



2018 Annual Report



Tap Oil Limited

ABN 89 068 572 341

Annual Report for the year ended 31 December 2018

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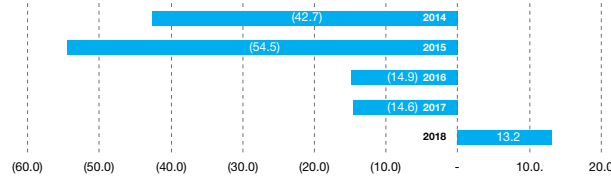
Financial Highlights 2018

Net profit
after tax 2018

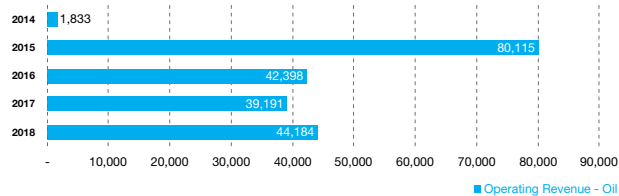
\$13.25
million

▲ **190%**

NPAT (USD Mil)



Operating Revenue (USD '000)



Operating
revenue 2018

\$44.18
million

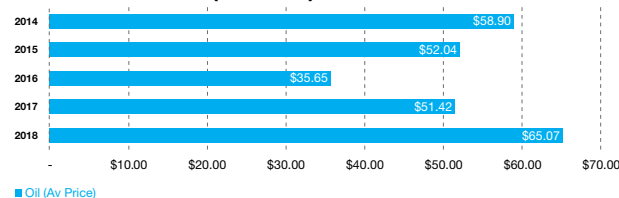
▲ **13%**

Realised price
2018

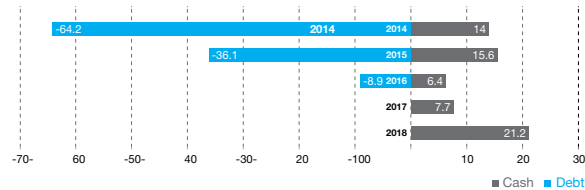
\$65.07
per bbl

▲ **27%**

Oil Realised Price (USD/bbl)



Debt to Cash



Debt to cash
(Cash +ve in 2018)

\$21.20
million

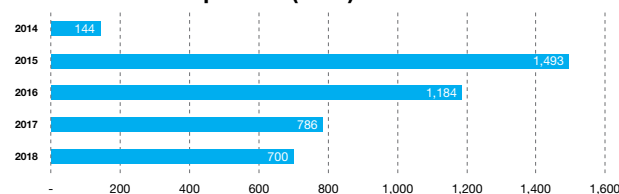
▲ **175%**

Oil Production
2018

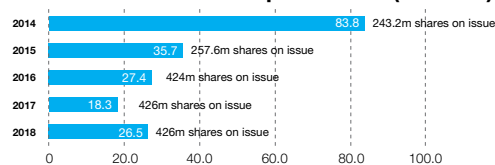
700,488
bbl

▼ **11%**

Oil Production Tap share (Kbbl)



Market Capitalisation (USD Mil)



Market
Capitalisation

26.5
million

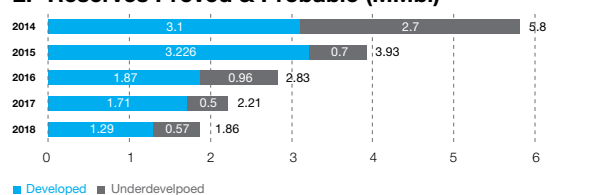
▲ **45%**

2P Reserves
Proved & Probable

1.86
MMbbl

▼ **16%**

2P Reserves Proved & Probable (MMbbl)



The Group's presentation currency is United States Dollars (US\$).
The functional currency of Tap Oil and all other controlled entities of Tap Oil Limited is United States Dollars (US\$).

Executive Chairman's Letter



Dear Shareholders

I am pleased to present your Company's Annual Report for the 2018 financial year.

The year saw Tap Oil Limited (Tap) implement a clear and simple strategy of reinvesting around the Company's key asset, its 30% interest in the Manora Oil Field, located within the G1/48 concession in Thailand, exiting residual exploration positions, monetising the Australian contingent resource portfolio and reducing general and administration (G&A) costs. The results of this approach are now measurable in top and bottom line metrics underpinning the value of your shares.

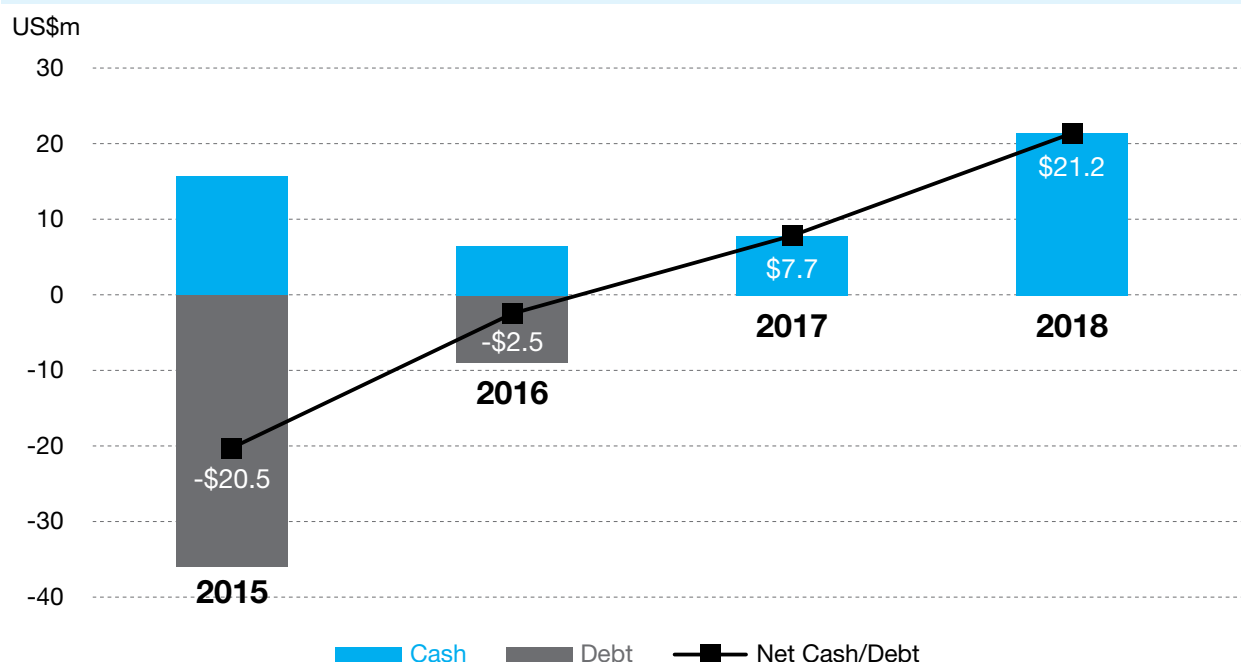
Introduction

Ongoing oil market volatility and operational constraints at Manora continued to challenge the Board during 2018. However, a successful 2018 Manora exploration and development drilling program added to production and revenue, increased Reserves and was value accretive.

The new strategy has delivered good results and I am pleased to say that Tap returned to profitability in 2018, with an NPAT of \$13.2 million. This is the first profit since 2009 and the largest since 2005.

At the same time, Tap's cash at hand, increased by \$13.5 million over the year from \$7.7 million at 31 December 2017 to \$21.2 million at 31 December 2018, despite Manora capital investment of \$3.6 million over the year. Cost management and balance sheet discipline has delivered a much stronger Tap balance sheet at the end of 2018.

Tap Oil Net Debt to Cash Position (US\$m)



Note the cash balances in the table above includes Tap's share of joint venture cash.

Manora focus pays off in 2018, with an active 2019 planned

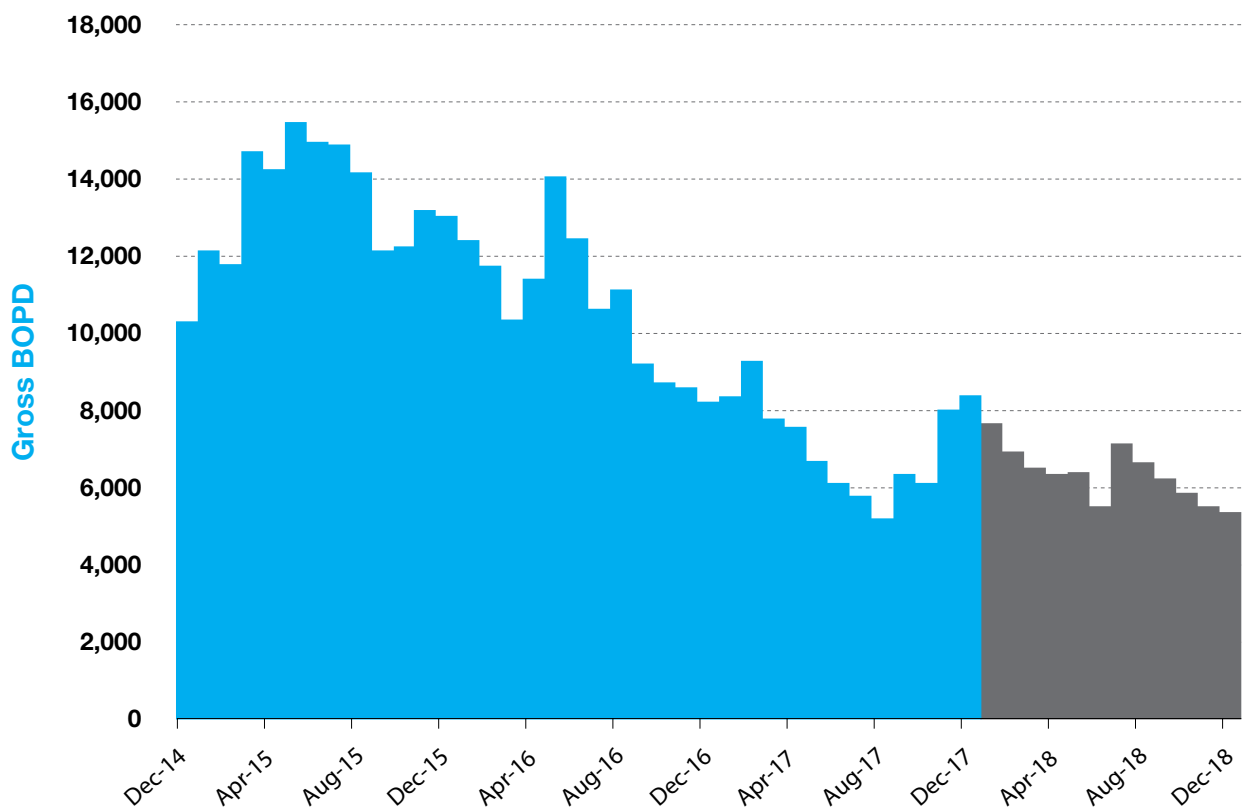
At Manora, all operations were executed safely and an excellent HSSE record was maintained, including a full year without any lost time or recordable injuries. This is a priority for Tap and a very pleasing result.

Manora oil production began in 2018 with a January 2018 average of 7,706 bopd gross, declining to 5580 bopd gross in June 2018 then growing to 7,200 bopd

gross in July 2018, after the successful development drilling program and ended the year at 5,422 bopd gross in December 2018, resulting in net production to Tap for the 2018 financial year averaging 1,919 bopd, some 6.8% above our 2P forecast.

At year end, the Manora Oil Field had produced 14.36 MMstb gross, or 4.31 MMstb net to Tap.

Manora Gross Oil Production



Executive Chairman's Letter

Manora is a medium sweet crude that trades at a premium to Dubai. Nine cargos were lifted during 2018, totalling 678,948 barrels net to Tap. Sales receipts from nine cargos¹ was also received during 2018, delivering \$48.384 million during the year at an average cash price realisation of \$71.26/bbl, before hedging.

What pleased me most in the context of our strategy is that insights from the successful 2018 Manora exploration and development program, plus excellent follow up technical work on the high quality reprocessed Manora 3D seismic data set, has confirmed the hypothesis that shareholder value could be delivered from disciplined development, appraisal and near field exploration drilling investment.

In late 2018, Tap and the Manora Oil Field operator, Mubadala Petroleum, reviewed insights and opportunities from production operations plus successful 2018 drilling, geological and geophysical activities. A portfolio of incremental Reserves and production enhancement opportunities was inventoried, analysed, high-graded and eventually budgeted for 2019. Investments prioritised include workovers, development drilling and exploration drilling which are all designed to add to Reserves, production, cash flow and extend the economic life of the Manora Oil Field.

Tap's share price responded to the above success by increasing 49.2% over 2018 from 5.9 cps at the end of December 2017 to 8.8 cents at the end of December 2018.

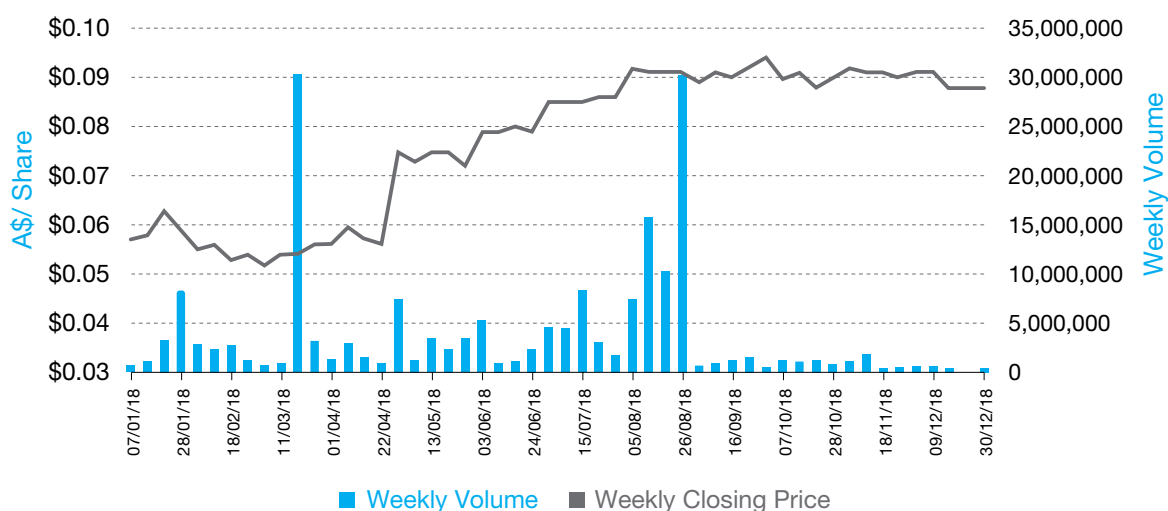
As announced to the ASX market on 20th March 2019, budgeted opportunities include two development wells in the Manora 300 series sands discovered in 2018, a further development well in the 490-60 reservoir discovered in late 2017, and various workover opportunities to develop undeveloped Reserves or optimise production. Further investments in the de-bottlenecking of facilities, including water injection capacity enhancement, is also budgeted. Final investment decisions on the precise location of these development drilling opportunities will be made in Q2 2019 with the 3 well development drilling program scheduled to commence in July 2019.

A portfolio of nearfield exploration drilling opportunities has been evaluated, with three prospect clusters high-graded that could be tested with a combination of exploration wells and associated side-tracks.

The firm 2019 budget includes one exploration well and a side-track. A further exploration well and side track is also budgeted, contingent upon rig slot availability. Detailed well engineering and design is ongoing towards a final investment decision on the number and location / trajectory of exploration and sidetrack wells to be made in May 2019 with drilling scheduled to commence in Q4 2019.

Let me speak a little more about Tap's key value drivers in turn.

2018 TAP Share Price & Volume History



¹ Year-end lifting and payment timing differences saw revenue from 2,283,164 bbls gross but liftings of 2,263,280 bbls gross during 2018

Oil Prices

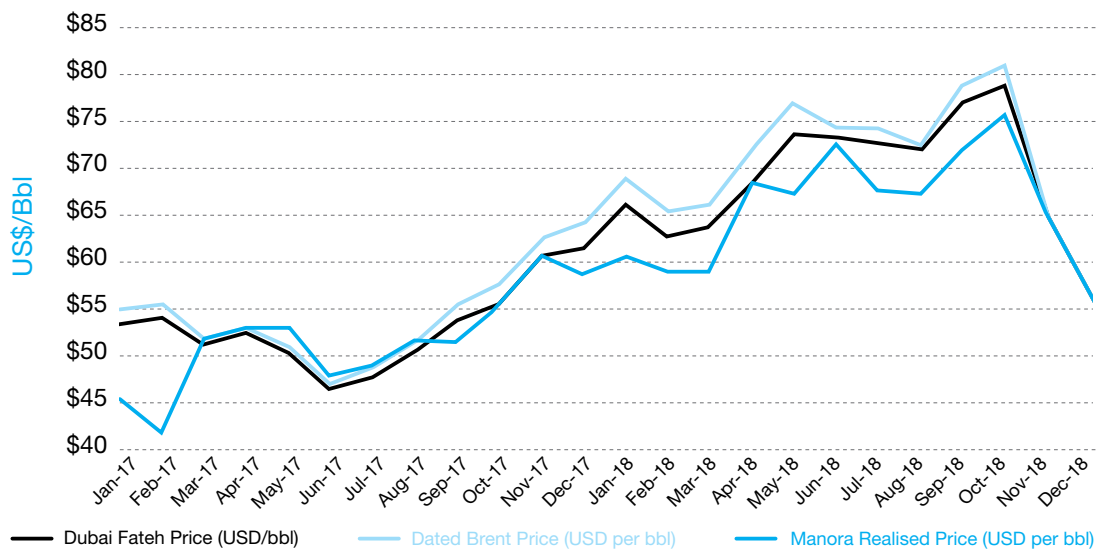
The Brent oil spot price began 2018 at just under \$68.0/bbl and rose steadily to reach a peak of just over \$86/bbl in early October, when it then plunged on concerns of faltering global growth and record US production. Brent crude prices bottomed out on 24 December at just over \$54/bbl to average \$71.06/bbl during the year.

In many respects, this price rise and subsequent collapse was a repeat of the second half of 2014 which, as I mentioned last year, reflects the battle between US tight oil production and the willingness of OPEC and its non-OPEC allies to constrain supply and their

own market share. This dynamic, along with concerns about global economic growth and concomitant oil demand growth, in the face of trade uncertainties, will again dictate the direction of oil markets in the near future. Market consensus sees Brent trading in the mid \$60's²/bbl in 2019 however a plethora of geopolitical uncertainties could intervene to disrupt this.

Manora crude traded at a \$1.35/bbl premium to Platts Dubai crude in 2018 which in turn traded at a \$2.35/bbl discount to Brent. The net result was that Manora crude traded at a \$1.00/bbl discount to Brent over 2018.

Comparison Brent, Dubai & Manora Realised Oil Price



Source: Index Mundi Data Portal (Bloomberg, Energy Intelligence, World Bank, Manora sales data)



² Bloomberg Consensus Economics

Executive Chairman's Letter

At the end of 2018, Tap signed a new Manora Crude Offtake Agreement for 2019 at a much improved premium to Platts Dubai. This higher value for Manora crude reflects increasing market recognition for Manora crude after 4 years of supply, and two structural changes in the oil market. The first is being driven by the International Maritime Organization, which will enforce a lower sulphur content cap on fuel for shipping by 2020 and the second is an oversupply of light sweet crude (driven by US shale oil supply growth), leading to increased demand for medium grade crudes like Dubai. Manora's medium gravity, sweet, and low sulphur crude characteristics is therefore benefiting from these changes and is in higher demand for blending purposes by customers in Asia.

A combination of the current low Brent – Dubai differential, current 2019 CME futures³ and the higher negotiated Manora – Dubai premium, could see Manora crude trade at an effective premium to Brent in 2019. The Tap Board reduced its hedging program in 2018 with only 40% of production hedged, through swaps, at an average of \$55.00/bbl. All hedges rolled off by November 2018. Rising oil prices throughout most of 2018 saw the average realised price reduced from \$71.26/bbl to \$65.07/bbl after hedging; a total hedging loss of \$4.2 million was recorded in 2018. Historically Tap has hedged to ensure sufficient liquidity for debt repayment and capital investment at Manora. With a growing cash balance and no debt, Tap is currently unhedged, with the Board taking the view that shareholders want upside oil price exposure and the growing cash balance provides a cushion against ongoing liabilities and investment needs. The Board is positioned to hedge opportunistically in 2019 should the opportunity be considered beneficial.

| Manora Pricing | Units | 2018 | 2017 |
|--------------------------------------|------------------|--------------|--------------|
| Brent | US\$/ bbl | 72.26 | 55.00 |
| Dubai | US\$/ bbl | 69.91 | 53.39 |
| Brent-Dubai Differential | US\$/ bbl | 2.35 | 1.61 |
| Manora Pre hedge | US\$/ bbl | 71.26 | 54.53 |
| Manora Pre hedge- Brent Differential | US\$/ bbl | -1.00 | -0.47 |
| Manora Post hedge | US\$/ bbl | 65.07 | 51.40 |

Production and Reserves

2018 Manora gross production averaged 6,397 bopd (1,919 bopd net), a 10.8% decrease on 2017 production.

Gross production and liftings during 2018 were 2,334,948 barrels and 2,263,281 barrels respectively being 700,484 barrels and 678,984 barrels respectively net to Tap.

| Tap Net | | 2018 (Full Year) | 2017 (Full Year) |
|-------------------------------|-----------------|------------------|------------------|
| Production | bopd | 1,919 | 2,152 |
| Production | STB | 700,484 | 785,400 |
| Lifting | STB | 678,984 | 762,000 |
| Year End Reserves (1P/2P) | MMSTB | 1.08/1.86 | 1.45/2.21 |
| Realised Price (post hedging) | US\$/STB | 65.07 | 51.40 |
| Revenue (post hedging) | US\$M | 44.20 | 39.10 |

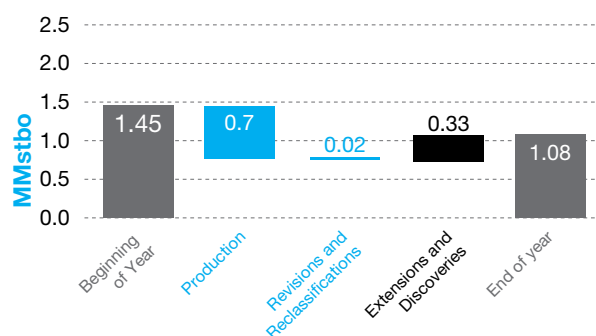
³ *Brent Crude Oil vs. Dubai Crude Oil (Platts) Futures Quotes (CME Group)*

Executive Chairman's Letter

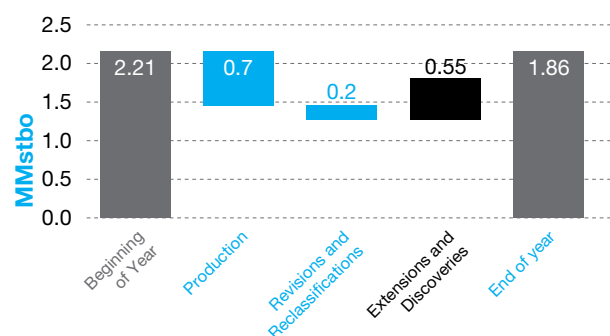
The successful exploration and development program did make a positive contribution to Reserves, although production was not fully replaced. 1P and 2P Reserves ended the year down 0.37 and 0.35 million barrels at 1.08 and 1.86 million barrels respectively, despite production of 0.7004 million barrels. This translates into a 1P and 2P Reserve Replacement Ratio of 52% and 64% respectively.

Manora gross 1P and 2P Expected Ultimate Recoverable Reserves (EUR) increased 6% and 4% respectively to 17.96 and 20.56 MMstbo from 2017 year end levels, indicative of ongoing good field and reservoir management from daily optimisation initiatives, workovers and new drilling.

Tap 2018 Manora 1P Reserve Movements



Tap 2018 Manora 2P Reserve Movements



Executive Chairman's Letter

Field operating costs

Tap Board and management worked very closely with the operator of the Manora Oil Field, Mubadala Petroleum, in 2018 to bring down Manora operating and investment costs, without compromising an excellent health, safety and environmental track record.

With the majority of Manora operating costs being fixed through the Manora Floating Storage and Offloading (FSO) unit rental and associated logistical services, the key to controlling Manora unit operating costs is to maintain or increase volume throughput hence the drilling and workover investments in 2018 and planned activities for 2019.

Manora Oil Field cash operating costs averaged \$24.83 /bbl in 2018 and \$30.19 /bbl including Thai government royalties. With sales receipts per barrel sold being \$71.26/bbl (before hedging) cash generation per bbl sold in 2018 was \$41.07/bbl or \$34.89/bbl after hedging.

Given the reinvestment strategy, an equally important cost metric for Manora is drilling costs and 2018 saw a continuation of the drilling cost reduction trend. Drilled and completed well costs averaged \$4.18 million per well in 2018, down from \$8.56 million per well in 2014, reflecting cost and operational efficiencies. The Manora 8 exploration well (Manora Footwall prospect) cost only \$2.53 million gross and these low drilling costs and tax efficiencies, together with minimal incremental Opex for new production are an important driver of the near field exploration and development value proposition.

