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# **AusTex Oil Limited**

**ACN 118 585 649**

## **Annual Financial Report For the year ended 31 December 2016**

## **CORPORATE DIRECTORY**

### **DIRECTORS**

M R Stone	Non-Executive Chairman – USA
R A Adrey	Co-Managing Director – USA
N J Stone	Co-Managing Director – USA
R H Krause	Non-Executive Director – Australia
J B Clyne	Non-Executive Director – Australia

### **COMPANY SECRETARY**

J B Clyne

### **REGISTERED AND PRINCIPAL OFFICE**

Level 9, 2 Bligh Street, Sydney NSW 2000 Australia

Telephone: 02 9238 2363 Fax: 02 8088 7280

Website: [www.austexoil.com](http://www.austexoil.com)

### **AUDITORS**

BDO East Coast Partnership

### **SHARE REGISTRY**

Boardroom Limited, Level 12, 225 George Street, Sydney NSW 2000

Telephone: 02 9290 9600

### **PRINCIPAL BANKERS**

ANZ Banking Group Limited

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of AusTex Oil Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2016.

#### **Directors**

The following persons were directors of AusTex Oil Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

##### **Michael Stone - USA**

Non-Executive Chairman

Mr Stone is the Founder and Managing Member of FS Investors. He was Founder and non-executive Chairman of J.H. Whitney Investment Management, LLC, which focused on Asia based hedge funds, and he is retired Senior Partner and past President of J.H. Whitney & Co., a diversified manager of alternative investment assets and the country's first venture capital firm. He joined J.H. Whitney & Co. in 1989 and retired in 2009. Prior to that, he was a management consultant with Bain & Company. He currently serves as a Senior Advisor and Partner of TPG, a private equity firm. In his roles at FS Investors, Whitney, and TPG, he has overseen or been involved with the completion of over 100 investments, cumulatively responsible for several billion dollars of equity capital deployment. FS Investors is affiliated with Ptolemy Capital LLC which is a substantial shareholder in AusTex Oil.

He attended Duke University where he graduated Phi Beta Kappa, Summa Cum Laude, and Harvard Business School.

Other Public Company Directorships: Nil

Positions held: Member, Remuneration Committee

##### **Russell Krause - Australia**

Non-Executive Director

Mr Krause has 25 years' experience in Stockbroking and Investment Banking and held Directorships and Senior Management positions with a number of leading Australian firms. Over this time Mr Krause's primary focus has been the Resources sector and brings extensive experience in Australia, Africa, Asia and North America. For the past 10 years he has worked on a number of North American Oil and Gas projects in the Mid-Western USA. Mr Krause is currently a Director of a Singapore based AuzMinerals Resource Group Limited and Novus Capital Limited.

Other Public Company Directorships: Novus Capital Limited appointed 1 October 2008, Carbine Tungsten Limited appointed 30 June 2013 and Elk Petroleum Limited appointed 13 March 2015.

Positions held: Chair, Audit & Risk Committee, Member, Remuneration Committee.

##### **Richard Adrey - USA**

Co-Managing Director

Mr Richard Adrey was an investment and merchant banker with Andreasen & Co., Kohlmeyer & Co., Mabon Nugent and a private investment company, Coastline Financial Partners for 30 years with specializations in mergers, financings and in turnarounds of distressed assets. He has been involved with numerous private and public companies, such as Piper Aircraft, Cynocom Corp, Medisys, Versatech and VacationBreak. Mr. Adrey holds a B.S. in finance, has completed continuing education and held Officer and Board seats in several companies as an advisor. He is the President and founder of International Energy Corporation (Oklahoma) International Energy Corporation (Northern Oklahoma) and International Energy Corporation (Kansas), which are wholly owned subsidiaries of AusTex Oil Limited and is employed on a full time basis to oversee all US operations of the Company.

Other Public Company Directorships: Nil

Positions held: Nil

##### **Justin B Clyne - Australia**

Non-Executive Director & Company Secretary

Justin was admitted as a Solicitor of the Supreme Court of New South Wales and the High Court of Australia in 1996 before gaining admission as a Barrister in 1998. Justin had over 15 years of experience in the legal profession acting for a number of Australia's largest corporations, initially in the areas of corporate and construction law, before developing an interest in mining investment and research. Since 2006, Justin has been a full time company secretary for a number of listed and unlisted mining, oil and gas and industrial companies. Justin has significant experience and knowledge of the Corporations Act, the ASX Listing Rules and general corporate regulatory requirements. He holds a Master of Laws in International Law from the University of New South Wales and is also a qualified Chartered Company Secretary.

Other Public Company Directorships: Fitzroy River Corporation Limited (ASX: FZR) since 1 July 2014.

Positions held: Chair, Remuneration Committee; Member, Audit & Risk Committee

**Nicholas J Stone - USA**

Co-Managing Director

Nick joined the Board on 19 November 2013. He was previously an investor with TPG Capital and KKR in the USA. He has an MBA from Stanford University and an Undergraduate Degree from Harvard University. He is a partner at California based Freestyle Investors which is a substantial shareholder in AusTex Oil.

Other Public Company Directorships: Nil

Positions held: Nil

**Principal Activities**

The principal activities of the Group during the course of the financial year consisted of the development of oil leases in Oklahoma USA and focussing on growth acquisition opportunities.

There has been no significant change in the nature of these activities during the year.

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Review of operations**

The loss for the Group after providing for income tax and non-controlling interest amounted to US\$8,904,075 (31 December 2015: US\$19,155,506).

For the year ended 31 December 2016, the Gross Revenue from combined operations was \$6,673,514 resulting in a gross profit of \$3,127,264 after Cost of Sales of \$3,546,250. A Net (After Tax) Loss of \$8,951,183 was recorded. As detailed in Note 36 to the financial statements, net cash from operating activities in 2016 was US\$1,704,196 compared to 2015 net cash from operating activities of US\$4,476,674. The decrease in net cash from operations resulted from lower US dollar sales revenue due to planned decreases in production and the decrease in the unit sales prices related to petroleum market prices.

Cash at 31 December 2016 was \$13,540,401 (2015: \$24,439,933). Net assets at 31 December 2016 was \$33,702,714 (2015: \$41,864,332). The decrease in net assets at December 31, 2016 compared to 2015 was principally a result of the net loss from 2016.

### Oklahoma Operations

International Energy Corporation (Oklahoma) (IEC-OK) holds a 100% working interest and ~80% net revenue interest in ~600 acres oil and gas leases located near Tulsa and is the operator. Oil and gas is produced and sold to local purchasers.

IEC-OK holds interests in approx. 9,900 acres of oil and gas leases in Kay County, Northern Oklahoma. Due to the decline in the oil price across the course of 2016 only one new Vertical well was drilled during the year.

IEC Holdings LLC through its subsidiary International Properties Partners, LLC holds a 50% working interest in approx. 1,000 acres in Creek and Lincoln Counties of Oklahoma. The acreage currently produces around 160 bopd of gross production. AusTex is the operator of the joint venture with a local Oklahoma-based private family company.

**Kansas Operations** Given the success of the Snake River Project in Northern Oklahoma, there was no exploration, development or production work on the Company's acreage in Kansas. The Company continues to review its acreage throughout Kansas as it prioritises the acceleration of development and production at Snake River and newly acquired acreage in Oklahoma as well as growth acquisition opportunities. After having discontinued most of its operations in Kansas over the previous two and a half years, the Company only has approximately 500 acres and a legacy tail of production which contributes a nominal amount of around 1 to 2% of the Company's total production.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year other than the acquisition of 1,000 acres in Creek and Lincoln Counties of Oklahoma as announced to the ASX and OTCQX on 18 November 2016 in which AusTex acquired a 50% working interest for US\$3.25m. The acquisition also included approx. 160 bopd of gross production and real estate and capital equipment independently appraised at US\$1m net to AusTex.

### Matters subsequent to the end of the financial year

On 14 March 2017, the Company received a Shareholder Redemption Notice from Weider Health and Fitness, one of the Company's minority preference shareholders, asserting that they entitled to redeem 25,158,040 preference shares and receive payment of the amount of US\$3,773,706. On 27 March 2017, the Company received a 'Summons in a Civil Action' (Summons) filed in the United States District Court for the Southern District Of New York by Weider Health and Fitness and Bruce Forman as Plaintiffs and AusTex Oil and its subsidiaries as Defendants. The Summons alleges, inter alia, that the Company is in breach of the terms of the Subscription Agreement approved by shareholders at the Extraordinary General Meeting on 24 January 2014. The Company disputes that there has been a breach of the Subscription Agreement and has engaged lawyers in the state of New York to defend the proceedings.

On 21 March 2017, the Company advised the market that it had completed the acquisition of approximately 720 acres in Kay County, Oklahoma near the Snake River project. The acquisition included infrastructure for saltwater disposal and 3D seismic over 4 square miles and is currently producing around 20bopd of level gross production from one well.

### Likely developments and expected results of operations

The Company intends to continue with exploration and development activities in Oklahoma in the near term given the significant increase in drill locations acquired through recent acquisitions. The Company intends to undertake a more robust drilling campaign in 2017 with the aim of delivering higher production and a higher assessment of reserves in the future.

### Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. In the US, the consolidated entity's operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The Group conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The Group is not aware of any breaches in relation to environmental matters.

### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2016, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Michael Stone	2	4	-	-	-	-
Richard Adrey	4	4	-	-	1	-
Russell Krause	3	4	-	-	2	2
Justin B Clyne	3	4	-	-	2	2
Nick Stone	4	4	-	-	1	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Richard Adrey attended 1 meeting of the Audit & Risk Committee as an invitee and Nick Stone attended 1 meeting of the Audit & Risk Committee as an invitee. Russell Krause (Chair) and Justin Clyne (Member) are the only members of the Audit & Risk Committee.

#### **Remuneration report (audited)**

The Board, in consultation with the Remuneration Committee, is responsible for determining and reviewing compensation arrangements for the directors and executive management. The Board assesses the appropriateness of the nature and amount of remuneration of key personnel on an annual basis. In determining the amount and nature of officers' packages, the Board takes into consideration the Company's financial and operational performance along with industry and market conditions.

The Committee has the authority to retain any outside advisor at the expense of the Company, without the Board's approval, at any time and has the authority to determine any such advisor's fees and other retention terms. For greater certainty, the Committee has sole authority to retain and terminate any consulting firm to be used to evaluate the Chief Executive Officer or the compensation of the Chief Executive Officer or any other officers or senior management personnel.

In setting corporate goals and objectives relevant to the Managing Director and Senior Executives' compensation, the Committee considers both short-term and long-term compensation goals and the setting of criteria around this. In relation to setting Directors' remuneration the Committee looks at and considers comparative data from similar companies. This Remuneration Report outlines the arrangements which were in place during the year ended December 31, 2016, for the Directors and key management personnel.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

#### ***Principles used to determine the nature and amount of remuneration***

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

#### *Non-executive directors' remuneration*

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

#### *Executive remuneration*

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the Group's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended [DATE].

#### *Voting and comments made at the company's 2016 Annual General Meeting ('AGM')*

At the 2016 AGM, more than 75% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

#### *Details of remuneration*

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following:

*Non-Executive Directors*

- Mr Michael Stone (Chairman)
- Mr Russell Krause
- Mr Justin Clyne

*Executive Directors*

- Mr Richard Adrey (Co-Managing Director)
- Mr Nicholas Stone (Co-Managing Director)

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>2016</b>							
<i>Directors:</i>							
M. Stone	120,000	-	-	-	-	42,776	162,776
R.H. Krause	62,517	-	-	-	-	42,776	105,293
J.B. Clyne	107,172	-	-	-	-	42,776	149,948
R.A. Adrey	346,500	13,327	-	-	-	360,804	720,631
N.J. Stone	300,000	-	-	-	-	42,776	342,776
	<u>936,189</u>	<u>13,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,908</u>	<u>1,481,424</u>

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Directors Fees	Contract Fees	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>2015</b>							
<i>Directors:</i>							
M. Stone	200,000	-	-	-	-	76,152	276,152
R.H. Krause	63,202	-	-	-	-	76,152	139,354
J.B. Clyne	108,346	-	-	-	-	76,152	184,498
R.A. Adrey	346,500	-	-	-	-	663,298	1,009,798
N.J. Stone	330,024	-	-	-	-	76,152	406,176
	<u>1,048,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>967,906</u>	<u>2,015,978</u>



The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Directors</i>						
M. Stone	74%	72%	-	-	26%	28%
N.J. Stone	88%	81%	-	-	12%	19%
R.A. Adrey	48%	34%	2%	-	50%	66%
R.H. Krause	59%	45%	-	-	41%	55%
J.B. Clyne	71%	59%	-	-	29%	41%

### ***Service agreements***

A summary of remuneration paid to AusTex Directors is list below:-

#### **A. Co-Managing Director – Richard Adrey – President – International Energy Corporation**

Under an agreement dated 10 July 2010, between IEC and Richard Adrey and governed by the laws of Texas, U.S.A., IEC has set down further terms of employment for Richard Adrey as executive vice president, chief financial officer and a member of the board of directors of IEC. Mr Adrey is the Co-Managing Director of AusTex Oil having shared that role with Nick Stone since 1 November 2014.

Following an annual review of the Agreement in May 2012, the Board of AusTex approved an increase in the base payment to Richard from \$300,000 to \$330,000 per annum. A further increase of 15% per annum was approved subject to the Company achieving a minimum level of oil and gas production of 400 boe/day for 90 consecutive days. This target was achieved on 1 July 2013 and Mr. Adrey's salary was increased to USD\$346,500.

The contract term expired on 31 July 2016 and Mr Adrey's employment is continuing in accordance with the terms of his contract thereunder.

Richard Adrey is required to perform the duties and exercise the powers consistent with his appointed positions and assigned to him by the board of AusTex, and to promote the interests of IEC and any group company. He is required to report directly to the AusTex board.

He will be reimbursed for all reasonable work related out-of-pocket expenses. This salary includes directors' fees. IEC will also provide Richard Adrey with, amongst other things, communication equipment for use at home or out of the office, and membership at the Petroleum Club.

Richard Adrey must keep any information in respect of IEC's business which is not in the public domain secret and confidential and not disclose such information to any third party without obtaining written consent. Richard Adrey will be under no restraints to conduct business or invest in the same industry as IEC, but will offer any investment opportunities of interest to IEC in priority to himself.

IEC has indemnified Richard Adrey against any liability incurred by him as an employee, officer or director of IEC, and against any loss, cost, damage, expense or liability which he suffers or incurs as a result of any litigation arising in connection with this agreement, other than something which is a material breach of the agreement or is contrary to express instructions.

The agreement can be terminated by Richard Adrey at any time with six months' notice. Alternatively, the agreement can be terminated by IEC if Richard Adrey is absent for medical reasons for a period longer than six months, is guilty of grave misconduct or wilful neglect, is of unsound mind, or in the event of a takeover or management change of IEC.

Mr Adrey is separately incentivised in respect of his performance with the Company through the grant of unlisted options in the Company convertible into ordinary shares and also through the issue of ordinary shares escrowed pending the attainment of certain milestones. Any such grant of options and/or shares is subject to shareholder approval with the terms and milestones outlined in the Company's Notice of Annual General Meeting at the time such approval is sought. Generally, a grant of options has vesting criteria surrounding remaining employed with the Company at the time of vesting and also an exercise price at or above the share price at the time of grant. A grant of shares has vesting criteria associated with remaining employed by the Company at the time of vesting.

**B. Co-Managing Director – Nick Stone**

Mr Stone is the Co-Managing Director of AusTex Oil having shared that role with Richard Adrey since 1 November 2014. Prior to that he was a Non-Executive Director since November 2013.

Mr Stone receives a salary of USD\$300,000.

The term of the agreement is ongoing on a month to month basis and can be terminated by either party at any time on one month's notice.

Nick Stone is required to perform the duties and exercise the powers consistent with his appointed position and assigned to him by the board of AusTex, and to promote the interests of the group companies. He is required to report directly to the AusTex board.

He will be reimbursed for all reasonable work related out-of-pocket expenses. This salary includes directors' fees.

Nick Stone must keep any information in respect of the groups' businesses which is not in the public domain secret and confidential and not disclose such information to any third party without obtaining written consent. Nick Stone will be under no restraints to conduct business or invest in the same industry as any group company, but will offer any investment opportunities of interest to the group in priority to himself.

**C. Non-Executive Directors**

Under the Company's Constitution, each Director (other than a Managing Director or an Executive Director) may be paid remuneration for services performed as a Director. The maximum amount of remuneration that may be paid to Non-Executive Directors is set at AUD\$380,000 per annum. This remuneration may be divided amongst the Non-Executive Directors in such fashion as the Board may decide.

Aggregate non-executive director remuneration, presently, is approximately AUD\$240,000 per annum noting that some non-executive directors' fees are paid in USD.

Under the Listing Rules, the maximum fees payable to Directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time in relation to fees as they think appropriate.

In addition, any Director who is called to perform extra services or to make special exertions or to undertake any executive or other work for the Company beyond their ordinary duties or go to reside abroad or otherwise for the purposes of the Company may, subject to the law, be remunerated as determined by the Directors. This sum may be either in addition to or in substitution for their share in their remuneration for ordinary services.

***Share-based compensation***

***Issue of shares***

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2016.

***Options***

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2016.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2016. During the course of the year, some shares and options vested to directors on the terms as approved by shareholders at the Company's 2014 Annual General Meeting.

#### **Additional information**

The section below contains further detail on how the Company's performance has impacted on remuneration outcomes for executives under the Company's incentive programs.

The table below contains a snapshot of the Company's performance against annual financial Key Performance Indicators:

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Share price at financial year end (\$)	0.12	0.14	0.13	0.04	0.05
Basic earnings per share (cents per share)	(1.01)	(0.26)	(2.21)	(3.43)	(1.59)
Diluted earnings per share (cents per share)	(1.01)	(0.13)	(2.21)	(3.43)	(1.59)
Revenue from sales of oil and gas (USD\$)	6,662,764	16,932,493	27,583,831	11,571,548	6,673,514
Loss after income tax	(3,320,277)	(1,116,977)	(11,056,159)	(19,280,141)	(8,951,183)

#### **Additional disclosures relating to key management personnel**

##### *Shareholding*

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
M. Stone and N.J. Stone <sup>1</sup>	54,785,346	-	-	-	54,785,346
R.A. Adrey <sup>3</sup>	10,768,086	1,000,000	-	-	11,768,086
J.B. Clyne <sup>2</sup>	370,000	-	-	-	370,000
	<u>65,923,432</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>66,923,432</u>

##### *Preference Shares*

M. Stone and N.J. Stone <sup>1</sup> (Indirect – Redeemable convertible preference (RCPA) shares)	98,104,082	-	-	-	98,104,082
M. Stone and N.J. Stone <sup>1</sup> (Indirect – Redeemable preference (RPB) shares)	88,248,007	-	-	-	88,248,007
	<u>186,352,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,352,089</u>

1 Michael Stone – The 54,785,346 Ordinary Shares are held in the name of Citicorp Nominees Pty Limited as nominee for Ptolemy Capital LLC and Ptolemy Energy Holdings LLC. Mr Stone is a shareholder and majority owner of Ptolemy Capital LLC. The Preference Shares are held in the name of Ptolemy Energy Holdings LLC which is a subsidiary of Ptolemy Capital LLC. Nicholas Stone – The 54,785,346 Ordinary Shares are held in the name of Citicorp Nominees Pty Limited as nominee for Ptolemy Capital LLC and Ptolemy Energy Holdings LLC. Mr Stone is a shareholder and manager of Ptolemy Capital LLC. The Preference Shares are held in the name of Ptolemy Energy Holdings LLC which is a subsidiary of Ptolemy Capital LLC.

