AUSTRALIS EUROPE PROPRIETARY LIMITED

(FORMERLY KNOWN AS AUSTRALIS OIL & GAS PTY LTD)

ABN 28 168 643 981

FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2014 AND
YEAR ENDED 31 DECEMBER 2015

ABN 28 168 643 981

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

	Consolidated	
	31 December 2015 A$	Period from 26 March 2014 to 31 December 2014 A$
Revenue from continuing operations	**16,587**	8,974
Other income	**-**	133,208
Total income	**16,587**	142,182
Expenses		
Administrative expenses	**(1,497,791)**	(916,924)
Depreciation expense	**(12,060)**	(4,818)
Exploration expense	**(169,956)**	-
Foreign exchange loss	**(8,475)**	-
Loss from continuing operations before income tax expense	**(1,671,695)**	(779,560)
Income tax expense	**-**	-
Net loss attributable to owners of the Company	**(1,671,695)**	(779,560)
Other comprehensive income / (loss)		
Items that may be reclassified to profit or loss	**-**	-
Other comprehensive income / (loss) for the period net of tax	**-**	-
Total comprehensive (loss) for the period attributable to owners of the Company	**(1,671,695)**	(779,560)

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INDEPENDENT AUDITOR'S REPORT

To the members of Australis Europe Proprietary Limited

Report on the Financial Statement

We have audited the accompanying financial statement of Australis Europe Proprietary Limited which comprises the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2015, other explanatory information, and the director's declaration (together 'the financial statement'). The financial statement has been prepared by the directors using the basis of preparation described in Note 1.

Directors' Responsibility for the Financial Statement

The directors are responsible for the preparation and fair presentation of the financial statement in accordance with the basis of preparation described in Note 1, and for such internal control as the directors determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by the directors, as well as evaluating the overall presentation of the financial statement.

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

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional accounting bodies.

ABN 28 168 643 981

Independent Auditor’s Report

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the profit or loss and other comprehensive income of Australis Europe Proprietary Limited for the year ending 31 December 2015, in accordance with the basis of preparation described in Note 1.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial statement has been prepared for the purpose for the preparation of an Investigating Accountants Report for inclusion in a prospectus. As a result, the financial report may not be suitable for another purpose.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O’Brien

Director

Perth, 30 May 2016

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BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien

Director

Perth, 30 May 2016

ABN 28 168 643 981

Consolidated statement financial position

As at 31 December 2015

	Consolidated	
	31 December 2015 A$	31 December 2014 A$
Current assets		
Cash and cash equivalents	**194,133**	1,808,680
Trade and other receivables	**117,294**	10,247
Total current assets	**311,427**	1,818,927
Non-current assets		
Exploration and evaluation	**146,976**	-
Property, plant and equipment	**-**	35,376
Total non-current assets	**146,976**	35,376
Total assets	**458,403**	1,854,303
Current liabilities		
Trade and other payables	**309,358**	123,443
Total current liabilities	**309,358**	123,443
Non-current liabilities		
Borrowings	**-**	2,510,120
Total non-current liabilities	**-**	2,510,120
Total liabilities	**309,358**	2,633,563
Net assets	**149,045**	(779,260)
Equity		
Contributed equity	**2,600,300**	300
Retained earnings	**(2,451,255)**	(779,560)
Total equity	**149,045**	(779,260)

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

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Director

Perth, 30 May 2016

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Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	31 December 2015	Period from 26 March 2014 to 31 December 2014
	A$	A$
Cash flows from operating activities		
Receipts from service income	-	132,185
Payments to suppliers and employees	(1,440,924)	(803,728)
Net cash (outflow) from operating activities	**(1,440,924)**	(671,543)
Cash flows from investing activities		
Payment for capitalised oil and gas assets	(112,402)	-
Payment for property, plant and equipment	(6,057)	(40,194)
Proceeds from sale of property, plant and equipment	29,373	-
Interest received	16,587	8,974
Net cash (outflow) from investing activities	**(72,499)**	(31,220)
Cash flows from financing activities		
Proceeds from share applications	-	300
Proceeds from borrowings	-	2,510,120
Net cash inflow / (outflow) from financing activities	**-**	2,510,420
Net increase / (decrease) in cash and cash equivalents	**(1,513,423)**	1,807,657
Cash and cash equivalents at the beginning of the financial period	**1,808,680**	-
Effect of exchange rates on cash holdings in foreign currencies	**(6,691)**	1,023
Cash and cash equivalents at the end of the year	**288,566**	1,808,680

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Director

Perth, 30 May 2016

1. Summary of significant accounting policies

Australis Oil & Gas Pty Ltd ("Company" or "Australis") is a company incorporated in Australia whose shares are privately held. Australis is the ultimate parent entity in the group.

The consolidated financial statements for the year ended 31 December 2015 comprises the financial statements for Australis and its controlled entities ("Group" or "Consolidated Entity").