At \$65/bbl oil price realisation, new wells drilled and completed need less than 80,000 bbls of production to pay out. This compares with the average production for a Manora well to date of around 1,030,000 bbls.

Tap G&A costs and balance sheet

The Board has maintained an acute focus on the costs it can control, specifically corporate general and administrative (G&A) costs. These have been cut from \$6.98 million in the 2016 financial year to \$2.17 million in the 2018 financial year. This has been achieved by a reduction in head count, a reduction in Directors' fees, some strategic outsourcing, and a clear strategy to focus on Manora and monetise the Australian portfolio.

Strategy

In early 2018, the Board developed and communicated a strategy to deliver value from the Tap portfolio⁴. The key elements of that strategy included focusing capital and capability on Manora reinvestment opportunities, rationalising and monetising the Australian portfolio, and reducing capital, operating and G&A costs.

In 2018, the remaining Australian exploration blocks were exited, and a number of Australian contingent resource assets were monetised. This delivered value in terms of cash consideration and in the reduced holding and management costs that came with a non-strategic portfolio.

At year end, Tap's remaining positions, all non-operated are in WA-72-R (20%), WA-34-R (12%) and WA-25-L (15%).

Further Australian portfolio monetisation opportunities are actively being pursued which will enable Tap to sharpen its focus on its core Manora asset, with a fit for purpose organisation and cost structure. The Board strongly believes this strategy will generate value for shareholders and indeed results to date, in terms of production and Reserve performance, cost reductions, a return to profitability, cash generation and share price performance suggest we are on the right track.

2018 Exploration Block Rationalisation and Contingent Resource Monetisation

| Exploration Blocks | | | Contingent Resource Asset | | |
|--------------------|----------|--------------|---------------------------|----------|--------------|
| Block | Interest | Status | Block | Interest | Status |
| M-7 | 95.00% | Exited | TP/7 | 12.47% | Sold |
| WA-290-P | 10.00% | Relinquished | TL/2 | 10.00% | Sold |
| WA-515-P | 100.00% | Relinquished | WA-8-L | 20.00% | Sold |
| WA-516-P | 100.00% | Relinquished | WA-33-R | 22.47% | Sold |
| WA-22-L | 15.00% | Relinquished | PL4 | 10.00% | Sold |
| | | | TPL/3 | 10.00% | Sold |
| | | | TPL/4 | 10.00% | Sold |
| | | | TPL/7 | 10.00% | Sold |
| | | | WA-49-R | 10.00% | Relinquished |

⁴ http://www.tapoil.com.au/site/PDF/2781_2/Presentation

Opportunities for value creation and delivery

The 2018 investments in the Manora Oil Field confirmed the hypothesis that shareholder value could be delivered from disciplined development, appraisal and near field exploration drilling investment. I believe that careful capital allocation through excellence in investment decision quality has led to the cashflow generation and improved balance sheet position of Tap at the end of 2018.

In late 2018, Tap and the Manora Oil Field operator, Mubadala Petroleum, reviewed insights and opportunities from production operations plus successful 2018 drilling, geological and geophysical activities. A portfolio of incremental Reserves and production enhancement opportunities was inventoried, analysed, high-graded and eventually budgeted for 2019. Investments prioritised include workovers, development drilling and exploration drilling which are all designed to add to Reserves, production, cash flow and extend the economic life of the Manora Oil Field.

Budgeted opportunities include two development wells in the Manora 300 series sands discovered in 2018, a further development well in the 490-60 reservoir discovered in late 2017, and various workover opportunities to develop undeveloped Reserves or optimise production. Further investments in the de-bottlenecking of facilities, including water injection capacity enhancement, is also budgeted.

Final investment decisions on these development drilling opportunities will be made in Q2 2019 for first drilling in Q3 2019.

A portfolio of nearfield exploration drilling opportunities was high-graded into three prospect clusters that could be tested with a combination of exploration wells and associated side-tracks, similar the successful Manora 8 and Manora 8 side-track strategy implemented in 2018. This is a very cost-effective strategy to test multiple objectives from one surface location. The firm budget includes one exploration well and a side-track at \$3.9 million gross, a further exploration well and side track at an additional \$3.9 million gross, contingent upon rig slot availability. A final investment decision on the number and location of exploration drilling opportunities will be made in May 2019 with drilling scheduled in Q4 2019.

The strategy continues to focus on opportunities that can be developed quickly from existing facilities with minimal incremental Opex, therefore offering high capital productivity, robust returns and rapid cashflow payback.

An attractive Thai operating environment and fiscal terms while leveraging existing infrastructure, knowledge and relationships makes incremental brownfield oil investment at Manora strategically and financially compelling. This compares with the higher cost and risk of the long lead time gas strategy previously being pursued in Australia.

Potential exploration targets include further structures along the southern extension of the Manora East bounding fault which has delivered recent success at Manora 8 side-track and Manora 18, exploration and new field opportunities around the proven oil generation depocenter east of the Manora East fault block. Some of the latter opportunities would need to be developed via satellite well head platforms tied back to Manora and others by extended reach drilling.

Australia

Outside of Thailand, the Board is looking to complete the exit from the residual Australian contingent resource portfolio and deliver a company with the organisation and cost structure appropriate to deliver value from G1/48 and Manora.

Conclusion

The strategy to deliver value from the Tap portfolio is working as measured by the rising cash balance and related balance sheet strengthening, Reserve additions and a return to profitability.

Tap is debt free, has a growing cash balance and has high margin oil production. I look forward to working with this most experienced Board to execute the strategy to reinvest in Manora and extend this cash generation to deliver value.

I recognise the loyalty and patience of our shareholders, and your ongoing belief in and commitment to the Company by retaining your shares through 2018.

I look forward to reporting progress to you on strategy, operations, financials and value delivery during 2019.

I further look forward to your support and meeting you at the AGM scheduled for 15 May 2019.

Chris Newton
Executive Chairman

Reserves & Resources Statement

The following summarises Tap's Proved Reserves (1P), Proved plus Probable Reserves (2P) and Contingent Resources (2C) estimates as of the evaluation date of 31 December 2018. Unless otherwise stated, all estimates are quoted as net Tap share.

Reserves at 31 December 2018 (MMbbl)

| Thailand | Proved Oil (1P) | Proved & Probable Oil (2P) |
|--------------|-----------------|----------------------------|
| Developed | 0.75 | 1.29 |
| Undeveloped | 0.33 | 0.57 |
| Total | 1.08 | 1.86 |

Reserves Reconciliation (MMbbl)

| Thailand | Proved Oil (1P) | Proved & Probable Oil (2P) |
|-------------------------------------|-----------------|----------------------------|
| Reserves at 31 December 2017 | 1.45 | 2.21 |
| Revisions & reclassifications | 0.00 | -0.20 |
| Extensions & Discoveries | 0.33 | 0.55 |
| Production | -0.70 | -0.70 |
| Reserves at 31 December 2018 | 1.08 | 1.86 |

An extension and discovery layer addition to the 1P and 2P Reserves is due to the new 300 and 500 sands discovered by Manora-8ST and delineated by MNA-20 wells.

Probabilistic methods have been used to evaluate Reserves. Reserves are not adjusted for risk.

2C Contingent Resources at 31 December 2018 (MMbbl) Summary

| Category | 2C (MMbbl) | | |
|--------------|-------------|-------------|--------------------|
| | Oil (MMbbl) | Gas (PJ) | Condensate (MMbbl) |
| Thailand | 0.8 | 0.0 | 0.0 |
| Australia | 0.0 | 94.1 | 0.1 |
| Total | 0.8 | 94.1 | 0.1 |

By Field

| Category | Tap interest | 2C (MMbbl) | | |
|----------------|--------------|-------------|-------------|--------------------|
| | | Oil (MMbbl) | Gas (PJ) | Condensate (MMbbl) |
| Thailand G1/48 | 30% | 0.8 | 0.0 | 0.0 |
| Tallaganda | 20% | 0.0 | 48.8 | 0.1 |
| P & R | 12% | 0.0 | 45.3 | 0.0 |
| Total | | 0.8 | 94.1 | 0.1 |

Reserves & Resources Statement

2C Contingent Resources Reconciliation (MMbbl)

| Category | 2C (MMbbl) | | |
|--|-------------|----------|--------------------|
| | Oil (MMbbl) | Gas (PJ) | Condensate (MMbbl) |
| Contingent Resources at 31 December 2017 | 1.4 | 128.8 | 0.4 |
| Conversion to Reserves | 0.0 | 0.0 | 0.0 |
| Revisions | 0.08 | 0.0 | 0.0 |
| Extensions & Discoveries | 0.21 | 0.0 | 0.0 |
| Acquisition & Divestments | -0.9 | -34.8 | -0.3 |
| Contingent Resources at 31 December 2018 | 0.8 | 94.1 | 0.1 |

The decrease in Contingent Resources during the financial year was due to the divestment of Australian assets, namely the Taunton oilfield and the Maitland gas field. Both deterministic and probabilistic methods at the field level have been used to estimate Contingent Resources. Contingent Resources are not adjusted for risk. Numbers may not add due to rounding.

Reserves and Contingent Resource Estimates - Governance

The Company's Reserves and Contingent Resource estimates are prepared in accordance with the SPE Petroleum Resources Management Guidelines.

Tap has a Reserves Committee, the Charter for which is available for viewing on its website. During 2018, there were four meetings of the Reserves Committee.

Qualified Petroleum Reserves and Resources Evaluator Statement

The Reserve and Contingent Resource estimate in this Annual Report (**Reserves and Resources Statement**) is based on, and fairly represents, information and supporting documentation prepared by a qualified petroleum reserves and resources evaluator. The Reserves and Resources Statement as a whole has been approved by Mr Denis Bouclin B.A.Sc (Hons), M.A.Sc (Engineering), P.Eng. Mr Bouclin is a part-time employee of the Company, with more than 25 years relevant experience in the petroleum industry and is a member of The Association of Professional Engineers and Geoscientists of Alberta (APEGA) and The Society of Petroleum Engineers (SPE). Mr Bouclin has consented in writing to the inclusion of information in this report in the form and context in which it appears.

Tap's Reserve and Contingent Resource estimates in this Annual Report were prepared in accordance with the SPE Petroleum Resources Management System 2007. The governance arrangements for the reporting of hydrocarbon reserves and resources are based on the Company's Reserves Committee Charter and Terms of Reference (available for viewing on the Company's website).

Reserves and Contingent Resources have been estimated using both deterministic and probabilistic methods. Reserves and Contingent Resources are aggregated by arithmetic summation by category. Reference point for measurement of Reserves is the point of sales which is the sales meter on the Manora Princess FSO.

Operating and Financial Review

Overview

The 2018 financial year saw Tap set a course to implement a clear and simple strategy of reinvesting around the Company's key asset, a 30% interest in the Manora Oil Field, located within the G1/48 concession in Thailand, exiting residual exploration positions, monetising the Australian Contingent Resource portfolio, and reducing general and administration (G&A) costs. The results of this approach are now measurable in top and bottom-line metrics.

A successful 2018 Manora exploration and development drilling program has added production, Reserves and revenue, while the Australian portfolio rationalisation and monetisation process continued to add to cashflow and the bottom line.

All of these activities have delivered outstanding financial results, with Tap recording a NPAT of US\$13.2 million. This is the first profit since 2009 and the largest since 2005.

At the same time, Tap's cash at hand increased by US\$13.5 million over the year from US\$7.7 million at

31 December 2017 to US\$21.2 million at 31 December 2018 (equivalent to A\$30.0m or ~80% cash-backing of Tap's current market capitalisation).

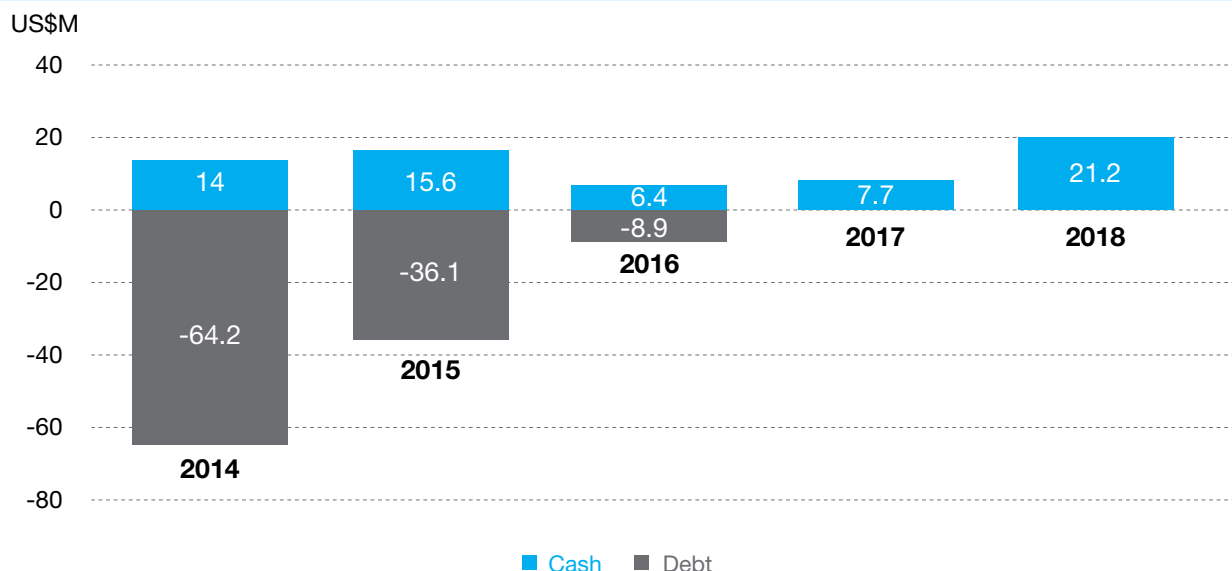
Cost management and balance sheet discipline has delivered a much stronger Tap balance sheet at the end of 2018. Total Assets for Tap have increased from \$68.5 million to \$75.2million.

Tap remains debt free and continues to build a strong cash position from free cash flows at Manora, and the rationalisation of the Australian portfolio. Strong historical operating margin and cost efficiencies have resulted in strong cash flow generation.

With no debt, Tap continues to focus on keeping costs low including Board, corporate and operating costs.

The cash build is expected to continue based on strong cash flow generation and Tap is well positioned to exploit further incremental development and exploration investment opportunities in and around Manora in 2019.

Tap Oil Net Debt to Cash Position (US\$M)



ASSET REVIEW

Manora Oil Field – G1/48 Thailand (30% interest)

The Manora Oil Field is located in the G1/48 concession offshore in the Gulf of Thailand and operated by Mubadala Petroleum (Thailand) Ltd (Mubadala). The Field is located approximately 80 kilometres offshore of Prachuap Khiri Khan Province.

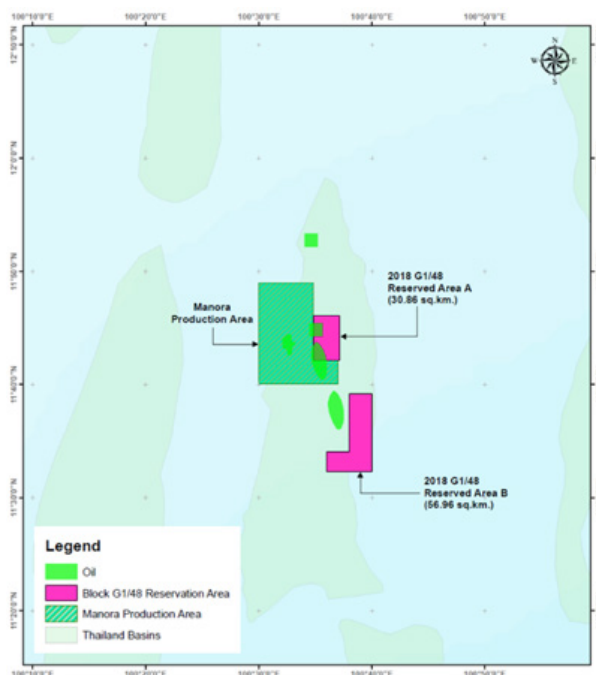
The Manora facilities include a wellhead processing platform with oil stored in a floating storage and offloading (FSO) vessel and exported via shuttle tanker. The FSO stores the crude oil and also serves as the accommodation hub.

Manora Production

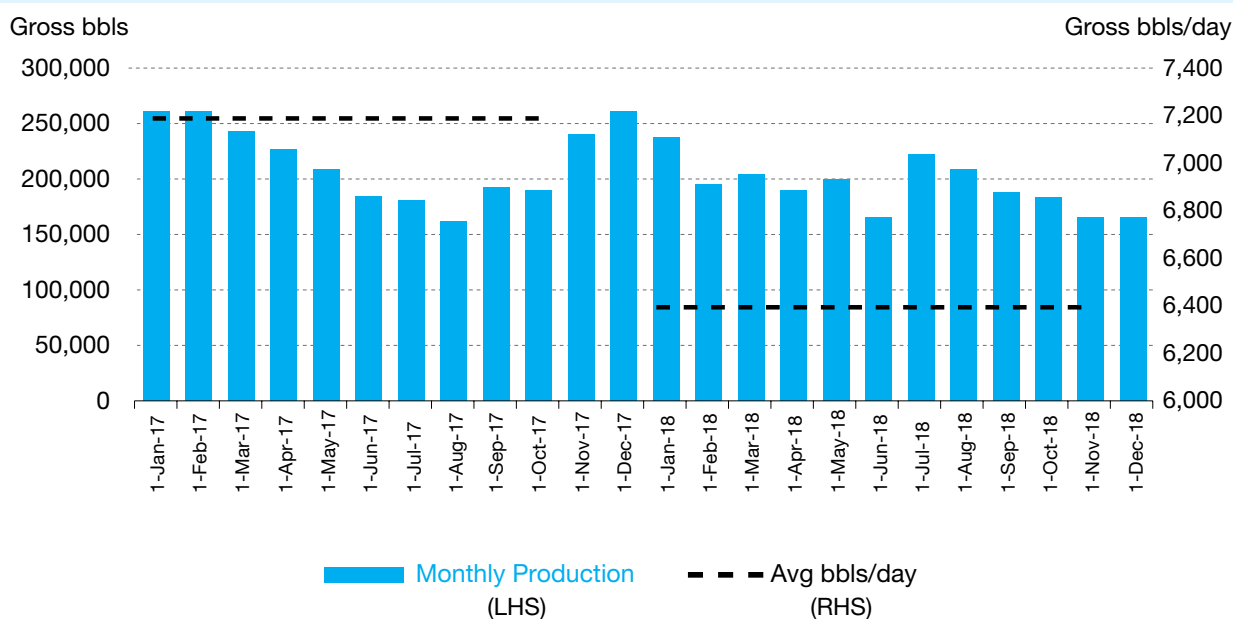
Gross production for the year was 2.335 MMSTB (Tap share 0.700 MMSTB). This was about 10.8% lower compared to 2017. Average gross production rate for 2018 was 6,397 bopd (Tap share 1,919 bopd).

A successful development drilling campaign (MNA-20 and MNA-21) saw production recover to average 7200 bopd (2160 bopd net to Tap) in July 2018 before declining to 5422 bopd (1627 bopd net to Tap) in December 2018.

Cumulative field production to 31 December 2018 was 14.36 MMSTB gross (Tap share 4.31 MMSTB).



Historical Manora Monthly Production 2017-2018



Operating and Financial Review

Manora Operations

Two development wells were drilled, completed and brought into production during the year and one production well was converted to an injection well.

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------|-------|--------|--------|-------|-------|
| Producer wells completed | 4 | 3 | 3 | 2 | 2 |
| Injector wells completed | | 4 | | | |
| Producers converted to injectors | | | | | 1 |
| Wells in production during year | 4 | 7 | 10 | 12 | 14 |
| Injectors operating during year | | 4 | 4 | 4 | 4 |
| Workovers during year | | 3 | 3 | 7 | 4 |
| Gross Oil (bopd) | 9,624 | 13,628 | 10,787 | 7,173 | 6,397 |
| Gross BSW (Water Cut%) | 0.0% | 14.4% | 46.9% | 72.0% | 77.5% |
| Average Uptime | n/a | 92.1% | 94.9% | 96.5% | 92.4% |

Manora Sales Marketing

Nine cargoes were lifted during 2018 that were mainly sold to buyers in China and Malaysia. Total volumes lifted net to Tap was 689k barrels.

Revenue sales from Manora totalled \$44.2M at an average realised price (after hedging) of \$65.07/bbl.

In December 2018, the Manora Joint Venture partners executed a new offtake agreement for the sale of crude from the Manora Oil Field to PTT Pte Ltd. The new offtake agreement is for all of 2019 production and is priced at an improved premium to Dubai.

Production and Sales

| | 2018 '000 bbls | 2018 \$'000 | 2017 '000 bbls | 2017 \$'000 |
|--|-------------------|----------------|-------------------|----------------|
| Production (net to Tap): | | | | |
| Oil – Manora | 700 | | 786 | |
| Sales (net to Tap): | | | | |
| Oil – Manora | 679 | 48,384 | 762 | 41,555 |
| Commodity hedge gain/(loss) | | (4,200) | | (2,364) |
| Oil revenue | | 44,183 | | 39,191 |
| Third Party Gas Sales – 921 TJ (2016: 3,281TJ) | | - | | 5,581 |
| Total sales | | 44,183 | | 44,772 |
| Average realised oil price | | \$65.07/bbl | | \$51.40/bbl |

Manora Development

On 20 May 2018, the Operator began a four well exploration, appraisal and development drilling campaign. On 20 June 2018, Tap Oil announced the completion of the final well in the drilling campaign with a total net pay of ~636 feet penetrated from both known and new sands.

Manora-8ST1, MNA-20 and MNA-21 were all successful in appraising their primary objectives.

The MNA-20 and MNA-21 wells had an initial combined test rate of 2,926 bopd gross. At year end, the wells had cumulative gross production of 208 MSTB and 48 MSTB respectively.

Manora Exploration

The Manora 8 exploration well was drilled in May 2018. The objective of the well was to explore for hydrocarbons in the 600 series sands, that are the primary producing sands in Manora. The well targeted a 3-way dip closure of the Manora Footwall A prospect. The secondary objectives included shallower reservoirs also productive in Manora and deeper objectives where oil shows were encountered in the MNA-17 well. The Manora-8 exploration well reached final total depth of 2,518 metres MDRT and encountered less than 3 metres oil pay. This was booked as a Contingent Resource.

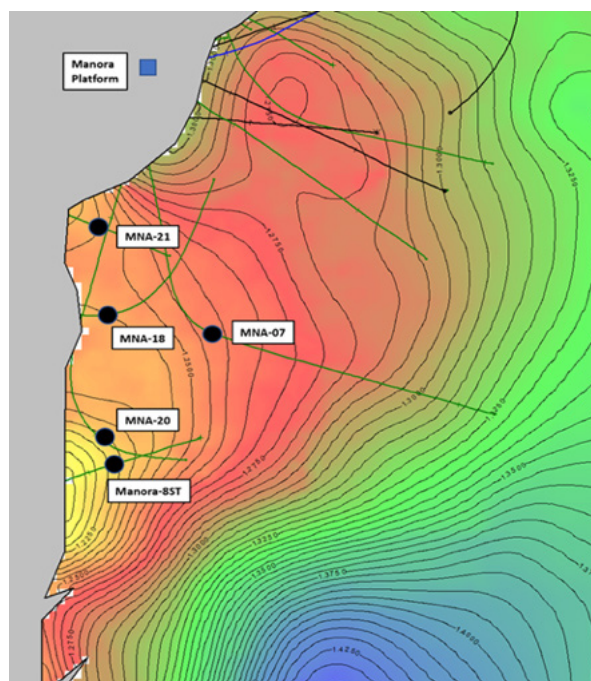
Manora Appraisal

The Manora-8ST1 appraisal well commenced drilling on 28 May 2018 reaching final total depth of 2,458 meters measured depth. New discoveries were made by the Manora-8ST1 appraisal well in the 300 and 500 series sands, which encountered 106 feet pay and 108 feet pay respectively.

Good porosity, pressure and permeability were encountered in the new sands. The 500 sands were considered to be new Reserves and the 300 sands new Contingent Resources in the Manora Oil Field. As announced on 15 March 2019 a three well development drilling program has been budgeted for 2019 to developed Reserves and Contingent Resources discovered in the successful 2018 and 2017 drilling campaigns with concomitant movement in Contingent Resources to Reserves.

Myanmar (95% interest)

Block M-7 is located in the gas and condensate prone Moattama basin, offshore Myanmar. Tap has met with its exit obligations and is awaiting confirmation from the government authority Myanmar Oil and Gas Enterprise (MOGE).



Operating and Financial Review

WA-290-P and WA-49-R (10% interest)

WA-290-P is an exploration permit in the offshore Carnarvon Basin, Western Australia. Previously the Joint Venture drilled the Zola discovery and had been granted a retention lease, WA-49-R, over the Zola and Antiope discoveries for a period of five years.

During 2017, Tap downgraded its assessment of the value of WA-49-R and in December 2017, Tap formally withdrew from the WA-49-R Retention Lease with the approval of the National Offshore Petroleum Titles Administrator (NOPTA) granted on the 9 May 2018.

