



Annual Report

For the year ended 31 December 2018

Australis Oil & Gas Limited
ABN 34 609 262 937

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INITIAL DRILLING PROGRAM

- > Meeting Australis' strategic objectives without any reportable safety or environmental incidents
- > First well, Stewart 30H-1, outperformed the Tuscaloosa Marine Shale ("TMS") type curve and is one of the best performing wells in the play with January 2019 revenue in excess of US\$2 million.
- > Capital expenditure is within budget; the Stewart 30H-1 cost approximately US\$10.3 million
- > Rig committed to drill 6 wells, at year end drilling of wells 3 & 4 underway

LAND POSITION

- > Largest acreage holder in the TMS Core
- > Increased acreage position to 110,000 net core acres from 95,000 net acres at the beginning of 2018
- > Long life lease terms - over 74% of leaseholds are Held By Production ("HBP") or have an expiration beyond 1 January 2021
- > At the date of this report, Australis had increased its HBP acreage by 13% with new wells coming onto production

FINANCIAL

- > Significant financial flexibility
 - year end cash US\$38 million
 - post year end equity raise of US\$21 million
 - available debt facility of up to a further US\$65 million (after US\$10 million drawn in 2018)
- > Stable cash flows from production have funded overheads and the leasing program
- > Net profit reported of US\$85,000
- > Secured debt facility with Macquarie Bank for up to US\$75 million

SAFETY AND ENVIRONMENT

- > Excellent safety performance with no recordable safety or lost time incidents
- > No environmental incidents or reportable spills
- > Continued cultural commitment to positive safety, environmental and other sustainable outcomes

RESERVES AND CONTINGENT RESOURCES

- > Increase in reserves and mid case resources position to 197 MMbbl (Net)
- > TMS Net 1P reserves estimates increased to 32 MMbbl, Net 2P reserves to 50 MMbbl and 3P Reserves to 89 MMbbl as at 31 December 2018
- > TMS 2C resource of 108 MMbbl at year end
- > Portugal concession areas estimated 2C resource of 458.5 Bcf gas at year end

It has been a year of significant activity for Australis as we successfully planned and executed the commencement of drilling on our extensive acreage position in the highly productive core of the Tuscaloosa Marine Shale ("TMS").



Many of you will be familiar with the key aspects of the strategy we set for the Company prior to the IPO. This strategy is unaltered and I am pleased to say we remain on target and in fact materially ahead of where we might have expected to be. In simple terms, our key objective was to accumulate significant recoverable oil in the ground whilst oil prices were low and most industry participants were focused on consolidating their existing interests, generally in a few popular plays. We sought a project in which we had confidence in productivity and required control through operatorship in order to dictate the timing, nature and quantum of spending. In due course, based on our land acquisition programs and market conditions, in particular oil prices, we planned to undertake drilling to demonstrate performance and economics applying current industry equipment and techniques. Our thesis remains that this program will generate a material re-rating in the value of our asset.

We have been very successful in the acreage accumulation phase and continue to add to our core position in the TMS. In 2018, we increased our substantial lease position from 95,000 net acres to 110,000 net acres of which over 74% is either held by production or has a primary term that expires in

2021 or later (this proportion has increased to 78% since the end of 2018). This acreage position was acquired on highly attractive terms and equates to a very large oil resource.

We were pleased to report an increase in our reserves and resources oil position to just under 200 million barrels. Proved reserves increased by 9%, Proved and Probable reserves increased by 6%, and Proved, Probable and Possible reserves increased 33% year on year. We remain confident that we can add to this oil resource base through a combination of adding acreage, increasing recoverability and potentially adding resource from additional horizons in the same acreage. To the latter point the industry has shown significant interest in the Austin Chalk potential, which is some 800ft shallower than the TMS. This exploration play has attracted participation from a number of US independent oil & gas companies and Australis holds the mineral rights to this horizon in the vast majority of leases. ConocoPhillips have an active drilling exploration program in the two parishes immediately over the border to the south of the Australis leasehold position.

We commenced our operated TMS drilling in late 2018 ("Initial Drilling Program") with the primary objective for the initial wells to repeat the productivity results achieved from the 2014 wells drilled by the previous operator, but at the current cost base. For this reason, it was very pleasing that initial results from our first well, Stewart 30H-1, indicate that Australis is already achieving that objective. Early results from this well are significantly outperforming the average of the 2014 wells and it is one of the cheapest wells drilled in the TMS.

We have been very successful in the acreage accumulation phase and continue to add to our core position in the TMS.



Encouragingly, the drilling and completion timetable for the remaining wells in the Initial Drilling Program is ahead of schedule. Furthermore, our Initial Drilling Program has been conducted without any environmental or safety incidents.

Production from our 32 operated wells and 17 non-operated wells continued to provide Australis with reliable and consistent operational cash flow funding the acquisition of new leases and contributing to overhead costs. Importantly, our Environmental, Health and Safety (EHS) performance continued to be maintained at a high level, with no recordable safety incidents and no reportable spills.

Our strategy to build shareholder value is to be achieved in a sustainable and responsible manner. We continue to implement specific and measurable initiatives to embed a cultural commitment to continuous improvement in sustainable outcomes.

Prudent capital management is important to Australis and it has been a priority of the Board to ensure the Company remains well funded for its specific plans whilst retaining sufficient financial flexibility to take advantage of opportunities as they present. After assessing several financing alternatives, Australis entered into a debt facility with Macquarie Bank Limited to partially fund, alongside equity raised, the Initial Drilling Program in the TMS. Having just added additional equity of A\$30 million to the Balance Sheet in February 2019, we consider the Company well funded for our immediate drilling plans which will add to production and cash flow over time as well as retaining financial flexibility for commercial and contractual negotiations going forward.

I would like to thank our management and staff in Perth, Houston and in the field who have worked extremely hard in 2018, with the results of that hard work becoming clearly evident. We are very proud of the team of experienced and dedicated professionals we have assembled at Australis. The team has worked tirelessly in the planning, implementation and execution of the Initial Drilling Program, as well as continuing to run operations in a safe and sustainable manner.

During 2018, the Board remained committed and continued to support the work of the executive team towards Australis' growth and success. As Chairman I would like to express my gratitude to the members of the Board on behalf of all shareholders. Our various advisors and consultants have also made valued contributions to the Company this year.

I would like to thank our long-standing shareholders for your continued support and extend a welcome to our new shareholders and thank you for your confidence and commitment.

Looking ahead, Australis is building towards a period of significant growth and we expect, value creation, as we continue to progress the development drilling of our significant TMS acreage, add to our position accretively where possible and watch with interest the testing by third party companies of the Austin Chalk formation near to us. We look forward to continuing to bring you news of progress in our activities through 2019.


Yours sincerely,

Jon Stewart
Chairman

Operating & Financial Review

TUSCALOOSA MARINE SHALE (TMS) ASSETS

TMS OPERATIONS - INITIAL DRILLING PROGRAM



Australis is delivering on the strategic goals set for its Initial Drilling Program

The planning, implementation and execution of an initial drilling program of wells by Australis in the highly productive core of the TMS (“Initial Drilling Program”) was the primary focus of Australis during 2018.

1. Objectives

The Initial Drilling Program is meeting Australis’ objectives, without any reportable safety or environmental incidents.

Strategic Objectives	Comments
1 Repeat the productivity results and drilling times achieved by Encana in 2014 for the wells within the TMS Core but at the current cost base	<ul style="list-style-type: none">• The Stewart 30H-1 well has outperformed the “IP30” type curve by 34% and is one of the best performing wells in the TMS as at the date of this report• The Bergold 29H-2 well was drilled and completed with only 5 stages. It will not be representative of future TMS well performance but still meets several operational goals• Well costs are within budget, with Stewart 30H-1 costs at approximately US\$10.3 million
2 Demonstrate the economics of the TMS Core acreage over a set of new wells and lift the overall value of the substantial oil reserves and resources Australis holds within the TMS Core	<ul style="list-style-type: none">• The productivity and well cost of the Stewart 30H-1 result in economics that exceed Australis’ TMS Type Curve base case IRRs and NPVs for our 410 net future well inventory locations
3 Convert further acreage to HBP status	<ul style="list-style-type: none">• Up to the date of this report Australis has increased its HBP acreage by approximately 3,800 net acres (13%) since early 2018. This increase was largely due to the initial two wells drilled and now on production and similar increases are anticipated as new wells commence production
4 To significantly increase field cash flow	<ul style="list-style-type: none">• Oil production from Stewart 30H-1 and Bergold 29H-2, together with production from our legacy wells, materially increases production and cash flow in early 2019

Table 1: Initial Drilling Program Objectives and Status

2. Planning and Implementation

The Australis operating and engineering teams spent over 12 months planning and preparing for the Initial Drilling Program, capturing the lessons from prior activity by other operators in the TMS. The operational and engineering objectives for the Initial Drilling Program were to safely execute on schedule, achieve average productivity equal or in excess of the Australis TMS Type Curve, and deliver the new wells within budget and without any reportable environmental incidents. This planning and preparation included:

- extensive “peer group” interactions with the engineering and subsurface teams of the previous operator of the Australis TMS assets, Encana Oil & Gas (USA) Inc., Encana Corporation (“Encana”), and other operators, service companies and consultants active in the play during 2014;
- analysing engineering and geological studies based on internally generated and third party data sets, including a geo-mechanical study to analyse wellbore stability - a technical aspect of drilling believed to be a key driver in overcoming operational difficulties previously encountered by drilling operators; and
- identifying technology improvements now available that would help achieve the operational objectives.

Well locations for the Initial Drilling Program were selected based on criteria that included reservoir quality, nearby well production performance, the ability to convert additional acreage to HBP status, surface access (e.g for roads and power) and potential cost synergies, with an overall focus on execution risk mitigation.

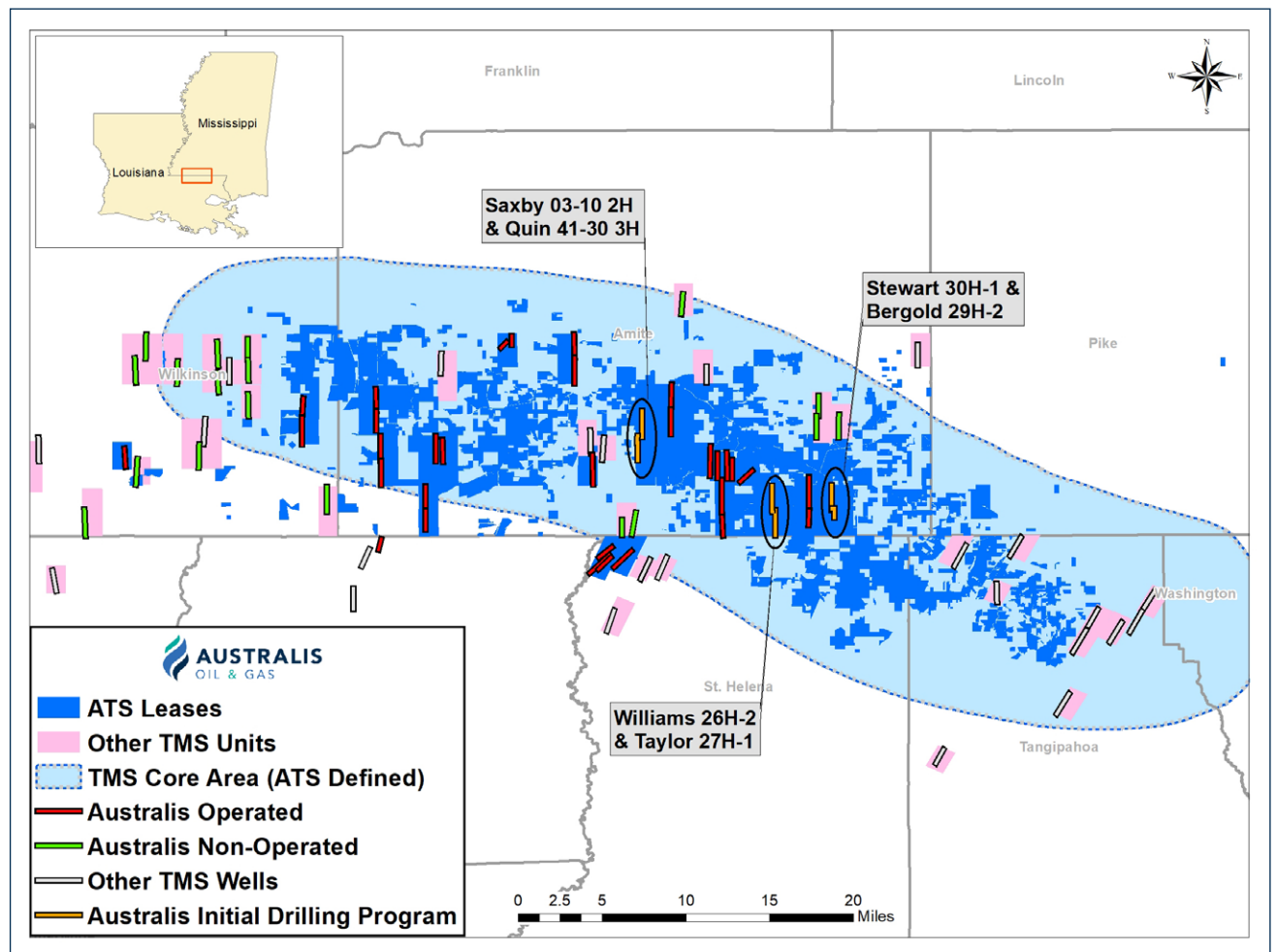


Figure 1: Locations of the first 6 wells in the Initial Drilling Program

Following a tender process to identify suitable rigs that met the Australis technical specifications, the Nabors B14 HT700 series ‘walking’ rig was contracted for a minimum six well commitment and with the ability to negotiate an extension for further wells. The selected rig had most recently been active in the Haynesville shale, working for a major international oil and gas company with an excellent safety and operational record.

Operating & Financial Review

3. Drilling Plan Execution

The drilling of the first two wells under the Initial Drilling Program, the Stewart 30H-1 and Bergold 29H-2, commenced late September 2018 from the Stewart East drilling pad location, allowing the wells to be drilled in 'pairs' to maximise efficiencies. This 'batch' drilling process allows the rig to be configured for one hole section and drill it on both wells, reducing costs and time as the rig essentially 'walks' from one well to another to drill and case each well section.

At present, the drilling and completion timetable for the initial six wells under the Initial Drilling Program is ahead of schedule and the associated costs are within budget. Regular updates as to the status of the Initial Drilling Program are made on the ASX platform, , as of the date of this report, the status is summarised in the table below:

Well	Status	Location
Stewart 30H-1	Lateral length drilled of 6,900 ft, completed 20 stages	The Stewart East Pad
Bergold 29H-2	Lateral length drilled of 2,000 ft, completed 5 stages	The Stewart East Pad
Taylor 27H-1	Lateral length drilled of 6,800 ft cased and awaiting completion operations	The Taylor East Pad
Williams 26H-2	Horizontal lateral drilled and preparing to run casing*	The Taylor East Pad
Saxby 03-10 2H	Vertical surface hole drilled and cased to a depth of 3,210 ft, awaiting Nabors rig	The Saxby NW Pad
Quin 41-30 3H	Vertical surface hole drilled and cased to a depth of 3,220 ft, awaiting Nabors rig	The Saxby NW Pad

* See relevant market updates for progress

Table 2: Status of the Initial Drilling Program

4. Drilling Program - Results and Type Curve

Stewart 30H-1:

The Stewart 30H-1 commenced flowback on 29 December 2018 and oil production commenced on 30 December 2018. Initial 30-day average production results (IP30) were 1,177 bbl per day oil (1,248 boe per day) on a maximum choke setting of 21/64.

The IP30 production rates of the Stewart 30H-1 were materially higher than the Australis TMS Type Curve. The TMS Type Curve, based on the 15 wells drilled by Encana in 2014, has an average 7,200 ft lateral completed well length. Whilst having a shorter completed lateral length of 6,850 ft, cumulative production of the Stewart 30H-1 for the first 30 days of 35,302 bbls (37,425 boe), is 8,977 bbls or 34% above the cumulative production for the TMS Type Curve for the same period.

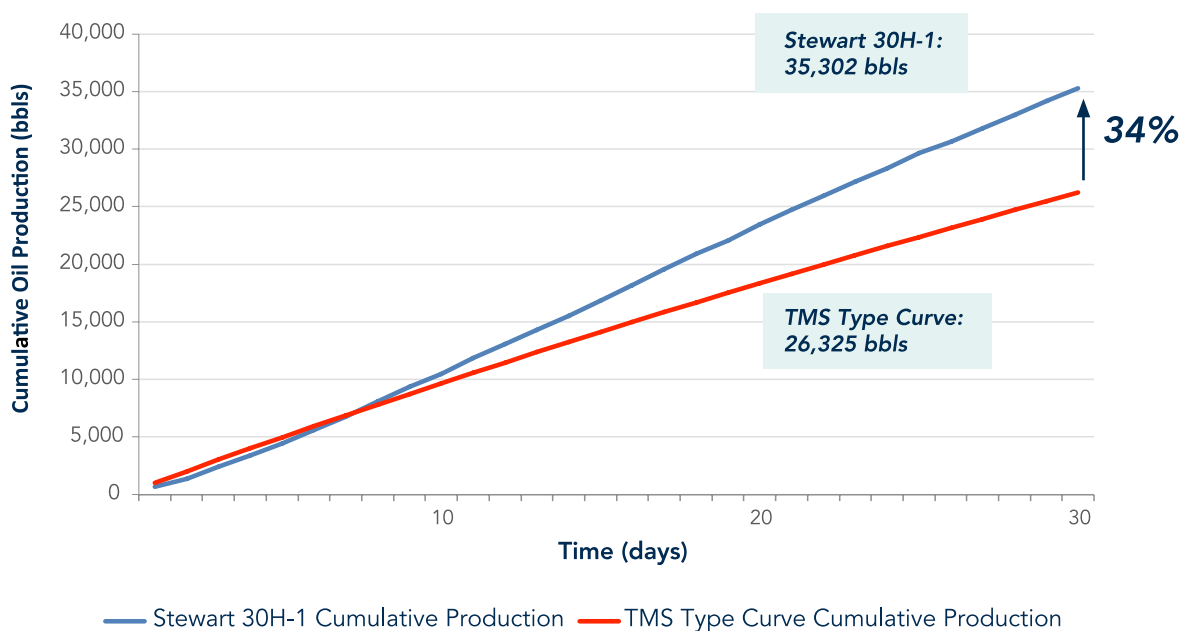


Figure 2: Comparison of Stewart cumulative production with TMS Type Curve

Bergold 29H-2

The Bergold 29H-2 well was drilled to the south of the Stewart East pad and along the flank of an underlying Lower Tuscaloosa Sand structure. The well encountered difficulties in the formation above the reservoir and unusually high pressures during the fracture stimulation operations. Australis believes that the subsurface structure has influenced the geo-mechanical properties of the rock in this area which in turn led to some of the operational difficulties that were encountered. The Company does not believe that this well is representative of future TMS wells due to the localized nature of the subsurface structure and drilling solutions are available to mitigate the effect from the lower structure.

