175   |
|                      | 2016 | 65,000                       | -                     |                             | -                        | 6,175                    | -                      | 71,175    |
| Stephen Staley       | 2017 | 65,000                       |                       |                             |                          |                          | 112,000                | 177,000   |
|                      | 2016 | 65,000                       | -                     |                             | -                        | -                        | -                      | 65,000    |
| Total - Remuneration | 2017 | 670,000                      |                       | 48,270                      | 40,000                   | 57,475                   | 784,000                | 1,599,745 |
|                      | 2016 | 620,000                      | -                     | 34,506                      | 200,000                  | 52,725                   | -                      | 907,231   |

(i) Share-based payments are the options and performance rights expensed over the vesting period.

(ii) Mr Wall was paid a discretionary performance based cash bonus of \$25,000, in February 2017 and Mr Michael Evans was also paid a discretionary performance based cash bonus of \$15,000 in February 2017.

(iii) Mr Wall was paid a cash bonus of \$200,000 in May 2016.

(iv) Includes annual leave - \$36,450 and long service leave - \$11,820. No long service leave recorded in 2016

Table 1(b) – Remuneration of KMP – Executives of the Group for the years ended 31 December 2017 and 31 December 2016 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    | Superannuation           | Options <sup>(i)</sup> |                |
|                               |      | \$                           | \$                    |                             | \$       | \$                       | \$                     | \$             |
| Ashley Gilbert <sup>(i)</sup> | 2017 | 254,761                      | -                     | 20,219                      | -        | 23,586                   | 448,000                | 746,566        |
|                               | 2016 | -                            | -                     | -                           | -        | -                        | -                      | -              |
| <b>Total</b>                  | 2017 | <b>254,761</b>               |                       | <b>20,219</b>               | <b>-</b> | <b>23,586</b>            | <b>448,000</b>         | <b>746,566</b> |
| <b>Remuneration</b>           | 2016 | <b>-</b>                     | <b>-</b>              | <b>-</b>                    | <b>-</b> | <b>-</b>                 | <b>-</b>               | <b>-</b>       |

(i) Mr Ashley Gilbert (Chief Financial Officer) was appointed 30 January 2017.

(ii) Includes annual leave - \$19,397 and long service leave - \$822

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 (%) |      |
|--------------------|--------------------|------|-------------------|------|-------------------|------|
|                    | 2017               | 2016 | 2017              | 2016 | 2017              | 2016 |
| <b>Directors</b>   |                    |      |                   |      |                   |      |
| Michael Evans      | 55%                | 100% | 5%                | -    | 40%               | -    |
| David Wall         | 51%                | 67%  | 3%                | 33%  | 47%               | -    |
| Brent Villemarette | 39%                | 100% | -                 | -    | 61%               | -    |
| Stephen Staley     | 37%                | 100% | -                 | -    | 63%               | -    |
| <b>Executives</b>  |                    |      |                   |      |                   |      |
| Ashley Gilbert     | 40%                | -    | -                 | -    | 60%               | -    |

The proportion of STI and LTI of performance based remuneration forfeited in 2017 was nil.

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

| 31 December 2017   | Balance at 01/01/2017 | Granted as Remuneration | On Exercise of Options | Net Change – Other | Balance at 31/12/2017 |
|--------------------|-----------------------|-------------------------|------------------------|--------------------|-----------------------|
| <b>Directors</b>   |                       |                         |                        |                    |                       |
| Michael Evans      | 8,416,667             | -                       | -                      | -                  | 8,416,667             |
| David Wall         | 11,666,666            | -                       | -                      | -                  | 11,666,666            |
| Brent Villemarette | 1,221,222             | -                       | -                      | -                  | 1,221,222             |
| Stephen Staley     | 5,816,667             | -                       | -                      | -                  | 5,816,667             |
| <b>Total</b>       | <b>27,121,222</b>     | <b>-</b>                | <b>-</b>               | <b>-</b>           | <b>27,121,222</b>     |

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

| 31 December 2017   | Balance at 01/01/2017 | Granted as Remuneration | Exercised | Expired            | Balance at 31/12/2017 | Vested & Exercisable |
|--------------------|-----------------------|-------------------------|-----------|--------------------|-----------------------|----------------------|
| <b>Directors</b>   |                       |                         |           |                    |                       |                      |
| Michael Evans      | 19,125,000            | 5,000,000               | -         | (1,000,000)        | 23,125,000            | 23,125,000           |
| David Wall         | 67,125,000            | 20,000,000              | -         | -                  | 87,125,000            | 87,125,000           |
| Brent Villemarette | 12,000,000            | 5,000,000               | -         | -                  | 17,000,000            | 17,000,000           |
| Stephen Staley     | 14,825,000            | 5,000,000               | -         | (2,000,000)        | 17,825,000            | 17,825,000           |
| <b>Executives</b>  |                       |                         |           |                    |                       |                      |
| Ashley Gilbert     | -                     | 20,000,000              | -         | -                  | 20,000,000            | 20,000,000           |
| <b>Total</b>       | <b>113,075,000</b>    | <b>55,000,000</b>       | <b>-</b>  | <b>(3,000,000)</b> | <b>165,075,000</b>    | <b>165,075,000</b>   |

### 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. Previously A\$300,000 for the period 1 January 2016 to 30 April 2016.
- 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. Mr Wall received a A\$200,000 performance based bonus during the previous financial year.
- 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 Brent Villemarette – Non-Executive Director

- Contract: Commenced on 27 October 2010.
- Director's Fee: \$65,000 per annum plus superannuation.
- Refer to Note 1 below for details pertaining to re-appointment and termination.

#### ❖ Mr Stephen Staley – Non-Executive Director

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

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.

Options were issued to KMP in the 2017 financial year per the table below. No options were issued in the 2016 financial year.

| Directors      | Options            | Issue Date | Fair Value per Option (\$) | Total Fair Value (\$) | Exercise Price (\$) | Expiry Date | Employee Benefits Expense <sup>(i)</sup> |                    | Number of Options Vested | % Vested |
|----------------|--------------------|------------|----------------------------|-----------------------|---------------------|-------------|--|--------------------|--------------------------|----------|
|                |                    |            |                            |                       |                     |             | During the year                          | Not yet recognised |                          |          |
| M Evans        | 8,000,000          | 12-02-15   | 0.006                      | 48,368                | 0.015               | 18-02-18    | -  | -                  | 8,000,000                | 100%     |
|                | 2,125,000*         | 05-03-15   | 0.006                      | 12,750                | 0.02                | 02-03-18    | -  | -                  | 2,125,000                | 100%     |
|                | 8,000,000          | 01-11-15   | 0.0073                     | 58,000                | 0.021               | 01-11-18    | -  | -                  | 8,000,000                | 100%     |
|                | 5,000,000          | 11-03-17   | 0.0224                     | 112,000               | 0.06                | 14-03-20    | 112,000                                  | -                  | 5,000,000                | 100%     |
| D Wall         | 25,000,000         | 12-02-15   | 0.006                      | 151,150               | 0.015               | 18-02-18    | -  | -                  | 25,000,000               | 100%     |
|                | 750,000*           | 05-03-15   | 0.006                      | 4,500                 | 0.02                | 02-03-18    | -  | -                  | 750,000                  | 100%     |
|                | 1,375,000          | 02-06-15   | 0.006                      | 8,250                 | 0.02                | 02-03-18    | -  | -                  | 1,375,000                | 100%     |
|                | 40,000,000         | 01-11-15   | 0.0073                     | 290,000               | 0.021               | 01-11-18    | -  | -                  | 40,000,000               | 100%     |
| B Villemarette | 20,000,000         | 11-03-17   | 0.0224                     | 448,000               | 0.06                | 14-03-20    | 448,000                                  | -                  | 20,000,000               | 100%     |
|                | 6,000,000          | 12-02-15   | 0.006                      | 36,726                | 0.015               | 18-02-18    | -  | -                  | 6,000,000                | 100%     |
|                | 6,000,000          | 01-11-15   | 0.0073                     | 43,500                | 0.021               | 01-11-18    | -  | -                  | 6,000,000                | 100%     |
| S Staley       | 5,000,000          | 11-03-17   | 0.0224                     | 112,000               | 0.06                | 14-03-20    | 112,000                                  | -                  | 5,000,000                | 100%     |
|                | 6,000,000          | 12-02-15   | 0.006                      | 36,726                | 0.015               | 18-02-18    | -  | -                  | 6,000,000                | 100%     |
|                | 825,000*           | 05-03-15   | 0.006                      | 4,950                 | 0.02                | 02-03-18    | -  | -                  | 825,000                  | 100%     |
| A Gilbert      | 6,000,000          | 01-11-15   | 0.0073                     | 43,500                | 0.021               | 01-11-18    | -  | -                  | 6,000,000                | 100%     |
|                | 5,000,000          | 11-03-17   | 0.0224                     | 112,000               | 0.06                | 14-03-20    | 112,000                                  | -                  | 5,000,000                | 100%     |
|                | 20,000,000         | 11-03-17   | 0.0224                     | 448,000               | 0.06                | 14-03-20    | 448,000                                  | -                  | 20,000,000               | 100%     |
| <b>Total</b>   | <b>165,075,000</b> |            |                            | <b>1,970,420</b>      |                     |             | <b>1,232,000</b>                         | <b>-</b>           | <b>165,075,000</b>       |          |