Tap has also withdrawn from the WA-290-P permit with the approval of the National Offshore Petroleum Titles Administrator (NOPTA) granted on the 20th November 2018.

TL/2 and TP/7 (10% and 12.474% interest)

As part of Tap's strategy to rationalise and monetise its Australian portfolio, Tap completed the sale of its interest in TP/7 and TL/2 and associated pipeline licences effective 18 June 2018. Tap recognised a gain on sale of these interests of approximately \$60,000 as at 31st December 2018.

WA-8-L (20% interest)

Production License WA-8-L covers an area of 161km² and is located within the north-eastern part of the Dampier sub-basin of the Northern Carnarvon Basin. The licence contains the Talisman and Amulet oil fields in water depths of 80-85m

Tap entered into a sale and purchase agreement for WA-8-L. Tap has recognised a gain of sale for A\$680,000 as at 31st December 2018 A further A\$100,000 payable upon a Final Investment Decision being made for a development upon the Licence.

WA-34-R (12% interest)

WA-34-R is a Retention Lease in the offshore Bonaparte Basin, Western Australia. The Retention Lease contains the Prometheus/Rubicon Gas fields and covers 418 km². Tap estimates gross 2C contingent resources of 377 PJ and a net resource to Tap of 45 PJ. In 2015 the Retention Lease was renewed for a further five year term to 22 December 2020 There have been no significant activities undertaken during 2018.

Decommissioning Activities

Woollybutt, WA-22-L & WA-25-L (15% interest)

The WA-22-L and WA-25-L production licenses are located off the northwest coast of Western Australia, approximately 80km north of the town of Onslow, and lie in 100m water depth. The Woollybutt oil field was discovered in 1997 and development of the field started in 2003. The field included subsea wells producing to a floating production, storage and offloading facility (FPSO).

The field ceased production in May 2012 and the Joint Venture parties continue to plan for the decommission of the field. The abandonment of the subsea wells is expected to occur between 2019 to 2021 period. Further decommissioning activities may be required in relation to the subsea facilities, although the scope and timing are yet to be determined.



CORPORATE REVIEW

Financial

Tap's revenue for 2018 was \$44.2 million (2017: \$44.8 million). Gross profit was \$10.0 million (2017: \$6.1 million). After exploration impairment losses and write-downs of \$1.6 million (2017: \$3.1 million), the net profit before tax was \$10.3 million (2017: net loss \$1.7 million); and the net profit after tax was \$13.2 million (2017: net loss \$14.6 million).

Net cash inflows from operations were \$17.7 million (2017: \$15.7 million inflow).

Manora oil sales were slightly lower because of a decrease in production volumes however the realised average sales price increased during 2018. Manora production volumes were approximately 11% lower compared to 2017, with a corresponding 11% reduction in liftings during the year. The average selling price for 2018 was \$65.07/bbl (2017: \$51.40/bbl).

Revenues from third party gas contracts were nil in 2018, as the gas contracts came to the end of the supply period in March 2017.

Total cost of sales was \$34.2 million (2017: \$38.7 million) of which \$34.2 million (2017: \$36.5 million) relates to the Manora asset. Included in cost of sales was depreciation of \$14.0 million (2017: \$16.1 million), all of which relates to the Manora asset.

Exploration impairment losses and write-downs recorded as at 31 December 2018 were \$1.6 million (2017: \$3.1 million). The impairment loss primarily relates to the write off of Manora exploration expenditure of \$0.9 million, with the remaining \$0.7 million relating to other Australian exploration permits which were relinquished during the year.

Administration costs were lower for the year at \$2.2 million (2017: \$3.4 million), following efforts during 2018 to reduce the Company's cost base.

Hedging

At the start of 2018, Tap had entered into a commodity hedging program with BP Singapore Pte Limited to hedge a total of 307,500 barrels (bbls) of crude oil production over an eleven month period from January 2018 to November 2018, using Dubai benchmark as the reference price at a fixed price of US\$52.25/bbl from January 2018 to May 2018, US\$57.90/bbl from June 2018 to August 2018 and US\$58.40/bbl from September 2018 to November 2018. This hedged volume represented approximately 44% of Tap's net share of actual production from the Manora oil field in 2018.

Risco Takeover

On the 2 May 2018, Risco Energy Investments (SEA) Limited launched an on-market takeover offer, proposing to acquire all of the ordinary fully paid shares in Tap that it did not already own for \$0.07 cash per share. Risco subsequently extended the offer on 16 May 2018, 22 June 2018 and 11 July 2018. On the 9 August 2018, Risco increased the offer price to A\$0.091 cash per share and extended the share offer period to 27 August 2018. The Independent Board Committee established by the Company concluded that the varied offer from Risco of \$0.091 cash per Tap share was in the best interests of Tap shareholders and unanimously recommended that Tap shareholders accept the varied offer, noting that the increased offer price of \$0.091 was equal to the preferred valuation adopted by the Independent Expert in assessing the value of Tap. The Risco offer officially closed on 31 August 2018, with Risco's shareholding in Tap at the end of this period being 44.11%.

Directors' Report

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of the Group comprising Tap Oil Limited (**Tap** or the **Company**) and its subsidiaries for the year ended 31 December 2018, and the auditor's report thereon. The Remuneration Report for the year ended 31 December 2018 forms part of the Directors' Report.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

| Name | Committee Memberships | Experience |
|--|--|--|
| Mr Chris Newton Executive Chairman Appointed Non-executive Director 31 January 2018. Appointed Chairman 23 February 2018. Resigned 25 May 2018. Re-appointed Non-executive Director 27 August 2018. Appointed Executive Chairman 15 October 2018. (Previously Alternate Director for Mr Thomas Soulsby from 1 January 2016 to 31 January 2018) | Reserves Committee | Chris Newton has had a 40 year career in oil and gas covering the spectrum of the industry – from exploration, development, production and petroleum economics to strategic planning, business development and senior leadership. Chris has spent more than 25 years in leadership and senior resource industry roles in South East Asia. Roles included Managing Director for Fletcher Challenge Petroleum in Brunei, President and GM for Santos in Indonesia and CEO of Indonesian listed Energy Mega Persada. Chris was an active Director of the Indonesian Petroleum Association (IPA) between 2003 to 2008, including serving as President from 2004 to 2007. Chris is an oil and gas adviser to the Jakarta-based Castle Asia Group and an adviser to Northern Oil & Gas Australia. Mr Newton is also a director of Lion Energy Limited (ASX:LIO). |
| Dr Govert van Ek Non-executive Director Appointed 31 January 2018 | Reserves Committee (Chair) Audit & Risk Committee | Dr Govert van Ek started his upstream oil and gas career at Shell in 1996 having graduated from The University of Manchester with a Ph.D in total technology. He then worked for a number of investment banks becoming responsible for signing off technical matters for loans in the upstream oil sector. He became managing director of a number of upstream E&P companies including Spyker Energy Plc which later sold its Dutch operations to a Barclays bank subsidiary in 2012. He was briefly Sun Resources Managing Director before co-founding a number of successful software technology companies where he remains active. |
| Mr Kamarudin Baba Non-executive Director Appointed 6 February 2018 | Reserves Committee Audit & Risk Committee | Mr Baba holds a Bachelor of Laws Degree from the University of London and was also admitted as Associate of The Institute of Chartered Secretaries and Administrators, United Kingdom. He was issued a certificate of Legal Practice from the Legal Profession Qualifying Board Malaysia and was admitted to practice as Advocate and Solicitor in the High Court of Malaya, Peninsular Malaysia. Mr Baba has over 30 years' experience as a company secretary, in private legal practice and in-house counsel. He is currently the General Counsel of the Northern Gulf Petroleum Group (NGP). |

| Name | Committee Memberships | Experience |
|--|------------------------|--|
| Dr David King Non-executive Director Appointed 18 October 2018 | | <p>Dr King was a founder and director of Eastern Star Gas Ltd, Gas2Grid Ltd and Sapex Ltd. He has substantial natural resource related experience, having previously served as managing director of North Flinders Mines Ltd and CEO of Beach Petroleum Ltd and Claremont Petroleum Ltd.</p> <p>Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists.</p> <p>Dr King is currently non-executive Chairman of Cellmid Ltd (ASX:CDY), African Petroleum Corporation Ltd (OAX:APCL), and Litigation Capital Management Ltd (ASX:LCA). He is also non-executive Director of Galilee Energy Limited (ASX:GLL).</p> <p>Dr King was Chairman of Robust Resources Limited and Tengri Resources Limited and non-executive director at Republic Gold Limited.</p> <p>Dr King brings strong oil and gas technical and management skills and combined with his extensive board experience will enhance the overall Tap Board capability.</p> |
| Mr Zane Lewis Non-executive Director Appointed 25 September 2018 | | <p>Mr Lewis has over 20 years' experience and leadership of smallcap multinational companies. His hands-on skillset includes corporate advisory, non-executive director and Company Secretary roles at several ASX Listed and unlisted companies as well as extensive international experience managing a group of Software and Tech companies in USA, Europe, Hong Kong, China and Australia. Mr Lewis is a director of Lion Energy Limited (ASX:LIO), Kingsland Global Ltd (ASX:KLO), Vital Metals Limited (ASX:VML), and 8VIC Holdings Limited (ASX:8VI).</p> |
| Mr Damon Neaves Non-executive Chairman Appointed 29 May 2018, Resigned 25 September 2018 | Audit & Risk Committee | <p>Damon Neaves is a founding director and shareholder of Pura Vida Energy. He has worked in various commercial, operational and management roles and brings a wealth of international oil and gas expertise. Most recently, he was the Non-Executive Chairman at Tap Oil (ASX:TAP) and his international experience spans countries throughout Africa, Europe, the Middle East and Asia Pacific. Mr Neaves has established an extensive worldwide network and has fostered key relationships with government and industry organisations. Mr Neaves brings a commercial focus and governance discipline to this role. Prior to working in the oil and gas industry, Mr Neaves practised as a lawyer and corporate advisor.</p> |

Directors' Report

| Name | Committee Memberships | Experience |
|--|---|---|
| Mr Blaine Ulmer Non-executive Director Appointed 1 February 2018 Resigned 13 April 2018 | Audit & Risk Committee Reserves Committee | Mr Blaine Ulmer has over 35 years of oil and gas experience with his recent role as founding CEO of Northern Oil & Gas Australia. Blaine's last 20 years has been in senior leadership roles responsible for delivery of operated and non-operated exploration, drilling, engineering, development, production operations, business development and HSE objectives. Blaine has worked in Australia and internationally with Hudson's Bay (Hudbay), LASMO, Premier Oil, Newfield and Tap Oil prior to joining Northern Oil and Gas Australia in 2015. He has directly managed exploration, drilling, production and decommissioning projects both onshore and offshore, in Australia, Indonesia, Brunei, New Zealand, the Philippines and Canada and holds a GAICD certificate from Australian institute of Company Directors. |
| Mr James G Menzies Non-executive Director Appointed 27 May 2016 Executive Chairman Appointed 15 December 2016 Resigned 31 January 2018 | Audit & Risk Committee Nomination & Remuneration Committee Reserves Committee (Chair) | James Menzies was the founder of Salamander Energy, an oil and gas business listed on the London Stock Exchange with activities in South East Asia that was acquired by Ophir Energy in 2015. Prior to founding Salamander Energy, James was the Senior Partner in Lambert Energy Advisory, an upstream oil and gas corporate finance advisory business. James has experience in Corporate Development and Mergers & Acquisitions, and has held various corporate positions, including in Corporate Affairs, Strategic Planning and Investor Relations. Mr Menzies is an independent non-executive director of Guinness Oil & Gas Exploration Trust Plc and was previously a director of Salamander Energy Plc until March 2015. |
| Mr Peter J Mansell Non-executive Director Appointed 27 May 2016 Resigned 31 January 2018 | Audit & Risk Committee Nomination & Remuneration Committee (Chair) Reserves Committee | Peter Mansell has practiced as a corporate and resources lawyer in South Africa and Australia and was previously a partner at Freehills, including the Managing Partner for over 10 years, the National Chairman and the Partner responsible for the integration of the Freehills' offices during the Freehills' nationalisation in 2000. Peter has significant, varied corporate experience as a director and lawyer both internationally and in Australia. Peter has over 15 years' experience as a listed company director in Australia, including chair of two ASX 100 companies, Zinifex Limited and West Australian Newspapers Holdings Limited. Amongst other directorships, Peter currently chairs Energy Resources of Australia Ltd and is a director of the Aurecon Group Pty Ltd. Mr Mansell is also a Director of Cancer Research fund Pty Ltd, Foodbank Australia Ltd, and Z-Filter Pty Ltd. |
| Ms Andrea Hall Non-executive Director Appointed 19 October 2016 Resigned 31 January 2018 | Audit & Risk Committee (Chair) Nomination & Remuneration Committee Reserves Committee | Andrea Hall is a former KPMG Risk Consulting Partner with over 20 years' experience in risk management, financial management, internal audit, external audit and board, corporate and operational governance. Industry segments she has worked with include healthcare, insurance, mining, transport, mining services, property and government. Ms Hall is a board member of Insurance Commission of Western Australia, Lotteries Commission of WA, ASX listed Pioneer Credit Limited, Fremantle Football Club, C-Wise and a Senate member of Murdoch University. She is also Chair of Community First International Ltd. |

| Name | Committee Memberships | Experience |
|--|---|---|
| Mr Frank S Sreesangkom Nominee Director Appointed 27 May 2016 Resigned 6 February 2018 | Nomination & Remuneration Committee Reserves Committee | Frank Sreesangkom is currently Senior Adviser to Northern Gulf Petroleum Pte Ltd. His past roles include CFO at Electricity Generating Pcl, one of the largest independent power producers in Thailand, CFO at Glow Company Ltd., a major independent power producer in Thailand that was part of the Suez Group, Asian Development Bank Consultant on debt management for the Ministry of Finance, Executive Director of Debt Capital Markets for Thailand at SBC Warburg Dillon Read, and later UBS, Chief Representative at Credit Suisse First Boston Thailand Representative Office, Associate at First Boston Corporation, New York, and Analyst in Investment Research & Strategy Division at Nikko Securities, Tokyo. |
| Mr Thomas L Soulsby Nominee Director Appointed 1 January 2016 Resigned 31 January 2018 | Nomination & Remuneration Committee Reserves Committee | Tom Soulsby has over 25 years' experience in the oil and gas and resources sector spanning investment banking, corporate business development, and management and leadership roles. Tom was a founding Director at Indonesian-listed Energy Mega Persada in 2003 and until 2008, where he was responsible for the acquisition of assets which added 525 Mmboe to EMP's 2P reserves – a key growth driver for the company. Mr Soulsby is also a director of Lion Energy Limited. |
| Mr Pantaporn Panyarporn Alternative director to Frank Sreesangkom Appointed 14 March 2017 Resigned 6 February 2018 | | Mr Panyarporn graduated from King Mongkut's University of Technology Thonburi (Msc. Chemical Engineering) and has over 10 years' experience in the oil and gas exploration & production business. Pantaporn started working at Halliburton Energy Service (HES) as an officer in charge of Technical Professional - Hydraulic Workover and Stimulation services before moving to PTT Exploration & Production Plc. Ltd. (PTTEP) as a reservoir engineer and subsequently senior reservoir engineer. At PTTEP, he was responsible for the operation of the onshore gas field in North Eastern Thailand and also providing support for merging and acquisition projects. Pantaporn later joined Pearl Energy (Mubadala Petroleum) as a senior reservoir engineer in the subsurface team operating one of the largest oil fields in offshore Thailand. He started working on the Manora oil field since the drilling of the Manora-2 exploration well in 2010 and was promoted to lead the subsurface team of the Manora project. He was instrumental in getting its Production Area Approval from the government and was involved in the Manora field development. Currently, Pantaporn is Chief Operation Officer (COO) at Northern Gulf Petroleum Pte. Ltd. (NGP) which holds 2 major discoveries in the Gulf of Thailand, the Manora field in Block G1/48 and the Rossukon field in Block G6/48. |

Directors' Report

Company Secretary

Shannon Coates was appointed as Joint Company Secretary, effective 24 August 2017 and sole Company Secretary from 19 October 2018. Shannon has over 20 years' experience in corporate law and compliance. She is currently Company Secretary to a number of ASX listed companies and has provided company secretarial and corporate advisory services to boards across a variety of industries, including mining and oil & gas exploration and development, financial services, manufacturing and technology both in Australia and internationally. Shannon is a qualified lawyer, Chartered Secretary and graduate of the Australian Institute of Company Director's (AICD) Company Directors course.

Chris Bath CA, MAICD, is a Chartered Accountant and a member of the AICD with significant experience as a senior executive in the energy and resources sector. He was appointed Company Secretary on 30 June 2016 and resigned 19 October 2018.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of the Board of Directors of Tap Oil Limited) held during the financial year and which each Director of the Company was eligible to attend and the number of meetings attended by each Director of the Company.

| Directors | Board of Directors | | Audit and Risk Committee ⁴ | | Reserves Committee | | Nomination and Remuneration Committee ² | | Takeover Committee ⁴ | |
|---------------------------|--------------------|----------------|---------------------------------------|----------------|--------------------|----------------|--|----------|---------------------------------|----------|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| C Newton | 11 | 11 | n/a | 2 ¹ | 2 | 2 | 1 | 1 | n/a | n/a |
| Dr G van Ek | 16 | 14 | 3 | 3 | 3 | 2 | 2 | 1 | 2 | 2 |
| K Baba | 16 | 12 | 3 | 3 | 3 | 4 ⁵ | 2 | 2 | n/a | n/a |
| Dr D King | 1 | 2 ⁵ | n/a | n/a | n/a | 1 ¹ | n/a | n/a | n/a | n/a |
| Z Lewis | 3 | 3 | n/a | n/a | n/a | 1 ¹ | n/a | n/a | n/a | n/a |
| D Neaves | 8 | 8 | 1 | 1 | 2 | 2 | 1 | 1 | 2 | 2 |
| B Ulmer | 4 | 4 | n/a | n/a | 1 | 1 | n/a | n/a | n/a | n/a |
| J G Menzies | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| P J Mansell | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| A Hall | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| F Sreesangkom | 1 | 1 | n/a | n/a | 1 | 1 | n/a | n/a | n/a | n/a |
| T L Soulsby | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| P Panyarporn ³ | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

1. Attended by invitation.
2. The Nomination and Remuneration Committees were combined on 24 January 2017. The Board Resolved to cease the Committee on 15 October 2018, with the full Board resuming responsibility for any functions previously delegated to the Committee.
3. Alternate director to F Sreesangkom.
4. The Board Resolved to cease the Committee on 15 October 2018, with the full Board resuming responsibility for any functions previously delegated to the Committee.
5. Attended one meeting by invitation.

Directors' Interests

The relevant interest of each Director in the shares and rights issued by the Company as notified by the Directors to the ASX in accordance with s205G(1) of the Corporations Act 2001, at the date of this report are as follows:

| Directors | Fully paid ordinary shares | Rights |
|-----------|----------------------------|--------|
| C Newton | Nil | Nil |
| G van Ek | Nil | Nil |
| K Baba | Nil | Nil |
| D King | Nil | Nil |
| Z Lewis | Nil | Nil |

2. PRINCIPAL ACTIVITIES

The Consolidated Entity's principal activities during the period were oil and gas exploration and production. There were no significant changes in the nature of the Consolidated Entity's principal activities during the period.

3. CONSOLIDATED RESULTS

Tap's revenue for 2018 was \$44.1 million (2017: \$44.8 million). Gross profit was \$10.0 million (2017: \$6.1 million). After impairment losses and write-downs of \$1.6 million (2017: \$3.1 million), the net profit before tax was \$10.3 million (2017: net loss \$1.7 million) and the net profit after tax was \$13.2 million (2017: net loss \$14.6 million). Net cash inflows from operations were \$17.7 million (2017: \$15.7 million inflow).

4. DIVIDENDS

The Directors of the Company do not recommend the paying of a dividend for the financial year.

Since the end of the previous financial year, no dividend has been paid or declared.

5. REVIEW OF OPERATIONS

The Review of Operations for the year ended 31 December 2018 is set out on pages 12 to 17 and forms part of this Directors' Report.

6. CHANGES IN STATE OF AFFAIRS

No significant change in the state of affairs of the Consolidated Entity occurred during the period other than already referred to elsewhere in this report.

7. SUBSEQUENT EVENTS

Since the end of the financial year, the Directors are not aware of any other matter or circumstance not otherwise dealt with within the financial report that has significantly or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

8. FUTURE DEVELOPMENTS

The Consolidated Entity's likely developments in its operations in future financial years and the expected results of those operations have been included generally in the Operation and Financial Review. Other than as disclosed elsewhere, disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed.

Directors' Report

9. ENVIRONMENTAL REGULATIONS

The Consolidated Entity is subject to significant environmental regulation in each jurisdiction in which it operates. In Australia, the environmental obligations are regulated under both State and Federal law. In Myanmar, the environmental obligations are regulated under national legislation with the aid of the Ministry of Environmental Conservation and Forestry (MOECF).

The Board is not aware of any significant breaches during the period covered by this report.

10. SHARE RIGHTS

At the date of this report, the details of share performance rights on issue are as follows:

| Performance Rights | | Retention Rights | |
|--------------------|-----------------------|------------------|-----------------------|
| Number | Expiry date of rights | Number | Expiry date of rights |
| 1,559,453 | 01-Jan-24 | 1,078,221 | 01-Jan-26 |
| 1,772,186 | 01-Jan-25 | - | |
| 1,078,221 | 01-Jan-26 | - | |
| 4,409,860 | | 1,078,221 | |

All rights vest over a three-year period, expire after seven years and have a nil exercise price.

For more details, please refer to section 15.6 of this report.

11. INDEMNIFICATION OF OFFICERS AND AUDITORS

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

During the year, the Company paid a premium in respect of a policy insuring the Directors of the Company, the Company's secretaries and all executive officers of the Company and any related body corporate against a liability incurred as such a Director, secretary or officer to the extent permitted by the Corporations Act 2001. The policy of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

12. NON-AUDIT SERVICES

During the period the Company's auditors did not perform any other services in addition to their statutory audit, and half year review.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note F10 to the financial statements.

13. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 40 of the financial report.

14. ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

15. REMUNERATION REPORT – AUDITED

This Remuneration Report is presented in the following sections:

- 15.1 Introduction
- 15.2 Governance
- 15.3 Existing Remuneration Arrangements for Directors and Executives
- 15.4 Elements of Remuneration related to Performance
- 15.5 KMP Remuneration related to Performance
- 15.6 Other Elements of Director and Executive Remuneration

15.1 Introduction

The Directors present their Remuneration Report for Tap Oil Limited for the year ended 31 December 2018. This Remuneration Report outlines the remuneration strategy, policies and practices as it relates to the Directors and other Key Management Personnel (KMP), in accordance with the requirements of the Corporations Act 2001 and its Regulations. In accordance with section 308(3C) of the Corporations Act 2001, the Remuneration Report has been audited and forms part of the Directors' Report.

Key Management Personnel (KMP) includes all directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the Consolidated Entity.

Tap's Remuneration Policy is designed to ensure that the level and form of compensation achieves certain objectives, including:

- (a) attraction and retention of employees and management to pursue the Company's strategy and goals;
- (b) delivery of value-adding outcomes for the Company;
- (c) fair and reasonable reward for past individual and Company performance; and
- (d) incentive to deliver future individual and Company performance.

Remuneration consists of base salary, superannuation, short term incentives and long term incentives. Remuneration is determined by reference to market conditions and performance. Performance is evaluated at an individual level as well as the performance of the Company as a whole.

15.2 Governance

15.2.1 Remuneration

The Board's role is to review and recommend remuneration for KMP, review remuneration policies and practices, Company incentive schemes and superannuation arrangements in accordance with the Nomination and Remuneration Committee Charter.

The Board considers independent advice, where circumstances require, on the appropriateness of remuneration to ensure the Company attracts, motivates and retains high quality people.

The ASX Listing Rules and the Constitution require that the maximum aggregate amount of remuneration to be allocated among the Non-Executive Directors be approved by shareholders in general meeting. The current maximum amount of remuneration to be allocated is \$500,000, which was approved by shareholders in 2010. In proposing the maximum amount for consideration by shareholders, and in determining the allocation, the Board takes account of the time demands made on Directors and such factors as fees paid to Non-Executive Directors in comparable Australian companies.

Remuneration arrangements for Directors and Executives are reviewed by the Board. The Board considers external data and information and may engage independent advisers where appropriate to establish market benchmarks.

Remuneration arrangements are determined in conjunction with the annual review of the performance of Directors, Executives and employees of the Company. These evaluations take into account criteria such as the achievement toward the Company's performance benchmarks and the achievement of individual performance objectives.

Directors' Report

15.3 Existing Remuneration Arrangements for Directors and Executives

15.3.1 Overview of Executive Remuneration Structure

The remuneration arrangements for Directors and Executives of the Company for the year ended 31 December 2018 are summarised below.

The remuneration structure in place for 2018 applies to all employees, including the Executive Director and Executives of the Company. The Company's remuneration structure has five elements:

- (a) FAR;
- (b) STI;
- (c) LTI;
- (d) retention incentives which encourage new employees to remain in employment for at least three years; and
- (e) special awards which reward individuals for meritorious achievements or retain individuals who are involved in a critical task that will extend more than one year.