The Bergold 29H-2 was drilled to a depth of 14,524 ft and was initially flowed back at modest rates without the isolation plugs run between each fracture stimulation stage being drilled out due to a restriction in the wellbore. The restriction has been removed and the well is presently on flowback having removed the plugs.

Taylor 27H-1

The Taylor 27H-1 has been drilled and cased to a total depth of 19,148 ft on time and on budget. It now awaits fracture stimulation operations.

Williams 26H-2

At the time of writing this report, the Nabors B14 rig is preparing to run casing and once cased the well will be fracture stimulated as a pair with Taylor 27H-1.

TMS OPERATIONS – EXISTING PRODUCTION

Stable cash flows from production fund overhead and leasing program

Australis operated 32 wells throughout 2018 without any reportable safety or environmental incidents. Production from these wells, along with production from 17 non-operated wells, provided Australis with reliable and consistent operational cash flow to fund Australis' overhead and the majority of the land leasing acquisition program in 2018. A focus on completion design of existing operated wells resulted in improved downtime rates and a consequent improvement in production rates. Continued refinement will be implemented on future workovers of operated wells.

Operated sales volumes averaged approximately 1,328 bbls per day (WI) and 1,074 bbls per day (Net) for the year and 1,358 bbls per day (WI) and 1,101 bbls per day (Net) for the month of December. Non-operated sales volumes averaged approximately 57 bbls per day (WI) and 46 bbls per day (Net) for the year. Figure 3 indicates the low rate of declines from the Australis wells by showing the WI and Net sales volumes for both operated and non-operated wells.

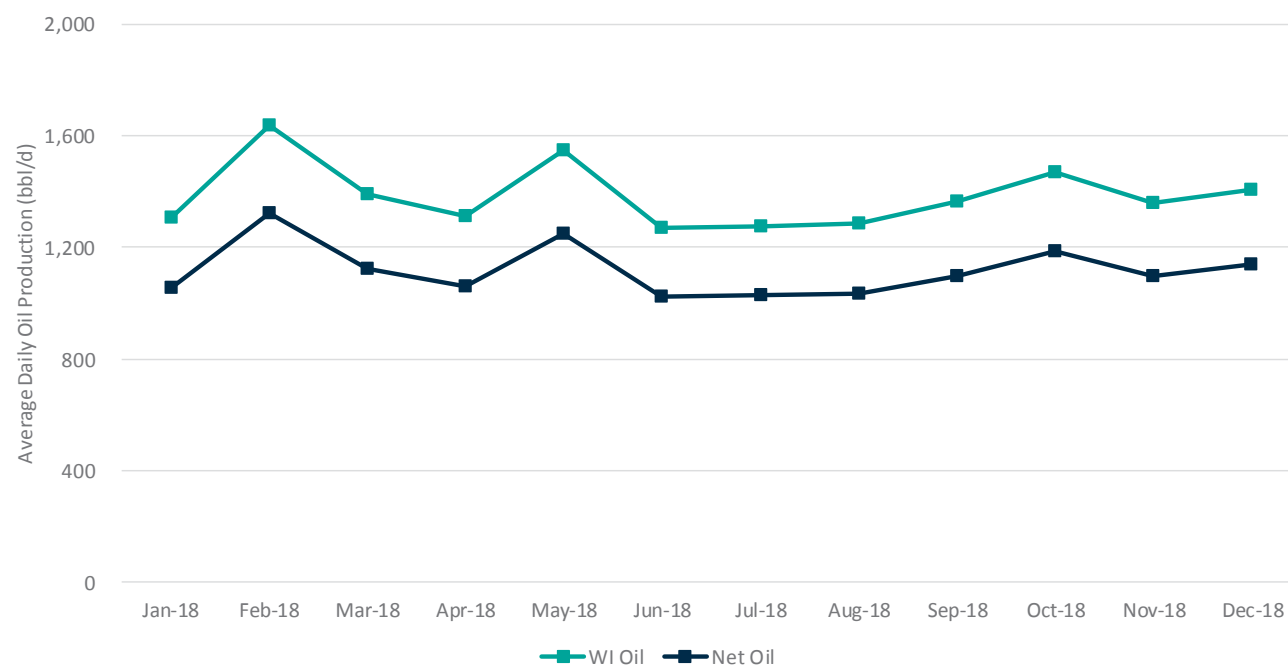


Figure 3: Australis WI and Net Sales Volumes in 2018 (Operated and Non-Operated)

Operating & Financial Review

TMS LEASE POSITION

Consolidation of lease position and increase in net acreage within the TMS Core on highly attractive terms

Australis started 2018 with a position of approximately 95,000 net acres within the TMS Core. Australis has now built this position to 110,000 net acres on highly attractive terms through a targeted leasing program.

Australis continues to execute a leasing strategy that is focused on consolidating its ownership within the core area by entering into new leases and extending the term of existing leases at attractive commercial terms. Extending the primary terms of our overall lease position provides Australis with flexibility and optionality on future development programs. Furthermore, in bringing new wells onto production during the Initial Drilling Program, Australis increases its HBP acreage. At the end of 2018, Australis has increased its HBP position to 29,800 net acres within the TMS Core. Since the end of 2018, Australis has added a further 1,600 net acres to HBP status from Bergold 29H-2 coming onto production.

Australis TMS Core Acreage as at 31 December (Net Acres)	2017	2018	Variance
HBP core acres	27,600	29,800 (27%)	8%
Undeveloped core acreage – primary lease term 2021 and beyond	35,100	51,300 (47%)	46%
Undeveloped core acreage – primary lease term before 2021	32,300	28,900 (26%)	(11)%
Total Net Acres within the TMS Core	95,000	110,000	16%

Table 3: Australis TMS Core Acreage as at 31 December 2018

As at 31 December 2018, over 74% of the TMS Core acreage was either HBP or has an expiry later than January 2021, allowing timing flexibility for development activities and a manageable HBP program. Since the end of 2018, this proportion has increased to 78%.

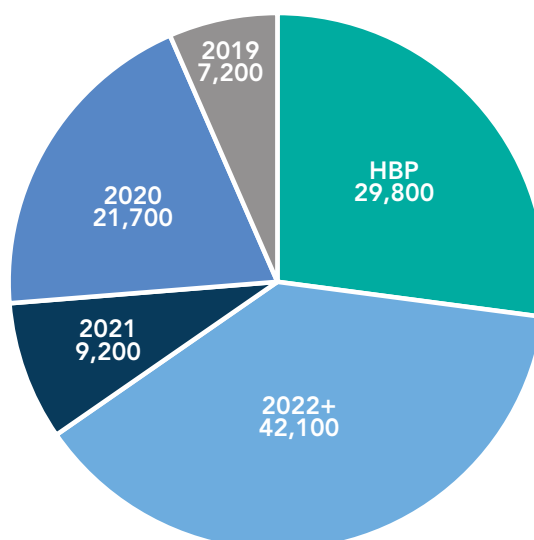


Figure 4: TMS Lease Expiration year – TMS Core Net Acres as at 31 December 2018

TMS RESERVES AND CONTINGENT RESOURCES

Conversion of Resources to Reserves within the TMS

Table 4 summarises the Australis reserve estimates as at 31 December 2018. The year end reserves only assessed 38% of the total TMS Core acreage due to an assumed modest development program within the maximum five year development window allowed for independently assessed reserve estimates. The balance of the undeveloped TMS Core acreage was allocated a Contingent Resource. These reserves and resources were independently assessed by Ryder Scott Company (Ryder Scott)¹. Reserve estimates include PDP reserves from producing wells of 3.93 MMbbls, with a combined BT NPV(10) of US\$82.8 million¹. The allocation of reserve category is based on proximity of the planned well location to existing production, i.e. Proved categories being within the same unit as a PDP well and Probable then Possible locations being further away.

TMS reserves and resources as at 31 December 2018 ¹	
Reserve and Resource Category	Net Oil (Mbbbls)
Proved Reserves (1P)	31,863
Probable Reserves	17,854
Proved + Probable Reserves (2P)	49,717
Possible Reserves	39,471
Proved + Probable + Possible Reserves (3P)	89,188
2C Contingent Resource	107,809

Table 4: TMS reserves and resources as at 31 December 2018

The acreage not assessed for reserve allocation was allocated a 2C Contingent Resource estimate of 108 MMbbls¹, which is based on 9% recovery of assessed oil in place. Australis is not aware of any subsurface technical reason preventing these resources transitioning to reserves when assessed for development within the maximum five year development time period for independently assessed reserves.

Figure 5 below represents the chronological evolution in our total reserves and most likely Contingent Resource base since our Initial Public Offering, reflecting the successful progression of the Company strategy to accumulate oil barrels in the ground.

The substantial increase in the Possible reserve estimate in 2018 was attributable to an increased acreage position at year end, together with an increase in the assumed number of wells drilled in the maximum five year period, which converted Contingent Resources to Possible reserves. With additional development drilling, the Company would expect to see the conversion of the majority of these Possible reserves to Proved and Probable reserves over time.

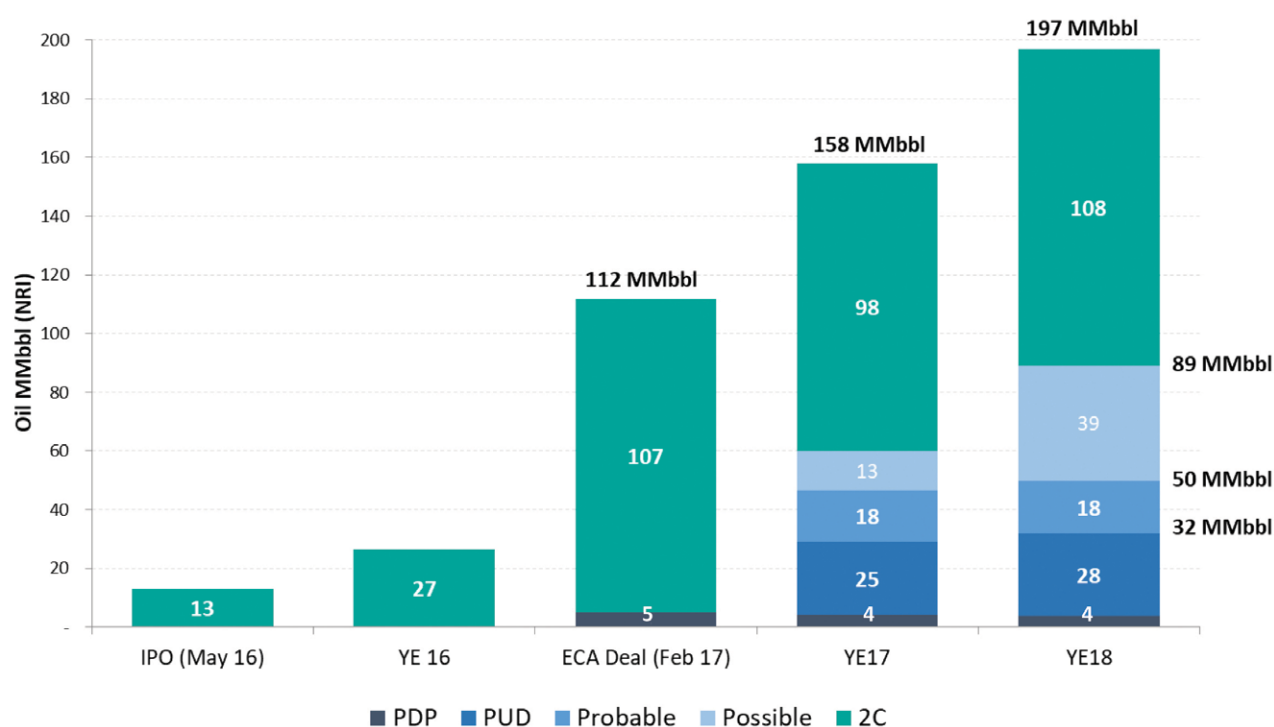


Figure 5: Evolution of Australis' TMS Reserves and Resources

A more detailed Reserves and Resources Statement is provided on pages 19 and 20.

Operating & Financial Review

THE TUSCALOOSA MARINE SHALE AND ITS UPSIDE POTENTIAL

Identified by Australis as one of the few remaining economic undeveloped liquids rich plays in onshore USA

TMS Background & Previous Activity

The TMS is an unconventional shale that was deposited across southern Mississippi and central Louisiana during the Cretaceous period, some 90 – 100 million years ago, in a shallow marine setting. It is a formation that is similar in geological age to the Eagle Ford Shale in South Texas as well as the Woodbine Shale in East Texas.

The TMS is a reservoir that is deep, high pressured, and oil weighted. The characteristics of the rock led to early operational difficulties in the drilling and completion of horizontal wells, resulting in inconsistent production performance and higher well costs than comparable shale plays. However, as activity progressed over the following years, a small but distinct core area of the TMS was identified (the “TMS Core”), within which wells were being completed with encouragingly consistent productivity.

Figure 6 shows the extensive depositional area of the TMS, as defined by the Louisiana and Mississippi state petroleum departments, with the Eagle Ford, Woodbine, and Haynesville plays indicated to show relative areal size. The small red oblong shows the production delineated core area, which only consists of approximately 650,000 acres or 8% of the known TMS geological setting. The rapid decrease in production performance outside this area left many of the early TMS entrants with little or no exposure to the higher performing reservoir. The sub-optimal well results outside of the core disproportionately influenced the reputation of the play as a whole. Despite this, the participants who held an acreage position within the core continued their appraisal activity throughout 2013 and 2014. Many of the operational challenges were addressed, resulting in decreasing costs and improving productivity and consistency. However, the commodity price drop in late 2014 caused TMS activity to cease, leaving further efficiencies unrealised. Until the commencement of the Initial Drilling Program late 2018, no drilling activity had occurred in the TMS since the beginning of 2015.

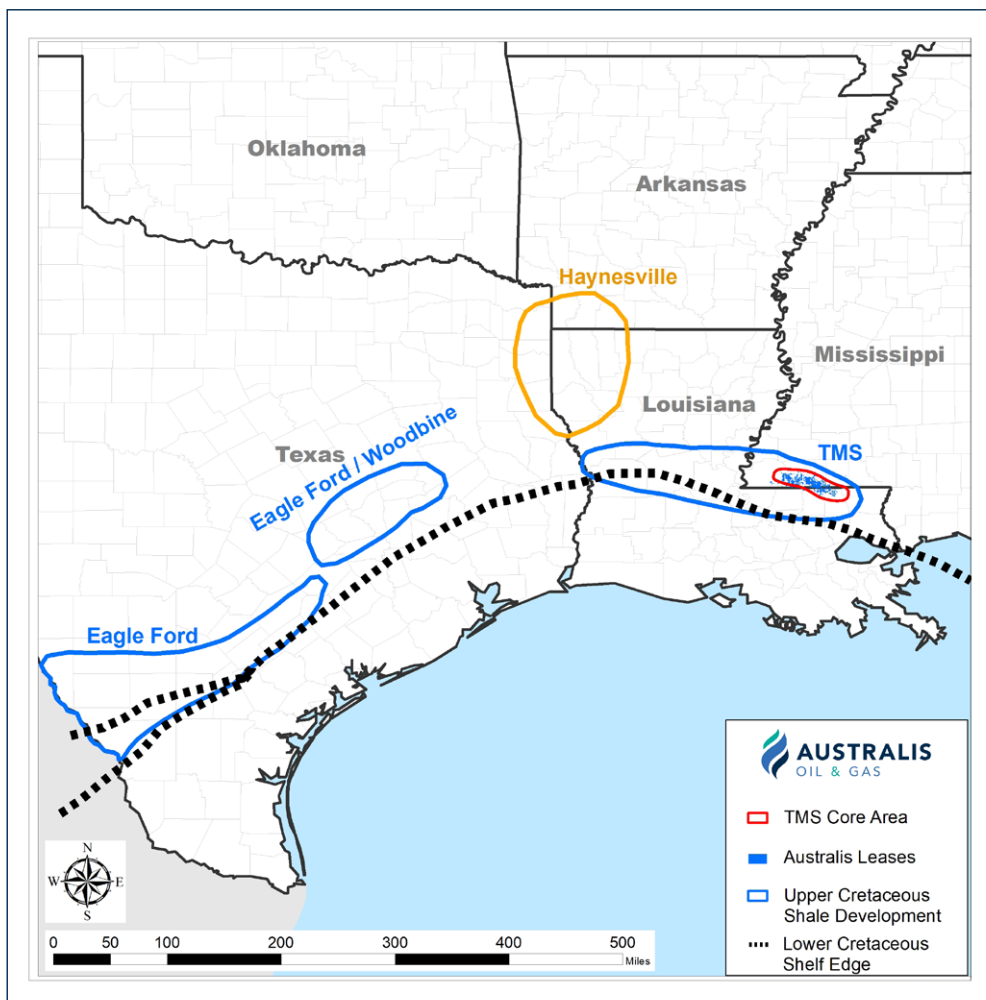


Figure 6: Depositional area of the TMS & Australis acreage position relative to the delineated core

In 2014 and early 2015 Encana drilled a total of 15 wells, which were all within the TMS Core. The wells utilised an engineered drilling design that successfully addressed many of the operational issues that had previously driven higher well costs across the play. This 15 well program also investigated different landing zones and completion designs in a continued effort to optimise well performance. The results were successful with a 105% increase in the average oil production over the first 24 months compared to the 40 other TMS horizontal wells drilled in Mississippi, as shown below in Figure 7.