\* 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.

**G Equity Instruments Issued on Exercise of Remuneration Options**

No remuneration options were exercised during the financial year.

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

The adoption of the Remuneration Report for the financial year ended 31 December 2016 was put to the shareholders of the Company at the AGM held 9 March 2017. 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 with only 72% of shareholders voting in favour of the adoption of the remuneration report.

**I Other Transactions with KMP**

There were no loans made to any KMP during the year ended 31 December 2017 (2016: nil).

There were no loans from any KMP during the year ended 31 December 2017 (2016: 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 has a consultancy agreement for a maximum term of 3 years commencing 24 September 2014 and was renewed on 1 November 2017 for a further 3 year term. The agreement may be terminated at any time by either party giving a minimum 14 days' written notice. There are no termination benefits payable. In accordance with the agreement, Mr Villemarette is to receive \$2,000 per week (equivalent to \$8,000 per calendar month) based on a 20 hour work week, exclusive of GST. 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 working days per month. Any work that is carried out by the Consultant in excess of 2 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:

|  | 2017           | 2016    |
|--|----------------|---------|
|  | \$             | \$      |
| Derwent Resources Limited <sup>(i)</sup> | <b>108,478</b> | 116,484 |
| Villemarette Nominees Pty Ltd            | <b>71,290</b>  | 51,385  |

- (i) During the year, the Company paid £64,598 (2016: £63,848) 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 2017, 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 27 and forms part of the Directors' Report for the financial year ended 31 December 2017.

### 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.

|  | <b>31-Dec-17</b> | 31-Dec-16 |
|--|------------------|-----------|
| <b>Non-Audit Services</b>              |                  |           |
| <i>Remuneration for other services</i> |                  |           |
| BDO (WA) Pty Ltd                       | 1,570            | -         |
| <b>Total Non-Audit Services</b>        | <b>1,570</b>     | <b>-</b>  |

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



**Mr David Wall**  
Managing Director  
26 March 2018

## AUDITOR'S INDEPENDENCE DECLARATION

---



Tel: +61 8 6382 4600  
Fax: +61 8 6382 4601  
www.bdo.com.au

38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

### 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 2017, 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.

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

**Phillip Murdoch**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 26 March 2018

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation *other than for the acts or omissions of financial services licensees*

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

|   | Note | 2017<br>\$          | 2016<br>\$         |
|---|------|---------------------|--------------------|
| <b>Revenue from continuing operations</b>   |      |                     |                    |
| Other income  | 3(a) | 56,711              | 158,627            |
| Administrative expenses   | 3(b) | (930,848)           | (2,278,431)        |
| Occupancy expenses  |      | (154,689)           | (169,301)          |
| Employee benefit expenses   | 3(c) | (1,676,706)         | (1,295,150)        |
| Share-based payment expense   | 18   | (2,020,772)         | (100,000)          |
| Depreciation and amortisation expense   |      | (3,952)             | (8,232)            |
| Finance cost  |      | (2,703,317)         | (1,702,878)        |
| Other expenses  |      | (269,358)           | (4,790,093)        |
| Foreign exchange losses   |      | (705,984)           | 784,194            |
| <b>Loss before income tax</b>   |      | <b>(8,408,915)</b>  | <b>(9,401,264)</b> |
| Income tax expense  | 4    | -                   | -                  |
| <b>Loss after income tax for the year</b>   |      | <b>(8,408,915)</b>  | <b>(9,401,264)</b> |
| <b>Other comprehensive income for the year</b>  |      |                     |                    |
| <i>Items that may be reclassified to profit or loss</i>                                   |      |                     |                    |
| Exchange differences on translation of foreign operations                                 |      | (2,644,471)         | 440,218            |
| <b>Other comprehensive income / (loss) for the year, net of tax</b>                       |      | <b>(2,644,471)</b>  | <b>440,218</b>     |
| <b>Total comprehensive loss for the year attributable to members of 88 Energy Limited</b> |      |                     |                    |
|   |      | <b>(11,053,386)</b> | <b>(8,961,046)</b> |
| <b>Loss per share for the year attributable to the members of 88 Energy Limited:</b>      |      |                     |                    |
| Basic and diluted loss per share  | 5    | (0.002)             | (0.003)            |

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 2017**

|  | Note | 2017<br>\$        | 2016<br>\$   |
|--|------|-------------------|--------------|
| <b>ASSETS</b>                          |      |                   |              |
| <b>Current Assets</b>                  |      |                   |              |
| Cash and cash equivalents              | 6    | 14,014,422        | 27,303,178   |
| Trade and other receivables            | 7    | 357,723           | 312,644      |
| <b>Total Current Assets</b>            |      | <b>14,372,145</b> | 27,615,822   |
| <b>Non-Current Assets</b>              |      |                   |              |
| Plant and equipment                    | 8    | 4,575             | 6,131        |
| Exploration and evaluation expenditure | 9    | 46,934,162        | 38,227,059   |
| Other receivables                      | 10   | 20,248,981        | 11,158,742   |
| <b>Total Non-Current Assets</b>        |      | <b>67,187,718</b> | 49,391,932   |
| <b>TOTAL ASSETS</b>                    |      | <b>81,559,863</b> | 77,007,754   |
| <b>LIABILITIES</b>                     |      |                   |              |
| <b>Current Liabilities</b>             |      |                   |              |
| Trade and other payables               | 11   | 4,667,815         | 6,127,943    |
| Provisions                             | 12   | 195,865           | 90,085       |
| Borrowings                             | 13   | 21,164,883        | -            |
| <b>Total Current Liabilities</b>       |      | <b>26,028,563</b> | 6,218,028    |
| <b>Non-Current Liabilities</b>         |      |                   |              |
| Borrowings                             | 13   | -                 | 22,779,313   |
| <b>Total Non-Current Liabilities</b>   |      | <b>-</b>          | 22,779,313   |
| <b>TOTAL LIABILITIES</b>               |      | <b>26,028,563</b> | 28,997,341   |
| <b>NET ASSETS</b>                      |      | <b>55,531,300</b> | 48,010,413   |
| <b>EQUITY</b>                          |      |                   |              |
| Contributed equity                     | 14   | 141,711,466       | 125,157,965  |
| Reserves                               | 15   | 15,645,286        | 16,268,985   |
| Accumulated losses                     |      | (101,825,452)     | (93,416,537) |
| <b>TOTAL EQUITY</b>                    |      | <b>55,531,300</b> | 48,010,413   |