Each of the STI, LTI, retention incentives and special awards are at risk. The elements are described below.

1. Base Salary or Fixed Annual Remuneration (FAR)

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

The Board resolved to not approve any salary increases during 2018.

When fixed compensation is reviewed, the Company compiles competitive salary information on companies of comparable size in the oil and gas industry from various sources. Information is obtained from surveys conducted by independent consultants and national and international publications. In the past, the Board has engaged independent advisers to review the remuneration levels paid to the Company's KMP. An adviser was not retained for the 2018 review.

FAR will be paid in cash and is not at risk other than by termination. Individual FAR is set each year based on job description, competitive salary information sourced by the Company and overall competence in fulfilling the requirements of the particular role.

2. Short Term Incentive Awards (STI)

An STI award is assessed by a performance-based factor multiplied by a benchmark award for the individual's level in the Company, multiplied by the individual's FAR. The STI award is usually made in cash and the amount of the payment is calculated by the following formula:

$$\text{Performance Factor} \times \text{STI Organisational Level Benchmark} \times \text{Individual's FAR}$$

An individual employee's performance factor is assessed against both the individual's performance and the Company's performance over the preceding year. A rating for individual performance is determined on a scale of 1 to 5 based on how well the individual performs against the individual's annual goals. The Company's performance is assessed against a set of corporate goals, which are in the form of KPIs, which are set by the Board for a given year.

In 2018, the KPIs included the achievement of key strategic objectives set for the year, financial management and targets including performance against budget and cashflow, asset management and stakeholder management. Each KPI is given a relative weighting and is assessed against threshold, good (target) and excellent benchmarks. The Board will vary KPIs each year to suit prevailing circumstances.

An individual's combined performance factor is determined from the assessment table below:

| Annual Corporate KPI Performance | Performance Factors (%) | | | | |
|----------------------------------|--------------------------------|-----|------|------|------|
| | Individual Performance Ranking | | | | |
| | 5 | 4 | 3 | 2 | 1 |
| < Threshold | 0% | 0% | 0% | 0% | 0% |
| Threshold | 0% | 20% | 50% | 63% | 75% |
| Good | 0% | 40% | 100% | 125% | 150% |
| ≥ Excellent | 0% | 60% | 150% | 188% | 225% |

Three STI organisational level benchmarks have been established as percentages of individual FARs. These three levels reflect the increased involvement at each level in the organisation's pursuit and achievement of the Company's goals. These benchmarks are set out below.

| Organisational Level | Managing Director/CEO | Management | Professional, Technical & Support |
|-------------------------------|-----------------------|------------|-----------------------------------|
| STI Organisational Benchmarks | 20% | 15% | 12.5% |

Any award will be subject to the Company exceeding one or more fundamental performance hurdles determined by the Board on an annual basis. While a positive STI award might be assessed under a previously prescribed set of KPIs, circumstances within the year might see a reduction in the Company's ability or desire to pay such an award (for example due to an unexpected material reduction in the Company's cash flow or significantly poor share price performance). The Board, at its absolute discretion, reserves the right to withhold the making of any STI awards if it finds itself in such a position.

As at the date of this report, the Board has not completed a review of performance for the 2018 year, and no award has been made.

3. Long Term Incentive Awards (LTI)

The Company believes that encouraging its employees to become shareholders is the best way of aligning their interests with those of its shareholders.

LTI awards are made in the form of rights to shares which will have a vesting timeframe over three years. The number of rights that vest will be based on the Company's performance over the same three years.

An LTI award will be made by way of the grant of performance rights and/or retention rights as soon as practicable after each year-end. Grants of rights will be made each year with effect from 1 January.

Performance Rights

The number of performance rights to be granted annually to each employee is calculated by the following formula:

$$\text{LTI Organisational Level Benchmark} \times \text{Individual's FAR} \div \text{Share Price}$$

The maximum LTI organisational benchmarks (Benchmark) have been established as percentages of individual FARs. These levels were reviewed and adopted by the Board in February 2019 to reflect the increased involvement of each level in pursuing and achieving the Company's goals. These benchmarks are set out in the following table.

| Organisational Level | Managing Director/CEO | CFO | Management | Professional, Technical & Support |
|----------------------|-----------------------|-----|------------|-----------------------------------|
| Benchmark | 120% | 80% | 25 to 40% | 20 to 33% |

Directors' Report

The total number of performance rights granted is subject to being reduced proportionately so that the total number of performance rights is within:

- (a) the Board's determined cap on the total number of performance rights which are issued as LTI awards in a given year; and
- (b) any discretionary cap on the total number of rights on issue at any given time.

The calculation will use the 30-day volume-weighted average share price (VWAP) of the Company's shares preceding the first day of each measurement period.

The Board has established an initial guideline that the total number of performance rights to be issued in a single year will be capped at 1.5% of the fully paid issued capital of the Company as at the end of the prior year. In the event that the potential total number of performance rights exceeds the cap then all awardees receive a pro-rata reduced number of performance rights. This cap is at the discretion of the Board and may be altered depending on the prevailing context.

In December 2017, the Board approved the issue of 6,389,513 performance rights for the 2017 LTI award. The rights were issued on 4 January 2018.

The Board has also set a discretionary cap on the total number of rights on issue at any given time. This cap is currently set at 6% of the number of issued fully paid shares in the Company.

In February 2019, the Board adopted a revised performance benchmark for vesting. Vesting of up to 75% of the Performance Rights granted will be measured against the Company's annualised Absolute Total Shareholder Return (ATSR) and vesting of 25% of the Performance Rights granted will be measured against the Company's Relative Total Shareholder Return (RTSR), as defined below.

The Performance Rights will have three measurement dates for vesting:

- 34% of the Performance Rights granted will be measured on 31 December 2019,
- 33% of the Performance Rights granted will be measured on 31 December 2020; and
- the remaining 33% of the Performance Rights granted will be measured on 31 December 2021.

Any Performance Rights available for vesting but that do not vest at the relevant measurement date shall be re-tested for vesting at the end of the next evaluation period, up to the third evaluation period.

ATSR

ATSR is calculated using the 30-day VWAP of the Company's shares to 31 December in the applicable measurement period.

The "Starting Point" is the 30 day VWAP to 31 December 2018 of A\$0.091096 per share. Performance Rights measured against ATSR:

- if ATSR increases by less than 10%p.a from the Starting Point, none of the applicable Performance Rights will vest;
- if ATSR increases between 10%p.a. and <25%p.a. from the Starting Point, the applicable Performance Rights will vest pro rata;
- if ATSR equals or exceeds 25%p.a. from the Starting Point, 100% of the applicable Performance Rights will vest.

The annualised ATSR will be calculated as the total ATSR over the relevant period divided by the number of years during such relevant period.

RTSR

RTSR is calculated based on the Company's percentile position against TSR of a Peer Group approved by the Board.

For Performance Rights measured against RTSR:

| Relative TSR | % Vesting in each year |
|---------------------------|------------------------|
| <50th percentile | 0% |
| =50th percentile | 30% |
| >50th to <90th percentile | pro-rata |
| =>90th percentile | 100% |

TSR is commonly used as a relative measure, where the number of shares that vest is dependent upon on the Company's TSR over a stated performance period relative to that of its peers. The calculations under this standard approach are transparent and straight forward, based on a simple ranking method to assess the level of outperformance.

Vesting characteristics of the performance rights are as follows:

- (i) performance measurement period is over three years, which is consistent with the typical time cycle for an exploration program;
- (ii) performance is based on differences in RTSR as measured from the end of one preceding period to the end of the current (three years) assessment period. The RTSR uses the 30-day VWAP of the Company's shares up to and including the last day of each measurement period; and
- (iii) RTSR will be assessed against a peer group of like companies determined by the Board before the start of each assessment period or as soon as practical thereafter. In February 2018, the Board determined a peer group of 11 petroleum industry companies which are listed on the ASX and whose market capitalisation ranged from approximately A\$7 million to A\$398 million (at 31 December 2018).

Retention Rights

Retention rights are issued to employees pursuant to the terms of the share rights plan to encourage continued employment. Such rights vest if the employee remains employed by the Company at set measurement dates over three years. The number of retention rights to be issued to a new employee is set at one of three levels reflecting the organisational level appropriate for the employee's initial job grade. These levels are outlined in the following table:

| Organisational Level | Managing Director/CEO | Management | Professional, Technical & Support |
|---|---|------------|-----------------------------------|
| Organisational Level Benchmarks (Retention) | Subject to employment contract negotiations | 25 to 40% | 20 to 33% |

The Company's FY2019 LTI award was considered by the Board in February 2019 and subsequently 1,078,221 performance rights and 1,078,221 retention rights were granted as at 1 January 2019 and issued to staff on 11 March 2019. The Board has resolved to issue a further 2,096,173 performance rights and 2,096,173 retention rights to Executive Chairman, Mr Chris Newton, subject to receiving shareholder approval, which will be sought at the Company's 2019 Annual General Meeting.

4. Special Awards

The Board has the discretion to make special awards each year. Special awards can be in the form of cash, and/or performance rights and/or retention rights. Special awards are granted to individual employees or Executives who are judged by the Board to have made an extraordinary contribution to the current or future performance of the Company or who are expected to play a critical role in one of the Company's activities that could take two to three years to complete, and where retention of the individual's services is seen as an important determinant of the success to that activity.

There were no special awards made for the 2018 year.

Directors' Report

5. Accounting for Options and Rights Granted to Employees

The values of the rights and options are expensed to profit and loss over the vesting period. No options were granted in 2018 and there are none on issue.

Performance rights granted in 2018 are valued at the date of grant using a Monte Carlo Simulation model to determine the probability of the absolute return performance hurdles and the relative return performance hurdles being achieved. Retention rights granted in 2018 are valued using the Black Scholes model at the date of grant. No cash benefit is received by KMP of the Company until the sale of the resultant shares, which cannot be done unless and until the rights or options have vested and the shares issued.

6. Executive Director's Remuneration

As at 31 December 2018, Mr Chris Newton was the only Executive Director on the Board.

Mr Newton commenced as Executive Chairman on 19 October 2018 pursuant to a consultancy agreement.

The key terms of Mr Newton's consultancy agreement are as follows:

- (i) Employment arrangements effective from 1 October 2018 until 6 months after the Commencement Date, or such later date as agreed in writing between the parties;
- (ii) Mr Newton will devote at least 14 days per month of his time, attention and skill to the performance of his duties both during normal business hours and at other times as reasonably necessary;
- (iii) The consulting fee is US\$19,000 per each 30-day period;
- (iv) The Agreement can be terminated at any time (and automatically if he ceases to be a Director of the Company) by giving not less than 90 calendar days' written notice to the other party and will terminate automatically at the expiration of the Term unless the parties agree any extension in writing.

The Company has entered into a Deed of Indemnity, Insurance and Access with Mr Newton whereby the Company will maintain an appropriate level of directors' and officers' indemnity insurance and provide access to Company records.

Prior Executive Director remuneration information:

Mr Menzies commenced as Executive Chairman on 15 December 2016 under an executive employment agreement. On 7 August 2017, the Company and Mr Menzies agreed to new employment arrangements effective from 1 July 2017 to focus on implementing the Company's strategy of developing a portfolio of oil and gas production and development assets that provide low risk step out exploration opportunities in the South East Asian region.

The key terms of Mr Menzies employment agreement were as follows:

- (i) Employment arrangements effective from 1 July 2017;
- (ii) There is no fixed term;
- (iii) Mr Menzies will devote at least 75% of his time, attention and skill to the performance of his duties both during normal business hours and at other times as reasonably necessary;
- (iv) FAR is A\$300,000 per annum, inclusive of superannuation contributions. This amount is reviewable annually;
- (v) Subject to obtaining shareholder approval pursuant to ASX Listing Rule 10.11, Mr Menzies is to receive 10,344,828 performance rights to acquire ordinary fully paid shares in Tap Oil Limited. Subject to achievement of prescribed relative TSR performance hurdles and Mr Menzies remaining employed as an executive with the Company for at least 3 years after the date of commencement of these new terms of employment, the performance rights will vest on the expiry of that 3-year period.

Unvested performance rights will lapse immediately after the expiry of the 3 year period from the effective date of 1 July 2017. If Mr Menzies ceases employment without cause before 3 years and the Board is satisfied there are adequate succession and transitional arrangements in place, accelerated vesting conditions will apply. Accelerated vesting will be assessed by reference to the extent to which certain strategic objectives relating to target 2P Reserves and Barrels of Oil per Day measures have been achieved prior to cessation of employment.

Where the accelerated vesting event occurs during the period between 2 and 3 years from the issue date of the performance rights, vesting will also be assessed by reference to achievement of the prescribed relative TSR performance hurdles (weighted 70% towards achievement of the strategic objectives and 30% towards the achievement of TSR hurdles.)

Where accelerated vesting is based on the achievement of a strategic objective resulting from an acquisition, 50% of the performance rights that are to vest in accordance with the strategic objective criteria will vest at the time of achievement of the relevant objective, while the remaining 50% will vest 12 months after that date provided that the Board is satisfied that all material assumptions made at the time of resolving to proceed with the acquisition have been substantially achieved.

The Company's Board also has the discretion to allow accelerated vesting of the performance rights should a change of control event occur, notwithstanding that the relevant vesting conditions have not been satisfied. If such a change of control event occurs, it has been agreed that not less than 25% of the performance rights will vest immediately.

The 10,344,828 performance rights as outlined above to acquire ordinary fully paid shares in Tap Oil Limited, which were subject to shareholder approval pursuant to ASX Listing Rule 10.11, were not granted to Mr James Menzies and therefore not recognised as a Share Based Payment Expense prior to his resignation on 31 January 2018.

- (vi) The Company or Mr Menzies may terminate the agreement at any time by giving 3 months written notice, except for the Company's right to terminate without notice in prescribed circumstances.

The Company has entered into a Deed of Indemnity, Insurance and Access with Mr Menzies whereby the Company will maintain an appropriate level of directors' and officers' indemnity insurance and provide access to Company records.

On 31 January 2018, Mr James Menzies resigned effective immediately.

7. Non-executive Directors' Remuneration

In line with the ASX Corporate Governance Council's principles and recommendations, Non-executive Directors of the Company are remunerated solely by way of fees and statutory superannuation. The annual fee is set to reflect current market levels based on the time, responsibilities and commitments associated with the proper discharge of their duties as members of the Board. All Directors of the Company are encouraged to apply a proportion of their fees to purchase shares in the Company. The maximum total pool of available fees is set by shareholders in general meeting and is currently A\$500,000.

The maximum total pool of available fees has not increased since 2010.

Other than statutory superannuation, Non-executive Directors of the Company are not entitled to any retirement benefits upon retirement from office.

The terms of engagement provide that the Company will maintain an appropriate level of directors' and officers' insurance and provide access to Company records in accordance with the terms of deeds of indemnity, insurance and access entered into between the Company and each of the Non-executive Directors.

The remuneration payable by the Company to Non-executive Directors is shown in the relevant tables.

15.4 Elements of Remuneration related to Performance

The Corporations Act requires disclosure of the Company's remuneration policy to contain a discussion of the Company's earnings and performance and the effect of the Company's performance on shareholder wealth in the reporting period and the four previous financial years. The table below provides a five year financial summary to 31 December 2018. Note all monetary figures are in USD.

| 12 months ended | Dec 18 | Dec 17 | Dec 16 | Dec 15 | Dec 14 | Notes |
|---|--------|--------|--------|--------|--------|-------|
| Net Profit/ (Loss) After Tax (\$US million) | 13.2 | (14.6) | (14.9) | (54.5) | (42.7) | |
| EPS (loss) (cents) <i>Basic</i> | 3.1 | (3.4) | (4.1) | (22.3) | (17.6) | 1 |
| EPS (loss) (cents) <i>Diluted</i> | 3.1 | (3.4) | (4.1) | (22.3) | (17.6) | 1 |
| Share price (US\$) - start of the year | 0.04 | 0.07 | 0.14 | 0.34 | 0.45 | |
| Share price (US\$) - end of the year | 0.088 | 0.04 | 0.07 | 0.14 | 0.34 | |
| Shares on Issue (million) | 426.0 | 426.0 | 424.0 | 257.6 | 243.2 | |
| Market Capitalisation (US\$million) | 26.5 | 18.3 | 27.4 | 35.7 | 83.8 | |

1. No dividends were paid during any of the financial years.

Directors' Report

Key Performance Indicators (KPI) Assessment for 2018

For the 2018 year, the Board determined a set of Company KPIs, reflecting the Company's strategies, business plan and budget. The 2018 KPIs and the performance set against them are set out below.

1. Performance against key strategic objectives set for the year

This measure is concerned with the Company's strategic and qualitative objectives, which are subjective to measure. The emphasis here is on the effectiveness of the process rather than outcomes. Some key objectives include improved effectiveness in identifying production and development opportunities, developing strategies for core assets, divestments of non-core permits and effective joint venture and other key relationships.

2. Performance against financial targets

Under this measure, the Board set specific financial management targets for the year which included further cost reductions throughout the organisation including minimising overall corporate G&A costs and ensuring appropriate funding is in place to enable the Company strategy to be delivered.

3. Performance against asset management goals

Under this measure, the Board considers improvements in the management of Tap's portfolio of assets. The assessment of performance against this KPI was focused on achievement of efficient management of Tap's interest in Manora, including working closely with the Operator to maximise production and seek further growth through asset acquisitions.

15.5 KMP Remuneration related to Performance

FAR for all employees is based on comparisons to similar positions in peer companies and is reviewed annually. An individual's performance will have a strong influence on any annual increase, as will any changes in job responsibilities.

The elements of remuneration shown in the columns labelled "Bonus" and "Share-based payment equity settled" in the tables below are related to Company and individual performance. The elements of remuneration shown in the remaining columns are not performance related. The performance conditions used in the determination of performance-based remuneration for Executive Directors and Executives of the Company are explained in detail in the discussion on remuneration policy in this Remuneration Report. As at the date of this report, the Board has not completed a review of performance for the 2018 year, and no award has been made.

The value of options, shares and rights shown in the tables below are the accounting costs accrued in the financial year for grants in the financial year or in previous financial years. No cash benefit is received by KMP of the Company until the sale of the resultant shares, which cannot be done unless and until the rights or options have vested and the shares issued. No cash bonus awards were forfeited because the person did not meet the relevant service or performance conditions.

15.6 Other Elements of Director and Executive Remuneration

Remuneration packages contain the following key elements:

- (a) Short term employee benefits – salary/fees, bonuses and non-monetary benefits, such as car parking.
- (b) Post-employment benefits – including superannuation, prescribed retirement benefits and retirement gifts.

The remuneration of the key management personnel of the Consolidated Entity and the Company is set out below:

Key Management Personnel - Compensation summary

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the Consolidated Entity are:

| | Short-term employee benefits | | | | Post-employment | | Share-based payment equity settled rights (i) | Total \$ | % Proportion of remuneration performance related |
|-----------------------------------|------------------------------|----------|-----------------|---------------|-------------------|-------------------------|---|----------|--|
| | Salary & fees \$ | Bonus \$ | Non-monetary \$ | Other (ii) \$ | Superannuation \$ | Termination benefits \$ | | | |
| 2018 | | | | | | | | | |
| Non-executive Directors – current | | | | | | | | | |
| Dr G Van Ek ⁽¹⁰⁾ | 42,431 | - | - | - | 4,031 | - | - | 46,462 | - |
| K Baba ⁽¹¹⁾ | 44,223 | - | - | - | - | - | - | 44,223 | - |
| Dr D King ⁽¹²⁾ | 9,009 | - | - | - | 856 | - | - | 9,865 | - |
| Z Lewis ⁽¹³⁾ | 11,898 | - | - | - | 1,130 | - | - | 13,029 | - |
| Non-executive Directors – former | | | | | | | | | |
| A Hall ⁽¹⁾ | 4,838 | - | - | - | 460 | - | - | 5,298 | - |
| P J Mansell ⁽²⁾ | 4,838 | - | - | - | 460 | - | - | 5,298 | - |
| T L Soulsby ⁽⁴⁾ | 2,649 | - | - | - | - | - | - | 2,649 | - |
| S Sreesangkom ⁽⁵⁾ | 6,602 | - | - | - | - | - | - | 6,602 | - |
| B M Ulmer ⁽⁸⁾ | 8,975 | - | - | - | 853 | - | - | 9,827 | - |
| Executive Director – current | | | | | | | | | |
| C Newton ⁽³⁾ | 171,137 | - | - | - | | - | - | 171,137 | - |
| Executive Director – former | | | | | | | | | |
| D Neaves ⁽⁹⁾ | 18,329 | - | - | - | 1,741 | - | - | 20,071 | - |
| J G Menzies ⁽⁶⁾ | 33,252 | - | - | - | - | 56,093 | - | 89,344 | - |
| Executives – current | | | | | | | | | |
| R M Somerville ⁽¹⁴⁾ | 13,623 | - | - | - | 1,294 | - | - | 14,917 | - |
| Executives – former | | | | | | | | | |
| C J Bath ⁽⁷⁾ | 233,598 | - | 7,234 | - | 12,605 | - | (64,290) | 189,147 | - |
| | 605,401 | - | 7,234 | - | 23,429 | 56,093 | (64,290) | 627,867 | - |

(i) Under the rights column, performance rights have been valued using a Monte Carlo Simulation model and retention rights have been valued using the Black Scholes model. Negative amounts represent a reversal of amounts previously expensed. Further details of the Tap Oil Limited Share Rights Plan are contained in note F7 to the financial statements.

Directors' Report

(ii) These amounts relate to payments due under contracts for accrued leave, in lieu of notice and contractual obligations.

- ¹ A Hall appointed 18 October 2016 (resigned 31 January 2018).
- ² P J Mansell appointed 27 May 2016 (resigned 31 January 2018).
- ³ C B Newton appointed 1 January 2016 (resigned 25 May 2018) appointed 27 August 2018.
- ⁴ T L Soulsby appointed 1 January 2016 (resigned 31 January 2018).
- ⁵ S Sreesangkom appointed 27 May 2016 (resigned 6 February 2018).
- ⁶ J G Menzies appointed as a Non executive Director on 27 May 2016 and subsequently appointed Executive Chairman on 15 December 2016 (resigned 31 January 2018).
- ⁷ C Bath appointed 25 May 2016 resigned 19 October 2018.
- ⁸ B Ulmer resigned 13 April 2018.
- ⁹ D Neaves resigned 25 September 2018.
- ¹⁰ Dr G Van Ek appointed 31 January 2018.
- ¹¹ K Baba appointed 6 February 2018.
- ¹² Dr D King appointed 18 October 2018.
- ¹³ Z Lewis appointed 25 September 2018.
- ¹⁴ B Somerville was deemed no longer key management personnel from 31 January 2018.

| | Short-term employee benefits | | | | Post-employment | Share-based payment equity settled rights (i) | Total | % Pro-portion of remuneration performance related |
|--|------------------------------|-------------|---------------------|---------------------|-----------------------|---|-----------|---|
| | Salary & fees \$ | Bonus \$ | Non-mone-tary \$ | Other (ii) \$ | Super-annuation \$ | | \$ | |
| 2017 | | | | | | | | |
| Non-executive Directors – current | | | | | | | | |
| A Hall ⁽¹⁾ | 59,531 | - | - | - | 5,655 | - | 65,186 | - |
| P J Mansell ⁽²⁾ | 59,531 | - | - | - | 5,655 | - | 65,186 | - |
| C B Newton ⁽³⁾ | 32,593 | - | - | - | - | - | 32,593 | - |
| T L Soulsby ⁽⁴⁾ | 32,593 | - | - | - | - | - | 32,593 | - |
| S Sreesangkom ⁽⁵⁾ | 65,187 | - | - | - | - | - | 65,187 | - |
| Executive Director | | | | | | | | |
| J G Menzies ⁽⁶⁾ | 210,898 | - | - | 57,518 | - | 122,704 | 391,120 | 31.4% |
| Executives – current | | | | | | | | |
| C J Bath ⁽⁷⁾ | 237,868 | - | 5,556 | - | 15,209 | 51,401 | 310,034 | 16.6% |
| R M Somerville | 74,986 | - | 881 | - | 7,124 | - | 82,991 | - |
| Executives – former | | | | | | | | |
| T J Hayden ⁽⁸⁾ | 1,876 | - | - | - | 178 | - | 2,054 | - |
| | 775,063 | - | 6,437 | 57,518 | 33,821 | 174,105 | 1,046,944 | |

(i) Under the rights column, performance rights have been valued using a Monte Carlo Simulation model and retention rights have been valued using the Black Scholes model. Negative amounts represent a reversal of amounts previously expensed. Further details of the Tap Oil Limited Share Rights Plan are contained in note F7 to the financial statements.

(ii) These amounts relate to payments due under contracts for accrued leave, in lieu of notice and contractual redundancy obligations.