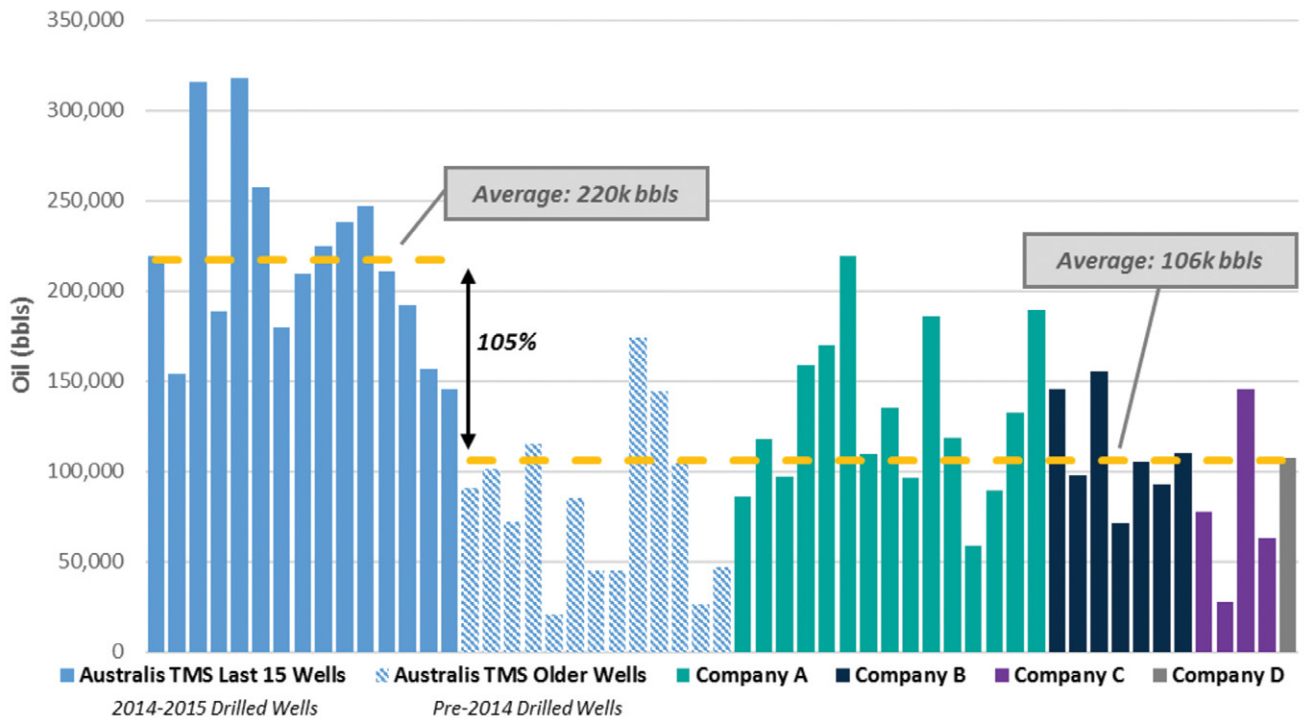


Figure 7: Individual 24 Month Cumulative Production Per Well – TMS Mississippi

Well performance and capital cost trends were showing significant improvement over time until the activity within the play stopped in early 2015. During the subsequent oil price led downturn, the US unconventional industry has made great strides in cost reductions and technology led productivity improvements, none of which have yet been applied to the TMS. As a result, there is potentially substantial upside to the play as the drilling and cost efficiencies that have occurred over the past four years in other highly active shale plays are applied to the TMS.



Fracture stimulation operations on the Stewart East Pad

Operating & Financial Review

Austin Chalk Potential

In September 2017, EOG Resources (“EOG”) announced that it had drilled and completed an Austin Chalk well, approximately 42 miles to the south west from Australis’ TMS Core position. The results of this well have led to an active leasing program by many US independent oil and gas companies including EOG, ConocoPhillips, Marathon Oil, Devon Energy and Equinor (Statoil). This leasing activity has now moved into the Australis TMS Core and ConocoPhillips has permitted 23 units in the East and West Feliciana Parishes, over the Louisiana border immediately to the south of the Australis position and announced a multi-well program. The first ConocoPhillips well (Mckowen 001) was spudded in East Feliciana in Q4, 2018. The second well (Hebert 001) was spud in Q1 2019. Figure 8 below shows the leasing and drilling activity near to Australis’ TMS position.

Australis owns Austin Chalk rights on the vast majority of its leases and it continues to lease at all depths. Australis TMS wells drill through the Austin Chalk prior to landing horizontally in the TMS section. All four recently drilled wells have seen oil and gas shows within the Austin Chalk. Each well drilled typically holds all horizons above the TMS so the Company continues to add to the Austin Chalk HBP inventory with its Initial Drilling Program.

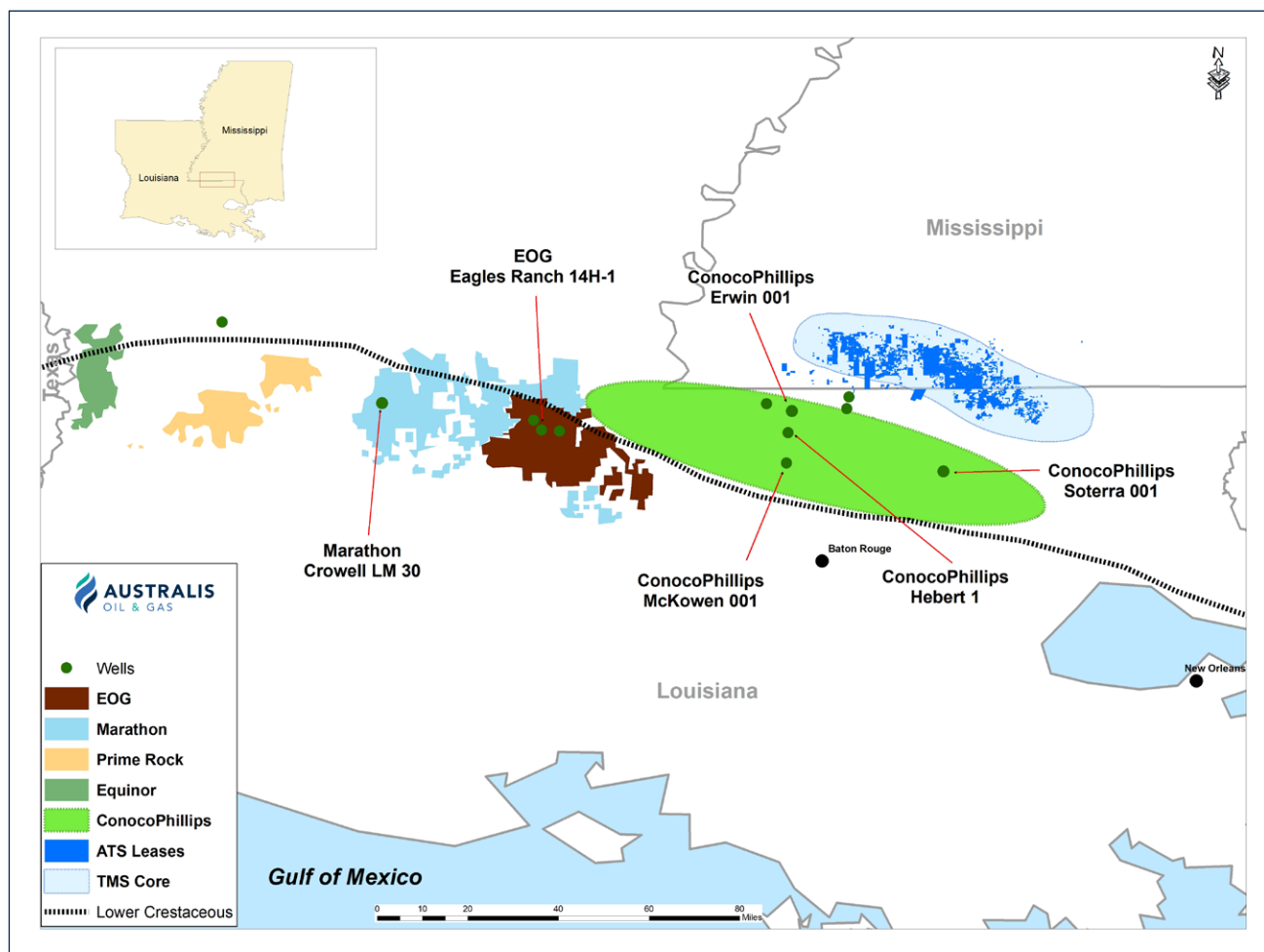


Figure 8: Austin Chalk Activity adjacent to Australis position

LUSITANIAN BASIN – CONVENTIONAL GAS & OIL ACREAGE ONSHORE PORTUGAL

Initial technical evaluation completed and seeking permits to commence appraisal and exploration activities.

AUSTRALIS' PORTUGAL CONCESSIONS

In September 2015, Australis was awarded two onshore exploration concessions in the Lusitanian Basin, known as the Batalha and Pombal Concessions. The exploration concessions cover a total area of 620,000 acres and are valid for a further five years after having completed year three in September 2018. The concession contracts have a limited commitment work program in the first three years involving studies and data analysis and Australis has exceeded all of its obligations. Then each concession has an annual drilling obligation from year four, although the concession contract timing is paused whilst the Environmental Impact Assessment ("EIA") process is underway. The concessions can be relinquished at the end of each concession year after year three provided all obligations have been met.

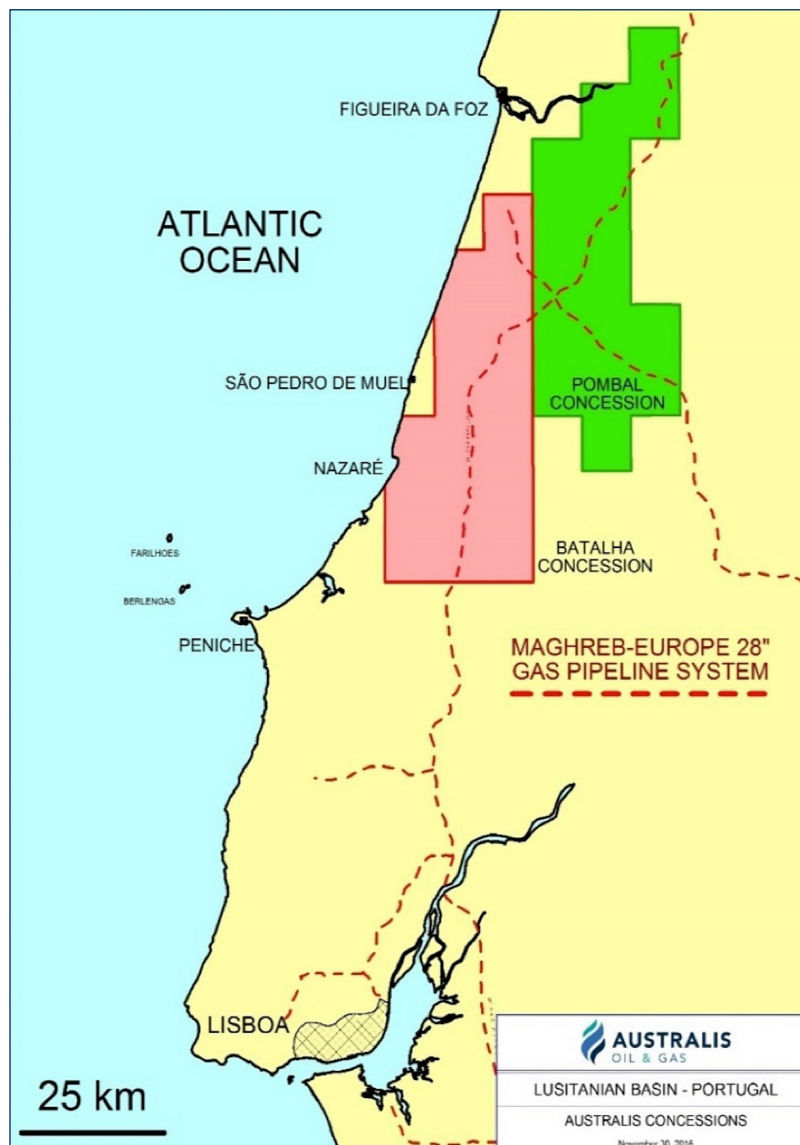


Figure 9: Overview of the Batalha and Pombal Concessions in the Lusitanian Basin

Operating & Financial Review

In 2018, Australis submitted the relevant preparatory EIA document to the Portuguese authorities. Australis completed the full EIA scoping phase and has commenced the initial baseline EIA analysis at each surface location. In preparation for drilling Australis has purchased surface land locations to permit drilling to take place. Australis awarded an engineering contract to develop a detailed drilling program and associated European compliant support and safety systems for both proposed concessions. Australis has also contracted the local office of an international environmental consultancy to assist in the management of the EIA process. Australis is interacting with all relevant stakeholders in the local and federal governments as well as the local community. We are also seeking to address concerns raised by a number of environmental focused groups who have become involved in the various public consultation exercises undertaken.

No new technical information was obtained within the Batalha or Pombal concessions during the 2018 year that would have contributed to an update on the previously reported Australis Resources Summary as of 31 December 2016. Australis continues to work towards further expanding the potential identified within the two separate horizons, as shown in Figure 10, for which contingent resources were assigned.

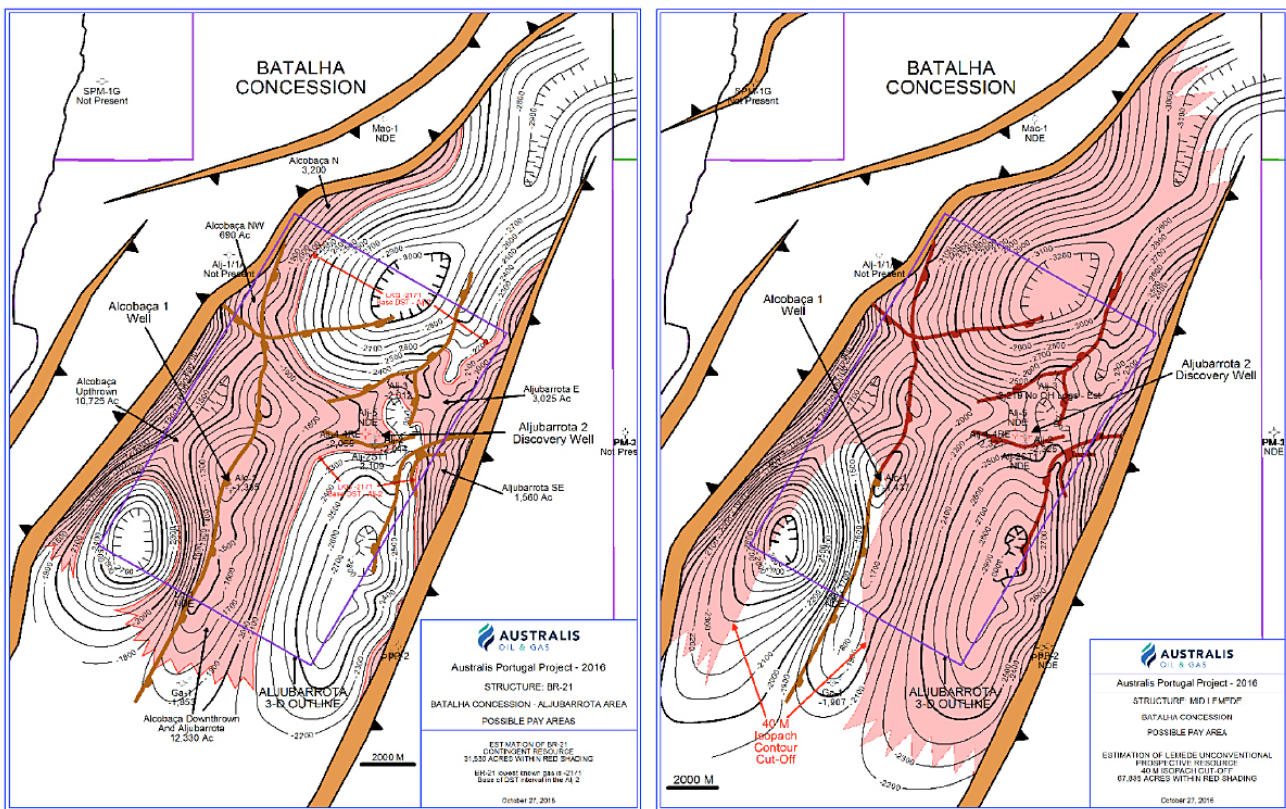


Figure 10: Structural map for the Brenha and Lemede discoveries

Portugal Contingent Resources, as at 31 December 2016³

	Low Contingent Resource (1C)	Most Likely Contingent Resource (2C)	High Contingent Resource (3C)
Net Gas (Bcf)	217.4	458.5	817.7

Table 5: Portugal Contingent Resources as at 31 December 2016

Australis has identified a number of exploration prospects and leads from the available seismic data. Success with the year four program would be encouraging for further exploration drilling to test some of these potential accumulations.