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 2017**

|   | Issued<br>Capital<br>\$ | Reserves<br>\$     | Accumulated<br>Losses<br>\$ | Total<br>\$         |
|---|-------------------------|--------------------|-----------------------------|---------------------|
| <b>At 1 January 2017</b>  | <b>125,157,965</b>      | <b>16,268,985</b>  | <b>(93,416,537)</b>         | <b>48,010,413</b>   |
| Loss for the year   | -                       | -                  | (8,408,915)                 | (8,408,915)         |
| Other comprehensive loss  | -                       | (2,644,471)        | -                           | (2,644,471)         |
| <b>Total comprehensive loss for the year after tax</b>          | <b>-</b>                | <b>(2,644,471)</b> | <b>(8,408,915)</b>          | <b>(11,053,386)</b> |
| <b>Transactions with owners in their capacity as owners:</b>    |                         |                    |                             |                     |
| 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)         |
| <b>Balance at 31 December 2017</b>                              | <b>141,711,466</b>      | <b>15,645,286</b>  | <b>(101,825,452)</b>        | <b>55,531,300</b>   |
| <b>At 1 January 2016</b>  | <b>90,654,560</b>       | <b>14,848,766</b>  | <b>(84,015,273)</b>         | <b>21,488,053</b>   |
| Loss for the year   | -                       | -                  | (9,401,264)                 | (9,401,264)         |
| Other comprehensive income                                      | -                       | 440,218            | -                           | 440,218             |
| <b>Total comprehensive income/(loss) for the year after tax</b> | <b>-</b>                | <b>440,218</b>     | <b>(9,401,264)</b>          | <b>(8,961,046)</b>  |
| <b>Transactions with owners in their capacity as owners:</b>    |                         |                    |                             |                     |
| Issue of share capital  | 37,496,660              | -                  | -                           | 37,496,660          |
| Share-based payments  | -                       | 980,001            | -                           | 980,001             |
| Share issue costs   | (2,993,255)             | -                  | -                           | (2,993,255)         |
| <b>Balance at 31 December 2016</b>                              | <b>125,157,965</b>      | <b>16,268,985</b>  | <b>(93,416,537)</b>         | <b>48,010,413</b>   |

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 2017**

|   | <i>Note</i> | <b>2017</b>         | 2016         |
|---|-------------|---------------------|--------------|
|   |             | \$                  | \$           |
| <b>Cash flows from operating activities</b>                   |             |                     |              |
| Payment to suppliers and employees                            |             | <b>(3,729,444)</b>  | (3,676,801)  |
| Interest received   |             | <b>12,359</b>       | 54,248       |
| Interest & finance costs                                      |             | <b>(814,137)</b>    | (4,867)      |
| Other income  |             | <b>101,792</b>      | 129,812      |
| <b>Net cash flows used in operating activities</b>            | 6(b)        | <b>(4,429,430)</b>  | (3,497,608)  |
| <b>Cash flows from investing activities</b>                   |             |                     |              |
| Payments for exploration and evaluation activities            |             | <b>(34,080,618)</b> | (25,588,985) |
| Payment for plant and equipment                               |             | -                   | (3,404)      |
| Contribution from JV Partners in relation to Exploration      |             | <b>11,324,969</b>   | -            |
| <b>Net cash flows used in investing activities</b>            |             | <b>(22,755,649)</b> | (25,592,389) |
| <b>Cash flows from financing activities</b>                   |             |                     |              |
| Proceeds from drawdown of facility                            |             | -                   | 10,621,424   |
| Proceeds from issue of shares                                 |             | <b>17,644,774</b>   | 37,367,107   |
| Share issue costs   |             | <b>(1,250,296)</b>  | (1,983,702)  |
| Payment of borrowing costs                                    |             | <b>(665,868)</b>    | -            |
| <b>Net cash flows from financing activities</b>               |             | <b>15,728,610</b>   | 46,004,829   |
| Net increase/(decrease) in cash and cash equivalents          |             | <b>(11,456,469)</b> | 16,914,832   |
| <b>Cash and cash equivalents at the beginning of the year</b> |             | <b>27,303,178</b>   | 9,604,249    |
| Effect of exchange rate fluctuations on cash held             |             | <b>(1,832,287)</b>  | 784,097      |
| <b>Cash and cash equivalents at end of year</b>               | 6(a)        | <b>14,014,422</b>   | 27,303,178   |

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 2017 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 23 March 2018.

##### ***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***

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that are mandatory for the current reporting period.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

***New standards and interpretations not yet mandatory or early adopted***

The Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2017. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

| Reference and Title                             | Summary   | Application Date of Standard                                    | Impact on 88 Energy Limited Financial Statements   |
|---|---|---|--|
| AASB 9 – Financial Instruments                  | <p>AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a simple, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effect for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application.</p>   | Annual reporting periods commencing on or after 1 January 2018. | When this standard is first adopted from 1 January 2018, there will be no impact on transactions and balances recognised in the financial statements.                  |
| AASB 15 – Revenue from Contracts with Customers | An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchanged for those goods or services. This means that revenue will be recognised when control of foods or services is transferred, rather than on transfer of risks and rewards as is current the case under IAS 18 <i>Revenue</i> .   | Annual reporting periods commencing on or after 1 January 2018. | When this standard is first adopted from 1 January 2018, this standard will not significantly impact transactions and balances recognised in the financial statements. |
| AASB 16 (issued February 2016) Leases           | <p>AASB 16 eliminates the operating and finance lease classifications for lessees current accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.</p> <p>Lessor accounting remains largely unchanged from AASB 117.</p> | Annual reporting periods commencing on or after 1 January 2019. | When this standard is first adopted from 1 January 2019, there will be minimal impact on transactions and balances recognised in the financial statements.             |

***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 2017 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, which is 88 Energy Limited's functional and presentation currency.

#### *ii) Transactions and balances*

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

#### *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.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to the creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss which is measured as the differences between the carrying amount of the financial liability and the fair value of the equity instruments issued.

### **(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 previously accounted for acquisition, exploration and evaluation expenditure relating to an area of interest by carrying forward that expenditure where rights to tenure of the area of interest are current.

The Company has assessed its choice of accounting policy for exploration and evaluation activities and has determined that a change in accounting policy is appropriate for new projects moving forward, which includes its projects in Alaska.

The Company now 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: Exploration and evaluation expenditure associated with this project is 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. This accounting policy choice differs from that presented in the half year financial statements as the directors have re-assessed this accounting policy and determined this current accounting policy to reflect a more meaningful position of the project.

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 are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included 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 to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

#### **(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.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

### (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) Financial assets***

##### *Recognition and initial measurement*

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

##### *Classification and subsequent measurement*

The subsequent measurement of financial assets depends on their classification as described below:

##### *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The Group has not designated any financial assets at fair value through profit or loss.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The losses arising from impairment are recognised in profit or loss.

### **(ii) Impairment of financial assets**

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably measured. In the case of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "Prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

### **(iii) Financial liabilities**

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss.

### *De-recognition*

A financial liability is derecognised when the obligation under a liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

### **(iv) 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.

### **(v) 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.

**(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 2017, A\$19,895,400 (2016; A\$10,326,194) 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 139 *Financial Instruments: Recognition and Measurement* 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 2017, the Group had a working capital deficiency of \$11,656,418 (current assets less current liabilities) with cash on hand of \$14,014,422 and a net loss of \$8,408,915 with cash out flows from operating activities for the year of \$4,429,430. The Group's net current liability position at year-end is due to the Bank of America debt facility of US\$16.5 million maturing on 30 June 2018. This debt facility has subsequent to year-end been renegotiated (refer to Subsequent Events Note 22 and also the ASX release dated 26th of March 2018) and is now due to expire on 30 December 2022 and therefore subsequent to year-end the debt will be reclassified as a non-current liability.