- ¹ A Hall appointed 18 October 2016 (resigned 31 January 2018).
- ² P J Mansell appointed 27 May 2016 (resigned 31 January 2018).
- ³ C B Newton appointed 1 January 2016 (resigned 25 May 2018) appointed 27 August 2018.
- ⁴ T L Soulsby appointed 1 January 2016 (resigned 31 January 2018).
- ⁵ S Sreesangkom appointed 27 May 2016 (resigned 6 February 2018).
- ⁶ J G Menzies appointed as a Non executive Director on 27 May 2016 and subsequently appointed Executive Chairman on 15 December 2016 (resigned 31 January 2018).
- ⁷ C Bath appointed 25 May 2016, resigned 19 October 2018.
- ⁸ T J Hayden resigned as Managing Director 27 May 2016 and as part time CEO 1 December 2016.

Rights over Equity Instruments Granted

Details on rights over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period are set out below. Note that Non-executive Directors are not able to participate in the current Tap Oil Limited Share Rights Plan and have not been issued any rights over ordinary shares and are therefore excluded from the table:

| | Number of performance rights granted during 2018 | Number of retention rights granted during 2018 | Grant date (performance rights) | Grant date (retention rights) | Fair value per performance right at grant date A\$ | Fair value per retention right at grant date | Value of rights granted during the year A\$ | Financial year in which rights vest |
|-----------------------------|--|--|---------------------------------|-------------------------------|--|--|---|-------------------------------------|
| 2018 | | | | | | | | |
| Executives - former | | | | | | | | |
| C J Bath | 3,001,935 | - | 01-Jan-18 | - | 0.043 | - | 129,083 | 2021 |
| | | | | | | | | |
| | Number of performance rights granted during 2017 | Number of retention rights granted during 2017 | Grant date (performance rights) | Grant date (retention rights) | Fair value per performance right at grant date A\$ | Fair value per retention right at grant date | Value of rights granted during the year A\$ | Financial year in which rights vest |
| 2017 | | | | | | | | |
| Executive Director | | | | | | | | |
| J G Menzies | 1,000,000 | - | 29-May-17 | - | 0.08 | - | 80,000 | 2017 |
| Executives - current | | | | | | | | |
| C J Bath | 2,962,615 | - | 01-Jan-17 | - | 0.04 | - | 118,505 | 2020 |

The Tap Oil Limited Share Rights Plan was last approved by Shareholders on 27 May 2016. All rights to shares have a vesting period of three years. Each right granted entitles the holder to one share in the Company upon vesting, have no exercise price, are exercisable from the date of vesting and the details of vesting periods are set out in note F7 to the financial statements. All rights expire on the earlier of their expiry date or termination of the individual's employment. There were Nil performance rights granted to KMP which vested during the reporting period (2017: 1,000,000) and 3,001,935 of the performance rights granted to KMP lapsed in 2018 (2017: nil). There were no retention rights granted to KMP nor vested during the reporting period (2017: nil) and 1,024,554 retention rights lapsed during the reporting period (2017: nil).

No cash benefit is received by KMP of the Company until the sale of the resultant shares, which cannot be done unless and until the rights have vested and the shares issued.

Directors' Report

Value of Rights that have vested or lapsed

The following table summarises the number and value of rights that have vested or lapsed during the financial year. Note that Non-executive Directors are not able to participate in the current Tap Oil Limited Share Rights Plan and have not been issued any rights over ordinary shares and are therefore excluded from the table:

| 2018 | Number of rights vested | Number of rights lapsed | Number of ordinary shares issued as a result of vesting | Amount paid | Amount unpaid |
|----------------------------|-------------------------|-------------------------|---|-------------|---------------|
| Executives - former | | | | | |
| C J Bath | - | 6,989,094 | - | - | - |
| | - | 6,989,094 | - | - | - |

| 2017 | Number of rights vested | Number of rights lapsed | Number of ordinary shares issued as a result of vesting | Amount paid | Amount unpaid |
|----------------------------|-------------------------|-------------------------|---|-------------|---------------|
| Executives - former | | | | | |
| J G Menzies | 1,000,000 | - | 1,000,000 | - | - |
| | 1,000,000 | - | 1,000,000 | - | - |

Value of Rights – Basis of Calculation

The value of performance rights at the grant date is calculated as the fair value of the rights at grant date, using the Monte Carlo Simulation model, multiplied by the number of rights granted.

The value of retention rights at the grant date is calculated as the fair value of the rights at grant date, using the Black Scholes model, multiplied by the number of rights granted.

The value of rights included in remuneration for the year is calculated in accordance with Australian Accounting Standards. This requires the value of rights to be determined at grant date and thereafter included in remuneration for the year based proportionately on the vesting period. Where the rights vest fully in the year of grant, the full value of the rights is recognised in remuneration for that year. When a right holder resigns from Tap the rights are immediately lapsed.

No adjustment is made to the value included in remuneration or the financial results where the right ultimately has a lesser or greater value than as at the date of grant. The inputs into the fair value calculation of the rights granted are set out in note F7 to the financial statements.

Key Management Personnel Equity Holdings

The following table summarises the fully paid ordinary shares of Tap Oil Limited held by key management personnel:

| | Balance at 1/1/18 | Received on issue of shares / vesting of rights | Net other change | Balance held directly & indirectly at 31/12/18 | Balance held nominally (indirectly) |
|---|----------------------|---|--------------------------|--|---|
| 2018 | No. | No. | No. | No. | No. |
| Non-executive Directors - former | | | | | |
| P J Mansell | 1,000,000 | - | (1,000,000) ¹ | - | - |
| Executive Director - former | | | | | |
| J G Menzies | 4,000,000 | - | (4,000,000) ¹ | - | - |
| | 5,000,000 | - | (5,000,000) | - | - |

¹ These were the balances held at time of resignation.

| | Balance at 1/1/17 | Received on vesting of rights | Net other change | Balance held directly & indirectly at 31/12/17 | Balance held nominally (indirectly) |
|------------------------------------|----------------------|----------------------------------|---------------------|--|---|
| 2017 | No. | No. | No. | No. | No. |
| Non-executive Directors | | | | | |
| A Hall | - | - | - | - | - |
| P J Mansell | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| C B Newton | - | - | - | - | - |
| T L Soulsby | - | - | - | - | - |
| S Sreesangkom | - | - | - | - | - |
| Executive Director | | | | | |
| J G Menzies | 1,000,000 | 2,000,000 | 1,000,000 | 4,000,000 | - |
| Executives - current | | | | | |
| C J Bath | - | - | - | - | - |
| R M Somerville | - | - | - | - | - |
| | 2,000,000 | 2,000,000 | 1,000,000 | 5,000,000 | 1,000,000 |

Directors' Report

Key Management Personnel – movement in rights

The following table summarises the movement in rights in ordinary shares of Tap Oil Limited. Note that Non-executive Directors are not able to participate in the current Tap Oil Limited Share Rights Plan and have not been issued any rights over ordinary shares and are therefore excluded from the table:

| | Balance at 1/1/18 | Granted as remuneration | Vested during the year | Lapsed during the year | Balance at 31/12/18 |
|----------------------------|----------------------|----------------------------|---------------------------|---------------------------|------------------------|
| 2018 | No. | No. | No. | No. | No. |
| Executives – former | | | | | |
| C J Bath | 3,987,159 | 3,001,935 | - | (6,989,094) | - |
| | 3,987,159 | 3,001,935 | - | (6,989,094) | - |

| | Balance at 1/1/17 | Granted as remuneration | Vested during the year | Lapsed during the year | Balance at 31/12/17 |
|-----------------------------|----------------------|----------------------------|---------------------------|---------------------------|------------------------|
| 2017 | No. | No. | No. | No. | No. |
| Executive Director | | | | | |
| J G Menzies | - | 1,000,000 | (1,000,000) | - | - |
| Executives – current | | | | | |
| C J Bath | 1,024,544 | 2,962,615 | - | - | 3,987,159 |
| | 1,024,544 | 3,962,615 | (1,000,000) | - | 3,987,159 |

Equity Instruments Granted

Details on ordinary shares in the Company that were granted as compensation to each key management person during the reporting period are set out below:

No shares were issued as compensation to key management personnel in 2018.

| | Number of share issued during 2017 | Grant date | Fair value per share at grant date A\$ | Value of shares grant during the year A\$ |
|---------------------------|---------------------------------------|-------------|--|---|
| 2017 | | | | |
| Executive Director | | | | |
| J G Menzies | 1,000,000 | 29-May-2017 | 0.08 | 80,000 |

Other transactions with Key Management Personnel

There were no other transactions with key management personnel during the year, other than:

The Company appointed SmallCap Corporate Pty Ltd, a company associated with Non-executive Director Mr Zane Lewis, to provide consultant CFO services. The total fees charged to the Company relating to these services was USD \$20,169. The Company notes that fees payable pursuant to the consulting agreement are at commercial market rates and the consulting agreement can be terminated by either party on 30 days' notice.

Discretionary Cap on Total Number of Rights

The Board maintains a discretionary cap on the total number of all performance and retention rights on issue to employees and Executives. Currently the Board has set this cap at 6% of the number of issued fully paid shares in the Company. This cap provides a margin to cover the issue of rights above the 4.5% maximum level of rights that may be issued over the three year vesting period of such rights at the guideline maximum rate of 1.5% per annum. The Board will inform shareholders of exceptions or changes to these guidelines should they occur.

The Board is of the view that such a cap significantly reduces the potential for material dilutionary effects of issues of rights at low share prices.

A total of 6,359,513 performance rights were issued during the year, effective 1 January 2018, being the award of LTI performance rights for the year ended 31 December 2017.

The total number of performance and retention rights on issue at 31 December 18 was 3,659,324, which is 0.86% of shares on issue at 31 December 2018 and under the policy guideline cap of 6%. On 1 January 2019, 327,685 performance rights lapsed.

On 11 March 2019, the Company issued 2,156,442 performance rights for the 2018 LTI award, effective 1 January 2019. A further 4,192,346 performance rights proposed to be issued to the Company's Executive Chairman require shareholder approval to be issued.

The total number of rights on issue at the time of this report is 5,488,081 which equals 1.4% of the shares on issue at the time of this report, well under the 6% discretionary cap.

Signed in accordance with a resolution of the Directors:



Chris Newton
Chairman

Perth, Western Australia
29 March 2019

Auditor's Independence Declaration



Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Tap Oil Limited
Level 2, 190 St Georges Terrace
PERTH WA 6000

29 March 2019

Dear Board Members

Auditor's Independence Declaration to Tap Oil Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Tap Oil Limited.

As lead audit partner for the audit of the financial statements of Tap Oil Limited for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, consisting of a stylized 'L' followed by a horizontal line.

Leanne Karamfiles
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited



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Independent Auditor's Report to the members of Tap Oil Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Tap Oil Limited (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the director's declaration.

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

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

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Tap Oil Limited, would be in the same terms if given to 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 for 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.

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Member of Deloitte Touche Tohmatsu Limited

Auditor's Report



| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|--|---|
| <p>Carrying value of the Manora Project</p> <p>As at 31 December 2018, \$30.4 million of development expenditures relating to the Manora project have been capitalised as disclosed in note C1.</p> <p>As at this date the Group's net assets exceeded its market capitalisation which represents an impairment trigger requiring an assessment of the assets' recoverable amount.</p> <p>The determination of the recoverable amount of this asset requires significant judgement in assessing the key assumptions supporting the expected future cash flows of the Manora project. Key judgements made by management include:</p> <ul style="list-style-type: none"> the discount rate applied to future cash flows; forecast oil production and reserves of the Manora project; and forecast oil prices utilised in the impairment model. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> engaging our valuation experts to assist with: <ul style="list-style-type: none"> challenging the assumptions and methodologies used by management; assessing projected oil prices used in the cash flow model by comparing to consensus forecasts; recalculating an appropriate asset specific discount rate; and challenging the forecast production profile, with reference to historic levels and project reserve estimates which underpin the life of field model. comparing the project forecasts to the Board approved budgets and operator forecasts; applying sensitivities to the forecast cash flows to quantify the impact of reasonable changes in commodity prices, discount rate and production forecasts, being the factors with the most significant impact on recoverable value; and testing management's model for mathematical accuracy. <p>We also assessed the appropriateness of the disclosures included in note C1 to the financial statements.</p> |
| <p>Restoration Provision</p> <p>The Group recognises a restoration provision in respect of the estimated restoration costs for each of its development assets upon decommissioning.</p> <p>As at 31 December 2018 the restoration provision was made up of the following:</p> <ul style="list-style-type: none"> Manora: \$11.7 million Woollybutt: \$10.8 million Airlie: \$nil <p>The assessment of decommissioning requires management to exercise significant judgment in making an estimate of the timing and the future costs of decommissioning. Key judgements made by management include:</p> <ul style="list-style-type: none"> cost estimates included as input in the calculation of the restoration provision; expected timing of the utilisation of the provision; and inflation and discount rates factored in to the calculation. | <p>Our procedures over management's decommissioning estimates included, but were not limited to:</p> <ul style="list-style-type: none"> reasonableness of the inflation and discount rates used; consistency between the decommissioning dates used in management's calculation and those forecast by the relevant permit operators as well as the forecast economic life of the Manora development asset; assumptions, inputs and support used by management in determining the quantum of the decommissioning provision; and classification of current and non-current elements of the provision, specifically focussing on the provision for spend on Woollybutt decommissioning during 2019. <p>We also assessed the appropriateness of the disclosures included in note C2 to the financial statements.</p> |

Deloitte.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Report



- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 39 of the Directors' Report for the year ended 31 December 2018.

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

Responsibilities

The directors of the Entity 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Leanne Karamfiles", with a long horizontal line extending to the right.

Leanne Karamfiles

Partner

Chartered Accountants

Perth, 29 March 2019

Directors' Declaration

1. In the opinion of the directors of Tap Oil Limited (the Company):
 - (a) the consolidated financial statements and notes that are set out on pages 46 to 99 and the Remuneration Report in section 15 in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (c) the financial statements and notes are in accordance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
 - (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:



Chris Newton
Chairman

Perth, Western Australia
29 March 2019

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 31 December 2018

| | Note | 2018 US\$'000 | 2017 US\$'000 |
|---|-------|------------------|------------------|
| Continuing operations | | | |
| Revenue | B1(a) | 44,184 | 44,772 |
| Cost of sales | B1(b) | (34,210) | (38,719) |
| Gross profit | | 9,974 | 6,053 |
| Other revenue | B1(a) | 3,063 | 190 |
| Administration expenses | B1(c) | (2,169) | (3,415) |
| Finance costs | B1(d) | (866) | (1,150) |
| Impairment losses and write-downs | B1(e) | (1,601) | (3,079) |
| Restoration provision (increase)/decrease | | 2,515 | (249) |
| Other expenses | B1(f) | (661) | (54) |
| Profit/ (Loss) before tax | | 10,255 | (1,704) |
| Income tax benefit/ (expense) | B3(a) | 2,992 | (12,887) |
| Profit/ (Loss) for the year | | 13,247 | (14,591) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit and loss</i> | | | |
| Unrealised loss on cash flow hedge | | 2,242 | (513) |
| Foreign currency translation differences - foreign operations | | (237) | 1,213 |
| Total comprehensive income/ (loss) for the year | | 15,252 | (13,891) |
| Earnings per share from continuing operations: | | | |
| Basic (cents per share) | F3 | 3.1 | (3.4) |
| Diluted (cents per share) | F3 | 3.1 | (3.4) |

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated statement of financial position

as at 31 December 2018

| | Note | 2018 US\$'000 | 2017 US\$'000 |
|--|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | F6(a) | 21,186 | 7,753 |
| Trade and other receivables | C5 | 5,689 | 6,567 |
| Inventories | C6 | 7,856 | 6,255 |
| Current tax assets | B3(b) | - | 61 |
| Held for sale assets | | - | 472 |
| Other current assets | | 252 | 343 |
| Total current assets | | 34,983 | 21,451 |
| Non-current assets | | | |
| Property, plant and equipment | C1 | 30,466 | 40,837 |
| Exploration and evaluation assets | C7 | 281 | 143 |
| Deferred tax assets | B3(c) | 9,449 | 6,056 |
| Total non-current assets | | 40,196 | 47,036 |
| Total assets | | 75,179 | 68,487 |
| Current liabilities | | | |
| Trade and other payables | C4 | 5,129 | 8,000 |
| Current tax liability | B3(b) | 15 | - |
| Other financial liabilities | C8 | - | 2,593 |
| Liabilities relating to held for sale assets | | - | 211 |
| Provisions | C2 | 1,345 | 1,001 |
| Total current liabilities | | 6,489 | 11,805 |
| Non-current liabilities | | | |
| Provisions | C2 | 21,275 | 24,602 |
| Total non-current liabilities | | 21,275 | 24,602 |
| Total liabilities | | 27,764 | 36,407 |
| Net assets | | 47,414 | 32,080 |
| Equity | | | |
| Issued capital | D1 | 141,624 | 141,624 |
| Share options reserve | | 3,526 | 3,526 |
| Share rights reserve | F2 | 3,371 | 3,289 |
| Foreign currency translation reserve | F2 | 56,648 | 56,885 |
| Cash flow hedge reserve | | - | (2,242) |
| Profit reserve | F2 | 72,940 | 72,940 |
| Retained losses | F2 | (230,695) | (243,942) |
| Total equity | | 47,414 | 32,080 |

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated statement of changes in equity

for the financial year ended 31 December 2018

| | Note | Issued capital US\$'000 | Share op- tions reserve (i) US\$'000 | Share rights reserve (i) US\$'000 | Cash flow hedge reserve US\$'000 | Foreign currency translation reserve US\$'000 | Profit reserve(i) US\$'000 | Retained losses US\$'000 | Total US\$'000 |
|--|------|----------------------------|---|--|---|---|----------------------------------|--------------------------------|-------------------|
| Balance at 1 January 2017 | | 141,524 | 3,526 | 3,180 | (1,729) | 55,672 | 72,940 | (229,351) | 45,762 |
| Loss for the year | | - | - | - | - | - | - | (14,951) | (14,951) |
| Other comprehensive income for the year | | - | - | - | (513) | 1,213 | - | - | 700 |
| Total comprehensive income/(loss) for the year | | - | - | - | (513) | 1,213 | - | - | 700 |
| Issue of shares | | - | - | - | - | - | - | - | - |
| Redemption of vested share rights | | 100 | - | (100) | - | - | - | - | - |
| Recognition of share-based payments | | - | - | 209 | - | - | - | - | 209 |
| Balance at 31 December 2017 | | 141,624 | 3,526 | 3,289 | (2,242) | 56,885 | 72,940 | (243,942) | 32,080 |
| Profit for the year | | - | - | - | - | - | - | 13,247 | 13,247 |
| Other comprehensive income for the year | | - | - | - | 2,242 | (237) | - | - | 2,005 |
| Total comprehensive income/(loss) for the year | | - | - | - | 2,242 | (237) | - | 13,247 | 15,252 |
| Recognition of share-based payments | | - | - | 82 | - | - | - | - | 82 |
| Balance at 31 December 2018 | | 141,624 | 3,526 | 3,371 | - | 56,648 | 72,940 | (230,695) | 47,414 |

(i) For a description of the nature and purpose of Reserves refer to note F2.

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Consolidated statement of cash flows

for the financial year ended 31 December 2018

| | Note | 2018 US\$'000 | 2017 US\$'000 |
|--|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 49,188 | 38,486 |
| Payments to suppliers and employees | | (30,795) | (22,999) |
| Interest received | | 14 | 51 |
| Income taxes received/(paid) | | (750) | 128 |
| Net cash provided by operating activities | F6(b) | 17,657 | 15,666 |
| Cash flows from investing activities | | | |
| Proceeds from sale of permits | | 643 | - |
| Payments for property, plant and equipment | | (3,635) | (2,730) |
| Payments for exploration assets | | (1,751) | (2,479) |
| Payments for restoration expenditure | | (422) | (1,232) |
| Net cash used in investing activities | | (5,808) | (6,441) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | - | (8,874) |
| Payment of interest and transaction costs related to loans and borrowings | | - | (403) |
| Net cash used in financing activities | | - | (9,277) |
| Net increase/(decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the financial year | | 7,753 | 6,396 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 1,584 | 1,409 |
| Cash and cash equivalents at the end of the financial year | F6(a) | 21,186 | 7,753 |

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

| Note | Contents |
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for the financial year ended 31 December 2018

REPORTING ENTITY

Tap Oil Limited (the Company) is a for profit company domiciled in Australia.

The Company's registered office is Level 2, 190 St Georges Terrace, Perth WA 6000. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group). The Group is primarily involved in oil and gas exploration and production in the Gulf of Thailand and Carnarvon Basin in the northwest of Western Australia.

A. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

The consolidated financial statements comply with Australian Accounting Standards (AASB) and International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Board of Directors on 29 March 2019.

(b) Functional and presentation currency

These consolidated financial statements are presented in United States Dollars, which is the Company's functional currency, unless otherwise noted.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and the valuation of share based payments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Consolidated Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

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

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

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Notes to the Financial Statements

for the financial year ended 31 December 2018

A. BASIS OF PREPARATION (CONT'D)

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Apart from changes in accounting policies noted below, the accounting policies adopted are consistent with those disclosed in the Annual Financial Report for the year ended 31 December 2017. When the presentation or classification of items in the financial report is amended, comparative amounts are reclassified unless the reclassification is impracticable.

(d) Use of estimates and judgements

In the application of the Consolidated Entity's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

- The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods; and
- Judgments made by management, in the application of the Consolidated Entity's accounting policies, that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B1. LOSS FOR THE YEAR FROM OPERATIONS

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| (a) Revenue | | |
| Liquid sales ⁽ⁱ⁾ | 44,184 | 39,191 |
| Gas sales | - | 5,581 |
| | 44,184 | 44,772 |
| Other revenue: | | |
| Royalties received | 131 | 148 |
| Interest received | 46 | 42 |
| Settlement with third party contractor ⁽ⁱⁱ⁾ | 1,419 | - |
| Profit on sale of projects | 757 | - |
| Foreign Exchange gain | 710 | - |
| | 3,063 | 190 |
| | 47,247 | 44,962 |

⁽ⁱ⁾ Includes commodity hedge loss of \$4.2 million (2017: \$2.4 million loss)

⁽ⁱⁱ⁾ During the year the operator for the Woollybutt Joint Venture settled an outstanding legal dispute between the JV and a third-party contractor of which the JV was the claimant.

(b) Cost of sales

| | | |
|---|--------|--------|
| Production costs – Manora | 16,859 | 17,359 |
| Depreciation of capitalised development costs | 13,966 | 16,151 |
| Government royalties | 3,637 | 3,143 |
| Other production costs - Manora | (252) | (109) |
| | 34,210 | 36,544 |
| Production costs – Third party gas | - | 2,089 |
| Operating costs – Third party gas | - | 50 |
| Marketing and sales costs | - | 36 |
| | - | 2,175 |
| | 34,210 | 38,719 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

B1. LOSS FOR THE YEAR FROM OPERATIONS (CONT'D)

| | | Consolidated | |
|--|--|------------------|------------------|
| | | 2018 US\$'000 | 2017 US\$'000 |
| (c) Administration expenses | | | |
| Loss before income tax has been arrived at after charging the following: | | | |
| Employee benefit expenses: | | | |
| Post employment benefits: | | | |
| Superannuation contributions | | 105 | 118 |
| Share-based payments: | | | |
| Equity settled share-based payments | | (14) | 209 |
| Other | | 1,021 | 993 |
| | | 1,112 | 1,320 |
| Depreciation of office fixed assets | | 19 | 11 |
| Operating lease rental payments | | 124 | 473 |
| Director fees | | 346 | 507 |
| Other expenses, net of recoveries ⁽ⁱ⁾ | | 568 | 1,104 |
| | | 2,169 | 3,415 |

- (i) The other expenses are shown net of recoveries. The recoveries represent costs, including time spent by the Consolidated Entity's employees on exploration and production interests, which get capitalised to the applicable exploration and production interests.

(d) Finance costs

| | | | |
|---|--|-----|-------|
| Notional interest from unwinding discount on restoration provisions | | 866 | 747 |
| Borrowing costs | | - | 403 |
| | | 866 | 1,150 |

(e) Impairment losses and write-downs

| | | | |
|--|----|-------|-------|
| Exploration impairment losses ⁽ⁱ⁾ | C7 | 1,601 | 3,079 |
| Exploration expenditure write-downs ⁽ⁱ⁾ | | - | - |
| | | 1,601 | 3,079 |
| Property, plant and equipment impairment losses | C1 | | |
| Prepaid gas impairment losses | | - | - |
| | | 1,601 | 3,079 |

- (i) Exploration impairment losses and exploration expenditure write-downs are recognised when the carrying amount of the exploration and evaluation assets exceeds the recoverable amount.

The exploration impairment losses/write-downs are included in the oil & gas exploration segment.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B1. LOSS FOR THE YEAR FROM OPERATIONS (CONT'D)

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| (f) Other expenses | | |
| New venture and Business development expenditure | - | 207 |
| Takeover/defense expenditure | 618 | - |
| Foreign exchange differences | - | (234) |
| Woollybutt and Airlie operating costs | 22 | 81 |
| Other | 20 | - |
| | 661 | 54 |

(g) Depreciation

Depreciation charges are included above in cost of sales (b) and administration expenses (c). Total depreciation for the Consolidated Entity is \$14.0 million (2017: \$16.2 million).