A Reserves and Resources Statement is provided on pages 19 and 20.

FINANCIAL & CORPORATE REVIEW

1. SUMMARY OF FINANCIAL RESULTS POSITION

Australis reported a net profit after taxation of US\$85,000 for the year ended 31 December 2018. Cash flow from existing producing wells in the TMS was able to fund corporate overhead and capital investment in land leasing and direct operational land acquisition activities during the year.

2018 represents the first full year of results for Australis as operator of the TMS assets since the acquisition of producing TMS wells in April 2017.

A review of Group results is summarised below.

	Year ended 31 December 2018	Year ended 31 December 2017	% Change Favourable/ (Unfavourable)
	US\$'000	US\$'000	
Sales volumes (working interest)#	506,000 bbls	469,000 bbls	8%
Revenue (net of hedge loss)	33,704	23,347	44%
Field Netback	16,335	11,934	37%
Operating cash flow	2,700	2,570	5%
Net Profit/(Loss)	85	(1,159)	107%

Volumes rounded to the nearest thousand barrels

Sales and Revenue

Sales volumes for 2018 represent twelve months of production from the TMS assets. As there were only 262 days of production in 2017 post acquisition of the TMS assets, on a comparative basis, sales volumes were 23% lower in 2018 compared with 2017. The primary reasons for the lower sales volumes were natural decline in the wells and higher downtime due to a number of wells requiring workovers during the year. In the second half of the year the operations team implemented a revised workover plan which has subsequently led to a lower incidence of well workovers. The positive effect of the implementation of these improved workover techniques continues to be seen at the beginning of 2019.

Higher oil prices during the period drove a 44% increase in revenue to US\$33.7 million. The average realised price per barrel of oil including, hedging gains and losses, was US\$66.66 compared with US\$49.78 in 2017.

Field Netback & Operating Cashflow

Field Netback and Operating Cashflow increased 37% and 5% respectively due to higher oil prices achieved from a full twelve months of production. Production costs (lease operating and workover expenses) of US\$9.7 million (US\$19.09/bbl) were slightly higher than anticipated due to a higher frequency of well workovers during the year, which offset the benefit of the improved oil price. The changes implemented in the workover plan (as set out above) have led to an improvement in well downtime rates in recent months, which has resulted in a reduction in workover expenses to date in 2019.

Net Profit

The Company reported a profit for the year in 2018 of US\$85,000. During 2018 a number of key employees were engaged to plan and prepare for the commencement of the Initial Drilling Program in the second half of 2018. Personnel expenses represent a significant portion of the Group's ongoing corporate overhead.

Operating & Financial Review

2. SUMMARY OF FINANCIAL POSITION

Balance Sheet Summary	As at		% Change Favourable/ (Unfavourable)
	31 December 2018 US\$'000	31 December 2017 US\$'000	
Current assets	47,457	22,308	113%
Non-current assets	143,025	107,257	33%
Current liabilities	(26,244)	(8,051)	226%
Non-current liabilities	(8,198)	(1,600)	412%
Equity	156,040	119,914	30%

Funding

Australis ended 2018 in a strong financial position, with higher liquidity and initial development funding secured. The Company's cash balance increased by US\$21.3 million to US\$37.9 million, bolstered by the A\$39 million share placement conducted in March 2018.

In mid-2018, Australis entered into a credit agreement with Macquarie Bank Limited ("Macquarie") providing a three-year senior secured US\$75 million credit facility ("Macquarie Facility"). The Macquarie Facility allows flexibility to refinance or cancel the facility at any time without penalty (once drawn funds are repaid), which enables Australis to take advantage of alternate attractive funding sources as they become available.

In November 2018, the Company made its first draw down of US\$10 million to fund the Initial Drilling Program. The borrowing costs will be amortised over the life of the loan which will lead to the full liability being recognized in the balance sheet over the life of the loan.

Key terms of the Debt Facility

- US\$75 million is committed and available in two tranches:
 - Tranche 1: US\$45 million available
 - Tranche 2: US\$30 million available upon satisfactory initial well results achieving preset thresholds;
- Interest rate of LIBOR plus 6% p.a.;
- Quarterly principal repayments of US\$1 million commencing September 2019, with the balance of the principle due in November 2021;
- Senior secured non-revolving facility, with security over the TMS based assets; and
- A total of 30 million options expiring 4 June 2021 issued to Macquarie on the following terms:
 - 20 million vested following the initial draw of Tranche 1 in November 2018 financing and are exercisable at A\$0.49 per option
 - 10 million will vest on draw of Tranche 2 financing and are exercisable at A\$0.51 per option

Hedging

Consistent with our focus on balance sheet stability and protecting against downside risk, the Company hedged approximately 70% of net production in 2018. The hedges entered into in 2018 were costless collars in order to protect a floor oil price whilst retaining upside exposure. During early 2018, 107,000 bbls were hedged using LLS swaps of an average of US\$57/bbl and settled on a monthly basis throughout the year for a total net loss of US\$1.1 million. A further 196,000 bbls were hedged for 2018 in various WTI denominated costless collars with a put (i.e. floor) price of US\$55/bbl and a call strike (i.e. ceiling) prices ranging between US\$70 and US\$72/bbl. These hedges settled in 2018 for a net gain of US\$0.1 million.

For 2019 and beyond the following hedges are in place as at the date of this report:

Australis Hedge Position - WTI Collars			
Hedge Period	Volumes	WTI Put	WTI Call
	bbls	US\$/bbl	US\$/bbl
H1 2019	120,000	55	68
H2 2019	110,000	55	88
H1 2020	65,000	55	82
H2 2020	30,000	55	77
H1 2021	7,000	55	73

Table 6: Australis' current hedge position

The "mark to market value" of the current hedges as at 31 December 2018 is US\$3.1 million which reflects the lower oil price projections for the hedge period. This value is recognized as an asset on the balance sheet.

It is anticipated that additional barrels will be hedged with increases in future production from new wells, once flow rates stabilise.

Capital Expenditure

Capital expenditure for the year totaled US\$36.5 million. This was reflected in the increase in the non-current assets to US\$143 million. The capital expenditure incurred was mainly attributable to the TMS land leasing and renewal program and the Initial Drilling Program that commenced in September 2018. The provisional well costs for the two wells that have been completed at the date of this report are as follows:

- Stewart 30H-1: well cost (including drill, complete, tie-in and install artificial lift) of US\$10.3 million; and
- Bergold 29H-2: well cost (including drill, complete, tie-in and install artificial lift) of US\$9.3 million.

In addition to the above direct well costs, Australis has invested a further US\$0.8 million on items for the shared use by future wells in the Stewart and Bergold production units. This includes costs such as those associated with access and preparation of surface roads to the drilling pad, power access and shared production facilities. These costs will be shared by all future wells on the pad and/or wells within each unit. The development plan currently contemplates four wells on this pad and for future development there will be either four or six wells per pad.

The first surface location used by Australis benefited from certain preparation work carried out by Encana providing capital expenditure savings of approximately US\$0.6 million on pad-related infrastructure.



Operating & Financial Review

CORPORATE GOVERNANCE

The Board monitors the operational and financial performance of the Company and oversees its business strategy, including approving the strategic goals of the Company. The Board is committed to generating significant levels of shareholder value and financial return whilst building the foundations for the growth and success of the Company. In conducting business with these objectives, the Board aims to ensure that Australis is properly managed to protect and enhance shareholder interests and that the Company, its directors, officers and employees are operating in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Australis, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the Australis business and which are designed to promote the responsible management and conduct of the Company. Australis reviews and amends its corporate governance policies as appropriate to reflect the growth of the Company, current legislation and good practice. The main charters, policies and procedures that form the basis of corporate governance practices at Australis, can be found in the corporate governance section of Australis website, www.australisoil.com.

FUTURE DEVELOPMENTS

Australis continues to focus on the TMS Core area through its Initial Drilling Program and continued leasing program. By the middle of 2019, Australis expects to have drilled and completed the initial six wells of the Initial Drilling Program and to be producing oil from each well. Timing for execution of the remainder of the Initial Drilling Program past the initial six wells will be based upon the evaluation of results and market conditions towards the end of the first and second quarters of 2019.

Strategy and 2019 Outlook

The Company continues to focus on growth in value per share in preference to other metrics such as market capitalization, production or reserves.

The strategic goals for Australis in 2019 include to:

- continue to demonstrate the repeatability of the TMS productivity and the attractive economics through the continuation of a targeted drilling program;
- increase long-lease life and HBP position in the TMS Core through leasing and bringing wells onto production;
- increase reserves through the further conversion of resources;
- enhance the value of our Portuguese areas of interest in preparation for partner introduction and drilling; and
- continue a sustainable business with a strong safety and environmental track record.



RESERVES AND RESOURCES STATEMENT

Reserves

Reserve Category	Australis Reserves ¹		Net Oil YE18 vs YE17
	Gross Oil (Mbbbls)	Net Oil (Mbbbls)	
Proved Developed Producing (PDP)	6,306	3,927	
Proved Undeveloped (PUD)	40,306	27,936	
Proved (1P)	46,612	31,863	10.2%
Probable Developed Producing	1,309	855	
Probable Undeveloped	25,145	16,998	
Probable Total	26,453	17,854	
Proved + Probable (2P)	73,065	49,717	6.7%
Possible Developed Producing	1,532	1,014	
Possible Undeveloped	67,251	38,457	
Possible Total	68,783	39,471	
Proved + Probable + Possible (3P)	141,849	89,188	48.2%

TMS PDP Reserves reconciliation 1 January 2018 to 31 December 2018

Description	Net Oil (Mbbbls)
PDP & PDNP Reserves (1-Jan-18)²	4,093
Net Production (2018)	(407)
New wells	383
Technical Adjustment	(142)
PDP + PDNP Reserves (31-Dec-18)¹	3,927

Contributors to the technical adjustment shown in the above table.

- Operating costs influence economic cut off (i.e. the date in which it is no longer economic to produce oil from a well, generally many years after first production) which in turn varies the attributable reserves at the end of well life but has a negligible impact on discounted net present values. The operating cost used for future well costs is based on actual costs incurred during the period of August to November 2018, which are higher than the operating costs assumed for the 2017 Report, leading to a reduction of reserves at the end of the life of certain wells. This period captured some of the improvements in lease operating expense, downtime and workover frequency that resulted from changes implemented by Australis to completion design and operating practices. However, reductions in operating costs per barrel have continued since this period, however those improvements are not reflected in the assumed numbers within the 31 December 2018 Reserves Report.
- The economic cut off is also influenced by the higher oil price assumptions used in the 2018 Reserve Report compared with the 2017 Report.
- Revisions in production forecast based on 2018 production.

Operating & Financial Review

Resources

Australis net Contingent Resource summary ^{1,2,3}						
	Current Resource Estimates ^{2,3}			Previous Resource Estimates ^{1,3,4}		
	As of Date	Net Oil (MMbbl)	Net Gas (Bcf)	As of Date	Net Oil (MMbbl)	Net Gas (Bcf)
Low (1C)						
TMS	31-Dec-18	6.9	16	31-Dec-17	8.9	-
Portugal – Batalha Concession ^{4,5}	31-Dec-16	-	217	31-Dec-16	-	217
Total 1C Resources		6.9	233		8.9	217
Most Likely (2C)						
TMS	31-Dec-18	107.8	86	31-Dec-17	98.0	-
Portugal – Batalha Concession ^{4,5}	31-Dec-16	-	459	31-Dec-16	-	459
Total 2C Resources		107.8	545		98.0	459
High (3C)						
TMS	31-Dec-18	195.4	191	31-Dec-17	177.8	-
Portugal – Batalha Concession ^{4,5}	31-Dec-16	-	818	31-Dec-16	-	818
Total 3C Resources		195.4	1,009		98.0	818

The change in estimated TMS Contingent Resource as at 31 December 2017 and 31 December 2018 is due to the following key factors:

- an increase in Australis' TMS core acreage position net acres between the effective dates of the estimates;
- the assessment and allocation of reserves to select areas reduced the acreage available for Contingent Resources; and
- minor changes made by Ryder Scott to the reservoir and recovery factors used in their analysis

Australis net Prospective* Resource summary ³			
	Current Risked Resource Estimates ³		
	As Of Date	Net Oil (MMbbl)	Net Gas (Bcf)
Low			
Portugal – Batalha Concession ^{4,5}	31-Dec-16	16.5	96
Portugal – Pombal Concession ^{4,5}	31-Dec-16	2.6	8
Total Low		19.2	104
Best			
Portugal – Batalha Concession ^{4,5}	31-Dec-16	97.2	388
Portugal – Pombal Concession ^{5,6}	31-Dec-16	29.3	78
Total Best		126.4	466
High			
Portugal – Batalha Concession ^{4,5}	31-Dec-16	332.9	1,324
Portugal – Pombal Concession ^{4,5}	31-Dec-16	115.4	309
Total High		448.4	1,632

* It should be noted that with reference to the Prospective Resources the estimated quantities of petroleum that may be potentially recovered by the future application of a development project may relate to undiscovered accumulations. These estimates have associated risk of discovery development. Further exploration and appraisal is required to determine the existence of a significant quantity at potentially moveable hydrocarbons.

The above figures have been rounded for presentational purposes. Arithmetic sums may not tally as a result.

Notes

1. Contingent Resources and Reserves estimated with an effective date of 31 December 2018 are taken from the Independent Ryder Scott report dated 31 January 2019 and announced on 6 February 2019, titled "Reserve and Resource Update Year End 2018". The report was prepared in accordance with the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management (SPE-PRMS) as revised in June 2018. Ryder Scott generated their independent reserve and contingent resource estimates using a deterministic method.
2. Contingent Resources and Reserves estimates with an effective date of 31 December 2017 are taken from the independent Ryder Scott report dated 26 January 2018 and announced on 30 January 2018 and titled "Reserve and Resource Update Year End 2017". The report was prepared in accordance with the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management (SPE-PRMS). Ryder Scott generated their independent reserve and contingent resource estimates using a deterministic method. The Company is not aware of any new information or data that materially affects the information included in the referenced market announcement and that all material assumptions and technical parameters underpinning the estimates in the referenced market announcement continue to apply and have not materially changed.
3. All estimates have been taken from the independent Netherland, Sewell & Associates report, effective 31 December 2016 and announced on 25 January 2017 titled '2016 Year End Resource Update'. The report was prepared in accordance with the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management (SPE-PRMS). The Company is not aware of any new information or data that materially affects the information included in the referenced market announcement and that all material assumptions and technical parameters underpinning the estimates in the referenced market announcement continue to apply and have not materially changed.
4. The deterministic method is based on qualitative assessment of relative uncertainty using consistent interpretation guidelines. The independent engineers using a deterministic incremental (risk-based) approach estimates the quantities at each level of uncertainty discretely and separately.
5. Australis holds a 100% working interest in the Batalha and Pombal Concessions, however this interest is subject to a 3% working interest option granted to a contractor and the Net estimates provided by NSAI are prepared with the assumption that this option has been exercised. The Net estimates provided by NSAI also make an allowance for royalties payable to the Portuguese government. The actual royalties payable by Australis are detailed in Article 51 of Decree Law nr 109/94 of the 26th April, 1994 and Article 19.2 of each concession contract. For oil there is a staged royalty of between 0 and 9% based on produced volumes and for gas there is a similar staged royalty of between 3 and 8% again based on produced volumes. As there is not a development plan and an associated production profile for either the contingent or prospective resource estimates, the royalty rate has been assumed to be 8 and 9% respectively.

Governance and Assurance

On at least an annual basis Australis engages an independent reviewer to verify and determine changes to reserves.

Qualified Petroleum Reserves and Resources Evaluation

The estimates provided in "TMS Reserves and Contingent Resources" and the "Reserves and Resources Statement" in this report pertains to the Tuscaloosa Marine Shale and is based on, and fairly represents, information and supporting documentation, prepared by, or under the supervision of, Raymond Yee, P.E., who is an employee of Ryder Scott Company, L.P. an independent professional petroleum engineering firm. Mr Yee is a Professional Engineer in the State of Texas (Registration No. 81182). The reserve and resource information pertaining to the Tuscaloosa Marine Shale in this report has been issued with the prior written consent of Mr Yee in the form and context in which it appears.

The contingent and prospective resource estimates provided in this announcement pertaining to the Portuguese Concessions is based on, and fairly represents, information and supporting documentation, prepared by, or under the supervision of, Mr Nathan C. Shahan who is an employee of Netherland, Sewell & Associates, Inc an independent professional petroleum engineering firm. Mr Shahan is a Professional Engineer in the State of Texas (Texas Registration No. 102389). The resource information pertaining to the Portuguese Concessions in this announcement has been issued with the prior written consent of Mr Shahan in the form and context in which it appears.

Operating & Financial Review

MATERIAL BUSINESS RISKS

The key risk factors affecting the Company are set out below. The occurrence of any one of the risks below could adversely impact the Company's operating or financial performance.

(a) Strategy

Australis' strategy is predicated on the belief that the fundamental drivers are in place for a potential increase in oil prices in due course. The Company owns high quality, oil-weighted developed and undeveloped assets that have been acquired to provide potential additional leveraged upside to any modest recovery in the oil price.

There is no guarantee the oil price will rise or that these assets will be economically developed.