2 Mr J.B. Clyne – All shares are held indirectly in the name of Menerbes Pty Ltd (Menerbes Super Fund A/C)

3 5,000,000 shares issued to Mr Adrey are subject to vesting criteria which, if not met by Mr Adrey, will be bought back by the Company pursuant to the provisions of the Corporations Act for nominal consideration only being a total of \$1 for all shares which have not vested at the time of the buyback. If Mr Adrey does not meet the vesting criteria, then he will only receive the Shares on a pro rata basis up until the point he ceases to be involved with the Company. The vesting criteria are that 1,000,000 shares will vest every 12 months provided Mr Adrey remains involved with the Company commencing on 29 July, 2014. The vesting dates are therefore 29 July, 2014, 29 July, 2015, 29 July, 2016, 29 July, 2017 and 29 July, 2018. In the event of a change of control or a successful completion of a takeover offer for all securities in the Company then all unvested Shares shall vest immediately to the Shareholder absolutely. The table above includes 3,000,000 shares that have vested to Mr Adrey and does not include 2,000,000 shares yet to vest.

*Option holding*

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Expired/ forfeited/ other	Balance at the end of the year	Vested and Exercisable
<i>Options over ordinary shares</i>					
M. Stone	2,000,000	-	-	2,000,000	800,000
N.J. Stone	2,000,000	-	-	2,000,000	800,000
R.A. Adrey	15,000,000	-	(5,000,000)	10,000,000	4,000,000
R.H. Krause	2,000,000	-	-	2,000,000	800,000
J.B. Clyne	2,000,000	-	-	2,000,000	800,000
	<u>23,000,000</u>	<u>-</u>	<u>(5,000,000)</u>	<u>18,000,000</u>	<u>7,200,000</u>

***This concludes the remuneration report, which has been audited.***

**Shares under option**

Unissued ordinary shares of AusTex Oil Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
24 Oct. 2012	24 Oct. 2017	US\$0.15	20,000,000
29 July 2014	29 July 2019	US\$0.175	18,000,000
			<u><u>38,000,000</u></u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

**Shares issued on the exercise of options**

There were no ordinary shares of AusTex Oil Limited issued on the exercise of options during the year ended 31 December 2016 and up to the date of this report.

**Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the 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.

**Non-audit services**

There were no non-audit services provided during the financial year by the auditor.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**Auditor**

BDO East Coast Partnership continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read "Richard Adrey".

---

R A Adrey  
Co-Managing Director

31 March 2017

## DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF AUSTEX OIL LIMITED

As lead auditor of AusTex Oil Limited for the year ended 31 December 2016, 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 AusTex Oil Limited and the entities it controlled during the period.



Gareth Few  
Partner

**BDO East Coast Partnership**

Sydney, 31 March 2017

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**General information**

AusTex Oil Limited ("the Company") is a company limited by shares incorporated in Australia and whose shares are publicly listed on the Australian Securities Exchange ("ASX") and the OTCQX International. The consolidated financial statements as at and for the twelve (12) months ended 31 December 2016 ("the financial report") comprises the Company and its subsidiaries (together reported as the "Group"). AusTex Limited is the ultimate parent entity of the Group.

The financial statements are presented in US dollars, which is AusTex Oil Limited's functional and presentation currency.

Its registered office and principal place of business are:

**Registered and principal office**

Level 9, 2 Bligh Street,  
SYDNEY, NSW, AUSTRALIA, 2000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2017.

**AusTex Oil Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2016**



		<b>Consolidated</b>	
	<b>Note</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
<b>Revenue</b>			
Sale of oil and gas		6,673,514	11,571,548
Gain on hedges		-	3,290,435
		<u>6,673,514</u>	<u>14,861,983</u>
Cost of sales		(3,546,250)	(6,108,168)
		<u>3,127,264</u>	<u>8,753,815</u>
Gross profit			
Discount on acquisition	34	855,317	
Other income	5	17,144	42,622
Total revenue		<u>3,999,725</u>	<u>14,904,605</u>
<b>Expenses</b>			
Other production costs		(1,141,713)	(1,347,107)
Depreciation and amortisation expense		(3,918,787)	(6,004,728)
Impairment of assets		(2,441,567)	(15,115,986)
Share based payments and options expense		(816,331)	(1,768,261)
Finance costs	6	(998,149)	(1,007,253)
General and administrative expenses		(2,724,016)	(3,145,243)
Loss on hedges		(1,117,708)	-
Total expenses		<u>(13,158,271)</u>	<u>(28,388,578)</u>
<b>Loss before income tax benefit</b>		(9,158,546)	(19,592,141)
Income tax benefit	7	207,363	384,000
<b>Loss after income tax benefit for the year</b>		(8,951,183)	(19,208,141)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(26,766)	(20,611)
Other comprehensive income for the year, net of tax		<u>(26,766)</u>	<u>(20,611)</u>
<b>Total comprehensive income for the year</b>		<u>(8,977,949)</u>	<u>(19,228,752)</u>
Loss for the year is attributable to:			
Non-controlling interest		(47,108)	(52,635)
Owners of AusTex Oil Limited	24	(8,904,075)	(19,155,506)
		<u>(8,951,183)</u>	<u>(19,208,141)</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(47,108)	(52,635)
Owners of AusTex Oil Limited		<u>(8,930,841)</u>	<u>(19,176,117)</u>
		<u>(8,977,949)</u>	<u>(19,228,752)</u>

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*



**AusTex Oil Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2016**



	Note	Consolidated	
		2016	2015
		US\$	US\$
		Cents	Cents
Basic earnings per share	37	(1.59)	(3.43)
Diluted earnings per share	37	(1.59)	(3.43)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**AusTex Oil Limited**  
**Statement of financial position**  
**As at 31 December 2016**



		<b>Consolidated</b>	
	<b>Note</b>	<b>2016 US\$</b>	<b>2015 US\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	13,540,401	24,439,933
Trade and other receivables	9	927,437	985,769
Inventories	10	448,654	353,089
Derivative financial instruments	11	-	3,439,786
Restricted cash	12	5,400,000	-
Other		198,125	263,849
Total current assets		<u>20,514,617</u>	<u>29,482,426</u>
<b>Non-current assets</b>			
Derivative financial instruments	13	-	550,139
Other financial assets		87,650	145,292
Property, plant and equipment	14	2,055,120	902,719
Oil and gas assets	15	29,498,852	31,646,972
Total non-current assets		<u>31,641,622</u>	<u>33,245,122</u>
<b>Total assets</b>		<u>52,156,239</u>	<u>62,727,548</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	589,245	366,538
Borrowings	17	17,194,050	2,367,347
Derivative financial instruments	18	207,684	-
Total current liabilities		<u>17,990,979</u>	<u>2,733,885</u>
<b>Non-current liabilities</b>			
Borrowings	19	30,069	17,822,832
Provisions	21	432,477	306,499
Total non-current liabilities		<u>462,546</u>	<u>18,129,331</u>
<b>Total liabilities</b>		<u>18,453,525</u>	<u>20,863,216</u>
<b>Net assets</b>		<u>33,702,714</u>	<u>41,864,332</u>
<b>Equity</b>			
Issued capital	22	90,197,424	90,014,494
Reserves	23	2,662,658	2,056,023
Accumulated losses	24	(59,328,781)	(50,424,706)
Equity attributable to the owners of AusTex Oil Limited		<u>33,531,301</u>	<u>41,645,811</u>
Non-controlling interest	25	171,413	218,521
<b>Total equity</b>		<u>33,702,714</u>	<u>41,864,332</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**AusTex Oil Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2016**



<b>Consolidated</b>	<b>Issued capital US\$</b>	<b>Reserves US\$</b>	<b>Accumulated losses US\$</b>	<b>Non-controlling interest US\$</b>	<b>Total equity US\$</b>
Balance at 1 January 2015	89,830,381	492,486	(31,269,200)	271,156	59,324,823
Loss after income tax benefit for the year	-	-	(19,155,506)	(52,635)	(19,208,141)
Other comprehensive income for the year, net of tax	-	(20,611)	-	-	(20,611)
Total comprehensive income for the year	-	(20,611)	(19,155,506)	(52,635)	(19,228,752)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	282,537	-	-	282,537
Options expense	-	1,485,724	-	-	1,485,724
Share based payment issued	184,113	(184,113)	-	-	-
Balance at 31 December 2015	<u>90,014,494</u>	<u>2,056,023</u>	<u>(50,424,706)</u>	<u>218,521</u>	<u>41,864,332</u>
<b>Consolidated</b>	<b>Issued capital US\$</b>	<b>Reserves US\$</b>	<b>Accumulated losses US\$</b>	<b>Non-controlling interest US\$</b>	<b>Total equity US\$</b>
Balance at 1 January 2016	90,014,494	2,056,023	(50,424,706)	218,521	41,864,332
Loss after income tax benefit for the year	-	-	(8,904,075)	(47,108)	(8,951,183)
Other comprehensive income for the year, net of tax	-	(26,766)	-	-	(26,766)
Total comprehensive income for the year	-	(26,766)	(8,904,075)	(47,108)	(8,977,949)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	146,922	-	-	146,922
Options expense	-	669,409	-	-	669,409
Share based payment issued	182,930	(182,930)	-	-	-
Balance at 31 December 2016	<u>90,197,424</u>	<u>2,662,658</u>	<u>(59,328,781)</u>	<u>171,413</u>	<u>33,702,714</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**AusTex Oil Limited**  
**Statement of cash flows**  
**For the year ended 31 December 2016**