Accounting policy

Revenue recognition

Sale of goods

The Company recognises revenue from the sale of oil in the period that the performance obligation is satisfied. The Company's performance obligation is primarily comprised of the delivery of oil at a delivery point. Each barrel of oil is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer through delivery of oil at time of lifting.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue from a financial asset is recognised when it is probable that the economic benefits will flow to the Consolidated Entity and the amount can be measured reliably.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B2. SEGMENT INFORMATION

The Consolidated Entity derives its revenue from the sale of oil & gas.

Information reported to the Consolidated Entity's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on the separate divisions managed by each individual member of senior management. Based on this, the Consolidated Entity's reportable segments under AASB 8 are as follows:

- Oil & gas production and development;
- Oil & gas exploration; and
- Third party gas.

The oil & gas production and development segment includes the assets moved from the exploration phase to the development phase. This segment also includes producing assets. The Manora (G1/48) development asset is included here as it commenced production during November 2014.

The oil & gas exploration segment includes all the areas of interest still in their exploration phase. This segment primarily incurs the exploration expenditure in the Consolidated Entity.

The third party gas segment includes the purchases and sale of gas. The gas purchases are based on contracted quantities and sales are done via agreements with customers or in certain instances via market sales. The segment is managed by the Commercial Manager/Commercial Analyst.

The following is an analysis of the Consolidated Entity's revenue and results from continuing operations by reportable operating segment for the periods under review:

| | Revenue | | Segment result | |
|--|------------------|------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Oil & gas production and development | 44,184 | 39,191 | 9,595 | 1,799 |
| Oil & gas exploration | - | - | 2,356 | (3,770) |
| Third party gas | - | 5,581 | - | 3,405 |
| | 44,184 | 44,772 | 11,951 | 1,434 |
| Other income | | | 46 | 16 |
| Central administration costs | | | (1,834) | (3,181) |
| Foreign exchange gain | | | 710 | 233 |
| Takeover/defense expenditure | | | (618) | |
| Other expenses | | | - | (206) |
| Profit/(loss) before tax | | | 10,255 | (1,704) |
| Income tax benefit/(expense) | | | 2,992 | (12,887) |
| Loss for the year from continuing operations | | | 13,247 | (14,591) |

Notes to the Financial Statements

for the financial year ended 31 December 2018

B2. SEGMENT INFORMATION (CONT'D)

Segment revenues and results

Segment profit/(loss) represents the profit earned by each segment or loss made by each segment without the allocation of centralised administration expenses, recoveries of administration expenses recognised on a Consolidated Entity level, interest revenue, foreign exchange losses and income tax benefits.

The revenue represents oil & gas sales to external customers with no intersegment sales during the period. \$44.2 million (2017: \$39.1 million) oil revenue were sold to one customer under contract in the year.

Segment assets and liabilities

The following is an analysis of the Consolidated Entity's assets and liabilities by reportable operating segment for the periods under review:

| | Assets | | Liabilities | |
|---|------------------|------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Oil & gas production and development | 53,134 | 62,005 | 16,634 | 19,394 |
| Oil & gas exploration | 4,904 | 5,404 | 10,979 | 16,016 |
| Third party gas | - | 35 | - | - |
| Total segment assets and liabilities | 58,038 | 67,444 | 27,613 | 35,410 |
| Unallocated assets and liabilities | 17,202 | 1,043 | 212 | 997 |
| Consolidated total assets and liabilities | 75,240 | 68,487 | 27,826 | 36,407 |

For the purpose of measuring segment performance and allocating resources between segments, the chief operating decision maker monitors the tangible, intangible and financial assets attributable to each segment. All assets and liabilities are allocated to reportable segments except for cash and cash equivalents and tax-related assets and liabilities.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B2. SEGMENT INFORMATION (CONT'D)

Other segment information

| | Depreciation and amortisation | | Impairment losses and write-downs | | Additions to non-current assets | |
|--------------------------------------|-------------------------------|------------------|-----------------------------------|------------------|---------------------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Oil & gas production and development | 13,966 | 16,151 | - | - | 3,589 | 2,249 |
| Oil & gas exploration | - | - | 1,601 | 3,079 | 1,768 | 2,680 |
| Other | 19 | 11 | - | - | 1,781 | 24 |
| | 13,985 | 16,162 | 1,601 | 3,079 | 7,138 | 4,953 |

In addition to the depreciation and amortisation expense reported above, exploration expenditure write-downs/impairment losses of \$1.6 million (2017: \$3.1 million) were recognised in respect of exploration and evaluation assets. No impairment losses were recognised in respect of property, plant and equipment (2017: nil). Both the exploration and evaluation assets and property, plant and equipment write-downs/impairment losses were attributable to oil & gas exploration and oil & gas production and development. There were no other material non-cash expenses attributable to individual segments.

Geographical information

The Consolidated Entity operates in two principal geographical areas – Australia and Asia.

| | Revenue from external customers | | Non-current assets | |
|-----------|---------------------------------|------------------|--------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Australia | - | 5,581 | 4,293 | 4,276 |
| Asia | 44,184 | 39,191 | 35,903 | 42,760 |
| | 44,184 | 44,772 | 40,196 | 47,036 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

B3. INCOME TAXES

(a) Income tax recognised in profit or loss

Tax (benefit)/expense comprises:

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Current tax (benefit)/expense | 1,032 | 205 |
| PRRT refund received | (187) | (216) |
| Adjustments recognised in the current year in relation to the current tax of prior years | | |
| – Under/(over) provision for previous year | 23 | (229) |
| Deferred income tax relating to the origination and reversal of temporary differences | (3,208) | 13,455 |
| Foreign exchange impact on tax expense | - | (1) |
| Deferred PRRT tax (credit)/expense | (652) | (327) |
| Total income tax expense/(benefit) from continuing operations | (2,992) | 12,887 |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| Profit/ (Loss) before tax | 10,260 | (1,704) |
| Income tax expense / (benefit) calculated at 30% | 3,078 | (511) |
| Expenses not deductible for tax purposes | 12,364 | 102 |
| Unused tax losses, tax offsets and temporary differences not recognised as deferred tax assets | (28,415) | 17,415 |
| Other assessable income | 56 | 65 |
| Foreign exchange impact on deferred tax expense | 467 | (2,639) |
| Effect of higher foreign tax rate | 10,352 | 704 |
| Foreign exchange impact on current tax expense | (52) | (1,371) |
| PRRT related tax credit | (839) | (543) |
| Other | (3) | 2 |
| | (2,992) | 13,224 |
| Adjustments recognised in the current year in relation to the current tax of prior years - Australia | | |
| – Under/(over) provision for previous years – permanent differences | - | (337) |
| Income tax expense/(benefit) | (2,992) | 12,887 |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B3. INCOME TAXES (CONT'D)

(b) Current tax assets and liabilities

Current tax asset/liabilities:

Tax (payable)/receivable

(c) Deferred tax asset/(liability) balances

Deferred tax assets comprise:

Temporary differences – refer below

| Consolidated | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| (15) | 61 |
| 9,449 | 6,056 |

| | Opening balance US\$'000 | Recognised in profit or loss US\$'000 | Recognised in other comprehensive income US\$'000 | Recognised directly in equity US\$'000 | Exchange differences US\$'000 | Closing balance US\$'000 |
|-----------------------------------|--------------------------------|--|---|---|-------------------------------------|--------------------------------|
| 2018 | | | | | | |
| Temporary differences: | | | | | | |
| Income tax losses carried forward | 2,342 | 41 | - | - | (442) | 1,941 |
| Property, plant & equipment | - | - | - | - | - | - |
| Deferred exploration | (43) | 41 | - | - | 2 | - |
| Development | 33,690 | (25,683) | - | - | (242) | 7,765 |
| Liquids inventory | 225 | 141 | - | - | (30) | 336 |
| Restoration provisions | 13,934 | 854 | - | - | (1,374) | 13,414 |
| Others | 285 | 51 | - | - | (30) | 306 |
| | 50,433 | (24,555) | - | - | (2,116) | 23,762 |

Unrecognised temporary differences:

| | | | | | | |
|-----------------------------------|----------|--------|---|---|-------|----------|
| Income tax losses carried forward | (2,342) | - | - | - | 401 | (1,941) |
| Property, plant & equipment | - | - | - | - | - | - |
| Deferred exploration | 43 | (41) | - | - | (2) | - |
| Development | (31,848) | 28,848 | - | - | 363 | (2,637) |
| Liquids inventory | (225) | (141) | - | - | 30 | (336) |
| Restoration provisions | (9,720) | (200) | - | - | 827 | (9,093) |
| Others | (285) | (52) | - | - | 30 | (307) |
| | (44,377) | 28,415 | - | - | 1,649 | (14,313) |
| | 6,056 | 3,860 | - | - | (467) | 9,449 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

B3. INCOME TAXES (CONT'D)

| | Opening balance US\$'000 | Recognised in profit or loss US\$'000 | Recognised in other comprehensive income US\$'000 | Recognised directly in equity US\$'000 | Exchange differences US\$'000 | Closing balance US\$'000 |
|--|--------------------------------|--|---|---|-------------------------------------|--------------------------------|
| 2017 | | | | | | |
| Temporary differences: | | | | | | |
| Income tax losses carried forward | 580 | 1,762 | - | - | - | 2,342 |
| Property, plant & equipment | 3 | (3) | - | - | - | - |
| Deferred exploration | - | (42) | - | - | (1) | (43) |
| Development | 29,950 | 851 | - | - | 2,889 | 33,690 |
| Liquids inventory | (321) | 561 | - | - | (15) | 225 |
| Restoration provisions | 13,197 | (287) | - | - | 1,024 | 13,934 |
| Borrowing costs | 906 | (960) | - | - | 54 | - |
| Others | 851 | (1,084) | - | 462 | 56 | 285 |
| | 45,166 | 798 | - | 462 | 4,007 | 50,433 |
| Unrecognised temporary differences: | | | | | | |
| Income tax losses carried forward | (580) | (1,762) | - | - | - | (2,342) |
| Property, plant & equipment | (3) | 3 | - | - | - | - |
| Deferred exploration | - | 42 | - | - | 1 | 43 |
| Development | (16,574) | (14,764) | - | - | (510) | (31,848) |
| Liquids inventory | - | (221) | - | - | (4) | (225) |
| Restoration provisions | (9,709) | 733 | - | - | (744) | (9,720) |
| Borrowing costs | (906) | 960 | - | - | (54) | - |
| Others | (849) | 1,083 | - | (462) | (57) | (285) |
| | (28,621) | (13,926) | - | (462) | (1,368) | (44,377) |
| | 16,545 | (13,128) | - | - | 2,639 | 6,056 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

B3. INCOME TAXES (CONT'D)

Unrecognised deferred tax balances

The following deferred tax assets, have not been brought to account as assets:

Tax losses – revenue ⁽ⁱ⁾

Temporary differences

| Consolidated | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| 1,941 | 9,616 |
| 12,372 | 42,035 |
| 14,313 | 51,651 |

⁽ⁱ⁾ Tax losses relate both to Australia and Thailand, which do not expire and can be carried forward indefinitely.

(d) Franking account balance

On a tax paid basis

| | |
|--------|--------|
| 69,638 | 69,638 |
|--------|--------|

Tax consolidation

Relevance of tax consolidation to the Consolidated Entity

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 January 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Tap Oil Limited. The members of the tax-consolidated group are identified at note E1.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding and tax sharing arrangement with the head entity. Under the terms of the tax funding agreement, each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Accounting policies

Petroleum Resources Rent Tax

PRRT is recognised as an income tax expense on an accruals basis when the corresponding sales are recognised and an amount calculated in accordance with government legislative requirements will be payable on those sales.

PRRT is calculated at the rate of 40% of sales revenues less certain permitted deductions and is tax deductible for income tax purposes.

B3. INCOME TAXES (CONT'D)

Goods and services tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method and is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to the asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

for the financial year ended 31 December 2018

B3. INCOME TAXES (CONT'D)

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Tap Oil Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note B3 to the financial statements. Where the tax contribution amount is recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C1. PROPERTY, PLANT AND EQUIPMENT

Development expenditures

Gross carrying amount – at cost:

Opening balance

Additions

Foreign exchange

Closing balance

Accumulated depreciation:

Opening balance

Depreciation

Closing balance

Net book value

Office improvements, furniture & equipment

Gross carrying amount – at cost:

Opening balance

Additions

Foreign exchange differences

Asset write-offs

Closing balance

Accumulated depreciation:

Opening balance

Asset write-offs

Foreign exchange differences

Depreciation

Closing balance

Net book value

Total – net book value

| Consolidated | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| | |
| 255,700 | 253,451 |
| 3,589 | 2,249 |
| (2) | - |
| 259,288 | 255,700 |
| | |
| 214,902 | 198,751 |
| 13,966 | 16,151 |
| 228,868 | 214,902 |
| 30,420 | 40,798 |
| | |
| | |
| 744 | 668 |
| 46 | 24 |
| (63) | 52 |
| (162) | - |
| 564 | 744 |
| | |
| 705 | 644 |
| (149) | - |
| (60) | 50 |
| 23 | 11 |
| 518 | 705 |
| 46 | 39 |
| | |
| 30,466 | 40,837 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

C1. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Impairment of development expenditures

At 31 December 2018, the Consolidated Entity has assessed each cash generating unit to determine whether an impairment indicator existed.

A recoverable amount of the Manora development asset of \$38.2 million (2017: \$47.2 million) has been determined based on a value in use model and did not result in an impairment at 31 December 2018 (2017: nil impairment). The oil price assumption used in the recoverable amount assessment is based on the average of analysts' Brent oil price at the date of assessment for 4 years. The average Brent price assumptions range from US\$65.00/bbl to US \$71.00/bbl for the years 2019 to 2023. Sensitivities analysis on the base case key assumptions indicate an oil price decrease of up to approximately 14% - 15% would not result in an impairment. Likewise, a decrease in production rates of up to approximately 14% - 15% would not result in an impairment. The discount rate used in the recoverable amount assessment is 11.5% (2017: 11.8%).

Critical accounting estimates and assumptions

Impairment of oil & gas assets

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas assets, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of the oil & gas assets.

Reserves estimates

Estimates of recoverable quantities of proven and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory.

Accounting policies

Property, plant and equipment

Plant and equipment, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item, cost of replacing part of the property, plant and equipment and borrowing cost capitalised.

In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on property, plant and equipment, other than capitalised development costs and leasehold improvement costs, on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- | | |
|--|--------------------|
| • Office improvements, furniture & equipment | 3 – 12 years |
| • Development expenditure | Unit of production |
| • Oil & gas facilities | Unit of production |

Notes to the Financial Statements

for the financial year ended 31 December 2018

C1. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Impairment of assets

Capitalised development costs are amortised from the commencement of production on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually. The recoverable reserves are estimates calculated from available production and reservoir data and are subject to change. A significant change in estimate could give rise to a material adjustment to the carrying amounts of assets and liabilities in the next annual reporting period.

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C2. PROVISIONS

| | Consolidated | |
|---|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| <i>Current</i> | | |
| Employee benefits | 111 | 122 |
| Restoration costs | 1,234 | 879 |
| | 1,345 | 1,001 |
| <i>Non-current</i> | | |
| Employee benefits | 2 | 30 |
| Restoration costs | 21,273 | 24,572 |
| | 21,275 | 24,602 |
| Restoration costs provision | | |
| Reconciliation of movement: | | |
| Opening balance | 25,451 | 25,126 |
| Additional provisions raised | - | - |
| Increase/(decrease) resulting from re-measurement | (1,952) | (457) |
| Liability Extinguishment due to Sale of Permit | (186) | - |
| Unwinding of discount | 866 | 747 |
| Restoration costs incurred | (422) | (1,232) |
| Foreign exchange movement | (1,250) | 1,267 |
| Closing balance | 22,507 | 25,451 |

The provision for restoration costs primarily comprise amounts related to Manora \$11.7 million (2017: \$10.7 million) and Woollybutt \$10.8 million (2017: \$14.5 million).

The provision for restoration costs represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remove plant and equipment and abandon producing and suspended wells. The unexpired terms used in the present value calculations are various periods up to the year 2024 and relate to the Manora and Woollybutt restoration costs.

The Company has PRRT credits available to offset against Woollybutt abandonment costs which are not included in the provision for restoration and have been recognised as a deferred tax asset as per note B3.

C2. PROVISIONS (CONT'D)

Critical accounting estimates and assumptions

Restoration costs

Restoration costs will be incurred by the Consolidated Entity at the end of the operating life of some of the Consolidated Entity's facilities and properties. The Consolidated Entity assesses its restoration provision at each reporting date. The ultimate restoration costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change. Therefore, significant estimates and assumptions are made in determining the provision for restoration. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future restoration costs required.

Accounting policies

Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

Contributions to superannuation plans are expensed when incurred.

Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of past event, it is probable that the Consolidated Entity will be required to settle the obligation and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A restoration provision is recognised and updated at different stages of the development and construction of a facility and then reviewed on a six monthly basis. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related exploration and evaluation assets or development asset.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date. The unwinding of the discount implicit in the present value calculations is included in finance costs.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C3. INTERESTS IN JOINT OPERATIONS

The Consolidated Entity has interests in numerous joint operations in Australia and Asia. The principal activity of the joint operations is oil & gas exploration and production.

Refer to the table below for a full list of the licences and permits held by the Consolidated Entity.

| | Working interest (%) | |
|---|----------------------|--------|
| | 2018 | 2017 |
| Exploration permits | | |
| Western Australia | | |
| TP/7 ⁽ⁱⁱ⁾ | - | 12.47 |
| WA-8-L ⁽ⁱⁱⁱ⁾ | - | 20.00 |
| WA-33-R ⁽ⁱ⁾ | - | 22.47 |
| WA-34-R | 12.00 | 12.00 |
| WA-49-R ^(iv) | - | 10.00 |
| WA-290-P ^(vii) | - | 10.00 |
| WA-320-P ^(v) | - | - |
| WA-155-P ^(vi) | - | - |
| WA-72-R | 20.00 | 20.00 |
| WA-515-P ^(viii) | - | 100.00 |
| WA-516-P ^(viii) | - | 100.00 |
| Myanmar | | |
| M-7 | 95.00 | 95.00 |
| Thailand | | |
| G1/48 | 30.00 | 30.00 |
| Production & Pipeline Licences | | |
| Western Australia | | |
| TL/2 ⁽ⁱⁱ⁾ | - | 10.00 |
| WA-22-L | 15.00 | 15.00 |
| WA-25-L | 15.00 | 15.00 |
| PL/14 ⁽ⁱⁱ⁾ | - | 10.00 |
| TPL/3 ⁽ⁱⁱ⁾ | - | 10.00 |
| TPL/4 ⁽ⁱⁱ⁾ | - | 10.00 |
| TPL/7 ⁽ⁱⁱ⁾ | - | 10.00 |

⁽ⁱ⁾ During the year, Tap entered into a sale and purchase agreement for the sale of Tap's interest in WA-33-R.

⁽ⁱⁱ⁾ During the prior year, Tap entered into a sale and purchase agreement for the sale of Tap's interest in TL/2, TP/7 and associated pipeline licences. Refer to Note C10.

⁽ⁱⁱⁱ⁾ During the prior year, Tap entered into a sale and purchase agreement for WA-8-L. Refer to Note C10.

^(iv) Tap withdrew from the WA-49-R Retention Lease and assigned its working interest to the remaining Joint Venture partners on 5 December 2017 pending NOPTA approval.

^(v) WA-320-P permit expired on 20 October 2017

^(vi) In July 2017, the Part II Venturers gave notice to the Part I Venturers of their intention to surrender their interests, with the Part I Venturers agree to accept the surrender and assignment of the Part II Venturers, effective 9 November 2017.

^(vii) Tap withdrew from the WA-290-P Lease and assigned its working interest to the remaining Joint Venture partners on 21 August 2018 pending NOPTA approval which was given on 20 November 2018.

^(viii) Tap lodged Notices of Surrender with NOPTA on WA-515-P and WA-516-P which took effect on 19th October 2018.

The Consolidated Entity has a material joint operation, the G1/48 concession, which includes the Manora Oil Field. The Consolidated Entity has a 30% share in the G1/48 concession located in the northern gulf of Thailand. The Consolidated Entity is entitled to a proportionate share of oil revenue and bears a proportionate share of the joint operation's expenses.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C3. INTERESTS IN JOINT OPERATIONS (CONT'D)

Joint Operations' net assets

The Consolidated Entity's share of assets and liabilities in joint operations is detailed below. The amounts are included in the consolidated financial statements in their respective categories:

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Current assets | | |
| Cash | 4,042 | 4,820 |
| Receivables | 1,051 | 1,372 |
| Inventories | 7,856 | 6,255 |
| Held for sale assets | - | 472 |
| Total current assets | 12,949 | 12,919 |
| Non-current assets | | |
| Property, plant and equipment | 30,420 | 40,798 |
| Exploration and evaluation assets | 281 | 143 |
| Total non-current assets | 30,702 | 40,941 |
| Total assets | 43,650 | 53,860 |
| Current liabilities | | |
| Trade and other payables | 4,630 | 5,740 |
| Provision for restoration | 1,235 | 879 |
| Liabilities relating to held for sale assets | - | 211 |
| Total current liabilities | 5,865 | 6,830 |
| Non-current liabilities | | |
| Provision for restoration | 21,275 | 24,572 |
| Total non-current liabilities | 21,275 | 24,572 |
| Total liabilities | 27,140 | 31,402 |
| Net assets | 16,510 | 22,458 |
| Revenues | 48,516 | 41,703 |
| Cost of sales | (34,232) | (36,625) |
| Other (expenses)/income | 73 | (46) |
| Profit before income tax | 14,357 | 5,032 |

Capital commitments and contingent liabilities

The capital commitments arising from the Consolidated Entity's interests in joint operations are disclosed in note F4. No contingent liabilities have been identified beyond those set out in note F11.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C4. TRADE AND OTHER PAYABLES

| | Consolidated | |
|-------------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Trade payables ⁽ⁱ⁾ | 496 | 2,198 |
| Share of joint operations' payables | 4,629 | 5,740 |
| Other payables | 4 | 62 |
| | 5,129 | 8,000 |

(i) The credit period on purchases averages between 7 and 30 days. No interest is charged on trade payables. The Consolidated Entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

C5. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|----------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Trade receivables ⁽ⁱ⁾ | 4,450 | 5,136 |
| Joint operations' debtors | 1,051 | 1,372 |
| Other receivables | 188 | 59 |
| | 5,689 | 6,567 |

(i) Trade receivables relate to oil sales from Manora. Oil sales are on terms that result in payment 30 days from bill of lading.

C6. INVENTORIES

| | Consolidated | |
|-------------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Oil in storage | 3,012 | 2,667 |
| Materials and consumables – at cost | 4,844 | 3,588 |
| | 7,856 | 6,255 |

The cost of inventories recognised as an expense in cost of sales in respect of write downs of oil inventory to net realisable value was nil for the year (2017: nil).

Accounting policy

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C7. EXPLORATION AND EVALUATION ASSETS

| | | Consolidated | |
|--|---|------------------|------------------|
| | | 2018 US\$'000 | 2017 US\$'000 |
| Note | | | |
| Exploration and/or evaluation phase | | | |
| | At cost | 80,601 | 118,253 |
| | Less: impairment | (80,319) | (118,110) |
| | Net carrying value | 281 | 143 |
| Reconciliation of movement: | | | |
| | Opening balance | 143 | 919 |
| | Current year exploration expenditure | 1,751 | 2,266 |
| | Exploration impairment losses/write-downs | (1,601) | (3,079) |
| | Adjustment in respect of Sale/Exit of Permits | (6) | - |
| | Foreign exchange movement | (7) | 37 |
| | Closing balance | 281 | 143 |
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Ultimate recoupment of this expenditure is dependent upon the continuance of the Consolidated Entity's right to tenure of the areas of interest and the discovery of commercially viable oil and gas reserves, their successful development and exploitation, or, alternatively, sale of the respective areas of interest at an amount at least equal to book value.

Notes to the Financial Statements

for the financial year ended 31 December 2018

C8. OTHER FINANCIAL LIABILITIES

| | Consolidated | |
|-----------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Commodity hedge | - | 2,593 |
| | - | 2,593 |

At the start of 2018, Tap had entered into a commodity hedging program with BP Singapore Pte Limited to hedge a total of 307,500 barrels (bbls) of crude oil production over a eleven month period from January 2018 to November 2018, using Dubai benchmark as the reference price at a fixed price of US\$52.25/bbl from January 2018 to May 2018, US\$57.90/bbl from June 2018 to August 2018 and US\$58.40/bbl from September 2018 to November 2018. At 31 December 2018 no commodity hedges were in place.