(b) Title risk – TMS Leases

Australis has acquired and will continue to acquire leasehold interests of mineral rights and working interests in mineral rights from owners in Louisiana and Mississippi, USA. Certain TMS Leases are, at Australis' election, capable of renewal or extension. There is no guarantee that existing leases will be renewed, extended or reacquired prior to expiry or that leases on new areas will be acquired. The process of confirming defensible title on leases for oil and gas exploration and production has been performed by experts acting for Australis. If at any time title cannot be confirmed, it may have a financial impact on the value of that lease.

(c) Commodity price

The prices of crude oil, condensate and natural gas are volatile. As a producer of oil and gas, changes in the prices of crude oil, natural gas and refined products could affect Australis' financial position, financial results, cash flows, access to capital, ability to grow, and the level of Australis' reserves. The international markets for crude oil, natural gas and refined products are volatile, and have in recent years been characterised by significant price fluctuations due to factors beyond Australis' control.

Australis has adopted a hedging policy to manage its commodity price risk. Details of the current hedge program are detailed in this Operations & Financial Review.

(d) Operational risks

Australis' future financial condition and results of operations will depend on the success of its exploration, development and production activities. Oil, condensate, and natural gas exploration and production activities are subject to numerous risks, including the risk that drilling will result in dry holes or not result in commercially feasible oil or natural gas production. Selecting a drilling location is influenced by the interpretation of geological, geophysical, and seismic data, which is a subjective science and has varying degrees of success. Other factors, including land ownership and regulatory rules, may impact the Company's decisions with respect to well locations. Further, no known technologies provide conclusive evidence prior to drilling a well that oil or natural gas is present or may be produced economically. New wells drilled may not be productive, or may not recover all or any portion of the Company's investment in such wells. The cost of drilling, completing, equipping and operating wells is typically uncertain before drilling commences.

Australis manages operational risk through its procedures and policies, employee training, a developed risk management system and a focus on health and safety.

(e) Hydrocarbon spills

Oil and gas operational activities involve the production, storage and transport of the produced oil and gas as well as waste materials. Hydrocarbon spills may lead to damage to the environment, as well as potential safety issues and damage to Australis' reputation and fines. Please refer to the Sustainability Report for more detail around how the risk of hydrocarbon spills is managed.

(f) Reliance on key personnel

Australis' success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations are likely to be of central importance. There can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the implementation, development and operation of its business strategy.

(g) Funding

The oil and natural gas industry is capital intensive. Australis currently makes, and expects to continue to make, substantial capital expenditures for the acquisition, development and exploration of oil and natural gas reserves. As and when further funds are required the Company may consider raising additional capital from one or more of: the issue of equity securities; the incurrence of further debt finance; or the contribution of capital from one or more operational or financial partners in exchange for a portion of Australis' interests in its assets, if and as appropriate. There is no assurance that the Company will be able to access and secure additional funding on reasonable terms or at all.

Australis manages financial risk through the implementation of policies and procedures that address areas such as hedging and liquidity management. Furthermore, as operator of its assets, Australis has the flexibility to manage its capital program in order to ensure any liquidity risks are mitigated.

(h) Geopolitical, regulatory and sovereign

Exploration for and development, exploitation, production and sale of oil and natural gas is subject to laws and regulations, including complex tax laws and environmental laws and regulations, employment law and other laws. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations could adversely affect the Company. Certain of these laws may have material penalties and fines for instances of non-compliance. In addition to governmental legal action, private parties may pursue legal actions to enforce these laws and regulations against industry participants.

The Company's assets are located in the United States and Portugal. As a result, they are subject to each country's (and in the USA, each State's) different environmental laws and regulatory requirements.

Whilst Portugal and the USA are considered by Australis to be politically stable the Concessions and TMS Leases held by the Company may be affected by any changes in government policy or legislation. The Concession contract terms include rights to mitigate any law changes affecting the fiscal or economic terms of the Concessions, however these rights are subject to negotiation and arbitration within Portugal.

Further, all future field work on the Concessions requires the approval of the Portuguese authority that regulates oil and gas activity, which is not guaranteed.

Changes in government regulations and policies may also adversely affect the financial performance or the current and proposed operations generally of the Company. The ability to explore and develop oil and gas concessions, as well as industry profitability generally, can be affected by changes in government regulations policies or legislation in jurisdictions, that are beyond the control of the Company and may also adversely affect the financial performance or the current and proposed operations of the Company. In order to be compliant, certain permits, approvals, and certificates must be obtained and maintained and the cost of any of these may substantially increase from current levels.

(i) Hydraulic fracturing

In the TMS, Australis engages in the practice of hydraulic fracturing to stimulate production of hydrocarbons from tight geological formations. Public debate exists regarding the potential sub surface and surface impact of hydraulic fracturing, including concern about the impacts of hydraulic fracturing on drinking water. In addition, there are many regulatory requirements to be adhered to. Additionally, hydraulic fracturing requires large volumes of water (the availability and regulation of which may change over time) and there are costs associated with water disposal that may be required should the Company produce water in its wells. As more impacts of hydraulic fracturing are fully understood, it may be subject to additional regulations or restrictions from local, state, or federal governmental authorities, resulting in increased compliance costs. Any modification to the current requirements may adversely impact the value of the Company's assets and future financial performance.

(j) Reserves and Resource Estimation

Calculation of recoverable oil and gas reserves and resources contain significant uncertainties which are inherent in the reservoir geology, well data, operating costs and oil prices. There is a risk that resource estimations will not convert into reserves or any actual production may significantly vary from such estimates. Australis manages the risk associated with reserves estimates through the engagement of qualified, experienced internal engineers and the engagement of independent auditors on at least an annual basis to certify reserves.

Operating & Financial Review

(k) Debt Facility and Interest Rate

The Company has incurred indebtedness (and is likely to incur additional significant indebtedness) under the Macquarie Facility, which may adversely affect its cash flows and ability to operate its business and remain in compliance with and repay such indebtedness.

Our ability to make payments on and to refinance our debt and to fund planned capital expenditures will depend on our ability to generate cash in the future. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Lower net revenues, or higher provision for uncollectible accounts, generally will reduce our cash flow. If we are unable to generate sufficient cash flow to service our debt and meet our other commitments, we may need to refinance all or a portion of our debt, sell material assets or operations or raise additional debt or equity capital.

We cannot assure investors that we could affect any of these actions on a timely basis, on commercially reasonable terms or at all, or that these actions would be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt agreements may restrict us from effecting any of these alternatives. If we are not able to service our debt and other commitments, we may seek or be forced into bankruptcy, or forced to reduce our operations or discontinue our operations in their entirety.

Australis' exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. A significant fluctuation in market interest rates could have an impact on Australis' financial position. The potential exposure to interest rate fluctuations could be expected to increase as Australis' debt position increases.

(l) Commercialisation and access to infrastructure

Australis' future performance will be impacted by its ability to source and access equipment and services and product transportation routes and processing facilities. The ability of the Company to access infrastructure economically or at all is largely out of control of Australis and therefore may have an adverse impact on future performance.

(m) Environmental

The Company is subject to laws and regulations to minimise the environmental impact of any operations as well as rehabilitation of any areas affected by any operation carried out on the areas leased by the Company. These laws can be costly to operate under and can change further adversely affecting the Company. Penalties for failure to adhere to the laws or in the event of environmental damage the penalties and remediation costs can be substantive.

In the areas in which the Company holds oil and gas interests, there exists regulations that include amongst other requirements, the need for permits for drilling operations, drilling bonds and reports concerning operations. In addition, there are rules and regulations governing conservation matters, including abandonment of drilled wells.

The Company may require approval from relevant authorities before it can undertake activities that may impact the environment, including drilling wells. Failure to obtain such approvals may prevent the Company from achieving its business objectives.

Regulations may limit the rate at which oil and gas could otherwise be produced from the Company's leasehold interests and may restrict the number of wells that may be drilled on a particular lease or in a particular field.

In connection with the TMS operations, Louisiana and Mississippi are susceptible to hurricanes and other extreme adverse weather conditions. Weather events have proven to cause substantial disruptions to hydrocarbon production and as a result of such weather, the Company's (i) facilities may be substantially damaged and (ii) any oil and gas production may be reduced or interrupted entirely.

(n) Competition

The Company competes with numerous other organisations in the search for, and the acquisition of, oil and gas assets. The Company's competitors include oil and gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase its reserves in the future will depend not only on its ability to explore and develop the TMS leases and Concessions, but also on its ability to select and acquire suitable producing properties or prospects for drilling.

CAUTIONARY AND FORWARD LOOKING STATEMENTS

This Report contains forward looking statements, including as to Australis' strategy, oil and gas exploration and drilling activities, and related funding, which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Annual Report, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and the management.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Annual Report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Annual Report, except where required by law.

These forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out above. Past performance should not be relied upon as being indicative of future performance.

MATERIAL PREJUDICE

As permitted by sections 299(3) and 299A(3) of the Corporations Act 2001, Australis has omitted certain information from the Operating and Financial Review in relation to its business strategy, future prospects and likely developments in its operations and the expected results of those operations in future years. Such information including but not restricted to internal budgets, and forecasts and estimates, has been omitted on the basis that such information, if disclosed, would be likely to result in unreasonable prejudice for example because the information is premature, commercially sensitive, confidential or could give a third party a commercial advantage.

Glossary

Unit	Measure	Unit	Measure
B	Prefix - Billions	bbl	Barrel of oil
MM or mm	Prefix - Millions	boe	Barrel of oil equivalent (1bbl = 6 mscf)
M or m	Prefix - Thousands	scf	Standard cubic foot of gas
/d	Suffix - per day	Bcf	Billion standard cubic feet of gas

Abbreviation/Term	Description
TMS	Tuscaloosa Marine Shale
TMS Core	The Australis designated productive core area of the TMS delineated by production history
Permitted Drilling Units	Acreage within a formed and approved drilling unit but is yet to be HBP as a well has not been drilled and commenced production
WI	Working Interest
C	Contingent Resources – 1C/2C/3C – low/most likely/high
NRI	Net Revenue Interest (after royalty)
NET	Working interest after deduction of Royalty Interests
BT NPV(10)	Net Present Value (discount rate), before income tax
HBP	Held by Production (lease obligations met)
AFE	Authorised for Expenditure
EUR	Estimated Ultimate Recovery
WTI	West Texas Intermediate Oil Benchmark Price
LLS	Louisiana Light Sweet Oil Benchmark Price
2D / 3D	2 dimensional and 3 dimensional seismic surveys
Opex	Operating Expenditure
PDP	Proved Developed Producing
PDNP	Proved Developed Non Producing
Capex	Capital Expenditure
Ryder Scott	Ryder Scott Company
NSAI	Netherland Sewell & Associates, Inc.
Field Netback	Oil and gas sales net of royalties, taxes, production expenses, inventory movements but excludes depletion, depreciation and hedging gains or losses
Net Sales	Oil & gas sales net of royalties
Royalty Interests or Royalty	Interest in a leasehold area providing the holder with the right to receive a share of production associated with the leasehold area
Net Acres	Land the Company has leased and currently holds the mineral rights
IP30	The average oil production rate over the first 30 days of production
Initial Drilling Program	The planning, implementation and execution of an initial drilling program of wells by Australis in the highly productive core of the TMS
IRR	Internal Rate of Return
PUD	Proved Undeveloped

SUSTAINABILITY

Australis' core strategy is to deliver value driven growth and significant returns to our shareholders in a sustainable and responsible manner. To achieve this, we have in place appropriate procedures and policies to facilitate and assist in sustainable business practices which permeate all levels of management and are factored into all business decisions and processes.

Australis' focus on sustainability is reinforced through our Environmental, Health and Safety (EHS) performance to date. During 2018, Australis has maintained a high level of EHS compliance and as a result there have been:

- no environmental or safety regulatory violations or penalties; and
- no reportable spills

Australis continues to implement specific and measurable initiatives to embed a cultural commitment to continuous improvement in sustainable outcomes. One such initiative has been establishing the Company's EHS performance as the overarching financial multiplier within the Company's annual Short-Term Incentive Plan ("STI Plan"), scaling the achieved bonus amounts up or down based on EHS performance. Under the designed Plan, the EHS performance is applied to all aspects of the Company's business, including corporate goals and targets linked to Company strategy, individual generic and specific targets and the Group's achieved safety targets. This direct correlation between environmental and safety performance and remuneration ensures that EHS is at all times considered a priority, Company-wide.

In 2018, all Australis managed operations performed within the target quota for EHS. Whilst the Company's goal is always zero, the STI Plan targets and achievements for 2018 are set out below:

Metric	Goal	Target	2018 Achieved
Number of OSHA Recordable Incidents	0	2	0
Number of Lost Time Incidents	0	1	0
Number of Regulatory Reportable Spills	0	3	0



Sustainability Report

KEY ISSUES

At Australis, we understand that to optimise shareholder returns, we must recognise and address the risks and issues most pertinent to our business. A materiality assessment was undertaken in 2018 which identified the eleven key issues we believe to be most relevant and material to our business. Whilst some of the issues listed require careful consideration and management to minimise the potential risks they impose, others represent the key strengths and core values of Australis.

The frameworks and strategies we have in place to address each of the following material issues will be outlined in the Sustainability Report below.

Material Issues		
People	Health & Safety	Ensuring a safe working environment for all employees and contractors
	Operating with Integrity	Understanding the importance of trust in the way we conduct our business and interact with staff and contractors
	Development & Retention	Providing appropriate opportunities and incentives for employees to develop and grow their career within the Company
	Diversity	Building a diverse and talented team based on performance and merit
Environment	Air Quality & Emissions	Monitoring and managing the emissions produced through our operations
	Water Management	Responsibly sourcing and managing the water we utilise
	Operations Waste Management	Disposing responsibly of produced water and waste to minimise our ecological impact
	Spill Prevention & Remediation	Minimising the risk of accidental fluid or waste spills and ensuring a focus on site remediation
Stakeholder Relations	Community Engagement	Maintaining transparency in our communications and engagement with local communities and stakeholders
	Social Investment	Appropriately investing in the communities we operate in
Economic Sustainability	Risk Management	Recognising and preparing for risks inherent to our industry

PEOPLE

Health & Safety

Since Australis was founded in 2014, the safety and protection of people and the environment has been a core value and priority of the Company. Working safely is a condition of employment at Australis and the Company EHS Policy requires that EHS-related considerations are prevalent in all business decisions and processes. Company leadership strives to foster a culture of responsibility and EHS excellence.

Australis maintains a Safety Observation Suggestion (SOS) program to document EHS-related observations and encourage active participation by all employees and contractors in building a strong EHS culture. The program operates as a tool for identifying potential hazards requiring corrective action, which ensures faster rectification. The program also rewards positive recognition of behaviour demonstrating strong EHS leadership and increases accountability across all Australis operations. Negative EHS outcomes financially impact all employees. The SOS program is a proactive component of Australis' STI Plan calculations.

Australis' other key safety initiatives include:

- Compulsory Company-specific EHS Orientation training for all new field employees and contractors before commencing work.
- Implementation of Petroleum Education Council Safety (PECS), a third-party verification service, to screen and assess contractors' safety policies, EHS performance and risk management measures during the procurement process.
- Adoption of a Stop Work Authority as a core safety function for all employees and contractors, which authorises any employee or contractor to stop work and correct an unsafe condition without fear of retribution.
- Advanced driver safety training for employees that operate any Company vehicles.
- USA Management-Level Emergency Response Plan, as well as an operations-specific Well Control Emergency Response Plan. The former was initiated in 2017, and the latter in 2018 prior to commencing drilling operations. Both plans were rolled out with training exercises that included mock scenarios and collaboration with local government authorities.
- Installation of GPS monitoring devices in our operations fleet vehicles to monitor driving behaviour such as speed, acceleration and braking patterns and assign driver-specific scores based upon performance. Scores are evaluated and reported monthly via internal management reports.

Operating with Integrity

Australis has adopted a Code of Conduct that sets out the principles and standards of behaviour expected of its directors, employees and contractors when working with each other, shareholders, other stakeholders and the broader community. The Code of Conduct requires employees and contractors to act with honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates. Any breaches of the Code of Conduct may be brought to the attention of management in accordance with the Whistleblower Policy, without fear of retribution or reprisal.

The Code of Conduct and Whistleblower Policy are accessible to all employees at any time via the Company's internal intranet site and are also available via the Company's website.

Development & Retention

Australis values and understands the importance of training and development programs for leaders, managers, and professional staff. Technical training, professional development and support for technical certifications are offered to all staff.

Each year, Australis sets its general Company goals. These are then cascaded down through the organisation so that departmental and personal goals are set for each employee, ensuring that all goals are aligned with Australis' strategy. Employees are financially rewarded in their STI Plan for achieving and exceeding these goals.

Under Australis' Employee Equity Incentive Plan ("LTI Plan"), eligible employees are awarded performance rights annually which vest over a three-year period and can be exercised into shares once vested. In addition to aligning employee compensation with the shareholder return of the Company, the LTI Plan has the objective of rewarding employees for continuing their employment with the Company. For most senior staff the vesting of a portion of the rights are also linked to corporate performance.

Diversity

Australis' Diversity Policy, which is available via the Company's website, is designed to augment business success by recognising and utilising the contribution of diverse skills and talent whilst fostering an environment of inclusion. Australis understands the variety of employee backgrounds in an organisation can increase overall performance, sustainability, teamwork and creativity.

Australis values gender and cultural diversity, and utilises a number of recruitment agencies to assist in obtaining a wider network of possible candidates for open positions. To encourage diversity in our team, Australis facilitates alternative working hours to accommodate for employees with family and other personal responsibilities. The Company also engages in visa sponsorship programs to ensure those with the best skills for our operations are able to work with us, regardless of their background.



Sustainability Report

ENVIRONMENT

Just as the safety of our team is integral to our business, at Australis we also recognise our duty to conduct and manage our exploration and production operations in a way that minimises our impact on the surrounding environment.