		<b>Consolidated</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>US\$</b>	<b>US\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		9,811,746	15,407,514
Interest received		2,973	2,616
Payments to suppliers and employees		(7,106,545)	(9,946,209)
Finance costs		(998,149)	(1,007,253)
Other receipts and (payments)		(5,829)	20,006
Net cash from operating activities	36	<u>1,704,196</u>	<u>4,476,674</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	34	(3,250,000)	-
Payments for property, plant and equipment	14	(206,552)	(130,298)
Payments for development expenditures		(752,679)	(2,960,230)
Proceeds from disposal of fixed assets		-	327,747
Net cash used in investing activities		<u>(4,209,231)</u>	<u>(2,762,781)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	8,000,000
Repayment of borrowings		(2,966,060)	(153,990)
Cash restricted under term loan agreement		(5,400,000)	-
Net cash from/(used in) financing activities		<u>(8,366,060)</u>	<u>7,846,010</u>
Net increase/(decrease) in cash and cash equivalents		(10,871,095)	9,559,903
Cash and cash equivalents at the beginning of the financial year		24,439,933	14,900,640
Effects of exchange rate changes on cash and cash equivalents		<u>(28,437)</u>	<u>(20,610)</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>13,540,401</u></u>	<u><u>24,439,933</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## Note 1. Significant accounting policies

### Corporate information

AusTex Oil Limited ("the Company") is a company limited by shares incorporated in Australia and whose shares are publicly listed on the Australian Securities Exchange ("ASX") and the OTCQX International. The Company is an oil and gas producer operating in the United States. The consolidated financial statements as at and for the twelve (12) months ended 31 December 2016 ("the financial report") comprises the Company and its subsidiaries (together reported as the "Group"). AusTex Limited is the ultimate parent entity of the Group.

The consolidated financial statements comprise the parent AusTex Oil Limited and all of its subsidiaries.

Consolidated Entities	Place of incorporation	Percentage Owned (%)	
		Dec 2016	Dec 2015
AusTex Oil Limited (Parent of)	Australia		
- AusTex Oil Holdings LLC (Parent of)	Oklahoma, USA	100	100
- IEC Holdings LLC (Parent of)	Oklahoma, USA	100	100
- International Energy Corporation (Oklahoma) (Parent of)	Oklahoma, USA	100	100
- International Energy LLC	Oklahoma, USA	99	99
- International Oil & Gas, LLC	Oklahoma, USA	50	-
- International Energy Company LLC	Oklahoma, USA	100	100
- International Properties Partners, LLC	Oklahoma, USA	100	-

Percentage of voting power is in proportion to ownership.

### Basis of preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial statements are presented in US dollars, which is AusTex Oil Limited's functional and presentation currency.

Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report was authorised for issue in accordance with a resolution of directors on 31 March 2017.

### Critical accounting estimates

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

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 33.

## **Note 1. Significant accounting policies (continued)**

### **Principles of consolidation**

The consolidated financial statements comprise the financial statements of AusTex Oil Limited and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect its returns.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Subsidiary financial statements are prepared using the same balance date and accounting policies as the Group. Investments in subsidiaries are carried out at their cost, less any impairment charges, in the parent entity's financial statements.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. 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 interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### **Foreign currency translation**

Foreign currency transactions are translated into US dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of other comprehensive income.

**Note 1. Significant accounting policies (continued)**

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and,
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

**Sales revenue, cost of sales and other production costs**

Revenue is recognised when it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of hydrocarbons is recognised in the financial period during which hydrocarbons are produced, provided that prior to the reporting date they are either sold or delivered in the normal course of business in accordance with agreements with purchasers. Sales revenue represents amounts invoiced, excluding applicable taxation.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Net sales are based on the Company working interests percentages. Cost of sales includes royalties, production taxes, marketing costs and lease operating expenses. Other Production Costs under Operating Costs includes direct labour costs for field operations and development; field equipment, repairs and maintenance; motor vehicle expenses; and related consulting and professional fees.

All revenue is stated net of the amount of goods and services tax (GST).

## Note 1. Significant accounting policies (continued)

### Income tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense in the consolidated statement of profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted as at the reporting date. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority. Current tax assets and liabilities are offset where simultaneous realization and settlement of the respective asset and liability will occur. Management expects tax rates and credits applicable to its US operating segment to result in ongoing realization of its current period effective tax rate.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The Group's subsidiaries operations are based in the United States and as such are subject to United States federal income taxes. The Parent entity's operations are based in Australia and are subject to Australian tax law.

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



#### Note 1. Significant accounting policies (continued)

##### Trade and other receivables

Trade and other receivables are measured at amortised cost, less provision for impairment. The amount of the impairment loss is recognised in the consolidated statement of profit or loss.

Other receivables are recognised at amortised cost, less any provision for impairment.

##### Inventories

Inventories for materials and supplies are stated at the lower of average costs incurred and net realisable value and for oil and gas an estimated net realisable value based on these products' current market price. Major types of inventories include materials and supplies and oil and gas.

##### Property, plant and equipment

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

##### Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

##### Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated using the reducing balance method over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets are:

Class of fixed assets	Depreciation rate
Leasehold improvements	20% - 32%
Plant and equipment	10% - 25%
Leased plant and equipment	10% - 25%

The residual values, useful lives and depreciation methods 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.

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 amount. These gains and losses are included in the consolidated statement of profit or loss.

## **Note 1. Significant accounting policies (continued)**

### **Oil and gas assets**

The cost of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation costs.

In addition, costs include, (i) the initial estimate at the time of installation and during the period of use, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located and, (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When an oil and gas asset commences production, costs carried forward will be amortised on a units of production basis over the life of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

### **Exploration and evaluation assets**

Exploration and evaluation expenditure including costs of acquiring mineral interests are accumulated in respect of each separate area of interest. Exploration costs including personnel costs, geological, geophysical, seismic and drilling costs are capitalised and carried forward provided that rights to tenure of the areas of interest are current and either there is a reasonable probability of recoupment through successful development and exploitation or sale, or where exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant exploration operations are continuing. When an area of interest is approved for development the accumulated expenditure is transferred to oil and gas assets.

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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

### **Environmental costs**

As the Group is directly involved in the extraction and use of natural resources, it is subject to various federal, state and local provisions regarding environmental and ecological matters. Compliance with these laws may necessitate significant capital outlays; however, to date the Group's cost of compliance has been insignificant. The Group does not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect the Group's business operations; however, there can be no assurances of future effects on the Group of new laws or interpretations thereof.

Environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve environmental safety or efficiency of existing assets. Expenditures that relate to an existing condition caused by past operations that have no future economic benefits are expensed.

Environmental liabilities, which historically have not been material, are recognized when it is probable that a loss has been incurred and the amount of that loss is reasonably estimable. Environmental liabilities, when accrued, are based upon estimates of expected future costs. At 31 December 2016 and 2015, there were no such costs accrued.

## **Note 1. Significant accounting policies (continued)**

### **Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that an asset may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss which is recognised in the consolidated statement of profit or loss unless the relevant asset was a revalued asset in which case the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed if the reversal can be related to an event occurring after the impairment loss was recognised. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss, unless the relevant loss was carried at fair value in which case the reversal is treated as a revaluation increase.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### **Trade and other payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

### **Borrowings**

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with AusTex accounting policy for borrowing costs.

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

#### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

## **Note 1. Significant accounting policies (continued)**

### **Asset retirement obligations**

The Group records a liability for asset retirement obligations (ARO) equal to the fair value of the estimated cost to retire an asset. The ARO liability is initially recorded in the period in which the obligation meets the definition of a liability.

Asset retirement obligations primarily relate to the abandonment of natural gas and oil producing facilities and include costs to dismantle and relocate or dispose of production platforms, gathering systems, wells and related structures. Estimates are based on historical experience of plugging and abandoning wells, estimated remaining lives of those wells based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future and federal and state regulatory requirements. Depreciation of capitalized asset retirement costs is determined on a units-of-production basis.

When the liability is initially recorded, the Group increases the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is increased over time to reflect the change in its present value, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The Group re-evaluates the adequacy of its recorded ARO liability at least annually. Actual costs of asset retirements such as dismantling oil and gas production facilities and site restoration are charged against the related liability. Any difference between costs incurred upon settlement of an asset retirement obligation and the recorded liability is recognized as a gain or loss in the Group's earnings.

### **Finance costs**

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### **Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period.

#### *Short term obligations*

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

#### *Share-based payments*

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Cox Ross Rubenstein (CRR) or binomial pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

- 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.