D1. ISSUED CAPITAL

| | Consolidated | |
|---|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| 425,967,534 fully paid ordinary shares (2017: 425,967,534) | 141,624 | 141,624 |

| | 2018 | | 2017 | |
|---|-------------|----------|-------------|----------|
| | No. '000 | US\$'000 | No. '000 | US\$'000 |
| Fully paid ordinary shares | | | | |
| Balance at beginning of financial year | 425,968 | 141,624 | 423,968 | 141,524 |
| Issue of shares under share-based payment schemes (note F7) | - | - | 2,000 | 100 |
| Shares issued | - | - | - | - |
| Share issue costs | - | - | - | - |
| Balance at end of financial year | 425,968 | 141,624 | 425,968 | 141,624 |

During the prior year 2,000,000 shares were issued following shareholder approval to Mr James Menzies under his executive employment agreement dated 15 December 2016 being 1,000,000 ordinary fully paid shares and the vesting of 1,000,000 performance rights which vested at a rate of 166,667 rights for each month of completed service.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share performance and retention rights

- In accordance with the provisions of the share-based payment schemes, employees had 3,659,324 (2017: 6,529,425) outstanding performance and retention rights over ordinary shares at 31 December 2018.
- A total of nil performance and retention rights vested during the year ended 31 December 2018 (2017: 1,000,000).
- A total of 7,899,432 (2017: 1,972,101) performance and retention rights were forfeited during the 2018 financial year. A total of 211,497 performance rights lapsed during the year ended 31 December 2018 (2017: 186,088).
- The performance and retention rights carry no rights to dividends and no voting rights. Further details of the share-based payment schemes are contained in note F7 to the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Consolidated Entity manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Consolidated Entity consists of cash at bank balance and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Consolidated Entity's Board of Directors reviews the capital structure on an ongoing basis to ensure there are sufficient capital facilities in place to meet funding requirements for at least the next 12 months. As a part of this review the Board of Directors considers the cost of capital and the risks associated with each class of capital. The debt portfolio is managed by monitoring forecast liquidity against the debt portfolio, to ensure a minimum equity buffer is accessible at all times.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note C8 to the financial statements.

(c) Categories of financial instruments

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Financial assets | | |
| Cash and cash equivalents (at amortised cost) | 21,186 | 7,753 |
| Trade and other receivables (at amortised cost) | 5,689 | 6,567 |
| Held for sale assets | - | 464 |
| Financial liabilities (at amortised cost) | | |
| Trade and other payables | 5,129 | 8,000 |
| Liabilities relating to held for sale assets | - | 211 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS (CONT'D)

(d) Financial risk management objectives

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

The Consolidated Entity's operations expose it primarily to the financial risks of changes in crude oil prices and foreign currency exchange rates. The Consolidated Entity may enter into a variety of derivative financial instruments to manage its exposure to crude oil price and foreign currency risk, including:

- forward oil price contracts; and
- forward foreign exchange contracts.

(e) Oil price risk management

The Consolidated Entity's revenue is exposed to oil price fluctuations. Exposure to oil price risk is measured by monitoring and stress testing the Consolidated Entity's forecast financial position against sustained periods of low oil prices. This analysis is regularly performed on the Consolidated Entity's portfolio and, as required, for discrete projects and acquisitions.

Commodity hedging may be undertaken where the Board of Directors determines that a hedging strategy is appropriate to mitigate potential periods of adverse movements in commodity price. This will be balanced against the desire to expose shareholders to oil price upside. Commodity hedging may also be undertaken when there is a hedging requirement under a lending facility.

None of the commodity hedge is outstanding at 31 Dec 2018 and is valued at \$nil (2017: \$2.6 million). The hedge losses (on derivatives entered into and expired during the financial year) of \$4.2 million (2017: \$2.4 million loss) are included in revenue.

(f) Oil price sensitivity

The following table details the impact on revenue (excluding commodity hedges) to a 10% and 20% increase and decrease in the oil price. Sensitivities to such possible movements are used when reporting oil price risk internally to key management personnel to represent management's near term assessment of the possible change in oil prices. The sensitivity analysis below includes current year sales levels varied by a 10% and 20% increase in the Consolidated Entity's average oil price. A positive number indicates an increase in profit and equity where the oil price increases. For a 10% and 20% decrease in the US oil price, there would be a comparable impact on the profit and equity, and the balances below would be negative.

| | Consolidated | |
|---------------------|------------------|------------------|
| | Oil Price Impact | |
| | 2018 US\$'000 | 2017 US\$'000 |
| Profit or loss: 10% | 4,838 | 4,155 |
| Profit or loss: 20% | 9,677 | 8,311 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS (CONT'D)

(g) Foreign currency risk management

Except for the forward exchange contracts, there were no other foreign currency exposures arising from financial instruments as at 31 Dec 2018 and 31 Dec 2017. The Consolidated Entity's exposure shown below represent the USD value of foreign denominated balances (compared to the presentation currency of USD) at year end:

| | Consolidated | | | |
|--------------------|------------------|------------------|------------------|------------------|
| | Assets | | Liabilities | |
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Australian Dollars | 879 | 1,275 | 253 | 2,526 |
| Thai Baht | 280 | 28 | 368 | 423 |
| Singapore Dollars | - | - | 10 | - |

(h) Foreign currency sensitivity

The Consolidated Entity is mainly exposed to Australian dollars (AUD) and Thai Baht (THB).

The following table details the Consolidated Entity's sensitivity to a 10% and 20% increase and decrease in the Australian dollar and Thai Baht against the US dollar. Management considers foreign exchange sensitivity when reporting foreign currency risk internally to key management personnel. Management continually monitors exchange rate forecasts and assesses the impact of possible changes in foreign exchange rates. The sensitivity analysis is based on 31 December 2018 year end foreign currency denominated monetary items and adjusts their translation at the period end for a 10% and 20% strengthening in foreign currency rates. For a 10% and 20% decrease in foreign currency rates, there would be a comparable impact on the profit and equity, and the balances below would be positive.

| | Consolidated | |
|---------------------|------------------|----------------|
| | US Dollar Impact | |
| | 2018 \$'000 | 2017 \$'000 |
| Australian Dollars: | | |
| Profit or loss: 10% | 63 | (125) |
| Profit or loss: 20% | 125 | (250) |
| Thai Baht: | | |
| Profit or loss: 10% | (9) | (40) |
| Profit or loss: 20% | (18) | (79) |
| Singapore Dollars: | | |
| Profit or loss: 10% | (1) | - |
| Profit or loss: 20% | (2) | - |

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS (CONT'D)

(i) Foreign exchange contracts

In the current and prior year, the Consolidated Entity had no short term foreign exchange contracts (settles in less than three months).

(j) Interest rate risk management

Interest rate risk is the risk that the Consolidated Entity's financial position will fluctuate due to changes in market interest rates. The Consolidated Entity's exposure to the risk of changes in market interest rates relates primarily to long term debt obligations, cash and short term deposits.

The Consolidated Entity's exposure to interest rate risk is measured by monitoring the interest rate ratio within the current and forecast debt portfolio to determine the current and forecast fixed rate debt to total debt interest rate ratio. In general, the forecast fixed rate debt to total debt interest rate ratio is managed through the appropriate choice of funding instrument, but when this cannot be prudently achieved, the Board of Directors may authorise the implementation of interest rate hedge transactions. There were no interest rate hedges undertaken during the year.

(k) Interest rate sensitivity

The sensitivity analysis below has been determined based on exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. Varying sensitivities are used when reporting interest rate risk internally to key management personnel that represent management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Consolidated Entity's profit or loss and equity for the year will be impacted as follows:

| | Consolidated | |
|--|----------------------|------------------|
| | Interest Rate Impact | |
| | 2018 US\$'000 | 2017 US\$'000 |
| Profit or loss: 50 basis points increase | 84 | 3 |
| Profit or loss: 50 basis points decrease | (84) | (3) |

(l) Credit risk management

Credit risk is the risk that a contracting entity will not complete its obligation under a financial instrument, resulting in a financial loss to the Consolidated Entity. Credit risk arises from the financial assets of the Consolidated Entity, which comprise trade and other receivables and deposits with banks and financial instruments.

The Consolidated Entity has adopted a policy of only dealing with creditworthy customers and counterparties. Receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to bad debts is not significant.

The Consolidated Entity may at times have a high credit risk exposure to a single customer in relation to oil liftings or gas sales. The above-mentioned credit risk management procedures are followed in these instances. Of the total trade receivables balance of \$5.689 million in the Consolidated Entity at 31 December 2018 (2017: \$6.567 million), \$4.45 million (2017: \$5.102 million) relate to the largest customer.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Consolidated Entity's maximum exposure to credit risk.

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS (CONT'D)

(m) Liquidity risk management

Liquidity risk is the risk that the Consolidated Entity will not have sufficient funds available to meet its financial commitments as and when they fall due. Liquidity is monitored and managed on an ongoing, forward-looking basis with day-to-day liquidity requirements met by drawing on internally generated cash flows, existing cash balances and existing debt facilities.

(n) Maturity profile of financial instruments

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date the Consolidated Entity can be required to pay. The following table details the Consolidated Entity's exposure to liquidity risk:

| | | Consolidated | | | | | |
|------------------------|-------|--|----------------------|---------------|--------------------------|-----------|----------|
| | | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1–5 years | Total |
| | | % | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| 2018 | | | | | | | |
| Financial Assets | | | | | | | |
| Non-interest bearing | | | 10,944 | - | - | - | 10,944 |
| Variable interest rate | 2.33% | | 16,671 | - | - | - | 16,671 |
| Fixed interest Rate | 2.47% | | - | - | 34 | | 34 |
| | | | 27,615 | - | 34 | - | 27,649 |
| Financial Liabilities | | | | | | | |
| Non-interest bearing | | | 5,129 | - | - | - | 5,129 |
| Variable interest rate | | | - | - | - | - | - |
| | | | 5,129 | - | - | - | 5,129 |
| 2017 | | | | | | | |
| Financial Assets | | | | | | | |
| Non-interest bearing | | | 13,696 | - | - | - | 13,696 |
| Variable interest rate | 1.47% | | 409 | - | - | - | 409 |
| Fixed interest Rate | 3.90% | | - | 23 | 188 | - | 211 |
| | | | 14,105 | 23 | 188 | - | 14,316 |
| Financial Liabilities | | | | | | | |
| Non-interest bearing | | | 8,000 | - | - | - | 8,000 |
| Variable interest rate | | | - | - | - | - | - |
| | | | 8,000 | - | - | - | 8,000 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

D2. FINANCIAL INSTRUMENTS (CONT'D)

(o) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The following table details the fair value of financial assets and financial liabilities, which represents a reasonable approximation of the carrying value of the financial assets and liabilities:

| | Consolidated | | | |
|--|------------------|------------------|------------------|------------------|
| | Carrying amount | | Fair value | |
| | 2018 US\$'000 | 2017 US\$'000 | 2018 US\$'000 | 2017 US\$'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 21,186 | 7,753 | 21,186 | 7,753 |
| Trade and other receivables | 5,689 | 6,567 | 5,689 | 6,567 |
| Held for sale assets | - | 464 | - | 464 |
| | 26,875 | 14,784 | 26,875 | 14,784 |
| Financial liabilities | | | | |
| Trade and other payables | 5,129 | 8,000 | 5,129 | 8,000 |
| Liabilities relating to held for sale assets | - | 211 | - | 211 |
| Loans and borrowings | - | - | - | - |
| | 5,129 | 8,211 | 5,129 | 8,211 |

Financial assets and financial liabilities fair values are determined based on Level 1 inputs as set out in the Basis of preparation in note A. There are no fair values based on Level 2 and Level 3 inputs.

Fair value of the Consolidated Entity's financial assets and liabilities that are measured at fair value on a recurring basis.

The fair values of forward foreign exchange contracts included in Trade and other payables (Note: C4) are calculated using discounted cash flow analysis based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of the various counterparties. The instruments are classified in the fair value hierarchy at level 2.

The fair values of oil derivative contracts are calculated using discounted cash flow analysis based on observable oil market prices at the end of the reporting period discounted at an appropriate rate that reflects the credit risk of the various counterparties. The instruments are classified in the fair value hierarchy at level 2.

Notes to the Financial Statements

for the financial year ended 31 December 2018

E1. SUBSIDIARIES

| Name of entity | Country of incorporation | Ownership interest | |
|---|--------------------------|--------------------|--------|
| | | 2018 % | 2017 % |
| Parent entity | | | |
| Tap Oil Limited ⁽ⁱ⁾ | Australia | | |
| Subsidiaries ⁽ⁱⁱ⁾ | | | |
| Tap West Pty Ltd | Australia | 100 | 100 |
| Tap (Shelfal) Pty Ltd | Australia | 100 | 100 |
| Tap (New Zealand) Pty Ltd | Australia | 100 | 100 |
| Tap Oil (Philippines) Pty Ltd | Australia | 100 | 100 |
| Tap (Ghana) Pty Ltd [#] | Australia | 100 | 100 |
| Tap Energy (Rangkas) Pty Ltd [#] | Australia | 100 | 100 |
| Tap Bass Pty Ltd ⁽ⁱⁱⁱ⁾ [#] | Australia | 100 | 100 |
| Tap Energy (Thailand) Pty Ltd | Australia | 100 | 100 |
| Tap (Zola) Pty Ltd ^(iv) | Australia | 100 | 100 |
| Tap (WA Gas) Pty Ltd | Australia | 100 | 100 |
| Tap Energy (Finance) Pty Ltd [#] | Australia | 100 | 100 |
| Tap Kendrew Pty Ltd ^(v) [#] | Australia | 100 | 100 |
| Tap (Shale) Pty Ltd [#] | Australia | 100 | 100 |
| Tap (Maitland) Pty Ltd ^(vi) [#] | Australia | 100 | 100 |
| Tap (SCB) Pty Ltd ^(vii) | Australia | 100 | 100 |
| Tap (NCB) Pty Ltd ^(viii) | Australia | 100 | 100 |
| Tap (Alpha) Pty Ltd ^(ix) [#] | Australia | 100 | 100 |
| Tap (Bonaparte) Pty Ltd ^(x) | Australia | 100 | 100 |
| Tap Energy (Australia) Pty Ltd | Australia | 100 | 100 |
| Tap Energy (SE Asia) Pte Ltd | Singapore | 100 | 100 |
| Tap Energy (M-7) Pte Ltd ^(xi) | Singapore | 100 | 100 |

⁽ⁱ⁾ Tap Oil Limited is the head entity of the tax-consolidated group.

⁽ⁱⁱ⁾ All subsidiaries incorporated in Australia are members of the tax-consolidated group.

⁽ⁱⁱⁱ⁾ Tap Bass Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(iv) Tap (Zola) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(v) Tap Kendrew Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(vi) Tap (Maitland) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(vii) Tap (SCB) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(viii) Tap (NCB) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(ix) Tap (Alpha) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(x) Tap (Bonaparte) Pty Ltd is a wholly owned subsidiary of Tap Energy (Australia) Pty Ltd.

^(xi) Tap Energy (M-7) Pte Ltd is a wholly owned subsidiary of Tap Energy (SE Asia) Pte Ltd.

[#] Indicates the subsidiary company is dormant.

The principal activity of all the subsidiaries is oil and gas exploration and production, except for Tap (WA Gas) Pty Ltd where the principal activity was the purchase and sale of gas.

Notes to the Financial Statements

for the financial year ended 31 December 2018

E2. PARENT ENTITY DISCLOSURES

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note F1 for a summary of the significant accounting policies relating to the Consolidated Entity.

Financial Position of parent entity at year end

Assets

Current assets

Non-current assets

Total assets

Liabilities

Current liabilities

Non-current liabilities

Total liabilities

Net assets

Total equity of the parent entity comprising of:

Issued capital

Retained earnings

Share option reserve

Share rights reserve

Foreign Currency Translation Reserve

Profit reserve

Total equity

Results of the parent entity

(Loss)/profit for the year

Total comprehensive income

| Parent Entity | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| | |
| 17,009 | 987 |
| 18,437 | 31,601 |
| 35,446 | 32,588 |
| | |
| 211 | 967 |
| 2 | 30 |
| 213 | 997 |
| 35,233 | 31,591 |
| | |
| 141,624 | 141,624 |
| (65,791) | (58,733) |
| 3,526 | 3,526 |
| 3,371 | 3,289 |
| (117,612) | (128,230) |
| 70,115 | 70,115 |
| 35,233 | 31,591 |
| | |
| 7,058 | (16,100) |
| 7,058 | (16,100) |

Notes to the Financial Statements

for the financial year ended 31 December 2018

E2. PARENT ENTITY DISCLOSURES

Guarantees entered into by the parent entity

Parent company guarantees are extended on a case by case basis. Tap Oil Ltd has provided a number of performance guarantees for subsidiaries under the terms of joint operations operating agreements and agreements with Governments pertaining to oil & gas exploration.

Tap Oil Limited has parent company guarantees in place which guarantee the obligations of Tap Energy (Thailand) Pty Ltd under the Petroleum Concessions for the G1/48 Permit Area, Thailand.

Tap Oil Limited has parent company guarantees in place which guarantee the obligations of Tap (WA Gas) Pty Ltd under gas sale agreements.

Tap Oil Limited has parent company guarantees in place which guarantee the obligations of Tap Energy (M-7) Pte Ltd under the Production Sharing Contract for the Block M-07 offshore Myanmar.

Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2018 other than those disclosed in note F11.

Lease commitments of the Parent entity

Operating leases

Leasing arrangements

The Parent Entity has non-cancellable operating leases for office premises (the premises lease expires on 16 January 2020) and Office equipment.

Non-cancellable operating lease commitments

Not longer than 1 year

Longer than 1 year and not longer than 5 years

| Parent Entity | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| 82 | 98 |
| - | 90 |
| 82 | 188 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

F1. OTHER ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (the parent entity) and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

A list of subsidiaries is included in note E1 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

(b) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect on the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

The functional currency of all the entities in the Consolidated Entity is Australian dollars except for Tap Energy Thailand Pty Ltd which has a functional currency of United States dollars. The financial statements of subsidiaries whose functional currency is in a currency other than United States dollar have been converted into the presentation currency as follows:

- (i) assets and liabilities are translated to the presentation currency at exchange rates at the reporting date. Income and expenses are translated to the presentation currency at exchange rates at the dates of the transactions;
- (ii) foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

F1. OTHER ACCOUNTING POLICIES (CONT'D)

New and revised Standards and Interpretations affecting amounts reported and/or disclosures in the financial statement

In the current year the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and mandatorily effective for an accounting period that begins on or after 1 January 2018.

Impact of initial application of AASB 9

In the current year, the Group has applied AASB 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other AASB Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives.

AASB 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of AASB 9) is 1 January 2018. Accordingly, the Group has applied the requirements of AASB 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(b) Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

(c) Classification and measurement of financial liabilities

A significant change introduced by AASB 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

The application of AASB 9 has not had a significant impact on the financial position and/or financial performance of the Group

Impact of application of AASB 15 Revenue from Contracts with Customers

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5 step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F1. OTHER ACCOUNTING POLICIES (CONT'D)

The Group's accounting policies for its revenue streams are disclosed in detail in note B1. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of AASB 15 has not had a significant impact on the financial position and/or financial performance of the Group.

Adoption of new and revised Accounting Standards

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective:

| Standard/Interpretation | Note | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|------|--|---|
| AASB 16 Leases | 1 | 1 January 2019 | 31 December 2019 |
| AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments | | 1 January 2019 | 31 December 2019 |
| Long-term Interests in Associates and Joint Ventures Amendments to IAS 28 and Illustrative Example—Long-term Interests in Associates and Joint Ventures | | 1 January 2019 | 31 December 2019 |
| Prepayment Features with Negative Compensation Amendments to AASB 9 | | 1 January 2019 | 31 December 2019 |

AASB 16 replaces AASB 117 'Leases' and will be applied from 1 July 2019. AASB 16 will significantly impact the accounting for operating leases as it requires the recognition of a lease liability, being the present value of future lease payments and corresponding right-of-use asset, which will initially be recognised at the same value as the lease liability or lower amount depending on the transition approach adopted. AASB 16 permits either a full retrospective or a modified retrospective approach for the adoption, and will primarily affect the accounting for the Group's operating leases. The Consolidated Entity has one significant long-term non-cancellable lease for the Floating Storage Offtake Vessel (FSO) at the Manora Oil Field (G1/48) which the Consolidated Entity has a 30% working interest and to a lesser extent the office building lease. As at the reporting date, the Group has non-cancellable operating lease commitments of \$14.1 million as detailed in Note F4.

The Company is currently assessing the impact of applying the new standard on the Group's financial statements and the extent to which these commitments will result in the recognition of the lease assets and liabilities for future lease payments and how this will affect the Group's profit and classification of cash flows. As part of this process, a detailed review is currently being undertaken on the Group's leasing arrangements using lease management software to calculate the AASB 16 adjustments required.

The financial impact of the new standard in the first year of adoption will be dependent on the Group's lease arrangements in place when the new standard is effective, and the accounting approach adopted on transition, however on adoption of the new standard, the Group is currently estimating the estimated lease payments for 2019 to be \$5.4 million, to be more than offset in the initial year of adoption by higher depreciation and interest expenses resulting in an approximate \$1.3 million reduction in reported profit after tax. The Group's assets and liabilities are forecast to increase significantly following recognition of assets and liabilities representing the present value of the operating lease commitments. Current estimates suggest initial right-of-use assets and corresponding liabilities to be circa \$18.81 million and will be recognised upon initial adoption of the standard.

At the date of authorisation of the financial report, there were no IASB Standards and IFRIC Interpretations issued in the current year.

The Directors note that the impact of the initial application of the Standards and Interpretations is not yet known or is not reasonably estimable. These Standards and Interpretations will be first applied in the financial report of the Consolidated Entity that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F2. RESERVES

Nature and purpose of reserves

Share options and rights reserve

The share options reserve and the share rights reserve reflect the cost of share related share-based payments – refer note F7 explaining the grant date fair value of options and rights issued to employees but not exercised.

The reserve comprises the credit to equity for equity-settled share-based payment arrangements under AASB 2 – Share-based payments. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period.

For further information on the share-based payment schemes refer note F7.

| | Consolidated | |
|------------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Share rights reserve | | |
| Balance at beginning of year | 3,289 | 3,180 |
| Recognition of share based payment | 82 | 109 |
| Balance at end of year | 3,371 | 3,289 |

Foreign currency translation reserve

Used to record foreign exchange differences arising from the translation of the financial statements of foreign entities from their functional currency to the Consolidated Entity's presentation currency. The reserve is recognised in the Statement of Comprehensive Income when the net investment is disposed.

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Balance at beginning of year | 56,885 | 55,672 |
| Exchange differences arising on translating foreign operations | (237) | 1,213 |
| Balance at end of year | 56,648 | 56,885 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

F2. RESERVES (CONT'D)

Profit reserve

A profit reserve has been created in selected entities within the tax consolidated group (refer note E1). The balance represents an appropriation of amounts from retained earnings for the payment of future dividends.

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Balance at beginning of year | 72,940 | 72,940 |
| Transfer to profit reserve | - | - |
| Balance at end of year | 72,940 | 72,940 |

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Retained earnings | | |
| Balance at beginning of year | (243,942) | (229,351) |
| Loss for the year | 13,247 | (14,591) |
| Transfer to profit reserve | - | - |
| Balance at end of year | (230,695) | (243,942) |

Notes to the Financial Statements

for the financial year ended 31 December 2018

F3. EARNINGS PER SHARE

| | Consolidated | |
|--|----------------------------|----------------------------|
| | 2018 Cents per share | 2017 Cents per share |
| Basic and diluted earnings per share | 3.1 | (3.4) |
| Basic earnings per share: | | |
| The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows: | | |
| | 2018 US\$'000 | 2017 US\$'000 |
| Earnings used in the calculation of basic earnings per share from continuing operations | 13,247 | (14,591) |
| | 2018 No.'000 | 2017 No.'000 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 425,967 | 425,164 |
| Diluted earnings per share: | | |
| The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows: | | |
| | 2018 US\$'000 | 2017 US\$'000 |
| Earnings used in the calculation of diluted earnings per share from continuing operations | 13,247 | (14,591) |
| | 2018 No.'000 | 2017 No.'000 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share (a) | 425,967 | 425,164 |
| (a) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows: | | |
| Weighted average number of ordinary shares used in the calculation of diluted EPS | 425,967 | 425,164 |

There are 3,659,324 (2017: 6,529,425) rights on issue at year end that could further dilute the basic earnings per share and diluted earnings per share in future.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F4. COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

Committed expenditures that have not been provided for in the financial statements:

Property, plant and equipment

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

Exploration expenditure

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

FSO lease at Manora

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

| Consolidated | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |
| | |
| | |
| 5,096 | 3,299 |
| - | - |
| - | - |
| 5,096 | 3,299 |
| | |
| 1,455 | 1,246 |
| - | - |
| - | - |
| 1,455 | 1,246 |
| | |
| 5,439 | 5,439 |
| 8,613 | 14,053 |
| - | - |
| 14,053 | 19,492 |

These commitments represent Tap's share of joint operations' commitments. The commitments for exploration expenditure include the minimum expenditure requirements of various government regulatory bodies and joint operations that the Consolidated Entity is required to meet in order to retain its present permit interests. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

The property, plant and equipment commitments represent Tap's share of the G1/48 Joint operation commitments in respect of the Manora Development.

Under the terms of a Good Standing Agreement (**GSA**) entered into with NOPTA (on behalf of the Joint Authority) in relation to T/47P on 1 October 2013, Tap is required to spend A\$5.8 million on qualifying permits in order to maintain its good standing with the Joint Authority. Any expenditure to be credited against this GSA obligation must be expended on field activities within the primary terms of agreed qualifying permits in Australian waters. Qualifying Permits include both prime gazetted areas acreage and re-release gazetted areas and must be obtained by the completion of the 2015 Acreage Release.