Air Quality & Emissions

Australis maintains air emissions permits for all operated production locations, in line with local government regulations. Australis has been very active in working with the Mississippi Department of Environmental Quality (DEQ) in streamlining the permit process, and in modernising permit requirements, resulting in reduced net emissions. An example is the removal of the requirement to burn purchased propane gas to maintain a flare pilot, even when no natural gas is flowing to the flare. In addition, Australis requires all third-party oil haulers to comply with more stringent leak testing requirements than are legally required, to reduce air emissions from loadouts. In 2018, Australis participated in the USA Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program by submitting data on our operations.

Water Management

Australis' principle of reducing environmental risk and impact is impacted by both our sourcing and recycling initiatives with regards to water consumption and production. Australis' primary source for frack water for new well operations is the Company owned Gillsburg Frack Water Facility, which was constructed in 2018. We source water from a depth far deeper than the aquifers which are being used by members of the public, minimising our impact on our surrounding communities. This water is then stored in the Facility.

Australis is conscious of the level of both water consumption and produced water in our operations and is planning and preparing for the ability to reuse produced water in our future operations.

Operations Waste Management

At present, Australis utilises the services of a third-party disposal company to manage our waste.

Australis ensures all water produced through our operations is managed responsibly and legally, as produced water has a high mineral content. At present we use a licensed water disposal company, who inject the produced water into deep saline aquifers, to minimise its impact on the surrounding environment.

It is common practice for oil and gas companies to dispose of oil-based cuttings, produced in drilling operations, into landfill through external disposal companies. However, Australis is seeking to facilitate the onsite bioremediation of all oil-based waste we produce. Bioremediation is the use of natural living organisms and processes to remove contaminants, pollutants and toxins from soil and water. The bioremediation process is currently being trialled on our Stewart-Bergold site, for the first time in the state of Mississippi, with approval from Mississippi authorities. In the event that this bioremediation process is not successful, Australis will continue to ensure the safe disposal of all waste produced through the services of a reputable third-party disposal company.



Spill Prevention & Remediation

During 2018, Australis is proud to report we have had zero reportable spills to the environment. This is attributable to the fact that Australis operates using best practice initiatives such as full secondary bounding around all onsite storage tanks and sophisticated data monitoring systems with alarms and automatic shut-downs. Our advanced tank battery containment systems consist of steel walls with a synthetic liner. These resist weathering and wear and tear, and are more easily repaired when required. Australis maintains Spill Prevention, Control and Countermeasure (SPCC) Plan documents for all operated locations, as required by local law.

Ensuring we operate with the latest and safest technology, we reduce the impact on the surrounding area and minimise the need for remediation in the future. Where remediation is required in the future, Australis will perform remediation work as soon as practicable and in full compliance with all regulatory requirements. To demonstrate Australis' understanding of the importance of adequate remediation, anticipated remediation costs are provided for and are incorporated in the Company's current Statement of Financial Position.

STAKEHOLDER RELATIONS

In addition to the EHS performance indicators mentioned above, the Company has actively engaged with external stakeholders relating to EHS matters. We value our stakeholder relationships with high regard and seek to uphold positive and frequent community engagement throughout our operations.

Community Engagement

Mississippi:

- Australis' senior management team proactively met with government regulators in Mississippi to update them on the Company's progress and obtain information on specific regulatory programs pertinent to our operations. Managing Director, Ian Lusted, hosted a "town hall" in Mississippi with local officials and landowners, coordinated with the local House Representative, Angela Cockerham.
- We maintain a 24-hour emergency hotline with posted signage for the public and landowners at all of our operated locations.
- We frequently collaborate with local governments to address public road maintenance issues at our field locations.
- Since inception, Australis has carried out two Emergency Response drills to ensure the continuous development of our emergency preparedness and response procedures with local and state authorities.

Portugal:

- Manager Director, Ian Lusted, has conducted several briefing sessions with local Municipalities in Portugal and town hall meetings with local communities.
- Australis' senior management team met with the communities within Portugal to maintain transparency and credibility in our operations in Portugal.



Sustainability Report

Social Investment

Australis is continually striving to increase our community engagement, with the Board setting aside designated funds to support education and community sustainment projects throughout 2019. Australis also strives to utilise local contractors for goods and services we employ in our operations, to further support the surrounding communities.

Australis values the communities we operate in, and so the Company participates in charitable organisations in both Australia and the United States. Support for charitable organisations has historically been achieved through corporate sponsorship, employee participation and fund raising.

In 2018, the Australis Group contributed to charities including:

- Euroz North Cottesloe Coldwater Classic (Australia), an event to support The Leukaemia Foundation
- The BrightSpark Child Health Research Foundation (Australia)
- Pedal for Diabetes (Australia)
- The Houston Livestock Show and Rodeo (USA), an event which funds college scholarships to students
- The Houston Food Bank & Meals on Wheels (USA)

ECONOMIC SUSTAINABILITY

Risk Management

Australis has developed a robust system of risk management and internal controls which facilitate the identification and management of risks that may have a material impact on Australis' strategy or objectives.

The Board retains overall responsibility for reviewing, ratifying and monitoring systems of risk management and internal control, however, the day to day responsibility for the management of risk is delegated to the CEO. The Board has adopted a Risk Management Policy and associated procedures, which are reviewed by the Board on at least an annual basis. Corporate and Operation Risks are reviewed by Company management on a weekly and fortnightly basis, depending on the severity of the risks.

Australis' Risk Management Policy is available via the Company's website.

Financial Risk Management

The Board has delegated responsibility for financial risk management to the Audit and Risk Management Committee (ARMC). The ARMC reports to the Board on at least an annual basis as to the effectiveness of the financial risk management and internal control systems.

Australis' Audit and Risk Management Charter is available via the Company's website.

Operational Risk Management

Australis utilises PEC Safety, a third-party registration system, to qualify contractors and to require them to track and report their EHS performance to Australis. Potential contractors must meet minimum insurance, safety and environmental requirements in line with industry standards and thus achieve a minimum score on PEC's scoring system to be considered by Australis during the procurement process. As authorised within all Master Services Agreements, Australis retains the right to audit vendors as part of our risk management framework.

Compliance

Australis is committed to conducting its business in compliance with the laws, regulations and rules of the jurisdictions and capital markets in which it operates or functions. In order to achieve this goal, Australis has adopted a sound system of corporate governance which is regularly monitored, developed as appropriate and communicated to employees.

The directors of Australis Oil & Gas Limited present their report on the consolidated entity consisting of Australis Oil & Gas Limited ("Company" or "Australis") and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 31 December 2018.

Directors

The names of the directors of the Company in office at any time during or since the end of the financial year ended 31 December 2018 are:

Mr Jonathan Stewart	Non-Executive Chairman
Mr Ian Lusted	Managing Director and Chief Executive Officer
Mr Graham Dowland	Finance Director and Chief Financial Officer
Mr Alan Watson	Non-Executive Director
Mr Steve Scudamore	Non-Executive Director

Each director held their office from 1 January 2018 until the date of this report.

Directors Interests in shares and options

The relevant interest of each director in the ordinary share capital of Australis at the date of this report is:

Shares held in Australis Oil & Gas Limited	Shares	Options	Performance Rights
J Stewart	62,042,859	45,000,000	-
I Lusted	14,668,572	16,250,000	1,383,721
G Dowland	14,750,000	13,500,000	976,744
A Watson	3,910,000	875,000	-
S Scudamore	197,215	420,000	-

Details of the qualifications, experience, special responsibilities and meeting attendance of each of the directors are set out later in the Directors' Report.

Principal activities

The principal activity of the Consolidated Entity continued to be oil and gas exploration, development and production. During the year the Consolidated Entity commenced an Initial Drilling Program in the TMS acreage it holds in Mississippi, USA.

Consolidated Financial Results

All references to dollars in this report will be US dollars unless otherwise stated.

	Year Ended 31 December 2018	Year Ended 31 December 2017
	US\$'000	US\$'000
Consolidated profit / (loss) before income tax expense	85	(1,159)
Income tax expense	-	-
Net profit / (loss)	85	(1,159)

REVIEW OF OPERATIONS

A review of Group operations is included in the Operating & Financial Review within this Annual Report.

Directors' Report

Mr Jonathan Stewart

– Chairman

Qualifications - B.Com, CA

Mr Stewart was appointed as the Non-Executive Chair of Australis on 12 November 2015. Mr Stewart was a founder of Aurora and was a director of Aurora from 22 February 2005 until the acquisition of Aurora by Baytex Energy Australia Pty Ltd on 11 June 2014.

He was Executive Chairman and CEO of Aurora until separating those roles in 2012. An experienced oil & gas executive, Mr Stewart has held a number of executive management positions in listed and unlisted companies in Australia, the United States, Canada, the United Kingdom and the former Soviet Union. He has considerable experience in the management of oil and gas exploration and production companies, structuring and financing of transactions and the broader strategic development of companies. He has also been involved helping list a number of companies in Australia, the United Kingdom and Canada. Based in Europe during the 1990s, Mr Stewart helped establish a number of oil and gas ventures, particularly in the former Soviet Union, including two new oil and gas companies listed on the London Stock Exchange. He has been involved in raising significant capital from international equity markets to enable the successful development of these projects.

Mr Stewart is a qualified Chartered Accountant.

Other current directorships of Australian listed public entities

None

Former directorships with Australian listed public companies within the last three years

None

Special responsibilities

Chairman of the Board

Member of the Audit and Risk Management Committee

Member of the Remuneration and Nomination Management Committee

Mr Ian Lusted

– Managing Director and Chief Executive Officer

Qualifications – B. Science, MBA

Mr Lusted was appointed Managing Director and CEO of Australis on 12 November 2015. Previously Mr Lusted was Technical Director of Aurora from 14 April 2008 until August 2013. As well as being responsible for all technical activities carried out by Aurora, Mr Lusted played an active role in investor and stakeholder relations. He has extensive international oil & gas experience, having begun his career in the industry in 1991 with Shell International after serving for several years as an officer in the Royal Navy. At Shell, Mr Lusted gained upstream operations experience in a variety of locations including the North Sea, SE Asia and onshore Europe. He was responsible for field operations including drilling and well operations on semi-submersibles, platform, jack-up and land facilities. In 1998 Mr Lusted established Leading Edge Advantage ("LEA"), an advanced drilling project management consultancy based in Aberdeen and subsequently in Perth, Australia. Mr Lusted led a number of multi-discipline project teams that implemented world first technology applications often in complex jurisdictions. In 2005, Mr Lusted assumed the Technical Director position for Cape Energy, a private oil and gas company. The company held acreage in Australia and the Philippines where Cape Energy was a key participant in moving the offshore Galoc field to development status. Mr Lusted acted in this capacity until August 2007 when he joined Aurora and in 2008 he was appointed Technical Director. Starting with a very small technical team and drawing on the services of 3rd party contractors, Mr Lusted managed the Aurora contribution to the early evaluation and operational activity within the Sugarkane Field. As activity levels increased staff were sourced and recruited to provide in house resource and expertise, Mr Lusted continued to participate at a decision making level but took on additional supervisorial and management roles.

Mr Lusted holds a B.Sc (Hons.) from York University in the United Kingdom and is a member of the Society of Petroleum Engineers.

Other current directorships of Australian listed public entities

None

Former directorships with Australian listed public companies within the last three years

None

Special responsibilities

None

Mr Graham Dowland
– Finance Director and Chief Financial Officer

Qualifications - B.Com, CA

Mr Dowland was appointed Director and CFO of Australis on 12 November 2015. Previously Mr Dowland was a founding director of Aurora appointed on 22 February 2005. Mr Dowland held the position of Finance Director of Aurora from 10 November 2010 until the acquisition of Aurora by Baytex Energy Australia Pty Ltd on 11 June 2014. He has over 30 years corporate finance and management experience in the oil and gas industry having previously held director or senior management or advisory positions in Australian, Canadian and UK-listed companies with oil & gas operations in the UK, Russia, Azerbaijan, Indonesia, Australia and New Zealand. Mr. Dowland is a qualified Chartered Accountant.

Other current directorships of Australian listed public entities

None

Former directorships with Australian listed public companies within the last three years

None

Special responsibilities

None

Mr Alan Watson
– Non-Executive Director

Qualifications – B.Sc (Hons.)

Mr Watson was appointed as an independent Non-Executive Director of Australis on 24 May 2016. Mr Watson was formerly an independent, non-executive director of Aurora from 17 November 2010 until the acquisition of Aurora by Baytex Energy Australia Pty Ltd on 11 June 2014. Mr Watson is a Sydney-based investment banker with 35 years of experience within various global equity markets. Over this period he has established, directed and been responsible for the conduct of securities businesses both in Europe and Asia advising many companies on capital structuring, initial public offerings, takeovers and mergers and investment relations strategies. Mr Watson has held positions at Barclays de Zoete Wedd Limited, Donaldson, Lufkin & Jenrette Securities Corporation, Lehman Brothers Holdings Inc and as Head of Securities Europe for Macquarie Capital (Europe) Ltd. Mr Watson is currently independent Chairman of ASX listed funds management company Pinnacle Investment Management Group Limited.

Other current directorships of Australian listed public entities

Pinnacle Investment Management Group Limited

Former directorships with Australian listed public companies within the last three years

None

Special responsibilities

Chairman of the Remuneration and Nomination Committee

Member of the Audit and Risk Management Committee

Directors' Report

Mr Stephen Scudamore **– Non-Executive Director**

Qualifications – MA (OXON), FCA

Mr Scudamore was appointed as an independent Non-Executive Director of Australis on 30 November 2016.

Mr Scudamore is an experienced Australian company director. His distinguished career includes more than three decades with KPMG, including senior roles in Australia, London and PNG including Chairman of Partners WA, Head of Corporate Finance in WA and National Head of Valuations, KPMG Australia.

Since 2012, Mr Scudamore has been a non-executive Director and Chairman of MDA National Insurance Pty Ltd, the insurance arm of a mutual medical defence organisation founded in Perth in 1925. He was previously Non-Executive Director of Aquila Resources and Altona Mining and is currently a non-executive Director of Pilbara Minerals Limited.

His involvement in community organisations includes roles as Chairman of Amana Living, Member of Council and Chairman of the Audit and Risk Committee at Curtin University and Trustee at the Western Australian Museum.

Mr Scudamore is a Chartered Accountant with a Master of Arts from Oxford University, a Fellow of the Institute of Chartered Accountants, England, Wales and Australia (FCA), a Fellow of the Institute of Company Directors (FAICD) and a Senior Fellow of the Financial Services Institute of Australia (SF Fin).

Other current directorships of Australian listed public entities

Pilbara Minerals Limited

Former directorships with Australian listed public companies within the last three years

Altona Mining Limited (Resigned April 2018)

Aquila Resources (Resigned June 2016)

Special responsibilities

Chairman of the Audit and Risk Management Committee

Member of the Remuneration and Nomination Committee

Ms Julie Foster **– Vice President - Finance and Company Secretary** **Qualifications – BA(Hons), ACA (ICAEW), AGIA**

Ms Foster was appointed Vice President-Finance and Joint Company secretary of Australis on 12 November 2015. Previously Ms Foster was Group Controller and Company Secretary of Aurora from 2008 until its acquisition by Baytex Energy Australia Pty Ltd on 11 June 2014.

Ms Foster holds a degree in Accounting and Finance (BA Hons) and is a member of the Institute of Chartered Accountants in England and Wales (ACA) and a member of the Governance Institute Australia (AGIA).

Indemnity of directors and officers

The Company has paid a premium in respect of a contract insuring the directors and officers of the Company and Group against liabilities incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Meetings of Directors

The following table sets out the scheduled number of meetings of the Company's directors held during the year and the number of meetings attended by each director.

	Meetings of directors		Meetings of committees			
	Eligible to attend	Attended	Audit		Remuneration	
			Eligible to attend	Attended	Eligible to attend	Attended
Jonathan Stewart	4	4	4	4	2	2
Ian Lusted	4	4	-	-	-	-
Graham Dowland	4	4	-	-	-	-
Alan Watson	4	4	4	4	2	2
Steve Scudamore	4	4	4	4	2	2

In addition to the above formal meetings there were a number of informal meetings held throughout the year to discuss a variety of operational and strategic matters. Informal meetings included a visit to the USA field operations in Mississippi and Louisiana and the operations office on Houston. The Board and Committees also resolved several actions by circular resolution. A total of 19 Board resolutions, 3 Audit Committee resolutions and 2 Remuneration Committee resolutions were resolved by circulatory resolution during 2018.



Back, from left to right: Alan Watson, Jon Stewart and Steve Scudamore
Front, from left to right: Ian Lusted, Julie Foster and Graham Dowland

Directors' Report

Shares issued on the exercise of options

The following fully paid ordinary shares were issued during the year ended 31 December 2018 on the exercise of options (2017: Nil). No amounts are unpaid on these shares.

Grant Date	Year Ended 31 December 2018		Year Ended 31 December 2017	
	Number	Exercise Price	Number	Exercise Price
Options 16-May-16	4,316,703	A\$0.275	-	
Total	4,316,703		Nil	

Performance Rights

2,117,188 performance rights vested during the year, 9,785 performance rights were exercised and settled through the Australis Oil & Gas Employee Share Trust with treasury shares previously acquired on market. 41,738 performance rights were deemed exercised and sold upon vesting to meet employee tax obligations in the United States upon vesting.

During the year ended 31 December 2018, 435,536 performance rights lapsed as a result of failure to meet the employment vesting condition (2017: 196,102). No performance rights expired during the year (2017: Nil).

Significant changes in the state of affairs

The significant changes in the state of affairs of the Consolidated Entity during the financial period and to the date of this report are set out in the Operating & Financial Review above and the events after the reporting date below.