## **Note 1. Significant accounting policies (continued)**

### **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### **Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

#### **Note 1. Significant accounting policies (continued)**

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

#### **Earnings per share**

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of AusTex Oil Limited, 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 financial year.

##### *Diluted earnings per share*

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

#### **Preference shares**

Preference shares are separated into liability and equity components based on the terms of the contract.

On issuance of the preference shares, the fair value of the liability component is determined using the Cox Ross Rubenstein or binominal pricing model. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds, if any, is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

#### **Goods and Services Tax ('GST') and other similar taxes**

Australian revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cashflows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## Note 1. Significant accounting policies (continued)

### Financial instruments

#### Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

#### Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

#### i. Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

#### ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

#### iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.



**Note 1. Significant accounting policies (continued)**

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets).

v. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the consolidated statement of profit or loss.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derivative financial instruments

The consolidated entity makes use of derivative instruments to manage certain risks related to commodity prices, interest rates and foreign currency exchange rates. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Group's senior management. The Group does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features.

The consolidated entity has a risk management control system to monitor commodity price risks and any derivatives obtained to manage a portion of such risks. For accounting purposes, the Group has not designated commodity and foreign currency derivative contracts as hedges, and therefore, it recognizes all gains and losses on these derivative contracts in its consolidated statement of profit or loss.

De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.



## Note 1. Significant accounting policies (continued)

### Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

### Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at the end of each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense (if any) on intangible assets with indefinite lives is recognised in profit and loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

## **Note 1. Significant accounting policies (continued)**

### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

### *AASB 16 Leases*

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. The Group is in the process of determining the potential impact of the new standard on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2019.

## **Note 2. Critical accounting judgements, estimates 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.

### *Fair value of financial instruments*

Management apply valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## **Note 2. Critical accounting judgements, estimates and assumptions (continued)**

### *Reserves*

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recorded in income in that period.

### *Impairment*

The Group assesses impairment separately at the end of each reporting period for each of its Snake River and Southwest fields by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions in relation to price, production, discount rate and costs of production.

During the year, the Group recognised impairment loss of \$2,441,567 in relation to its Snake River oil and gas assets. See Note 3 for further details.

## **Note 3. Reserve Valuations and Oil and Gas Asset Impairment Allowance**

The Company's petroleum reserves at 31 December 2016 as determined by the independent reserves and economic evaluation ("Reserve Report") was prepared by Pinnacle Energy, LLC. While the Company's total value of its petroleum reserves increased compared to the prior reserve report prepared as of 30 June 2016 due principally to the acquisition of its Southwest petroleum reserves described in Note 34, the valuation of petroleum reserves of the Company's Snake River reserves declined in value as compared to 30 June 2016 due principally to an increase in fixed cost absorption associated with those wells.

## **Note 4. Operating segments**

### *Identification of reportable operating segments*

The consolidated entity operates predominantly in one operating segment, being the exploration, development and production of hydrocarbons in the USA. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

### *Major customers*

The consolidated entity has a number of major customers to whom it sells oil and gas produced from its leases at Snake River in Kay County, Northern Oklahoma and leases surrounding Tulsa. The consolidated entity has ongoing contracts for the sale of oil and gas. The most significant customers, Rose Rock Midstream Crude LP, Mustang Gas Products LLC and Sunoco, Inc., accounted for 55%, 28% and 10%, respectively, of external revenue. There are no other significant customers with external revenues greater than 10%.

### *Geographical information*

The Group's sales to external customers and non-current assets are predominantly in USA.

**Note 5. Other income**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Interest received	2,973	2,616
Sale of scrap metal	1,206	2,032
Sundry income	12,965	37,974
	<u>17,144</u>	<u>42,622</u>
Other income		

**Note 6. Expenses**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Loss before income tax includes the following specific expenses:		
<i>General and administrative expenses includes</i>		
Option expense	669,409	1,485,724
Other share-based payments	146,922	282,537
Rental expense	138,566	92,015
Loss on disposal of non current assets	-	44,476
	<u>954,897</u>	<u>1,904,752</u>
Total		

**Note 7. Income tax benefit**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
<i>Income tax benefit</i>		
Current tax	20,000	20,000
Deferred tax	(227,363)	(404,000)
	<u>(207,363)</u>	<u>(384,000)</u>
Aggregate income tax benefit		
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(9,158,546)	(19,592,141)
Tax at the statutory tax rate of 30%	(2,747,564)	(5,877,642)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses not deductible	2,540,201	5,065,274
Deferred tax assets not brought into account	-	428,368
	<u>(207,363)</u>	<u>(384,000)</u>
Income tax benefit		

**Note 7. Income tax benefit (continued)**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	12,228,207	12,228,207
Potential tax benefit @ 30%	3,668,462	3,668,462

All unused tax losses were incurred by the Australian parent entity.

Potential deferred tax assets net of deferred tax liabilities attributable to tax losses have not been brought to account because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable at the date of this report. Primary net operating losses of approximately \$25 million remain available in the US, however are fully reserved.

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

- (i) The Australian parent entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses and temporary differences to be realised;
- (ii) The Australian parent entity complies with the conditions for deductibility imposed by the tax legislation;
- (iii) No changes in tax legislation adversely affect the Australian parent entity in realising the benefit from deductions for the losses and temporary differences; and
- (iv) The availability of certain tax losses is subject to the Australian parent entity successfully Establishing deductibility with regard to the continuity of ownership test and the same business test.

**Note 8. Current assets - Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Cash at bank and on hand	13,411,686	24,311,447
Bank deposits	128,715	128,486
	<u>13,540,401</u>	<u>24,439,933</u>

**Note 9. Current assets - Trade and other receivables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Trade receivables	903,920	936,897
Other receivables	23,517	48,872
	<u>927,437</u>	<u>985,769</u>

All the Group's trade and other receivables are within initial trade terms and are not past due (2015 : nil).

**Note 10. Current assets - Inventories**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Oil and gas stored in tank batteries	297,451	231,370
Materials and supplies	151,203	121,719
	<u>448,654</u>	<u>353,089</u>

**Note 11. Current assets - Derivative financial instruments**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Derivative financial instruments	-	3,439,786

Refer to note 28 for further information on fair value measurement.

In conjunction with the term loan agreement covenant, the consolidated entity is expected to hedge for price risk on 70 to 90% reasonable projected volume. Open positions as at 31 December 2016 were marked to market based on settlement prices and are classified in the consolidated statements of financial position according to expected maturity date.

**Note 12. Current assets - Restricted cash**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Restricted cash	5,400,000	-

As a result of a minor amendment to the Bank loan agreement on May 1, 2016 as summarized in Note 17 the Company was required to segregate \$5.4 million of cash as restricted cash which would be available for the Bank to draw upon to prepay the loan principal in the event and to the extent that its PDP on the Oklahoma properties was below a ratio of 1.3 for such PDP to the outstanding loan principal balance. As at the end of the reporting period the Bank had not drawn on any of the principal.

**Note 13. Non-current assets - Derivative financial instruments**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Derivative financial instruments	-	550,139

Refer to note 28 for further information on fair value measurement.

In conjunction with the term loan agreement covenant, the consolidated entity is expected to hedge for price risk on 70 to 90% reasonable projected volume. Open positions as at 31 December 2016 were marked to market based on settlement prices and are classified in the consolidated statements of financial position according to expected maturity date.

**Note 14. Non-current assets - Property, plant and equipment**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Property, plant and equipment	3,525,757	2,154,257
Less: Accumulated depreciation	(1,470,637)	(1,251,538)
	<u>2,055,120</u>	<u>902,719</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Plant and equipment US\$</b>	<b>Total US\$</b>
Balance at 1 January 2015	1,027,958	1,027,958
Additions	130,298	130,298
Disposals	(69,701)	(69,701)
Depreciation expense	(185,836)	(185,836)
Balance at 31 December 2015	902,719	902,719
Additions	206,552	206,552
Additions through joint operations (note 34)	1,164,948	1,164,948
Depreciation expense	(219,099)	(219,099)
Balance at 31 December 2016	<u>2,055,120</u>	<u>2,055,120</u>

**Note 15. Non-current assets - Oil and gas assets**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Oil and gas assets - at cost	84,417,502	80,740,491
Less: Accumulated depreciation	(37,361,097)	(33,977,533)
Less: Impairment	(17,557,553)	(15,115,986)
	<u>29,498,852</u>	<u>31,646,972</u>

**Note 15. Non-current assets - Oil and gas assets (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>US\$</b>	<b>Total US\$</b>
Balance at 1 January 2015	49,839,892	49,839,892
Additions	2,960,230	2,960,230
Disposals	(302,522)	(302,522)
Impairment of assets	(15,115,986)	(15,115,986)
Amortisation expense	(5,734,642)	(5,734,642)
Balance at 31 December 2015	31,646,972	31,646,972
Additions	752,679	752,679
Additions through joint operations (note 34)	3,240,456	3,240,456
Impairment of assets	(2,441,567)	(2,441,567)
Amortisation expense	(3,699,688)	(3,699,688)
Balance at 31 December 2016	<u>29,498,852</u>	<u>29,498,852</u>

**Note 16. Current liabilities - Trade and other payables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Trade payables	339,586	234,454
Sundry payables and accrued expenses	<u>249,659</u>	<u>132,084</u>
	<u>589,245</u>	<u>366,538</u>

Refer to note 27 for further information on financial instruments.

**Note 17. Current liabilities - Borrowings**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Lease liability (secured)	44,050	117,347
Term loan (secured)	<u>17,150,000</u>	<u>2,250,000</u>
	<u>17,194,050</u>	<u>2,367,347</u>

Refer to note 27 for further information on financial instruments.