In light of the renegotiation of the debt facility, 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**

|                   | 2017          | 2016           |
|-------------------|---------------|----------------|
|                   | \$            | \$             |
| <b>(a) Income</b> |               |                |
| Interest revenue  | 6,396         | 54,248         |
| Other income      | 50,315        | 104,379        |
|                   | <b>56,711</b> | <b>158,627</b> |

**NOTE 3 REVENUE AND EXPENSES (Continued)**
**(b) Administrative expenses**

|  |                |           |
|--|----------------|-----------|
| Consultancy and professional fees                        | <b>681,639</b> | 781,134   |
| Legal fees   | <b>7,321</b>   | 41,765    |
| Travel costs   | <b>20,131</b>  | 39,198    |
| General and administration expenses, net of recoveries * | <b>221,757</b> | 1,416,334 |
|  | <b>930,848</b> | 2,278,431 |

\* General and administrative expenses are shown net of recoveries of \$738,853 from the Icewine Joint Venture. Note, Burgundy Xploration LLC contributed approximately 22.5% to the payment of the recoveries and the balance by Accumulate Energy Alaska, Inc. The recoveries represent costs, including time spent by the Consolidated Group's employees on exploration and appraisal interest of the Icewine Joint Venture, which get capitalised to the applicable exploration and appraisal area of interest.

**(c) Employee benefit expenses**

|                         |                  |           |
|-------------------------|------------------|-----------|
| Wages and salaries      | <b>1,390,804</b> | 1,131,009 |
| Superannuation          | <b>119,806</b>   | 79,849    |
| Annual leave accrued    | <b>105,781</b>   | 34,697    |
| Other employee expenses | <b>60,315</b>    | 49,595    |
|                         | <b>1,676,706</b> | 1,295,150 |

**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 | <b>(8,408,915)</b> | (9,401,264) |
|--------------------------------|--------------------|-------------|

|  |                    |             |
|--|--------------------|-------------|
| Prima facie tax benefit on loss before income tax at 30% (2016: 30%) | <b>(2,522,675)</b> | (2,820,379) |
|--|--------------------|-------------|

|  |             |      |
|--|-------------|------|
|  | <b>2017</b> | 2016 |
|  | <b>\$</b>   | \$   |

|                               |                  |         |
|-------------------------------|------------------|---------|
| Under provision in prior year | <b>4,081,717</b> | 271,274 |
|-------------------------------|------------------|---------|

|                |  |   |
|----------------|--|---|
| Tax effect of: |  |   |
| Investments    |  | - |

|  |                |           |
|--|----------------|-----------|
| Non-assessable/deductible items:                 |                |           |
| Non-deductible expenditure: contingent liability | -              | 1,415,331 |
| Non-deductible entertainment expenses            | <b>1,065</b>   | 2,714     |
| Share based payments                             | <b>606,232</b> | 30,300    |
| Other non-deductible expenses                    | <b>416</b>     | -         |

|   |                    |           |
|---|--------------------|-----------|
| Deferred tax asset on temporary differences and tax losses not brought to account | <b>(2,166,756)</b> | 1,230,052 |
|---|--------------------|-----------|

|                                 |   |   |
|---------------------------------|---|---|
| Income tax expense for the year | - | - |
|---------------------------------|---|---|

**(b) Deferred income tax**

|                          |                  |           |
|--------------------------|------------------|-----------|
| Deferred tax liabilities | <b>(127,991)</b> | (127,991) |
|--------------------------|------------------|-----------|

|                     |                   |            |
|---------------------|-------------------|------------|
| Deferred tax assets | <b>18,968,053</b> | 13,841,132 |
|---------------------|-------------------|------------|

|  |                     |              |
|--|---------------------|--------------|
| Deferred tax assets not recognised on temporary differences and tax losses | <b>(18,840,062)</b> | (13,713,142) |
|--|---------------------|--------------|

|                         |   |   |
|-------------------------|---|---|
| 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 \$37,672,978 (2016: \$24,074,380) 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.

|  | 2017                 | 2016          |
|--|----------------------|---------------|
|  | \$                   | \$            |
| Net loss for the year  | <b>(8,408,915)</b>   | (9,401,264)   |
| Weighted average number of ordinary shares for basic and diluted loss per share. | <b>4,541,161,228</b> | 3,689,938,323 |

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 (\$) | <b>(0.002)</b> | (0.003) |
|-----------------------------|----------------|---------|

**NOTE 6 CASH AND CASH EQUIVALENTS**

**(a) Cash details**

|                          |                   |            |
|--------------------------|-------------------|------------|
| Cash at bank and in hand | <b>14,014,422</b> | 27,246,185 |
| Restricted cash (i)      | -                 | 56,993     |
|                          | <b>14,014,422</b> | 27,303,178 |

- (i) Restricted cash is cash held in trust for validated drilling expenditures as identified in an audited disbursement request.

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.



**NOTE 6 CASH AND CASH EQUIVALENTS (Continued)**

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

|   |                    |             |
|---|--------------------|-------------|
| Loss for the financial year                       | <b>(8,408,915)</b> | (9,401,264) |
| <i>Adjustments for:</i>                           |                    |             |
| Other Income                                      | <b>(50,315)</b>    | -           |
| Depreciation                                      | <b>3,952</b>       | 8,232       |
| (Loss)/Gain on foreign exchange                   | <b>705,984</b>     | (784,096)   |
| Share based payments                              | <b>2,020,772</b>   | 100,000     |
| Finance costs                                     | <b>1,851,969</b>   |             |
| <i>Changes in assets and liabilities</i>          |                    |             |
| Decrease / (increase) in receivables              | <b>(45,083)</b>    | 277,486     |
| Increase / (decrease) in trade and other payables | <b>(613,74)</b>    | 6,267,337   |
| Increase / (decrease) in provisions               | <b>105,780</b>     | 34,697      |
| <b>Net cash used in operating activities</b>      | <b>(4,429,430)</b> | (3,497,608) |

**NOTE 7 TRADE AND OTHER RECEIVABLES**

|   | <b>2017</b>    | 2016    |
|---|----------------|---------|
|   | <b>\$</b>      | \$      |
| Goods and Services Tax (GST) receivable | <b>45,651</b>  | 35,128  |
| Other deposits and receivables          | <b>312,072</b> | 277,516 |
|   | <b>357,723</b> | 312,644 |

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 2017.

**(a) Allowance for impairment loss**

Receivables past due but not considered impaired are nil (2016: Nil).

**NOTE 8 PLANT AND EQUIPMENT**

|                                    | 2017         | 2016         |
|------------------------------------|--------------|--------------|
| <b>Year ended 31 December 2017</b> | <b>\$</b>    | <b>\$</b>    |
| Opening net book amount            | 6,131        | 10,960       |
| Additions                          | 2,396        | 3,403        |
| Depreciation charge                | (3,952)      | (8,232)      |
| <b>Closing net book amount</b>     | <b>4,575</b> | <b>6,131</b> |
| <br>                               |              |              |
| <b>At 31 December 2017</b>         |              |              |
| Cost                               | 179,935      | 177,539      |
| Accumulated depreciation           | (175,360)    | (171,408)    |
| <b>Net book amount</b>             | <b>4,575</b> | <b>6,131</b> |

**NOTE 9 EXPLORATION AND EVALUATION EXPENDITURE**

|   |              |              |
|---|--------------|--------------|
| Carrying amount of exploration and evaluation expenditure | 46,934,162   | 38,227,059   |
| <br>  |              |              |
| <b>Movement reconciliation</b>                            |              |              |
| Balance at the beginning of the financial year            | 38,227,059   | 25,403,611   |
| Additions   | 22,583,765   | 22,969,061   |
| Tax credit receivable <sup>(i)</sup>                      | (11,886,087) | (10,326,194) |
| Foreign currency translation                              | (1,990,575)  | 180,581      |
| Closing balance   | 46,934,162   | 38,227,059   |

- (i) Tax credit certificates issued in 2016 and 2017. 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 Bank of America loan outstanding.