Dividends

In respect of the year ended 31 December 2018, (2017: Nil) no dividends have been paid or declared and the directors do not recommend the payment of a dividend in respect of the financial period.

Events after the reporting date

On 18 February 2019 Australis announced that it had successfully completed a placement of 87 million shares at A\$0.35 per share to raise A\$30.45 million before costs of issue. The placement was split into two tranches with:

- settlement of Tranche 1 (A\$29.5 million) expected on 27 February 2019; and
- settlement of Tranche 2 (A\$1.1 million), the issue to the Directors, immediately after the AGM in April 2019.

Other than disclosed above, no event has occurred since 31 December 2018 that would materially affect the operations of the Group, the results of the Group or the state of the affairs of the Group not otherwise disclosed in the Group's financial statements.

Likely developments

Refer to Future Developments section on page 18 of the Operating & Financial Review.

Environmental developments

The Group is subject to environmental regulations under State and Federal laws in the jurisdictions where it holds exploration leases and concessions being the United States and Portugal.

Rounding off of amounts

The Company is of a kind referred to in ASIC Class Order 2016/191, dated 24 March 2016 and in accordance with that Class Order amounts in the Director's Report and Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Proceedings on behalf of Australis

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of Australis, or to intervene in any proceedings to which Australis is a party, for the purpose of taking responsibility on behalf of Australis for all or part of these proceedings.

No proceedings have been brought or intervened in on behalf of Australis with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

From time to time Australis may decide to employ the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with Australis are important.

The Board has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the audit independence requirement of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principle relating to auditor independence as set out in APES 110 Code – Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for Australis, acting as advocate for Australis or jointly sharing economic risk and reward.

Details of the amounts paid or payable to the external auditors, BDO for audit and non-audit services provided during the year are set out at Note 7.7 to the financial statements.


Directors' Report

Auditor's Independence Declaration

The Auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is included on page 113.

The Directors' Report is signed in accordance with a resolution of the directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the directors,



Jonathan Stewart
Chairman

Perth, Western Australia
26 February 2019

The Directors of Australis Oil & Gas Limited present their Remuneration Report on the consolidated entity consisting of Australis Oil & Gas Limited (“Company” or “Australis”) and the entities it controlled (“Consolidated Entity” or “Group”) for the year ended 31 December 2018.

This remuneration report outlines the remuneration arrangements of key management personnel (KMP) of the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, including any director (whether executive or otherwise) of Australis.

In accordance with section 308(3C) of the *Corporations Act 2001*, the remuneration report has been audited by BDO Audit (WA) Pty Ltd and forms part of the Directors’ Report.

In this report the remuneration and benefits reported have been presented in United States dollars (unless otherwise stated) as a result of Australis change in functional and presentational currency from 1 January 2017. Quoted share prices and volume weighted average price of shares are expressed in Australian Dollars.

Australian based KMP are paid in Australian dollars. Remuneration and benefits denominated in Australian dollars have been converted to United States dollars at the exchange rate prevailing at the date of the transaction.

CONTENTS OF THE REMUNERATION REPORT:

1. Letter from the Chair of the Remuneration and Nomination Committee
2. 2018 Remuneration overview
3. Key Management Personnel
4. Responsibilities of the Board and Remuneration and Nomination Committee
5. Remuneration Structure – Executive KMP
 - 5.1 Remuneration principles
 - 5.2 Remuneration components
 - 5.2.1 Fixed remuneration
 - 5.2.2 Short term incentives
 - 5.2.3 Long term incentives
6. Remuneration Structure – Non-Executive directors
 - 6.1 Remuneration principles
 - 6.2 Remuneration components
7. Terms and Conditions of Share Based Compensation
 - 7.1 Options
 - 7.2 LTI Plan Awards
8. Share-based awards granted and vested during the year
9. Share-based awards exercised during the year
10. Consolidated entity performance.
 - 10.1 Company Performance
 - 10.2 LTI Plan peer group
11. Total remuneration summary
 - 11.1 Remuneration of KMP
 - 11.2 Share-based compensation benefits
12. KMP interests in shares, performance rights and options
 - 12.1 Shareholdings and performance rights and option holdings
13. Employment agreements KMP
14. Remuneration Strategy

Remuneration Report

1. LETTER FROM THE CHAIR OF THE REMUNERATION AND NOMINATION COMMITTEE

Dear fellow Shareholders

The Board is pleased to present to you the 2018 Remuneration Report.

Consistent with previous years, the philosophy adopted by the Board in setting Executive KMP remuneration for 2018 sought to align the mix of compensation to both the longer term strategy of the Company to grow shareholder value, and also to the specific goals agreed for 2018, the achievement of which were critical to successful initial development of our TMS asset.

With this in mind, the Board determined prior to the commencement of the year, a range of 'at risk' incentives to compliment the Executive KMP fixed remuneration. The quantum of these at risk incentives were determined in the main, by the measurement of the outcomes of the set objectives. In addition, in 2018 the Board refined mechanisms designed to prioritise and reward "safety" throughout all of our operations.

In 2018, the critical objectives were:

- continued acquisition of and consolidation within the TMS core leasehold position.
Outcome: TMS core land position increased by over 15%, at a cost less than budget and, importantly, increased the lease expiry providing valuable flexibility for future development.
- planning, financing and execution of the Australis operated drilling program. This program was and remains a key strategy.
Outcome: successfully initiated although outcomes on well capex and productivity will require post year end results from all wells that commenced drilling in 2018.
- ensuring cost efficient existing well production
Outcome: largely achieved with the positive trend in cost reductions and legacy well production.
- increasing the reserves and resources and commencing the transition of resources to reserves.
Outcome: all reserve categories increased and the transition of Contingent Resources to reserves commenced.
- to operate safely in all areas whilst ensuring a responsible approach to the environment in which operations take place.
Outcome: operations conducted safely with no recordable injuries, lost time incidents or reportable spills and a proactive safety conscious culture and internal reporting system.

The components of the Executive KMP Remuneration Plan in 2018 comprised:

- Fixed remuneration
- At Risk – short term compensation incentives
 - corporate objectives linked to specific targets or outcomes with stretch targets for material outperformance,
 - individual goals based on the Executive KMPs role within the organisation, and
 - overriding these short term incentives Executive KMP, as with all employees, are encouraged to place the environment and the health and safety of all employees and contractors (EHS) as priorities. Depending on outcomes of set EHS measurable targets, the achievement of overall short term objectives and individual goals are materially scaled up or down, emphasising the importance the board places EHS outcomes.
- At Risk – long term compensation
 - Grant of Performance Rights, vesting into ordinary Australis shares over a 3 year period, with the majority vesting in the 3rd year and between 60% and 75% of each grant of Performance Rights subject to ASX share price performance requiring improved performance each year of vesting.

The outcomes of the at risk compensation are set out within the Remuneration Report. The Board is currently satisfied with the initial results surrounding all EHS aspects, particularly as activity levels have materially increased and we will continue to prioritise this aspect of remuneration in the future.

It is worth noting that one of the key corporate objectives for 2018 required the commencement of drilling Australis operated TMS wells within budget and producing to Type Curve. Results of the initial 4 wells of the drilling program comprising the 2018 target will not be available until the first half of 2019 upon achieving each of their initial 30 day production rates. Consequently the portion of Executive STI (short term incentive) relating to this cannot be quantified prior to the date of these accounts. If the maximum stretch target for this objective had been met in the year this would have resulted in an additional 27% of the maximum available STI for each executive KMP. It is expected that this amount will be finalized and paid in the first half of 2019, and as such will form part of the 2019 Remuneration Report. Shareholders should be aware of this when considering comparisons of remuneration outcomes for 2019 over 2018.

2019 Remuneration Plan

As with the 2018, the at risk compensation for 2019 is linked to the desired corporate strategies. These again include safety as an overarching target for all activity undertaken by the Australis group. Drilling wells at or above expected productivity rates within or less than budget remains a key goal. Leasing, reserves and resource transition, together with cost effective production maintenance remain key components.

Executive KMP will be invited to participate in the Long Term Incentive Plan with the grant of Performance Rights subject to share price performance weighted to absolute total shareholder return criteria. Shareholder support will be sought at the upcoming AGM for the executive directors' participation.

There have been modest base salary increases for all KMP. With regard to the CEO and CFO, shareholders will recall that they have received no fixed remuneration increases since 2016. Recognising the Company has grown very materially over that period, and having considered data of relevant peers, the Board has awarded base salary increases of 18% and 9% respectively.

Non executive directors fees increased between 4% and 8%.

We hope you find the Remuneration Report helpful.



Alan Watson
Chairman, Remuneration and Nomination Committee
Perth, Western Australia
26 February 2019

Remuneration Report

2. 2018 REMUNERATION OVERVIEW

The Board, together with the Remuneration and Nomination Committee, have established a remuneration structure appropriate for the planned activity levels and evolution of the Company's development and business which is aligned with the achievement of the Company's strategic objectives. Recognising that the Company has entered an important phase of its evolution, the Board considers that the current components of the Australis remuneration structure are required to retain high calibre executives with appropriate experience, both in Australia and North America.

During 2018 the Company commenced its initial drilling program in North America. As a result, the Board introduced remuneration targets which reward staff for meeting productivity and capital expenditure targets, whilst maintaining the Company culture and commitment to achieving high rates of safety measured with reference to injury time, safety and environmental standards and vehicle use customary for onshore oil & gas operations.

The Board recognises that a motivated workforce is essential for the achievement of its corporate goals and as such the remuneration structure seeks to reward those who perform and encourage both individual and corporate growth and advancement through the offering of:

- fixed remuneration that aligns an individual's role, their level of knowledge, skills and experience with market practice and economic conditions;
- short term incentives (STI's) that reward the achievement of near term goals which align with long term strategic objectives; and
- long term incentives (LTI's) to help strengthen the links between employees and the Company, intended to align the long term objectives of employees with those of Shareholders and to assist in attracting high calibre personnel particularly in North America where LTI's are a more common recruitment and retention tool.

In 2016 the Australis Oil & Gas Limited Employee Equity Incentive Plan (LTI Plan) was approved by Shareholders. The LTI Plan is the structure under which the annual grant of long term incentives will be offered to employees. The first awards were made in 2017 under the LTI Plan to employees other than executive directors. Further awards were made in 2018 to all employees including executive directors. The Board retains the right to offer incentives such as options and shares to future executives where necessary to attract or retain high calibre candidates.

Whilst NEDs are permitted to participate in the LTI Plan, there is no proposal that they do so.

3. KEY MANAGEMENT PERSONNEL

The KMP disclosed in this report are as follows:

Name	Position
Directors	
Jonathan Stewart	Non-Executive Chairman
Ian Lusted	Managing Director and Chief Executive Officer (CEO)
Graham Dowland	Finance Director and Chief Financial Officer (CFO)
Alan Watson	Independent Non-Executive Director
Steve Scudamore	Independent Non-Executive Director
Other KMP	
Michael Verm	Chief Operating Officer (COO) –designated as KMP on 13 April 2017 upon acquisition of producing TMS assets
Darren Wasylucha	Chief Corporate Officer (CCO) – designated as KMP on 1 January 2018 ⁽¹⁾

⁽¹⁾ Appointed as CCO on 18 December 2017.

Executive KMP are all KMP other than non-executive directors.

4. RESPONSIBILITIES OF THE BOARD AND REMUNERATION AND NOMINATION COMMITTEE

The Board retains overall responsibility for remuneration policies and practices within the Australis Group.

The Board has established a Remuneration and Nomination Committee (RNC or Committee) which operates in accordance with its charter as approved by the Board. A copy of the charter is available under the corporate governance section of the Australis website.

For 2018 the RNC was comprised of Independent non-executive directors: Mr Alan Watson (Chair) and Mr Steve Scudamore and non-executive chairman Mr Jonathan Stewart whose qualifications are set out within the Directors Report at page 34.

The RNC charter sets out the main responsibilities of the Committee with regard to remuneration including to:

- Undertake regular (at least every two years) review of market conditions, economic factors, industry trends, remuneration statistics and trends, and peer remuneration practices to set the framework for the determination of organisational wide remuneration policies;
- Review the Company's Human Resources Policies including a review of the Company's Remuneration Policy, and other recruitment, retention and termination policies and procedures for senior executives;
- Review and make recommendations to the Board in relation to whether there is any gender or other inappropriate bias in remuneration for directors, senior executives or other employees;
- Recommend to the Board the structure of employee incentive and equity-based plans including the appropriateness of performance hurdles;
- Review the outcomes of incentive plans and approve (or recommend to the Board in the case of executive directors) proposed payments under those plans;
- Review all executive compensation disclosure before the Company publicly discloses this information, including in the annual Remuneration Report and in any information circular for annual general meetings;
- Recommend to the Board the terms and conditions governing the appointment, remuneration and termination of employment of the CEO and executive directors;
- Determine CEO and executive director Key Performance Indicators (KPIs) and recommend them to the Board;
- Evaluate the performance of the CEO and executive directors in light of those KPIs;
- Consider and provide feedback on the CEO's recommendations in relation to other senior executive remuneration matters;
- Review the remuneration of non-executive directors on a regular basis and recommend any changes in remuneration to the Board; and
- Review the adequacy of the Claw Back Policy.

Remuneration Report

5. REMUNERATION STRUCTURE - EXECUTIVE KMP

5.1 Remuneration Principles

The objective of the Group's remuneration framework is to provide an appropriate and competitive reward which aligns the compensation packages of those executives of Australis who are considered KMP (Executive KMP) with the achievement of the strategic objectives of the Group including long term growth in shareholder value by linking rewards to individual performance and the performance of the Group over the short and long term.

Executive KMP receive a mix of fixed and "at risk" remuneration which includes a blend of short and long term incentives and benefits.

The remuneration framework is designed to attract, motivate and retain high calibre Executive KMP. The remuneration framework has been established with the aim of being appropriate within both Australia and North America. The framework seeks to align:

- fixed remuneration for individual roles and responsibilities with that of peers in accordance with market practice and conditions;
- "at risk" short term incentives with each Executive KMP contribution and effort to the achievement of the Company's ongoing performance defined by pre-determined key performance targets. The key performance targets are based on the annual goals and targets, including outperformance targets, of the Company which are in turn linked to the corporate strategy. Prior to the effect of the Environmental Health and Safety (EHS) Targets on STI achievement:
 - a) 80% of available STI is linked to measurable corporate targets and goals. If all out performance stretch targets are achieved this increases to 99.75% of available STI
 - b) 20% of available STI is linked to individual performance which contains subjective measures determined and assessed by the board;
- "at risk" long term incentives with shareholder objectives through the grant of share-based incentives with performance hurdles. Prior to 2016, long term incentives were provided to Executive KMP (also founders of the Company) through the grant of non-transferable options, subject to vesting requirements linked to continued employment. No long term incentives were granted to executive directors under the LTI Plan in 2017 as advised in the IPO Prospectus. Long term incentives were granted to other Executive KMP under the LTI Plan in 2018 as set out herein. It is likely that future long term incentives offered to existing and any new Executive KMP will include performance hurdles that include minimum absolute shareholder return ("TSR") that may, in part, be benchmarked to a peer group that could be considered as an alternative investment to Australis.

The Company has adopted a Claw Back Policy which permits the claw back of vested and unvested short and long term incentives granted to Executive KMP and other senior executives, in accordance with the terms of the applicable incentive, including if the Company becomes aware of a material misstatement in its financial statements or other reports for the immediately preceding financial year for LTI's and for STI's or becomes aware of an event that has occurred, including but not limited to fraud or dishonesty, which would deem that some or all of the performance based remuneration should not have been paid to Executive KMP and other senior executives.

5.2 Remuneration Components

The various components of Executive KMP remuneration are set out below.

Table 1: Executive KMP remuneration components

5.2.1 Fixed remuneration	
Base Remuneration	<ul style="list-style-type: none"> Base remuneration for Executive KMP is reviewed annually by the RNC as part of the Company's annual performance review processes. Consideration is given to comparable roles in organisations of a similar size, industry and complexity. Where relevant, remuneration information derived from remuneration surveys conducted by independent third parties are used to supplement this data.
Post-employment benefits	<ul style="list-style-type: none"> Minimum Superannuation Guarantee contributions are made for Australian-based Executive KMP. USA based Executive KMP receive a contribution towards retirement plans which matches their own contributions to such plans. In 2018, contributions were matched for USA Executive KMP up to a maximum of 6% of base salary. Termination benefits are payable to Executive KMP as part of their contractual agreements as set out in section 13. These termination benefits were approved by shareholders on 27 June 2016 for Executive KMP other than Mr Wasylucha whose termination benefit will, in a similar manner to other Executive KMP, be put before shareholders at the forthcoming AGM.
Other benefits	<ul style="list-style-type: none"> For the year ended 31 December 2018, the following benefits or allowances (including fringe benefits tax where applicable) were made available to Executive KMP: Car parking – CEO, CFO and COO. Health, dental and life insurance benefits – COO and CCO (a standard benefit for North American based employees).
5.2.2 Short term incentives	
What is a short term incentive (STI)	<ul style="list-style-type: none"> An STI is an 'at risk' cash incentive payment which is paid to Executive KMP at the discretion of the Board on an annual basis, subject to the satisfaction of performance conditions including pre-set corporate goals and targets and assessment of individual performance for 2018 which align with corporate strategy. The maximum amount of STI payable to Executive KMP is expressed as a percentage of their Base Remuneration and is based on employment level. The STI percentage for individual Executive KMP is pre-approved by the Board or RNC. The Board retains the right to grant STI's in recognition of, however is not restricted to, additional workload and ad hoc assignments.
Objectives	<ul style="list-style-type: none"> To provide reward for each Executive KMP's performance in achieving pre-agreed individual and corporate objectives which have been determined to be priorities for the relevant period.