**Note 17. Current liabilities - Borrowings (continued)**

*Total secured liabilities*

*Term Loan*

On October 23, 2014, the consolidated entity entered into a term loan agreement with Macquarie Bank Limited (Houston) which provided for the following:

Immediate Availability:	\$20 million
Additional Availability at Discretion of Lender:	\$40 million
Interest Rate:	1 month LIBOR +4.50%
Maturity:	Partial amortization with final maturity in October 2017
Use of Proceeds:	Acquisition and development of oil and gas properties and related costs
Reserve Assessment:	Solely based on third party reserve engineering.
Key Financial Covenants:	1.3x Proved Developed Reserve PV 10 coverage to loan 1.0x Current Ratio Average 70% to 90% reasonable projected volume to be hedged for price risk for 2 to 4 years
Certain Other Covenants:	No dividends/equity buy-back or sale of collateral; annual administrative expenses not to exceed 20% of PV 10
Fees:	Lender 1% on drawdown; 0.5% commitment fee on any used \$20 million of immediate availability

*Lease Liability*

Lease liabilities are secured by the underlying leased assets and is predominately related to field vehicles.

**Note 18. Current liabilities - Derivative financial instruments**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Derivative financial instrument	207,684	-

Refer to note 27 for further information on financial instruments.

Refer to note 28 for further information on fair value measurement.

In conjunction with the term loan agreement covenant, the consolidated entity is expected to hedge for price risk on 70% to 90% reasonable projected volume. Open positions as at 31 December 2016 were marked to market based on settlement prices and are classified in the consolidated statements of financial position according to expected maturity date.

**Note 19. Non-current liabilities - Borrowings**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Loan (secured)	-	17,750,000
Lease liability (secured)	30,069	72,832
	30,069	17,822,832

Refer to note 27 for further information on financial instruments.

**Note 19. Non-current liabilities - Borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Loan (secured)	17,150,000	17,867,347
Lease liability (secured)	74,119	2,322,832
	<u>17,224,119</u>	<u>20,190,179</u>

*Assets pledged as security*

The bank overdraft and loans are secured by first mortgages over the Group's land and buildings.

**Note 20. Non-current liabilities - Deferred tax liability**

The deferred tax liability is ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability.

**Note 21. Non-current liabilities - Provisions**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Asset retirement obligations	<u>432,477</u>	<u>306,499</u>

*Rehabilitation*

A provision for rehabilitation is recognised in relation to the exploration and production activities for costs associated with the rehabilitation of the various sites. Estimates of the rehabilitation obligations are based on anticipated technology and legal requirements and future costs. In determining the rehabilitation provision the entity has assumed no significant changes will occur in the relevant Federal and State legislation to rehabilitation in the future.

*Movements in provisions*

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

<b>Consolidated - 2016</b>	<b>US\$</b>
Carrying amount at the start of the year	306,499
Additional provisions recognised	53,254
Additions through joint operations (note 34)	<u>72,724</u>
Carrying amount at the end of the year	<u>432,477</u>

**Note 22. Equity - Issued capital**

	2016 Shares	Consolidated 2015 Shares	2016 US\$	2015 US\$
Ordinary shares - fully paid	560,571,402	559,571,402	72,697,424	72,514,494
Preference shares - fully paid	220,125,786	220,125,786	17,500,000	17,500,000
	<u>780,697,188</u>	<u>779,697,188</u>	<u>90,197,424</u>	<u>90,014,494</u>

*Movements in ordinary share capital*

Details		Shares	US\$
Balance	1 January 2015	558,571,402	72,330,381
— Shares vested		<u>1,000,000</u>	<u>184,113</u>
Balance	31 December 2015	559,571,402	72,514,494
— Shares vested		<u>1,000,000</u>	<u>182,930</u>
Balance	31 December 2016	<u>560,571,402</u>	<u>72,697,424</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

*Preference shares*

Preference shares have been issued as a source of long-term finance. In accordance with the Subscription Agreement dated 18 October 2013 and following the passing of resolutions at an Extraordinary General Meeting of Shareholders held on 24 January 2014, the consolidated entity raised USD \$17.5 million through the issue of 58,942,656 Redeemable Convertible Preference A Shares (RCPA shares) and 57,724,011 Redeemable Preference B Shares (RPB shares).

The dividend rate is 11.75% per annum and dividends were payable quarterly on 31 March, 30 June, 30 September and 31 December. The conversion price of each preference share is US \$0.15 per RCPA and RPB share and are redeemable after four (4) years.

In 2014, 52,269,902 Redeemable Convertible Preference A (RCPA) Shares and 51,189,217 Redeemable Preference B (RPB) Shares were issued as a Dividend Termination Payment at USD \$0.15 per share on the terms approved by shareholders at the Company's EGM held on 24 January 2014. The Company no longer has any obligation to pay preference share dividends. The RCPA Shares have a call option in favour of the Company whereas the RPB Shares have both a put and call option with the put option suspended for the duration of the Term Loan held with Macquarie Bank. The Term Loan is due to mature in October 2017 and in the event that the put option is exercised thereafter the Company will need to either raise additional financing via equity or debt or a combination of these, sell assets, seek a variation or further suspension of the terms of the put right or any combination of these. The Company is actively working with the majority RPB Shareholder to resolve this issue at the earliest time prior to the maturity of the Macquarie Term Loan. Michael Stone and Nick Stone, through a related entity, are the principal holders of the RCPA Shares and RPB Shares. See also Note 35 regarding a Redemption Notice and a related civil action filed by one of the Company's minority preference shareholders.

**Note 22. Equity - Issued capital (continued)**

*Options*

- i. For information relating to the AusTex Oil Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to the Remuneration Report as part of the Directors Report accompanying the Annual Report.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to the Remuneration Report as part of the Directors Report accompanying the Annual Report.

*Share buy-back*

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

*Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

**Note 23. Equity - Reserves**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Foreign currency reserve	(1,325,358)	(1,298,592)
Share-based payments reserve	240,303	276,311
Options reserve	3,747,713	3,078,304
	<u>2,662,658</u>	<u>2,056,023</u>

*Foreign Currency Translation Reserve*

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

*Options Reserve*

The Options Reserve records the value of options issued by the Group.

*Share Based Payments Reserve*

The Share Based Payments Reserve records the value of shares recognised as expenses on valuation of employee and supplier shares and restricted shares issued.

## Note 23. Equity - Reserves (continued)

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation US\$	Options US\$	Share based payments US\$	Convertible Note US\$	Total US\$
Balance at 1 January 2015	(1,277,981)	1,592,580	177,887	-	492,486
Foreign currency translation	(20,611)	-	-	-	(20,611)
Options expense - operating	-	1,485,724	-	-	1,485,724
Share based payments expense	-	-	282,537	-	282,537
Share based payments issued	-	-	(184,113)	-	(184,113)
Balance at 31 December 2015	(1,298,592)	3,078,304	276,311	-	2,056,023
Foreign currency translation	(26,766)	-	-	-	(26,766)
Options expense - operating	-	669,409	-	-	669,409
Share based payments expense	-	-	146,922	-	146,922
Share based payments issued	-	-	(182,930)	-	(182,930)
Balance at 31 December 2016	<u>(1,325,358)</u>	<u>3,747,713</u>	<u>240,303</u>	<u>-</u>	<u>2,662,658</u>

## Note 24. Equity - Accumulated losses

	Consolidated	
	2016 US\$	2015 US\$
Accumulated losses at the beginning of the financial year	(50,424,706)	(31,269,200)
Loss after income tax benefit for the year	<u>(8,904,075)</u>	<u>(19,155,506)</u>
Accumulated losses at the end of the financial year	<u><u>(59,328,781)</u></u>	<u><u>(50,424,706)</u></u>

## Note 25. Equity - Non-controlling interest

	Consolidated	
	2016 US\$	2015 US\$
Non-controlling interest	<u>171,413</u>	<u>218,521</u>

On 23 October 2014, the Group reorganized its U.S. subsidiaries for certain corporate operating efficiencies. A new wholly owned subsidiary, International Energy LLC was formed with a 1% non-controlling interest owned by Bacon Family, LLC.

## Note 26. Equity - Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Note 27. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

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

The foreign currency risk is deemed to be minimal as most transactions are completed in the Group's functional currency being the US dollar.

#### Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for oil and gas.

The Company uses futures, forwards, swaps and options to meet customer needs and locks in market opportunities. These instruments are intended to be cash flow transactions and are not used for trading. Gains and losses related to contracts are reflected in revenue as these contracts are realized. Hedge accounting is not used for these commodity derivatives. Total net realized and unrealized gains or losses as at 31 December 2016 and 31 December 2015 were \$1,117,708 (loss) and \$3,290,435 (gain) respectively and are classified as an increase or reduction in net sales for each period. At 31 December 2016 the total barrels of oil hedged was 44,580 and MCF of gas hedged 572,300 and the total weighted average contracted price for oil was USD \$58.18 and gas USD \$3.12.

The table below summarizes timing, amounts and contract pricing for commodity hedges in place at 31 December 2016.