Since the GSA was entered into, Tap has bid for acreage releases with total primary term commitments as bid for, being greater than A\$5.8 million. Tap believes that there are no commitments or contingencies in relation to the GSA and hence no amount is included in the commitments table above for the GSA.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F5. LEASES

Operating leases

Leasing arrangements

The Consolidated Entity has non-cancellable operating leases for the following:

- (i) Office premises – the premises lease expires on 16 January 2020

| | Consolidated | |
|--|------------------|------------------|
| | 2018 US\$'000 | 2017 US\$'000 |
| Non-cancellable operating lease commitments | | |
| Not longer than 1 year | 82 | 98 |
| Longer than 1 year and not longer than 5 years | - | 90 |
| | 82 | 188 |

Accounting policy

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Refer to note F1 on the impact of AASB 16 Leases in the future accounting period.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F6. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the consolidated statement of cash flow, cash and cash equivalents includes cash on hand and in banks and cash held in joint ventures.

Cash and cash equivalents

| Consolidated | |
|------------------|------------------|
| 2018 US\$'000 | 2017 US\$'000 |

| | |
|--------|-------|
| 21,186 | 7,753 |
| 21,186 | 7,753 |

(b) Reconciliation of loss for the period to net cash flows from operating activities

Profit/ (Loss) for the year – continuing operations

| | |
|--------|----------|
| 13,247 | (14,591) |
|--------|----------|

Depreciation and amortisation of non-current assets

| | |
|--------|--------|
| 13,989 | 16,168 |
|--------|--------|

Foreign exchange loss

| | |
|---------|-----|
| (1,959) | 856 |
|---------|-----|

Commodity hedge payable/(receivable)

| | |
|-------|-----|
| (351) | 337 |
|-------|-----|

Equity settled share-based payments

| | |
|----|-----|
| 81 | 209 |
|----|-----|

Exploration impairment losses/write-downs

| | |
|-------|-------|
| 1,601 | 3,079 |
|-------|-------|

Timewriting charged to exploration assets

| | |
|------|-------|
| (49) | (147) |
|------|-------|

Loss on sale of property, plant and equipment

| | |
|-------|---|
| (922) | - |
|-------|---|

Non-cash interest expense

| | |
|---|---|
| - | - |
|---|---|

Rehabilitation/restoration expense adjustments

| | |
|---------|-----|
| (1,080) | 913 |
|---------|-----|

(Decrease)/increase in current tax balances

| | |
|----|--------|
| 76 | 10,489 |
|----|--------|

Increase/(decrease) in deferred tax balances

| | |
|---------|----|
| (3,393) | 29 |
|---------|----|

Changes in net assets and liabilities:

(Increase)/decrease in assets:

Current receivables

| | |
|-----|-----|
| 864 | 561 |
|-----|-----|

Other assets

| | |
|---------|-------|
| (1,587) | (356) |
|---------|-------|

(Decrease)/increase in liabilities:

Current payables

| | |
|---------|-------|
| (2,860) | 3,014 |
|---------|-------|

Unearned revenue

| | |
|---|---------|
| - | (4,895) |
|---|---------|

Net cash provided by operating activities

| | |
|--------|--------|
| 17,657 | 15,666 |
|--------|--------|

Accounting policy

Cash and cash equivalents comprise cash on hand, cash in banks, demand deposits, the Consolidated Entity's share of joint operations bank balances and investments in money market instruments. Cash equivalents are short-term, and highly liquid investments.

Any bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F7. SHARE-BASED PAYMENTS

Tap currently has the Tap Share Rights Plan as its share-based payment scheme. This plan was first approved by shareholders on 30 April 2010 and again on 22 May 2013.

Performance Rights

Long-term incentive awards are made in the form of rights to shares which will have a vesting timeframe of three years. The rights have a total legal life of seven years from the grant date. The number of rights that vest will be based on the Consolidated Entity's performance over the same three years. The long-term incentive awards are made by way of the grant of Performance Rights as soon as practicable after each year end. Grants of Performance Rights will be made each year with effect from 1 January.

In January 2017, the Board adopted a revised performance benchmark for vesting. Vesting of up to 100% of the performance rights depends upon the Company's relative total shareholder return (RTSR). The RTSR performance hurdles required to achieve increasing levels of vesting are set by the Board to apply from 1 January of the relevant year. For the 2017 grant of performance rights, the Board set the following RTSR performance hurdles:

| Relative TSR | % of Rights which will vest after 3 years |
|---|---|
| < 50 th percentile | 0% |
| = 50 th percentile | 30% |
| > 50 th percentile and < 90 th percentile | Pro rata |
| > 90 th percentile | 100% |

TSR is commonly used as a relative measure, where the number of shares that vest is dependent upon on the Company's TSR over a stated performance period relative to that of its peers. The calculations under this standard approach are transparent and straight forward, based on a simple ranking method to assess the level of outperformance.

Vesting characteristics of the performance rights are as follows:

- (iv) performance measurement period is three years, which is consistent with the typical time cycle for an exploration program;
- (v) performance is based on differences in RTSR as measured from the end of one preceding period to the end of the current (three years) assessment period. The RTSR uses the 30-day VWAP of the Company's shares up to and including the last day of each measurement period; and
- (vi) RTSR will be assessed against a peer group of like companies determined by the Board before the start of each assessment period or as soon as practical thereafter. In January 2017, the Board determined a peer group of 14 petroleum industry companies which are listed on the ASX and whose market capitalisation ranged from approximately A\$7 million to A\$496 million (at 5 December 2017).

Retention Rights

Retention Rights are issued to staff pursuant to the terms of the Share Rights Plan upon or as soon as practicable after commencement of employment. Such rights would vest if the employee remains employed by the Consolidated Entity for three years. The rights have a total legal life of seven years from the grant date. Retention Rights are valued at 100% of the 30-day volume-weighted average share price (VWAP) of the Consolidated Entity's shares preceding the date of grant.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F7. SHARE-BASED PAYMENTS (CONT'D)

Executive Director Ordinary Shares and Performance Rights

As part of the executive employment contract entered between Tap Oil Limited and Mr James Menzies, Executive Chairman effective 15 December 2016, the Company was required to issue 1,000,000 ordinary fully paid shares in Tap and 1,000,000 performance rights to acquire ordinary fully paid shares in the Company, with the performance rights commencing vesting from 15 December 2016 at a rate of 166,667 for each month of completed service with the Company. The issue of these shares and performance rights were approved by shareholder on 26 May 2017. On 29 May 2017, 1,000,000 ordinary shares were issued, and 833,335 ordinary shares were issued on immediate vesting of the performance rights and on 15 June 2017, 166,665 ordinary shares were issued from the remaining rights vesting.

Special Awards

The Board retains the discretion to make Special Awards each year. Special Awards can be in the form of Performance Rights and/or Retention Rights. Special Awards are granted to individual staff or Group Executives who are judged by the Board to have made an extraordinary contribution to the current or future performance of the Consolidated Entity or who are expected to play a critical role in one of the Consolidated Entity's activities that could take 2-3 years to complete and where retention of the individual's services is seen as an important determinant of the success to that activity.

| Grant date | Number | Vesting date | Exercise price AU\$ | Fair value at grant date AU\$ |
|---------------------------|-----------|--------------|------------------------|-------------------------------------|
| 2018 | | | | |
| Performance Rights | | | | |
| 01/01/2018 | 6,389,512 | 01/01/2025 | - | 0.043 |
| Retention Rights | | | | |
| | - | - | - | - |
| 2017 | | | | |
| Performance Rights | | | | |
| 01/01/2017 | 6,359,513 | 01/01/2020 | - | 0.04 |
| 29/5/2017 | 1,000,000 | 15/06/2017 | - | 0.08 |
| Retention Rights | | | | |
| | - | - | - | - |

The volume weighted average fair value of the performance rights granted in 2018 is \$0.043 (2017: \$0.05). Performance rights issued are valued using a Monte Carlo Simulation model. The Monte Carlo Simulation model is a computer based technique where a large sample of iterations is performed, based on random numbers and their associated probabilities determined by a specified probability distribution function. The Monte Carlo Simulation model is used to determine the probability of the absolute return performance hurdles and the relative return performance hurdles being achieved.

The performance rights have no exercise price and vesting occurs after three years if the employee remains employed by the Consolidated Entity. Expected volatility for the ATSR performance hurdle is based on the volatility of historical 3-year performance period returns using 30-day VWAP share price data. Expected volatility for the RTSR performance hurdle is based on the volatility of historical 3-year performance period returns using 30-day VWAP share price data of Tap Oil Limited shares compared to its peer group.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F7. SHARE-BASED PAYMENTS (CONT'D)

The volume weighted average fair value of the retention rights granted in 2018 is nil as there were none granted in the year (2017: nil). Retention rights are valued using the Black Scholes model with the life of the rights assumed to be three years, which is the same as the vesting period of the retention rights (based on employees remaining in the Consolidated Entity's employment for three years as the condition for rights vesting). The retention rights have no exercise price and no other performance conditions, except that the employees need to be in the Consolidated Entity's employment after a period of three years, resulting in the fair value of the retention rights being equal to the 30-day VWAP share price at the date of grant (the volatility and risk-free rate included as inputs to the Black Scholes model will be irrelevant). Expected volatility is based on the historical 30-day VWAP share price volatility over a 3-year performance period and the risk free interest rate based on the Reserve Bank of Australia's 3-year government bond rate, both as quoted on the date of grant of the retention rights.

| Rights series (by vesting date) | Inputs into the model | | | | | | |
|------------------------------------|-----------------------------------|------------------------|---------------------------|------------------------|------------------------------|-------------------|-------------------------------|
| | Grant date share price AU\$ | Vesting probability | Exercise price AU\$ | Expected volatility | Vesting term of rights | Dividend yield | Risk-free interest rate |
| 2018 | | | | | | | |
| Performance Rights | | | | | | | |
| 01/01/2018 | 0.055 | N/A | \$0.00 | 65% | 3yr | - | 2.13% |
| Retention Rights | | | | | | | |
| | - | - | - | - | - | - | - |

| Rights series (by vesting date) | Inputs into the model | | | | | | |
|------------------------------------|-----------------------------------|------------------------|---------------------------|------------------------|------------------------------|-------------------|-------------------------------|
| | Grant date share price AU\$ | Vesting probability | Exercise price AU\$ | Expected volatility | Vesting term of rights | Dividend yield | Risk-free interest rate |
| 2017 | | | | | | | |
| Performance Rights | | | | | | | |
| 01/01/2017 | 0.09 | N/A | \$0.00 | 18% | 3yr | - | 1.98% |
| 29/5/2017 | 0.08 | N/A | \$0.00 | 55% | < 1yr | - | 1.87% |
| Retention Rights | | | | | | | |
| | - | - | - | - | - | - | - |

Notes to the Financial Statements

for the financial year ended 31 December 2018

F7. SHARE-BASED PAYMENTS (CONT'D)

The following reconciles the outstanding share rights granted at the beginning and end of the financial year:

| | 2018 | | 2017 | |
|--|------------------|--------------------------------------|------------------|--------------------------------------|
| | Number of rights | Weighted average exercise price AU\$ | Number of rights | Weighted average exercise price AU\$ |
| Balance at beginning of the financial year | 6,529,425 | - | 2,328,101 | - |
| Granted during the financial year | 6,389,512 | - | 7,359,513 | - |
| Forfeited during the financial year | (9,048,116) | - | (1,972,101) | - |
| Vested during the financial year ⁽ⁱ⁾ | - | - | (1,000,000) | - |
| Lapsed during the financial year | (211,497) | - | (186,088) | - |
| Balance at end of the financial year ⁽ⁱⁱ⁾ | 3,659,324 | - | 6,529,425 | - |

(i) Vested during the financial year

Nil performance rights vested during the 2018 financial year (2017: 1million). No retention rights vested during the 2018 financial year (2017: nil).

(ii) Balance at end of the financial year

The performance rights and retention rights outstanding at the end of the financial year had no exercise prices and had a weighted average remaining contractual life of 1,972 days (2017: 2,113 days).

(iii) Exercised during the financial year

There were no options exercised during the 2018 financial year (2017: nil).

Accounting Policy

Equity-settled share-based payments are measured at fair value at the grant date. Fair value is measured under the Black Scholes model for options and retention rights and the Monte Carlo Simulation Model for performance rights in circumstances where the value cannot be determined based on the service being delivered. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of the number of options and shares that will eventually vest. At the end of each reporting period, the Consolidated Entity revises its estimate of the number equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share rights reserve.

Notes to the Financial Statements

for the financial year ended 31 December 2018

F8. KEY MANAGEMENT PERSONNEL COMPENSATION

After consideration of the nature of each employee's role within the Consolidated Entity, in the opinion of the Board the Consolidated Entity had the following key management personnel during the financial year:

Executive Director – current

- C B Newton (appointed 15 October 2018)

Executive Director - former

- J G Menzies (appointed Non-executive Director 27 May 2016 and subsequently appointed Executive Chairman on 15 December 2016) (resigned 31 January 2018)

Non-executive Directors - current

- Dr G van Ek (appointed 31 January 2018)
- K Baba (appointed 6 February 2018)
- Z Lewis (appointed 25 September 2018)
- Dr D King (appointed 19 October 2018)

Non-executive Directors - former

- A Hall (appointed 18 October 2016) (resigned 31 January 2018)
- P J Mansell (appointed 27 May 2016) (resigned 31 January 2018)
- T L Soulsby (appointed 1 Jan 2016) (resigned 31 January 2018)
- S Sreesangkom (appointed 27 May 2016) (resigned 6 February 2018)
- P Panyaporn (appointed 14 March 2017) (resigned 6 February 2018)
- D Neaves (appointed 29 May 2018) (resigned 25 September 2018)
- B Ulmer (appointed 1 February 2018) (resigned 13 April 2018)

Senior Executives - current

- R M Somerville

Senior Executives - former

- C J Bath (Chief Financial Officer appointed 25 May 2016) (resigned 19 October 2018)

The aggregate compensation of the key management personnel of the Consolidated Entity is set out below:

| | Consolidated | |
|------------------------------|-----------------|-----------------|
| | 2018 US\$000 | 2017 US\$000 |
| Short-term employee benefits | 613 | 782 |
| Post-employment benefits | 23 | 34 |
| Other long-term benefits | - | - |
| Termination benefits | 56 | 57 |
| Share-based payments | (64) | 174 |
| | 628 | 1,047 |

Notes to the Financial Statements

for the financial year ended 31 December 2018

F9. RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

Details of key management personnel compensation are disclosed in note F8 to the financial statements and in the Remuneration Report disclosed in the Directors' Report.

(b) Transactions with other related parties

Other related parties include the parent entity, joint operations in which the entity is a venturer and subsidiaries.

Amounts receivable from and payable to parties within the Tap Oil Limited Group eliminate on consolidation. All loans advanced to and payable to related parties are unsecured, have no fixed repayment dates and are interest-free. The outstanding balances related to joint operations are disclosed in note C3 to the financial statements.

The Company appointed SmallCap Corporate Pty Ltd, a company associated with Non-executive Director Mr Zane Lewis, to provide consultant CFO services. The total fees charged to the Company relating to these services was USD \$20,169. The Company notes that fees payable pursuant to the consulting agreement are at commercial market rates and the consulting agreement can be terminated by either party on 30 days' notice.

On 22 December 2016 the Company entered into a consulting agreement with Risco Management Advisory Limited (Risco), a Company associated with current Director C Newton and former director T Soulsby of Tap. Under the agreement Risco will assist with managing the Manora asset and provide financial advisory services. A fee of A\$29,000 per month is payable. The agreement terminated on 30 June 2017.

During the second half of the year, Risco Management Advisory Limited (Risco) provided consulting services under an existing service agreement dated 14 December 2015, to assist in managing the Manora asset and provide financial advisory services (service period 1 July 2017 til 31 December 2017). The fee for services is a minimum one day per week a at day rate of US\$1,250.

In 2018 a total amount of Nil (2017: \$165,940) was paid to Risco for the services mentioned above.

There were no other fees paid during the year to Risco Energy Investments (SEA) Ltd, a Company associated with T Soulsby and C Newton (2017: nil).

Notes to the Financial Statements

for the financial year ended 31 December 2018

F10. REMUNERATION OF AUDITORS

| | | Consolidated | |
|---|---------------------------------------|--------------|--------------|
| | | 2018 US\$ | 2017 US\$ |
| Audit services | | | |
| Auditor of the parent entity – Deloitte Touche Tohmatsu | | | |
| – | Audit and review of financial reports | 91,334 | 81,932 |
| Overseas Deloitte Touche Tohmatsu firms | | | |
| – | Audit of financial report | - | - |
| | | 91,334 | 81,932 |
| Other auditors | | | |
| – | Audit of financial report | 56,419 | 53,641 |
| | | 147,753 | 135,573 |
| Other services | | | |
| Other auditors | | | |
| – | Taxation services | 53,082 | 52,548 |
| | | 53,082 | 52,548 |

F11. CONTINGENCIES

As at 31 December 2018 the Consolidated Entity did not have any contingent liabilities.

F12. SUBSEQUENT EVENTS

There have been no matters or circumstances occurring subsequent to the financial year that has significantly affected, or may significantly affect, the operations of the Consolidated entity, the results of those operations, or the state of affairs of the Consolidated entity in future years.

Additional ASX Information

1. Number of Security Holders and Distribution

The number and distribution of quoted securities as at 11 March 2019 was as follows:

Fully Paid Ordinary Shares

| Spread of holdings | Number of holdings | Number of Units | Total Issued Capital % |
|--------------------|--------------------|--------------------|------------------------|
| 1–1,000 | 227 | 92,244 | 0.02 |
| 1,001–5,000 | 416 | 1,259,871 | 0.30 |
| 5,001–10,000 | 644 | 5,166,391 | 1.21 |
| 10,001–100,000 | 801 | 23,992,717 | 5.63 |
| 100,001 and over | 166 | 395,456,311 | 92.84 |
| Total | 2,254 | 425,967,534 | 100.00 |

The number of shareholders holding less than a marketable parcel of ordinary shares (being 1,388,182 Shares at 11 March 2019) is 650.

The number and distribution of unquoted securities as at 11 March 2019 was as follows:

Performance Rights

| Spread of holdings | Number of holdings | Number of Units | % |
|--------------------|--------------------|------------------|---------------|
| 1–1,000 | - | - | - |
| 1,001–5,000 | - | - | - |
| 5,001–10,000 | - | - | - |
| 10,001–100,000 | 3 | 231,841 | 5.26 |
| 100,001 and over | 10 | 4,178,019 | 94.74 |
| Total | 13 | 4,409,860 | 100.00 |

Retention Rights

| Spread of holdings | Number of holdings | Number of Units | % |
|--------------------|--------------------|------------------|---------------|
| 1–1,000 | - | - | - |
| 1,001–5,000 | - | - | - |
| 5,001–10,000 | - | - | - |
| 10,001–100,000 | 2 | 135,096 | 12.53 |
| 100,001 and over | 3 | 943,125 | 87.47 |
| Total | 5 | 1,078,221 | 100.00 |

2. Substantial Shareholders

Substantial shareholders as disclosed in substantial shareholder notices given to the Company are as follows:

| Name of Registered Holder | Shares | % |
|---|--------------------------|-------|
| Risco Energy Investments (SEA) Limited; Suncastle Equities, Inc | 187,879,192 ¹ | 44.11 |
| Mr Chatchai Yenbamroong and Northern Gulf Petroleum Holdings | 108,793,064 ² | 25.54 |

¹. As lodged with ASX on 3 September 2018.

². As lodged with ASX on 21 March 2018.

3. The 20 Largest Holders of Ordinary Shares as at 11 March 2019

| Rank | Name | Units | % of Units |
|--------------|--|--------------------|--------------|
| 1 | HAZEL RESOURCES LIMITED <RISCO ENERGY INVESTMENTS A/C> | 187,879,192 | 44.11 |
| 2 | CITICORP NOMINEES PTY LIMITED | 119,176,973 | 27.98 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 16,730,295 | 3.93 |
| 4 | MR BONSON LAM | 4,020,000 | 0.94 |
| 5 | WARATAH CAPITAL PARTNERS PTY LIMITED | 3,500,000 | 0.82 |
| 6 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 3,286,380 | 0.77 |
| 7 | NEWMEEK INVESTMENTS PTY LTD | 3,123,177 | 0.73 |
| 8 | MR JOHN AYRES | 2,581,395 | 0.61 |
| 9 | MRS DEBORAH LEE AYRES | 2,505,116 | 0.59 |
| 10 | WESWOOD PTY LTD <PAUL UNDERWOOD FAMILY A/C> | 2,287,628 | 0.54 |
| 11 | MRS HERAWATI KOOSASI | 2,052,241 | 0.48 |
| 12 | MISS ANNA CZARNOCKA | 1,920,000 | 0.45 |
| 13 | ROYAL SUNSET PTY LTD | 1,773,348 | 0.42 |
| 14 | MR TROY JOHN HAYDEN | 1,710,403 | 0.40 |
| 15 | RESERVE CAPITAL PTY LTD | 1,538,107 | 0.36 |
| 16 | MR DAVEN KURL | 1,537,895 | 0.36 |
| 17 | MS YUI YAMAGUCHI | 930,483 | 0.22 |
| 18 | MR EDWARD MARIAN CZARNOCKI | 930,000 | 0.22 |
| 19 | DALY SF PTY LTD <DALY SUPER A/C> | 908,837 | 0.21 |
| 20 | MR PETER JOSEPH LEY | 900,000 | 0.21 |
| TOTAL | | 359,291,470 | 84.35 |

Additional ASX Information

4. Voting Rights

Ordinary Shares

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held.

Options

There were no options on issue at the date of this Annual Report.

Performance Rights and Retention Rights

There are no voting rights attached to the performance rights and retention rights.

5. Corporate Governance

The Company's Corporate Governance Statement for the 2018 financial year can be accessed at <http://www.tapoil.com.au/site/our-company/corporate-governance1>.

Permit Schedule

The following summarises Tap's exploration, production and pipeline interests as at 31 December 2018. The interests shown may be subject to certain conditions, including regulatory approvals.

| Licence/Permit | Field | Hydrocarbon | (%) | Operator |
|---|----------------------|-------------|-------|---|
| EXPLORATION PERMITS | | | | |
| Thailand | | | | |
| G1/48 Concession (excluding Production Area) | | | 30.00 | Mubadala Petroleum (Thailand) Ltd |
| Myanmar | | | | |
| M-7 | | | 95.00 | Tap Energy (M-7) Pte Ltd |
| RETENTION LEASES | | | | |
| Western Australia | | | | |
| WA-33-R | Maitland | gas | 22.47 | Quadrant Oil Australia Pty Ltd |
| WA-34-R | Prometheus & Rubicon | gas | 12.00 | ENI Australia B.V. |
| WA-72-R | Tallaganda | gas | 20.00 | BHP Billiton Petroleum (North West Shelf) Pty Ltd |
| PRODUCTION LICENCES | | | | |
| Western Australia | | | | |
| WA-22-L | Woollybutt | oil | 15.00 | Eni Australia Limited |
| WA-25-L | Woollybutt | oil | 15.00 | Eni Australia Limited |
| Thailand | | | | |
| G1/48 North Kra Production Area | Manora | oil | 30.00 | Mubadala Petroleum (Thailand) Ltd |

Glossary

| | |
|-------------------|---|
| AUD or A\$ | Australian dollars |
| bbls | barrel of oil, 42 US gallons |
| Bcf | Billion of standard cubic feet |
| Boepd | Barrels of oil equivalent per day |
| BOE or boe | Barrels of oil equivalent |
| Bopd | Barrels of oil per day |
| EBITDA | earnings before interest, tax, depreciation and amortisation |
| EBITDAX | earnings before interest, tax, depreciation, amortisation and exploration expense |
| FSO | Floating Storage Offloading |
| Group | Tap and its subsidiaries |
| Hydrocarbons | oil, condensate and natural gas |
| LNG | liquefied natural gas |
| Mmbbls | million barrels |
| Mmboe | million barrels of oil equivalent |
| Mmstb | million stock tank barrels |
| PJ | petajoules (10^{15} joules); 1,000 TJ |
| TJ | Terajoules (10^{12} joules); 1,000 Gigajoules |
| USD or US\$ or \$ | United States dollars |

Directors

Christopher Newton

Non-executive Chairman

Dr David King

Independent, Non-executive Director

Govert van Ek

Independent, Non-executive Director

Zane Lewis

Independent, Non-executive Director

Kamarudin Baba

Non-executive Director

Company Secretary

Shannon Coates

Registered Office

Level 2, 190 St Georges Terrace
Perth WA 6000

Telephone: +61 8 9485 1000
Facsimile: +61 8 9485 1060
Email: info@tapoil.com.au
Website: www.tapoil.com.au

Share Registry

Link Market Services Limited

Level 4
152 St Georges Terrace
Perth WA 6000
Telephone: 1300 554 474

Auditors

Deloitte Touche Tohmatsu

Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000

Stock Exchange Listing

Australian Securities Exchange Limited
ASX Code – TAP

Bankers

BNP Paribas

#34-01 Ocean Financial Centre,
10 Collyer Quay Singapore 049315

Commonwealth Bank of Australia

Level 14A, 300 Murray St
Perth WA 6000