**NOTE 10 OTHER RECEIVABLES**

|  |                   |                   |
|--|-------------------|-------------------|
| North Slope Bid Round Deposit <sup>(i)</sup> | 353,581           | 832,548           |
| Tax credit receivable <sup>(ii)</sup>        | 19,895,400        | 10,326,194        |
|  | <b>20,248,981</b> | <b>11,158,742</b> |

- (i) During the 31 December 2016 year, the Joint Venture participants each funded their share of a 20% deposit of the gross bid amount to acquire additional acreage of ~420,000 gross acres (~190,000 net to 88E) on the Central North Slope. 88E's share of the bid deposit was AUD\$832,548 (US\$600,000).

During the 31 December 2017 year, 88 Energy via its subsidiary companies was announced highest bidder on an additional ~32,800 acres from the December 2017 Bid Round, formal award is expected in mid-2018. The subsidiaries each funded 100% deposit of the bid amount to acquire additional acreage with the total bid deposit paid of AUD\$122,354 (US\$95,496).

- (ii) Under the ACES rebate, the Alaskan Government has approved a tax credit of A\$19,895,400 (2016: A\$10,326,194) under the scheme highlighted in Note 2(iv). The tax credit receivable is recognised as a non-current asset and offset against Exploration, Evaluation Expenditure.

**NOTE 11 TRADE AND OTHER PAYABLES**

|                                | 2017             | 2016             |
|--------------------------------|------------------|------------------|
|                                | \$               | \$               |
| <b>Current</b>                 |                  |                  |
| Trade payables <sup>(i)</sup>  | 123,320          | 736,894          |
| Other payables <sup>(ii)</sup> | 4,544,495        | 5,391,049        |
|                                | <b>4,667,815</b> | <b>6,127,943</b> |

(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       | 179,619        | 90,085        |
| Long Service Leave | 16,246         | -             |
|                    | <b>195,865</b> | <b>90,085</b> |

**NOTE 13 BORROWINGS**

**Current**

|                              |                   |          |
|------------------------------|-------------------|----------|
| Bank facility <sup>(i)</sup> | 21,164,883        | -        |
|                              | <b>21,164,883</b> | <b>-</b> |

**Non-Current**

|                              |   |                   |
|------------------------------|---|-------------------|
| Bank facility <sup>(i)</sup> | - | 24,573,538        |
| Prepaid interest             | - | (1,794,225)       |
|                              | - | <b>22,779,313</b> |

Refer to Note 16 for further information on financial instruments.

- On 20 August 2015, 88 Energy Limited entered into a US\$50 million credit agreement ("the Facility") with Bank of America.
- Interest on the drawdown is paid up front being Eurodollar rate (1% p.a.) plus the applicable rate (6.5% p.a.).
- The Facility expires 29 June 2018.
- The Facility contains financial covenants which have been met.
- As at 31 December 2017, US\$17.71 million has been drawn down under the Facility.
- Borrowings are secured by available Production Tax Credits and Accumulate and Burgundy acreage (refer to Note 26).

(i) Subsequent to year end the Bank of America debt facility was refinanced. Please refer to the subsequent events note and also the ASX announcement dated 26th of March 2018 for further details.

**NOTE 14 CONTRIBUTED EQUITY**

**(a) Issued and fully paid**

|                 | 2017        |               | 2016        |               |
|-----------------|-------------|---------------|-------------|---------------|
|                 | \$          | No.           | \$          | No.           |
| Ordinary shares | 141,711,466 | 4,649,763,932 | 125,157,965 | 4,169,180,418 |

**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**

|  | <b>Number</b>        | <b>\$</b>          |
|--|----------------------|--------------------|
| At 1 January 2016  | 3,082,140,823        | 90,654,560         |
| Options exercised on 16 February at 0.014, 0.016 & 0.01 cents  | 52,128,585           | 755,957            |
| Options exercised on 17 February at \$0.01 & \$0.016           | 24,758,964           | 387,743            |
| Options exercised on 19 February at \$0.01                     | 2,500,000            | 25,000             |
| Options exercised on 22 February at \$0.016                    | 1,900,000            | 30,400             |
| Options exercised on 2 March at \$0.021                        | 3,000,000            | 63,000             |
| Options exercised on 4 March at \$0.021 & \$0.016              | 6,400,000            | 117,400            |
| Options exercised on 10 March at \$0.016                       | 119,618              | 1,914              |
| Options exercised on 11 March at \$0.01 & \$0.016              | 1,916,666            | 22,167             |
| Options exercised on 17 March at \$0.015                       | 3,000,000            | 45,000             |
| Options exercised on 19 April at \$0.02                        | 200,000              | 4,000              |
| Placement of 476,709,698 ordinary shares at \$0.031            | 476,709,698          | 14,778,001         |
| Placement of 238,354,849 ordinary shares at \$0.043            | 238,354,849          | 10,249,259         |
| Options exercised on 19 May at \$0.016                         | 51,215               | 819                |
| Exercise of options (expiry 31 August 2018)                    | 1,000,000            | 16,000             |
| Share placement at \$0.04 on 27 October 2016                   | 275,000,000          | 11,000,000         |
| Less equity raising costs                                      | -                    | (2,993,255)        |
| <b>At 31 December 2016</b>                                     | <b>4,169,180,418</b> | <b>125,157,965</b> |
| <b>At 1 January 2017</b>                                       | <b>4,169,180,418</b> | <b>125,157,965</b> |
| Options exercised on 15 <sup>th</sup> March at 0.02 cents      | 2,350,000            | 47,000             |
| Options exercised on 15 <sup>th</sup> March at \$0.055 cents   | 1,000,000            | 55,000             |
| Options exercised on 20 <sup>th</sup> of March at \$0.02 cents | 6,350,000            | 127,000            |
| Options exercised on 21 <sup>st</sup> March at \$0.055 cents   | 5,000,000            | 275,000            |
| Options exercised on 30 <sup>th</sup> 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 <sup>th</sup> August at \$0.02 cents   | 900,000              | 18,000             |
| Options exercised on 14 <sup>th</sup> November at \$0.02       | 250,000              | 5,000              |
| Options exercised on 14 <sup>th</sup> November at \$0.02       | 150,000              | 3,000              |
| Less equity raising costs                                      | -                    | (1,239,273)        |
| <b>At 31 December 2017</b>                                     | <b>4,649,763,932</b> | <b>141,711,466</b> |

**NOTE 15 RESERVES**

|  | 2017               | 2016       |
|--|--------------------|------------|
|  | \$                 | \$         |
| Share-based payments   | <b>17,465,639</b>  | 15,444,867 |
| Foreign currency translation reserve                                       | <b>(1,820,353)</b> | 824,118    |
|  | <b>15,645,286</b>  | 16,268,985 |
| <u>Movement reconciliation</u>   |                    |            |
| Share-based payments reserve   |                    |            |
| Balance at the beginning of the year                                       | <b>15,444,867</b>  | 14,464,866 |
| Equity settled share-based payment transactions (Note 18)                  | <b>2,020,772</b>   | 980,001    |
| Balance at the end of the year   | <b>17,465,639</b>  | 15,444,867 |
| Foreign currency translation reserve                                       |                    |            |
| Balance at the beginning of the year                                       | <b>824,118</b>     | 383,900    |
| Effect of translation of foreign currency operations to group presentation | <b>(2,644,471)</b> | 440,218    |
| Balance at the end of the year   | <b>(1,820,353)</b> | 824,118    |