Contract Month	Total BBLs Hedged	Weighted Average Contract Price	Contract Type	Contract Month	Total MCF Hedged	Weighted Average Hedge Price	Contract Type
16-Dec	5,580	80.00	Put	16-Dec	24,800	3.930	
17-Jan	5,000	60.75	Swap	17-Jan	46,500	2.903	
17-Feb	5,000	60.75	Swap	17-Feb	42,000	2.903	
17-Mar	5,000	60.75	Swap	17-Mar	46,500	2.903	
17-Apr	4,000	51.5	Swap	17-Apr	45,000	2.903	
17-May	4,000	51.5	Swap	17-May	46,500	2.903	
17-Jun	4,000	51.5	Swap	17-Jun	45,000	2.903	
17-Jul	4,000	51.5	Swap	17-Jul	46,500	2.903	
17-Aug	4,000	51.5	Swap	17-Aug	46,500	2.903	
17-Sep	4,000	51.5	Swap	17-Sep	45,000	2.903	

**Note 27. Financial instruments (continued)**

Contract Month	Total BBLs Hedged	Weighted Average Contract Price	Contract Type	Contract Month	Total MCF Hedged	Weighted Average Hedge Price	Contract Type
				17-Oct	46,500	2.903	
				17-Nov	45,000	2.903	
				17-Dec	46,500		
<b>TOTAL</b>	<b>44,580</b>	<b>58.18</b>	<b>Swap/Put</b>	<b>TOTAL</b>	<b>572,300</b>	<b>3.12</b>	<b>Swap/Call/ Put</b>

**Interest rate risk**

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The financial instruments that primarily expose the Group to interest rate risk are borrowings, convertible notes issued, preference shares issued and cash and cash equivalents.

**Credit risk**

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. The subsidiaries have account receivables which are all US customers.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality.

Credit risk related to balances with banks and other financial institutions is managed by the RAC in accordance with approved Board policy.

**Liquidity risk**

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company's main sources of liquidity risk at 31 December 2016 are its trade payables and borrowings. All of these liabilities have maturities within 1 year and total USD \$17,990,979 at 31 December 2016. The Company had cash and receivables of USD \$14,467,838 at 31 December 2016. Management believes there to be no material liquidity risk when comparing the maturity profile of the liabilities with the Company's current and projected cash and cash flows.

**Remaining contractual maturities**

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

**Note 27. Financial instruments (continued)**

	Weighted average interest rate %	1 year or less US\$	Between 1 and 2 years US\$	Between 2 and 5 years US\$	Over 5 years US\$	Remaining contractual maturities US\$
<b>Consolidated - 2016</b>						
<b>Financial liabilities due for payment</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	(589,245)	-	-	-	(589,245)
Finance lease liabilities	-	(44,050)	(30,069)	-	-	(74,119)
Derivatives	-	(207,684)	-	-	-	(207,684)
<i>Interest-bearing - variable</i>						
Borrowings	4.13%	(17,150,000)	-	-	-	(17,150,000)
Total non-derivatives		(17,990,979)	(30,069)	-	-	(18,021,048)
<b>Financial assets — cash flows realisable</b>						
Cash and cash equivalents	-	13,540,401	-	-	-	13,540,401
Restricted cash	-	5,400,000	-	-	-	5,400,000
Trade and other receivables	-	927,437	-	-	-	927,437
Lease bond deposits	-	-	87,650	-	-	87,650
Total non-derivatives		19,867,838	87,650	-	-	19,955,488

\* restricted cash has been included above as the cash is available to offset the borrowings.

	Weighted average interest rate %	1 year or less US\$	Between 1 and 2 years US\$	Between 2 and 5 years US\$	Over 5 years US\$	Remaining contractual maturities US\$
<b>Consolidated - 2015</b>						
<b>Financial liabilities due for payment</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	(366,538)	-	-	-	(366,538)
Finance lease liabilities	-	(117,347)	(72,832)	-	-	(190,179)
<i>Interest-bearing - variable</i>						
Borrowings	4.68%	(2,250,000)	(17,750,000)	-	-	(20,000,000)
Total non-derivatives		(2,733,885)	(17,822,832)	-	-	(20,556,717)
<b>Financial assets — cash flows realisable</b>						
Cash and cash equivalents	-	24,439,933	-	-	-	24,439,933
Trade and other receivables	-	985,769	-	-	-	985,769
Derivatives	-	3,439,786	550,139	-	-	3,989,925
Lease bond deposits	-	-	145,292	-	-	145,292
Total non-derivatives		28,865,488	695,431	-	-	29,560,919

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Fair value of financial instruments**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.



**Note 28. Fair value measurement**

*Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Consolidated - 2016</b>				
<i>Liabilities</i>				
Derivative financial instruments	-	207,684	-	207,684
Total liabilities	-	207,684	-	207,684
<b>Consolidated - 2015</b>				
<i>Assets</i>				
Derivatives financial instruments	-	3,989,926	-	3,989,926
Total assets	-	3,989,926	-	3,989,926

There were no transfers between levels during the financial year.

**Note 29. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Short-term employee benefits	949,516	1,048,072
Share-based payments	531,908	967,906
	<u>1,481,424</u>	<u>2,015,978</u>

### Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO East Coast Partnership, the auditor of the company:

	Consolidated	
	2016	2015
	US\$	US\$
<i>Audit services - BDO East Coast Partnership</i>		
Audit or review of the financial statements	62,145	60,541
<i>Audit services – Hogan Taylor LLP (network firm)</i>		
Audit or review of the financial statements	69,500	94,000
<i>Non-assurance services – Hogan Taylor LLP (network firm)</i>		
Taxation services	37,000	-

### Note 31. Contingent liabilities

There are no contingent liabilities as at 31 December 2016 and 31 December 2015.

### Note 32. Related party transactions

#### *Parent entity*

AusTex Oil Limited is the parent entity.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

#### *Transactions with related parties*

The following transactions occurred with related parties:

	Consolidated	
	2016	2015
	US\$	US\$
Payment for other expenses:		
Payment for consulting services	296,048	320,024

During the year ended 31 December 2016, the Company paid \$296,048 to FS Investors Management, LP, an entity affiliated with Michael Stone, Board Chairman, for director fees and for consulting fees for financial advisory and accounting services provided by employees of FS Investors Management, LP. In addition, Nick Stone, AusTex's Co-Managing Director, is also affiliated with FS Investors Management, LP.

#### *Receivable from and payable to related parties*

There were no loans to subsidiaries outstanding at the current reporting date. On 1 October 2014, the consolidated entity reorganized its U.S. subsidiaries for certain corporate operating efficiencies and outstanding loans to subsidiaries were reclassified as Investments in Controlled entities

There were no loans to or from related parties at the current and previous reporting date.

### Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

#### Statement of profit or loss and other comprehensive income

	Parent	
	2016 US\$	2015 US\$
Loss after income tax	(1,273,749)	(28,826,258)
Total comprehensive income	(1,273,749)	(35,188,168)

#### Statement of financial position

	Parent	
	2016 US\$	2015 US\$
Total current assets	91,244	71,615
Total assets	34,286,615	35,090,942
Total current liabilities	80,558	103,675
Total liabilities	80,558	103,675
Equity		
Issued capital	90,197,424	90,014,494
Foreign currency reserve	(16,554,726)	(16,230,934)
Share-based payments reserve	240,303	276,311
Options reserve	3,747,713	3,078,304
Accumulated losses	(43,424,657)	(42,150,908)
Total equity	34,206,057	34,987,267

#### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2016 and 31 December 2015.

#### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2016 and 31 December 2015.

#### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2016 and 31 December 2015.

#### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 34. Interest in joint operations**

Effective on November 1, 2016, the Company acquired a 50% working interest in approximately 1,000 acres in Creek and Lincoln Counties of Oklahoma. The area in which most of the wells sit is known as the Drumright Dome. The acquisition is part of the Company's strategy to grow its oil and gas production. In addition to production, the Company also acquired real estate properties and equipment. The Company is the operator of this operation and the cash purchase price was \$3.25 million. The Company valued the assets acquired using estimated fair market values.

A summary of the Company's 50% share of the Southwest assets acquired at fair market values as of its date of acquisition is as follows:

	<b>Fair value US\$</b>
Oil and gas assets	3,240,456
Property, plant and equipment	1,164,948
Deferred tax liability	(227,363)
Provision for asset retirement obligations	<u>(72,724)</u>
Net assets acquired	4,105,317
Discount on acquisition	<u>(855,317)</u>
Acquisition-date fair value of the total consideration transferred	<u><u>3,250,000</u></u>
Representing:	
Cash paid or payable to vendor	<u><u>3,250,000</u></u>

	<b>Consolidated 2016 US\$</b>	<b>2015 US\$</b>
Cash used to acquire joint operations		
Acquisition-date fair value of the total consideration transferred	<u>3,250,000</u>	<u>-</u>

The discount on acquisition of \$855,317 has been recognised in the Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2016.

The Company's share of the joint operation's assets and liabilities reflected in the consolidated financial statements at December 31, 2016 is as follows:

	<b>2016 US\$</b>
Current assets	96,189
Non-current assets	4,382,091
Current liabilities	(21,455)
Non-current liabilities	<u>-</u>
	<u>4,456,825</u>

The Company's share of income from the sale of its share of output and related expenses reflected in the consolidated financial statements from date of acquisition for the year ended December 31, 2016 is as follows

	<b>2016 US\$</b>
Revenue	152,407
Cost of sales	(160,627)
Other expenses	(45,655)
Loss before tax	<u>(53,875)</u>
Income tax benefit	<u>227,363</u>
Profit after tax	173,488

The Company has no contingent liabilities or commitments related to this joint operation.