Basis of Preparation

The financial report of the Consolidated Entity is presented in Australian dollars, which is the Group's functional currency.

In the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial statements. These are special purpose financial statements.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of Australis and its controlled entities as at 31 December 2015 and the financial performance of the Company and its controlled entities for the period then ended.

(i) Controlled entities are all those entities (including special purpose entities) the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of the controlled entities are included in the consolidated financial statements from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

(ii) Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are eliminated. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

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

(iv) The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their face value at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Critical accounting estimates and significant judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

In preparing these financial statements the Group has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

Critical accounting estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of useful lives of assets

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase when the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all the periods presented, unless otherwise stated.

(a) Revenue recognition

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

Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(i) Oil and Gas Sales

Revenue from the sale of oil / condensate, gas and natural gas liquids produced is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the products from the following product streams:

- Dry Gas – upon transfer to a third party, typically upon entry to a plant, or at the plant tailgate as it enters a third party sales pipeline;
- Natural Gas Liquids (NGL's) – upon transfer to a third party, typically upon entry to a third party sales pipeline;
- Oil / Condensate – upon transfer of product to purchasers transportation mode, either truck or pipeline.

(ii) Other revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Service income

Revenue from the provision of services is recognised when an entity has a legally enforceable right to receive payment for services rendered.

(b) Tax

The income tax benefit/(expense) for the period is the tax payable on the current period's taxable income/(loss) based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and for unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income / equity are also recognised directly in other comprehensive income / equity.

(c) Financial instruments

Loans and other receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and, trade and other receivables.

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are carried at amortised cost when goods and services are received.

(d) Exploration and evaluation

Expenditure on exploration and evaluation is accounted for in accordance with the areas of interest method which is closely aligned to the US GAAP based successful efforts method of accounting for oil and gas exploration and evaluation expenditure.

Areas of interest are recognised at the field level. All exploration and evaluation expenditure, including general permit activity, geological and geophysical costs and new venture activity costs are capitalised:

- where the expenditure relates to an exploration discovery that, at the reporting date, has not been recognised as an area of interest, as an assessment of the existence or otherwise of economically recoverable reserves is not yet complete;
- where the expenditure relates to a recognised area of interest and it is expected that the expenditure will be recouped through successful exploration of the area of interest, or alternatively, by its sale.

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

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets. Licence costs are capitalised and amortised over the term of the permit.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through profit or loss as a dry hole. If extractable hydrocarbons are found, subject to further appraisal activity, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commercial potential of a reservoir following the initial discovery of hydrocarbons were not found, are initially capitalised as an intangible asset.

Once a well commences producing commercial quantities of oil and gas, capitalised exploration and evaluation costs are transferred to Oil and Gas Properties – Producing Projects and amortisation commences. This method allows the costs associated with the acquisition, exploration and evaluation of a prospect to be aggregated on the Consolidated Statement of Financial Position and matched against the benefits derived from commercial production once this commences.

In the statement of cash flows, those cash flows associated with capitalised exploration and evaluation expenditure, including unsuccessful wells, are classified as cash flows used in investing activities.

Impairment
All exploration and evaluation capitalised costs are subject to review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery and that the rights under the licence remain current and is not relinquished. When this is no longer the case, **the** costs are written off through profit or loss. When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is transferred to oil and gas properties.

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. 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 provided on property, plant and equipment. Depreciation is calculated on a reducing balance basis so as to write down the net cost or fair value of each asset over its expected useful life to its estimated residual value.

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:

Fixtures and fittings	3 - 10 years

(f) Employee Benefits

Provision is made for benefits accruing to employees in respect of employee entitlements when it is probable that settlement will be required and these benefits can be measured reliably. These benefits include wages, salaries, annual leave and long service leave.

(i) Short-term employee benefits

Liabilities for wages and salaries, including short-term cash bonus', non-monetary benefits and accumulating annual leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(ii) Other long-term employee benefits

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. The liability for long service leave and annual leave which is not expected to be settled within twelve months after the end of the period in which the employees render the related service is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

(g) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to deferred settlement for at least 12 months after the reporting date.

(h) Contributed equity

Ordinary shares are classified as equity.

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

(i) Goods and services tax

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

- where the amount of GST incurred is not recoverable from the taxation authority, it 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.

ABN 28 168 643 981

Directors' Declaration

In the Director's opinion:

a. The financial statements and accompanying notes set out on pages 2 to 9, are in accordance with the *Corporations Act 2001*, including:

   i. Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2015 and of its performance for the financial period ended on that date.

b. There are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable;

c. The financial statements and accompanying notes are presented in compliance with IFRS and interpretations adopted by the International Accounting Standards Board; and

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the period ended 31 December 2015.

For and on behalf of the Board

Graham Dowland
Finance Director
Perth, Western Australia
30 May 2016