**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:

|                              | 2017<br>\$        | 2016<br>\$        |
|------------------------------|-------------------|-------------------|
| <b>Financial Assets</b>      |                   |                   |
| Cash and cash equivalents    | 14,014,422        | 27,303,178        |
| Other receivables            | 20,606,704        | 11,471,386        |
|                              | <b>34,621,126</b> | <b>38,774,564</b> |
| <b>Financial Liabilities</b> |                   |                   |
| Borrowings                   | 21,164,883        | 22,779,313        |
| Trade and other payables     | 4,667,815         | 6,127,943         |
|                              | <b>25,832,698</b> | <b>28,907,256</b> |

**(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.

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:

|                           | 2017       |          | 2016       |           |
|---------------------------|------------|----------|------------|-----------|
|                           | USD<br>\$  | GBP<br>£ | USD<br>\$  | GBP<br>£  |
| Cash and cash equivalents | 9,810,801  | 228,072  | 17,375,911 | 1,157,678 |
| Trade and other payables  | 122,258    | -        | 4,039,757  | 272       |
| Borrowings                | 16,518,937 | -        | 17,709,637 | -         |

*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.

**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:

|                           | 2017                           |            | 2016                           |            |
|---------------------------|--------------------------------|------------|--------------------------------|------------|
|                           | Weighted average interest rate | Balance \$ | Weighted average interest rate | Balance \$ |
| Cash and cash equivalents | 1.09%                          | 14,014,422 | 1.34%                          | 27,303,178 |

**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 2017, 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:

| <i>Judgements of reasonably possible movements:</i> | Post-tax profit higher/(lower) |           | Other comprehensive higher/(lower) |         |
|---|--------------------------------|-----------|------------------------------------|---------|
|   | 2017 \$                        | 2016 \$   | 2017 \$                            | 2016 \$ |
| + 1.0% (100 basis points)                           | 98,101                         | 191,122   | -                                  | -       |
| - 1.0% (100 basis points)                           | (98,101)                       | (191,122) | -                                  | -       |

**(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      |
|--------------------------|------------|-------------|------------|-----------|------------|
| <b>2017</b>              |            |             |            |           |            |
| Trade and other payables | 4,667,815  | -           | -          | -         | 4,667,815  |
| Borrowings               | 21,164,883 | -           | -          | -         | 21,164,883 |
| <b>2016</b>              |            |             |            |           |            |
| Trade and other payables | 6,127,943  | -           | -          | -         | 6,127,943  |
| Borrowings               | -          | -           | 22,779,313 | -         | 22,779,313 |

**(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 60% at 31 December 2017.

**(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 its carrying value at 31 December 2017.

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 2017 and 31 December 2016, 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 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 are 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 is a company in which Brent Villemarette is a Director.

The following transactions occurred with related parties:

|                               | 2017                   | 2016    |
|-------------------------------|------------------------|---------|
|                               | \$                     | \$      |
| Derwent Resources Limited     | 108,478 <sup>(i)</sup> | 116,484 |
| Villemarette Nominees Pty Ltd | 71,290                 | 51,385  |

(ii) During the year, the Company paid £64,598 (2016: £63,848) 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.

|                          | 2017             | 2016           |
|--------------------------|------------------|----------------|
|                          | \$               | \$             |
| Short-term benefits      | 1,033,250        | 854,506        |
| Post-employment benefits | 81,061           | 52,725         |
| Share-based payments     | 1,232,000        | -              |
|                          | <b>2,346,311</b> | <b>907,231</b> |

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**

|  | 2017             | 2016           |
|--|------------------|----------------|
|  | \$               | \$             |
| Options issued to Directors <sup>(i)</sup> | 785,856          | -              |
| Options issued to employees <sup>(i)</sup> | 1,234,916        | 100,000        |
| Placement fee options <sup>(ii)</sup>      | -                | 880,001        |
|  | <b>2,020,772</b> | <b>980,001</b> |

**NOTE 18 SHARE-BASED PAYMENTS (Continued)**
**(i) Options issued to employees and Directors**

During the 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.

During the 2016 year a consultant to the Company was granted 20 million options (as agreed by shareholders in the General Meeting) of which in January 2016, 10,000,000 share options were issued to the consultant having vested. The exercise price of the options was set at \$0.02, with expiry on 2nd March 2018. 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 options at grant date (\$0.005). The total value of options issued was \$100,000.

**(ii) Placement fee options**

In accordance with the mandate between 88E and Maxim Group LLC ("Maxim"), 88E issued unlisted options to Maxim equal to 8% of the total number of Securities being issued in the Placement. Maxim Group LLC were issued 22 million unlisted options at an exercise price of A\$0.05 per share, expiring on the five-year anniversary of completion. Maxim acted as the US placement agent for the October 2016 Placement.

The value of these options have been measured at the value of services received in accordance with the mandate. The value per option is A\$0.04. The total value of the Placement options issued was A\$880,001 which was recognised as a share issue cost in the Statement of Changes in Equity.

**(b) Summary of options 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                              | 12-06-17       | \$0.16         | 250,000                          |                         |                           | (250,000)               | -                              |
| Unlisted                              | 12-06-17       | \$0.28         | 2,000,000                        |                         |                           | (2,000,000)             | -                              |
| Unlisted                              | 12-06-17       | \$0.42         | 1,000,000                        |                         |                           | (1,000,000)             | -                              |
| Unlisted                              | 02-03-18       | \$0.01         | 1,000,000                        |                         |                           |                         | 1,000,000                      |
| Listed                                | 02-03-18       | \$0.02         | 403,459,650                      |                         | (11,070,000)              |                         | 392,389,650                    |
| Unlisted                              | 18-02-18       | \$0.02         | 45,000,000                       |                         |                           |                         | 45,000,000                     |
| Unlisted                              | 31-08-18       | \$0.02         | 13,224,952                       |                         |                           |                         | 13,224,952                     |
| Unlisted                              | 01-11-18       | \$0.02         | 62,965,301                       |                         |                           |                         | 62,965,301                     |
| Employee options <sup>(ii)</sup>      | 02-03-18       | \$0.02         | 10,000,000                       |                         |                           |                         | 10,000,000                     |
| Placement options <sup>(i)</sup>      | 27-10-21       | \$0.06         | 137,500,000                      |                         | (6,000,000)               |                         | 131,500,000                    |
| Placement fee options <sup>(ii)</sup> | 27-10-21       | \$0.05         | 22,000,000                       |                         |                           |                         | 22,000,000                     |
| Unlisted                              | 14-3-2022      | \$0.06         | -                                | 90,000,000              |                           |                         | 90,000,000                     |
|                                       |                |                | <b>698,399,903</b>               | <b>90,000,000</b>       | <b>(17,070,000)</b>       | <b>(3,250,000)</b>      | <b>768,079,903</b>             |

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).

**NOTE 18 SHARE-BASED PAYMENTS (Continued)**

|   | <b>2017</b>                                     |   |
|---|---|---|
|   | <b>Value<br/>recognised<br/>during the year</b> | <b>Value to be<br/>recognised in<br/>future years</b> |
|   | <b>\$</b>                                       | <b>\$</b>   |
| Unlisted Options issued to employees & Directors <sup>(i)</sup> | 2,020,772                                       | -   |
|   | <b>2,020,772</b>                                | <b>-</b>  |

|  | <b>2016</b>                                     |   |
|--|---|---|
|  | <b>Value<br/>recognised<br/>during the year</b> | <b>Value to be<br/>recognised in<br/>future years</b> |
|  | <b>\$</b>                                       | <b>\$</b>   |
| Listed options issued to employee <sup>(i)</sup> | 100,000   | -   |
| Placement fee options <sup>(i)</sup>             | 880,001   | -   |
|  | <b>980,001</b>                                  | <b>-</b>  |

(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.