**Note 35. Events after the reporting period**

On 14 March 2017, the Company received a Shareholder Redemption Notice from Weider Health and Fitness, one of the Company's minority preference shareholders, asserting that they entitled to redeem 25,158,040 preference shares and receive payment of the amount of US\$3,773,706. On 27 March 2017, the Company received a 'Summons in a Civil Action' (Summons) filed in the United States District Court for the Southern District Of New York by Weider Health and Fitness and Bruce Forman as Plaintiffs and AusTex Oil and its subsidiaries as Defendants. The Summons alleges, inter alia, that the Company is in breach of the terms of the Subscription Agreement approved by shareholders at the Extraordinary General Meeting on 24 January 2014. The Company disputes that there has been a breach of the Subscription Agreement and has engaged lawyers in the state of New York to defend the proceedings.

On 21 March 2017, the Company advised the market that it had completed the acquisition of approximately 720 acres in Kay County, Oklahoma near the Snake River project at a cost of \$500,000. The acquisition included infrastructure for saltwater disposal and 3D seismic over 4 square miles and is currently producing around 20bopd of level gross production from one well.

**Note 36. Reconciliation of loss after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Loss after income tax benefit for the year	(8,951,183)	(19,208,141)
Adjustments for:		
Share-based payments	146,922	282,537
Impairment of assets	2,441,567	15,115,986
Option expense	669,409	1,485,724
Depreciation and depletion	3,918,787	6,004,728
Discount on acquisition	(855,317)	-
Profit on disposal of non current assets	-	44,476
Other non cash items	-	(53,980)
Deferred tax	(227,363)	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	115,974	1,170,372
Decrease/(increase) in inventories	(95,565)	75,949
(Increase) / Decrease in derivatives	4,197,608	1,557,909
(Increase) / Decrease in other financial assets	65,724	127,425
Increase/(decrease) in trade and other payables	277,633	(1,722,311)
Decrease in deferred tax liabilities	-	(404,000)
Net cash from operating activities	<u>1,704,196</u>	<u>4,476,674</u>

**Note 37. Earnings per share**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Loss after income tax	(8,951,183)	(19,208,141)
Non-controlling interest	47,108	52,635
Loss after income tax attributable to the owners of AusTex Oil Limited	<u>(8,904,075)</u>	<u>(19,155,506)</u>

**Note 37. Earnings per share (continued)**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	559,985,101	558,996,060
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>559,985,101</u>	<u>558,996,060</u>
	Cents	Cents
Basic earnings per share	(1.59)	(3.43)
Diluted earnings per share	(1.59)	(3.43)

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
- 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.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read "Richard Adrey".

---

R A Adrey  
Co-Managing Director

31 March 2017

## INDEPENDENT AUDITOR'S REPORT

To the members of Austex Oil Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Austex Oil Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, 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:

- (a) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- (b) 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.



## Accounting for Joint Operation

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Company acquired a 50% working interest in approximately 1,000 acres in Creek and Lincoln Counties of Oklahoma in November, 2016. In doing so, the Group recognised a discount on acquisition of USD\$855,317 after consideration of USD\$3,250,000 was transferred for net assets totalling USD\$4,105,317.</p> <p>Note 34 contains a summary of the assets acquired at fair market values as of its date of acquisition.</p> <p>The fair value of oil and gas assets has been calculated using inputs from NYMEX oil and gas reserve reports, future strip pricing for the estimation of future cash flows and additional future cash out-flows such as administrative costs and oil and gas well work over costs. The fair value of other property, plant and equipment was measured using third party appraisals and valuations.</p> <p>This was significant to our audit because of the decisions and judgements required in determining whether the transaction has been accounted for appropriately in accordance with Australian Accounting Standards.</p>	<p>To address this matter, the procedures included, amongst others:</p> <p>Understanding the reasons why the consideration paid was less than fair value of the net assets acquired.</p> <p>Assessing that all of the assets acquired and all of the liabilities assumed had been identified prior to measuring the amounts to be recognised at acquisition date.</p> <p>Scrutinizing the measurement of these amounts, in particular the fair value calculation of the acquired assets. Specifically, we critically assessed the reliability and appropriateness of the inputs used by management. Audit procedures involved corroboration of such inputs being:</p> <ul style="list-style-type: none"> <li>• Third party real estate summaries and appraisals</li> <li>• NYMEX reserve and pricing reports - ensuring that these reserve reports incorporated the newly acquired wells</li> <li>• Management's estimates of future cash outflows with respect to future cash outflows of similar wells owned by the Company.</li> </ul>

## Impairment and Carrying Value of the Oil and Gas Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The oil and gas assets form a significant percentage of the Company's assets. As such, the impact of the change in oil and gas prices is a key focus of the audit.</p> <p>Extensive modelling of the carrying amount of the oil and gas assets was undertaken which included a number of judgements and assumptions on key inputs including the PV discount rate, oil and gas price, available reserves and future cash outflows.</p> <p>The key assumptions used in this model are disclosed in</p>	<p>Our procedures in relation to the carrying value of the oil and gas assets included amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluating appropriateness of the PV discount rate with the assistance of valuation experts</li> <li>• Reviewing the reasonableness of oil and gas prices with reference to third party pricing reports</li> <li>• Evaluating the projected production volumes</li> </ul>

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
note 2 - reserves and impairment.	<p>based on current production volumes and available reserves</p> <ul style="list-style-type: none"> <li>Assessing the reasonableness of future cash outflows based on current operating expenditure.</li> </ul>

#### Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 31 December 2016, 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or 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 (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

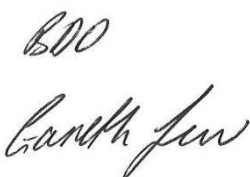
We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Austex Oil Limited, for the year ended 31 December 2016, 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 East Coast Partnership**



**Gareth Few**  
Partner

Sydney, 31 March 2017

The shareholder information set out below is applicable as at 27 March 2017:

**Substantial Shareholders:**

<b>Name:</b>	<b>Number of Shares:</b>
HSBC Custody Nominees (Australia) Limited	83,348,462
J P Morgan Nominees Australia Limited	55,597,151
Kwang Hou Hung	36,960,787
ABN Amro Clearing Sydney Nominees Pty Ltd	34,538,252

**Number of Holders of Each Class of Equity Securities:**

<b>Class:</b>	<b>Number of Holders:</b>
Fully Paid Ordinary Shares	1,931
Unquoted Options	14 (as per the table below)
Preference Shares (RCPA)	2
Preference Shares (RCPB)	4

**Unquoted Options:**

As at 27 March, 2017, there were a total of 38,000,000 unlisted options outstanding. The holders of options do not have any voting rights in their capacity as option holders.

<b>Grant Date</b>	<b>Number</b>	<b>Expiry Date</b>	<b>Exercise price</b>	<b>Number of holders</b>
24 Oct. 2012	20,000,000	24 Oct. 2017	\$0.15	9
29 July 2014	18,000,000	29 July 2019	\$0.175	5

**Voting Rights attaching to each class of equity security:**

Shareholder voting rights are specified in clause 11 of the Company's Constitution lodged with the ASX on 8 January 2008. Holders of unquoted options and Preference Shares do not have any voting rights until converted into ordinary shares.

**Distribution Schedule Fully Paid Ordinary Shareholders:**

<b>Range:</b>	<b>Number of Holders:</b>
1 – 1,000	174
1,001 – 5,000	211
5,001 – 10,000	276
10,001 – 100,000	859
100,001 – and over	411

**Number of holders with less than a marketable parcel of securities:**

There are 790 shareholders with an unmarketable parcel of shares being a holding of equal to or less than 15,625 shares each for a combined total of 4,868,964 shares. This is based on a closing price of \$0.032 per share as at 24 March 2017 and represents 0.8686% of the shares on issue.

**Top 20 Shareholders:**

<b>Name of Shareholder</b>	<b>No. of Shares</b>	<b>%</b>
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	83,348,462	14.816%
J P MORGAN NOMINEES AUSTRALIA LIMITED	55,597,151	9.883%
KWANG HOU HUNG	36,960,787	6.570%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	34,538,232	6.139%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	15,050,098	2.675%
NATIONAL NOMINEES LIMITED	14,727,901	2.618%
WILLIAM TAYLOR NOMINEES PTY LTD	13,815,454	2.456%
MR MERVYN WILLIAM CHAKLEY & MRS BEVERLEY JOY CHAKLEY <SYNTAC PTY LTD S/F A/C>	10,584,008	1.881%
SEBASTES CAPITAL LLC	9,050,000	1.609%

CITICORP NOMINEES PTY LIMITED	8,279,373	1.472%
PHESJ PTY LTD	8,123,429	1.444%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	7,161,916	1.273%
TERSTAN NOMINEES PTY LTD <MORROWS P/L SUPER FUND A/C>	6,782,477	1.206%
KENG CHUEN THAM	6,380,000	1.134%
MR RICHARD A ADREY	6,013,565	1.069%
BNP PARIBAS NOMS PTY LTD <DRP>	5,725,853	1.018%
MR DAVID GORDON O'REILLY & MS EUGENIE O'REILLY <SUPER FUND A/C>	5,254,000	0.934%
RICHARD A ADREY & LINDA K ADREY <WROS A/C>	5,000,000	0.889%
MR VICTOR WAN <SUPER FUND A/C>	4,700,000	0.835%
DR LEON EUGENE PRETORIUS	4,629,492	0.823%
<b>Total of Top 20 Shareholders</b>	<b>341,722,198</b>	<b>60.743%</b>
<b>Total Shares on Issue</b>	<b>562,571,402</b>	<b>100.00%</b>

**Escrowed Securities:**

There are no securities subject to escrow in Australia.

**Buy-Back:**

There is no current on-market buy-back.