**NOTE 19 SEGMENT INFORMATION (Continued)**

|                                    | USA<br>\$   | Unallocated<br>\$ | Total<br>\$ |
|------------------------------------|-------------|-------------------|-------------|
| <b>Year ended 31 December 2017</b> |             |                   |             |
| 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  |

|                                    | USA<br>\$   | Unallocated<br>\$ | Total<br>\$ |
|------------------------------------|-------------|-------------------|-------------|
| <b>Year ended 31 December 2016</b> |             |                   |             |
| Other revenue                      | 7,099       | 151,528           | 158,627     |
| Inter-segment revenue              | -           | 304,695           | 304,695     |
| Total segment revenue              | 7,099       | 456,223           | 463,322     |
| Inter-segment eliminations         |             |                   | (304,695)   |
| Total revenue                      |             |                   | 158,627     |
| Loss before income tax expense     | (1,720,298) | (7,680,966)       | (9,401,264) |
| Total Segment assets               | 50,437,054  | 26,570,700        | 77,007,754  |
| Total Segment liabilities          | 24,003,961  | 4,993,380         | 28,997,341  |

### NOTE 20 COMMITMENTS AND CONTINGENCIES

#### Exploration commitments

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.

Exploration Commitments as at year end 2016 are as follows:

In December 2016, 100% owned subsidiary of 88 Energy Limited, Accumulate Energy Alaska Inc, in conjunction with Joint Venture Partner, Burgundy Xploration LLC (88 Energy 78%, Burgundy 22%), was confirmed as the high bidder on ~142,560 acres on November 18 (Alaskan time) at the North Slope Areawide Bid Sale. The Joint Venture has contributed a non-refundable 20% down-payment of US\$768,000 to secure the rights to the acreage. As per the previous bid rounds in 2014 and 2015, 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\$4.5m in total).

Holding costs of Project Icewine are US \$10 per acre for the first six years. In year seven, holding costs per acre increase to US \$200. The Company can relinquish 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.

##### 2016 Icewine#2 well:

As at the end of CY2016, the Company had announced an intention to drill the Icewine#2 well. As at the time of this report, no commitment had been entered into by the Company in respect to this drilling campaign. Final approval of the drilling of the well is subject to Company, Joint Venture and local government approvals, which had not been completed as at the time of this report.

**NOTE 20 COMMITMENTS AND CONTINGENCIES (Continued)**

**Corporate commitments**

The Company has an office lease in respect of its West Perth premises which expires 1 November 2018. Subsequent to year-end, the Company renegotiated the lease for a further 3year period commencing 1 February 2018, at a substantially reduced rental rate and an initial 6 month rent free period.

Commitments at 31 December 2017 are as follows:

|   | 2017<br>\$ | 2016<br>\$ |
|---|------------|------------|
| Within one year                             | 128,208    | 119,196    |
| After one year but not more than five years | -          | 109,399    |
|   | 128,208    | 228,595    |

**Exploration contingencies**

Exploration Contingencies as at year end 2017 are as follows:

None.

Exploration Contingencies as at year end 2016 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 2017, the approved rebate is US\$15,528,121 as noted in Other Non-current Assets and the contingent rebate applied for and as yet unapproved is US\$2,375,765 (2016: US\$8,660,227) 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 2017.

**NOTE 22 EVENTS AFTER THE REPORTING DATE**

The following events were noted subsequent to the reporting date;

- 88 Energy Ltd entered into an option underwriting agreement in February 2018, to underwrite the Company's listed option series (88EO) up to the value of A\$6.75 million (refer to ASX announcement on 12<sup>th</sup> February 2018). As at the date of this report a total of 405 million of the 88EO option series had been converted raising a total of A\$8.1 million, and pursuant to the Option Underwriting Agreement, the underwriter Hartleys Limited or its sub-underwriters, will now take up 8.7m shares in the Company comprising the Shortfall. In addition, 45 million unlisted options exercisable at \$0.015 were converted raising an additional A\$675,000 in funds; and
- On the 23rd of March 2018 (U.S.A. time zone), 88 Energy Lt's 100% controlled subsidiary Accumulate Energy Alaska Inc entered into a US\$ 16.5 million debt refinancing agreement to replace the existing Bank of America debt facility. The key terms to the facility are noted in the ASX announcement released on 26th of March 2018.

**NOTE 23 AUDITOR'S REMUNERATION**

|  | 2017   | 2016   |
|--|--------|--------|
|  | \$     | \$     |
| <b>Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:</b> |        |        |
| Audit and review of the annual and half-year financial report                | 45,120 | 45,187 |
| Total audit services   | 45,120 | 45,187 |
| <b>Non-audit services:</b>   |        |        |
| Due diligence & other services   | 1,570  | -      |
| Total non-audit services   | 1,570  | -      |
| Total auditor remuneration   | 46,690 | 45,187 |

**NOTE 24 INVESTMENT IN CONTROLLED ENTITIES**

|                                       | Principal Activities | Country of Incorporation | Ownership interest |      |
|---------------------------------------|----------------------|--------------------------|--------------------|------|
|                                       |                      |                          | 2017               | 2016 |
|                                       |                      |                          | %                  | %    |
| Fotis Nominees Pty Ltd <sup>(i)</sup> | 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  |

(i) This subsidiary is dormant.

**NOTE 25 PARENT ENTITY**

|                                 | <b>2017</b>          | 2016         |
|---------------------------------|----------------------|--------------|
|                                 | <b>\$</b>            | \$           |
| <b>Assets</b>                   |                      |              |
| Current assets                  | <b>53,070,922</b>    | 25,794,767   |
| Non-current assets              | <b>8,153,855</b>     | 26,926,229   |
| <b>Total assets</b>             | <b>61,224,777</b>    | 52,720,996   |
| <b>Liabilities</b>              |                      |              |
| Current liabilities             | <b>5,693,477</b>     | 4,882,904    |
| <b>Total liabilities</b>        | <b>5,693,477</b>     | 4,882,904    |
| <b>Equity</b>                   |                      |              |
| Contributed equity              | <b>141,711,466</b>   | 125,334,304  |
| Reserves                        | <b>15,495,660</b>    | 15,391,386   |
| Accumulated losses              | <b>(101,675,826)</b> | (92,887,598) |
| <b>Total equity</b>             | <b>55,531,300</b>    | 47,838,092   |
| Loss for the year               | <b>(12,008,943)</b>  | (10,915,089) |
| <b>Total comprehensive loss</b> | <b>(12,008,943)</b>  | (10,915,089) |

**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;

|   | 2017              | 2016              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| <b>Current assets</b>                               |                   |                   |
| Cash and cash equivalents                           | -                 | 547,683           |
| <b>Total current assets pledged as security</b>     | <b>-</b>          | <b>547,683</b>    |
| <b>Non-current assets</b>                           |                   |                   |
| Exploration and evaluation expenditure              | 46,934,162        | 38,227,059        |
| Investments in subsidiaries                         | 128,125           | 119,808           |
| Other assets  | 19,895,400        | 10,326,194        |
| <b>Total non-current assets pledged as security</b> | <b>66,957,687</b> | <b>48,673,061</b> |
| <b>Total assets pledged as security</b>             | <b>66,957,687</b> | <b>49,220,744</b> |

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 2017 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

26 March 2018



Tel: +61 8 6382 4600  
Fax: +61 8 6382 4601  
www.bdo.com.au

38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

## 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 2017, 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 2017 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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.



**Accounting for Exploration and Evaluation Assets**

| <b>Key audit matter</b>   | <b>How the matter was addressed in our audit</b>   |
|---|--|
| <p>At 31 December 2017, the carrying value of the capitalised exploration and evaluation asset was \$46.934 million (31 December 2016: \$38.227 million), as disclosed in Note 9 in the financial report.</p> <p>As the carrying value of the exploration and evaluation asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration and evaluation expenditure in accordance with Australian Accounting Standard AASB <i>Exploration for and Evaluation of Mineral Resources</i> (AASB 6). In particular:</p> <ul style="list-style-type: none"> <li>• Whether the conditions for capitalisation are satisfied;</li> <li>• Which elements of exploration and evaluation expenditures qualify for recognition; and</li> <li>• Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment.</li> </ul> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;</li> <li>• Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6;</li> <li>• Considering the accounting treatment and recognition of the \$11.886 million exploration tax credit offset against capitalised exploration and evaluation assets (as disclosed in Note 9) and agreeing the balance to external documentation;</li> <li>• Considering whether any facts or circumstances existed to suggest impairment testing was required; and</li> <li>• Assessing the adequacy of the related disclosures in Notes 1 (g), 2 (i) and 9 in the financial report.</li> </ul> |



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

| <b>Key audit matter</b>   | <b>How the matter was addressed in our audit</b>  |
|---|---|
| <p>Refer to Note 10 - Other Assets and Note 2 (iv) - Critical accounting estimates and judgements.</p> <p>In accordance with the Group's accounting estimates and judgements as disclosed in Note 1 (u), management are required to assess whether there is any objective evidence as a result of one or more events that come to the attention of the Group that a financial asset is impaired at each reporting date.</p> <p>Due to the quantum of the asset and the subjectivity involved in determining whether there is any objective evidence of impairment of the tax credits, we have determined that the carrying value of ACES Tax Credits is a key audit matter.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Verifying the existence and entitlement to the tax credits via signed certificates of approval from the Department of Revenue of the State of Alaska;</li> <li>• Evaluating the Group's assessment in relation to the existence of indicators of impairment in accordance with AASB 139 <i>Financial Instruments: Recognition and Measurement</i>;</li> <li>• 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;</li> <li>• Considering whether there were any other data that exists which constitute indicators of impairment; and</li> <li>• Evaluating the adequacy of the related disclosures in Notes 1 (u), 2 (iv) and 10 to the financial report.</li> </ul> |

**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 2017, 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](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 17 to 24 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of 88 Energy Limited, for the year ended 31 December 2017, 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

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

Phillip Murdoch

Director

Perth, 26 March 2018

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 5 March 2018.

**TWENTY LARGEST SHAREHOLDERS**

|  |   | Number<br>Held       | Percentage   |
|--|---|----------------------|--------------|
| 1  | HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942>            | 479,244,413          | 9.65         |
| 2  | INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTNOMS> | 283,456,434          | 5.71         |
| 3  | INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTISAS> | 264,892,831          | 5.33         |
| 4  | HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA>              | 261,004,141          | 5.26         |
| 5  | HARGREAVES LANSDOWN (NOMINEES) LIMITED <HLNOM>            | 241,508,118          | 4.86         |
| 6  | BARCLAYS DIRECT INVESTING NOMINEES LIMITED <CLIENT1>      | 222,471,010          | 4.48         |
| 7  | HSDL NOMINEES LIMITED                                     | 205,647,072          | 4.14         |
| 8  | HSDL NOMINEES LIMITED <MAXI>                              | 164,354,469          | 3.31         |
| 9  | HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED <731504>        | 140,445,971          | 2.83         |
| 10   | SHARE NOMINEES LTD  | 99,978,413           | 2.01         |
| 11   | J P MORGAN NOMINEES AUSTRALIA LIMITED                     | 83,351,205           | 1.68         |
| 12   | JIM NOMINEES LIMITED <JARVIS>                             | 63,845,211           | 1.29         |
| 13   | VIDACOS NOMINEES LIMITED <IGUKCLT>                        | 62,593,952           | 1.26         |
| 14   | ELOTEN GROUP LTD  | 60,000,000           | 1.21         |
| 15   | LAWSHARE NOMINEES LIMITED <ISA>                           | 48,955,608           | 0.99         |
| 16   | LAWSHARE NOMINEES LIMITED <SIPP>                          | 47,584,355           | 0.96         |
| 17   | WEALTH NOMINEES LIMITED <WRAP>                            | 43,331,243           | 0.87         |
| 18   | MR DAVID JAMES WALL                                       | 32,291,666           | 0.65         |
| 19   | HSDL NOMINEES LIMITED <IWMAXI>                            | 32,129,019           | 0.65         |
| 20   | HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRADDDOWN>        | 31,617,843           | 0.64         |
| <b>Total: Top 20 holders of ORDINARY FULLY PAID SHARES</b> |   | <b>2,868,702,974</b> | <b>57.76</b> |

**DISTRIBUTION OF EQUITY SECURITIES**
**(i) Ordinary share capital**

- 4,966,600,199 fully paid shares held by 6,808 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.
- There are no preference shares on issue.

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

| Range            | Total holders | Units                | % of Issued Capital |
|------------------|---------------|----------------------|---------------------|
| 1 - 1,000        | 422           | 50,511               | 0.00                |
| 1,001 - 5,000    | 309           | 1,021,446            | 0.02                |
| 5,001 - 10,000   | 422           | 3,562,489            | 0.07                |
| 10,001 - 100,000 | 3,328         | 151,520,303          | 3.05                |
| 100,001 Over     | 2,327         | 4,810,445,450        | 96.86               |
| Total            | <b>6,808</b>  | <b>4,966,600,199</b> | <b>100.00</b>       |

**HOLDERS OF NON-MARKETABLE PARCELS**

Holders of non-marketable parcels are deemed to be those who shareholding is valued at less than \$500.

There are 1,668 shareholders who hold less than a marketable parcel of shares (based on a share price of \$0.029).

**RESTRICTED SECURITIES**

The Company has no Restricted Securities on issue.



**OPTIONS**

The following options over unissued ordinary shares are on issue:

| Class            | Date of Expiry | Exercise Price | Number Under Option |
|------------------|----------------|----------------|---------------------|
| Unlisted options | 31-08-18       | \$0.016        | 13,224,952          |
| Unlisted options | 01-11-18       | \$0.021        | 62,965,301          |
| Unlisted options | 27-10-21       | \$0.055        | 131,500,000         |
| Unlisted options | 27-10-21       | \$0.05         | 22,000,000          |
| Unlisted options | 14-03-20       | \$0.06         | 90,000,000          |

**SUBSTANTIAL SHAREHOLDERS**

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

| Rank | Holder Name   | Number of Shares | % of Issued Capital |
|------|---|------------------|---------------------|
| 1    | HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942>            | 479,244,413      | 9.65                |
| 2    | INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTNOMS> | 283,456,434      | 5.71                |
| 3    | INTERACTIVE INVESTOR SERVICES NOMINEES LIMITED <SMKTISAS> | 264,892,831      | 5.33                |
| 4    | HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA>              | 261,004,141      | 5.26                |

**SHARE BUY-BACKS**

There is no current on-market buy-back scheme.

**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 <sup>1</sup> | Project Icewine | Alaska   | 77.5%            |

<sup>1</sup>~286,589 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, Mr Brent Villemarette, who is a Non-Executive Director of the Company. Mr Villemarette has more than 35 years' experience in the petroleum industry, is a member of the Society of Petroleum Engineers, and a qualified Reservoir Engineer 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. Mr Villemarette 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.