Remuneration Report

5.2.2 Short term incentives (Continued)

- Performance conditions • The level of STI awarded is determined by reference to both individual and Company performance. 2018 was a transformational year for the Company as it commenced the Initial Drilling Program in its major onshore development asset, the TMS. As the process for the setting of STI targets and goals is undertaken prior to the performance year, the RNC determined that the corporate KPIs for 2018 reflect alternate scenarios which would be dependent on the timing of the commencement of the Initial Drilling Program. For Executive KMP up to 99.75% (all stretch targets exceeded and prior to the EHS target multiplier) of available STI is linked to corporate performance.
- For 2018 Company performance is assessed based on weighted components that included:

Corporate KPI's	As a % of target STI	Range (subject to minimum threshold achievement)		EHS Multiplier ⁽¹⁾
		Target	Base	
Goals aligned to preparation and approval of development activities in the US & Portugal	25%	25%	25%	60-140%
Targets relating to the TMS land program involving targets for acquisition and renewal of leases in the core TMS focus area within budget and meeting the criteria for long life expiry	10%	10%	12%	60-140%
Targets relating to the maintenance of production from existing (legacy) operated wells	5%	2.5%	6.25%	60-140%
Targets relating to increasing reserves and resources including the transition of resources to reserves	5%	4%	5.5%	60-140%
Target relating to financing group activities including the land program and initial drilling program	15%	15%	15%	60-140%
Target relating to capital expenditure and production of new wells	20%	2%	36%	60-140%
Not yet assessed (See below)				
Total not greater than	80%	58.5%	99.75%	

⁽¹⁾ The Board and management of Australis are committed to supporting a culture of prioritising safety. In April 2017 Australis acquired producing TMS assets in Mississippi and Louisiana and took over operatorship of its existing producing wells. As a result, an additional KPI was adopted for all levels of employees to directly incentivise the continual prioritisation adoption of a safety culture. As the Company planned to commence its drilling program during the year the safety performance KPIs were maintained for 2018. The EHS KPI relates to specific statistical targets for reportable incidents. These targets are monitored on a regular basis. Due to the importance attributed to the safety culture the EHS KPI overrules the existing corporate and individual KPI's. A multiplier of between 60%-140%, dependent on the level of achievement of EHS targets, will be applied to the achieved STI %.

- At the end of the financial year, the RNC determined the corporate KPI outcomes based on the allocation (set at the commencement of the year) appropriate to the Company's activity during 2018 and assessed achievement of certain components of Company performance based on a pre-determined range as follows:
 - Base – minimum performance necessary to qualify for an award.
 - Target – where performance requirements are met.
 - Stretch – where performance requirements are exceeded.
- In addition, for Executive KMP 20% of available STI is linked to individual performance and is measured against personal objectives which support both the base business and promote business growth. The individuals' performance rating assesses the achievement of these goals as well as overall performance and behaviour.
- The STI outcome for each Executive Director is approved by the Board after receiving recommendations from the RNC. For Executive KMP other than the CEO and CFO, the amount of STI to be paid is approved by the RNC based on the recommendation of the CEO. The payment of STI's will occur after lodgement of the 2018 Audited Financial Report.

5.2.2 Short term incentives (Continued)

Awards

- The Initial Drilling Program commenced in the third quarter of 2018. As a result the performance KPI associated with the capital expenditure (Capex) and production targets for new wells which requires the average IP30 (i.e. production from the first 30 days) results from the first four wells drilled, will not be able to be assessed until the second quarter of 2019. This KPI represents 20% of the available target STI for 2018. Note that if there is significant outperformance in terms of the averaged well productivity together with material capital expenditure savings for all wells drilled in 2018 then a stretch target of up to 36% (or 45% including the achieved EHS multiplier) of this STI will be achieved. The RNC has determined that as the assessment of this KPI cannot be determined until after the release of the 2018 Remuneration Report, it will be deferred and form part of 2019 remuneration in addition to the 2019 STI Plan.
- The Company achieved the majority of the remaining corporate goals and targets set for 2018 due to:
 - the successful completion of an A\$39 million equity raising in March 2018 followed by the execution of a three-year senior secured US\$75 million term credit facility with Macquarie Bank Limited in June 2018, funding the Company's planned Initial Drilling Program.
 - the continued optimisation of a land acquisition strategy which resulted in the acquisition of an additional 15,000 net core acres during the year, both under budget and with an average lease life exceeding 4 years.
 - Increase in independently assessed reserves, together with conversion of resource to reserves.
 - Maintenance of legacy oil production within budget with a focus on completion design during workovers led to reduced well downtime.
 - the continued prioritisation of a safety culture which resulted in only 2 non-reportable incidents, both relating to minor motor vehicles incidents with no injury, during 2018 thereby resulting in the achievement of a 125% EHS multiplier which is applied to all achieved STI's for 2018 (including the result of the new well capex and production KPI which will now be assessed as part of the 2019 remuneration).
- Of corporate goals and targets not achieved during 2018, the additional legal requirements imposed by new environmental legislation leading to delays in progressing the exploration program in Portugal had the greatest impact.
- The STI Targets and achieved awards for the year ended 31 December 2018 were as follows:

Executive KMP	Maximum Available STI*	STI Deferred to 2019 (new wells – 2018 capex and productivity targets)				STI Forfeited	
		STI Achieved	% of Maximum Available STI ⁽³⁾	% of Maximum Available STI ⁽²⁾	% of Maximum Available STI		
Directors	Max STI Plan % of Base Salary ⁽³⁾	US\$ ⁽¹⁾	% of Maximum Available STI ⁽³⁾	US\$ ⁽¹⁾	% of Maximum Available STI ⁽²⁾	US\$ ⁽¹⁾	% of Maximum Available STI
I Lusted	117%	177,041	50%	94,422	27%	80,311	23%
G Dowland	101%	121,268	49%	66,651	27%	60,393	24%
Other							
M Verm	84%	114,891	48%	64,125	27%	59,886	25%
D Wasylucha	67%	75,616	50%	40,935	27%	35,954	24%

* Includes stretch targets and maximum EHS multiplier.

⁽¹⁾ Inclusive of superannuation (Australian KMP) and 401k (US KMP) where applicable.

⁽²⁾ The 2018 STI Plan included KPI's relating to production and capex costs for new wells spudded in 2018. 4 new wells were spud in 2018 however these commenced (or are expected to commence) production in the 4th quarter 2018 and 1st quarter 2019 such that the results, in particularly the IP 30 rates, will not be known until the second quarter of 2019. Therefore the RNC have determined that the assessment of this KPI will be deferred until 2019 and be recorded as 2019 remuneration. The KPI will be subject to 2018 performance criteria and the 2018 achieved EHS multiplier.

⁽³⁾ To reinforce the Company's commitment to a culture of safety an STI target focussed on Environment, Health and Safety (EHS) was introduced from 2017 and is applied to all employees. The EHS STI target measures all lost time incidents by employees or contractors on company sites, motor vehicle incidents with no value threshold and reportable spills with the overall result being a range of a maximum of an increase of up to 40% of achieved STI for achieving all EHS targets or reduction of up to 40% of achieved STI depending on the extent and number of EHS targets missed. Based on the safety record of no lost time incidents nor any reportable fluid spills and only 2 minor motor vehicle incidents, the EHS multiplier target was reduced to a 25% increase to achieved STI.

Remuneration Report

5.2.3 Long term incentives

What is a long term incentive (LTI) An LTI is an “at risk” incentive the value of which is derived from the equity of the Company and is designed to align compensation with the total shareholder return of the Company over the medium to long term. In 2016 the Company established the Australis Oil & Gas Limited Employee Equity Incentive Plan (LTI Plan) which was approved by shareholders at a general meeting on 27 June 2016. LTI awards under the LTI Plan can include options, performance rights and shares.

Objectives

- To reward, retain and motivate eligible employees.
- To assist in the engagement of high calibre employees.
- To link the reward of eligible employees to performance and creation of shareholder value.
- To align the interests of eligible employees with those of shareholders.
- To provide eligible employees with the opportunity to share in any future growth in value of the Company.
- To provide greater incentive for eligible employees to focus on the Company’s longer term goals.

Performance Conditions For the 2017 and 2018 performance year awards for Other KMP (excluding the executive directors) under the LTI Plan:

- 40% is subject to continued employment within the Group and vest in three annual tranches on a 1/7, 2/7, and 4/7 basis over a three-year period.
- 30% is subject to an Absolute TSR Performance Target and service condition and vest in three annual tranches on a 1/7, 2/7, and 4/7 basis over a three-year period.
- 30% is subject to a Relative TSR performance (as against peer companies – see below) and service condition and vest in three annual tranches on a 1/7, 2/7 and 4/7 basis over a three-year period.

For the 2018 performance year awards for Executive Directors under the LTI Plan:

- 25% is subject to continued employment within the Group and vest in three tranches on a 1/7, 2/7, and 4/7 basis over a three-year period.
- 37.5% is subject to an Absolute TSR Performance Target and service condition and vest in three annual tranches on a 1/7, 2/7, and 4/7 basis over a three-year period.
- 37.5% is subject to a Relative TSR performance (as against peer companies – see below) and service condition and vest in three annual tranches on a 1/7, 2/7 and 4/7 basis over a three-year period.

For the 2017 and 2018 Awards

- The LTI Plan incorporates a retest facility whereby any performance rights that do not vest on the Tranche 1 and / or Tranche 2 Vesting Dates pursuant to the Absolute and / or Relative TSR Performance Targets will be retested at the Tranche 3 Vesting Date in accordance with the Tranche 3 Performance Targets.
- Specific details regarding the Absolute and Relative TSR Performance Targets are set out in section 7.
- The CEO provides a recommendation to the RNC, based on performance outcomes, of awards to be vested for Executive KMP other than the CEO and CFO.
- The RNC provides a recommendation to the Board, based on performance outcomes, of awards to be vested for the CEO and CFO.

Awards The following performance rights were granted to Executive KMP in 2018:

Executive KMP	2018 Performance Rights Grant
Ian Lusted	1,383,721
Graham Dowland	976,744
Michael Verm	934,707
Darren Wasylucha ⁽¹⁾	662,214

⁽¹⁾ Mr Wasylucha was appointed as CCO on 18 December 2017 and designated as KMP on 1 January 2018.

- The terms and conditions of the 2018 LTI Awards – granted during the year are set out in Section 7 of this report.
- The fair value of the 2018 LTI Awards were calculated by RSM Australia Pty Ltd and will be expensed over the vesting periods commencing in the 2018 reporting period.

6. REMUNERATION STRUCTURE - NON-EXECUTIVE DIRECTORS

6.1 Remuneration Principles

The structure of non-executive director remuneration is separate and distinct from that of executive remuneration.

The Company's policy is to remunerate non-executive directors (NEDs) at a fixed fee for time, commitment and responsibilities. Remuneration for NEDs is set with regard to:

- market rates;
- the size and complexity of Australis operations; and
- the responsibilities and expected workloads of the NEDs.

In addition to these fees, NEDs are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred attending meetings of the Board, committees or shareholders or while engaged on Australis business.

Remuneration is not linked to individual performance, however to align directors' interests with shareholders' interests, NEDs are encouraged to hold shares in the Company. All NEDs are shareholders in the Company and their holdings are detailed in section 12.

There were no options or performance rights granted to NEDs during 2018.

During the 2017 year, the grant of the following options to Steve Scudamore were approved at a General Meeting of Shareholders on 10 April 2017. The options were granted to Mr Scudamore in accordance with the Company practice to grant options to NEDs upon appointment to the Board to attract high calibre, experienced directors and to facilitate the alignment of directors interests with that of shareholders.

Table 2: Grant of options to non-executive director

Name	Date of grant	Term	Exercise Price	Number of options granted	
				2018	2017
Steve Scudamore	10 April 2017	5 years (expiry 30 Nov 2021)	A\$0.3125	-	420,000
Total				-	420,000

The terms and conditions of the options affecting remuneration in the current and future years are set out in Section 7 of the Remuneration Report.

The effective date of grant of these options for the purposes of calculating the fair value using the Black Scholes option pricing model is the date of approval by shareholders and vesting commenced from this date. The fair value of the options granted will be expensed over the period from the effective date of grant to the date of vesting.

6.2 Remuneration Components

Table 3: Non-executive directors' remuneration components

Base remuneration	<ul style="list-style-type: none"> • Base fee – Chair of the Board of A\$240,000. • Base fee of A\$82,000 for other non-executive directors. • Additional fees: A\$10,000 - Chair of the Remuneration and Nomination Committee. A\$10,000 – Chair of the Audit and Risk Management Committee. • Maximum aggregate fees payable to non-executive directors as approved by shareholders on 27 June 2016 are set at A\$600,000.
Post-employment benefits	<ul style="list-style-type: none"> • Where applicable, superannuation contributions which comply with the superannuation guarantee legislation are included in the above fees.
Other benefits	<ul style="list-style-type: none"> • Australis reimbursed personal travel costs to the Chairman to compensate for a Company required interruption and cancellation of personal travel plans. The chair of the ARMC approved the reimbursement. • No other benefits were paid to non-executive directors.

Remuneration Report

7. TERMS AND CONDITIONS OF SHARE-BASED COMPENSATION

7.1 Options

The key terms and conditions of each LTI Plan award (Options) affecting KMP remuneration in the current or a future reporting period are set out below:

Table 4: Terms and conditions of options granted to KMP

Type of grant	Grant date	Vesting date ⁽¹⁾	Expiry date	Exercise price	Black & Scholes Value per option at grant date ⁽²⁾	Vesting condition	Achieved	Vested
A\$0.35 (Series D) Options	28 Apr 2016	13 Nov 2018	31 Dec 2022	A\$0.35	0.1263	Continued employment at 13 Nov 2018	100%	100%
A\$0.275 (Series C) Options	24 May 2016	24 May 2018	24 May 2021	A\$0.275	0.1184	Continued engagement as director at 24 May 2018	100%	100%
A\$0.275 (Series D) Options	24 May 2016	24 May 2019	24 May 2021	A\$0.275	0.1261	Continued engagement as director at 24 May 2019	N/A	N/A
A\$0.3125 (Series B) Options	10 Apr 2017	30 Nov 2018	30 Nov 2021	A\$0.3125	0.1464	Continued engagement as director at 30 Nov 2018	100%	100%
A\$0.3125 (Series C) Options	10 Apr 2017	30 Nov 2019	30 Nov 2021	A\$0.3125	0.1555	Continued engagement as director at 30 Nov 2019	N/A	N/A
A\$0.345 (Series B) Options	18 Dec 2017	18 Dec 2018	31 Dec 2022	A\$0.345	0.0476	Continued employment at 18 Dec 2018	100%	100%
A\$0.40 (Series C) Options	18 Dec 2017	18 Dec 2019	31 Dec 2022	A\$0.40	0.044	Continued employment at 18 Dec 2019	N/A	N/A

⁽¹⁾ Options can only be exercised if they have vested and thereafter can be exercised at any time up until the expiry date. Upon exercise by the option holder, and the payment in cash of the exercise price to the Company, each option is convertible into one ordinary share which will rank equally with all other issued ordinary shares.

⁽²⁾ The Black & Scholes value of options at grant date is calculated in accordance with AASB 2 Share-Based Payments. Refer to Note 7.4 of the Financial Report for details of the assumptions used in calculating the value of each option granted in 2017 and 2018, as at their effective grant date.

⁽³⁾ Options carry no dividend or voting rights.

⁽⁴⁾ The transfer of options is prohibited unless the transfer is approved by the Board at its discretion.

7.2 LTI Plan Awards

The key terms and conditions of each LTI Plan award (Performance Rights) affecting KMP remuneration in the current or a future reporting period are set out below:

Table 5: Terms and conditions of performance rights granted to KMP

Type of grant	Grant date	Tranche	Vesting Date	Expiry date	Exercise Price	Value per right at grant date ⁽¹⁾	Vesting condition	Achieved as at 31 December 2018	Vested as at 31 December 2018	
Performance Rights-2018 LTI Plan Award	25 May 2018	1 ⁽²⁾	31 Jan 2019 ⁽⁸⁾	31 Jan 2021	Nil	A\$0.405	Service condition ⁽³⁾	N/A	N/A	
						A\$0.386	Performance hurdle 1 ⁽⁴⁾⁽⁷⁾			
						A\$0.331	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾			
	25 May 2018	2 ⁽²⁾	31 Jan 2020 ⁽⁸⁾	31 Jan 2022	Nil	A\$0.405	Service condition ⁽³⁾	N/A	N/A	
						A\$0.362	Performance hurdle 1 ⁽⁴⁾⁽⁷⁾			
						A\$0.313	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾			
		25 May 2018	3 ⁽²⁾	31 Jan 2021 ⁽⁸⁾	31 Jan 2023	Nil	A\$0.405	Service condition ⁽³⁾	N/A	N/A
							A\$0.331	Performance hurdle 1 ⁽⁴⁾⁽⁷⁾		
							A\$0.284	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾		
Performance Rights-2017 LTI Plan Award	15 June 2017	1 ⁽²⁾	31 Jan 2018 ⁽⁸⁾	31 Jan 2020	Nil	A\$0.24	Service condition ⁽³⁾	40%	40%	
						A\$0.049	Performance hurdle 1 ⁽⁵⁾⁽⁷⁾			
						A\$0.076	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾			
	15 June 2017	2 ⁽²⁾	31 Jan 2019 ⁽⁸⁾	31 Jan 2021	Nil	A\$0.24	Service condition ⁽³⁾	N/A	N/A	
						A\$0.079	Performance hurdle 1 ⁽⁵⁾⁽⁷⁾			
						A\$0.108	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾			
		15 June 2017	3 ⁽²⁾	31 Jan 2020 ⁽⁸⁾	31 Jan 2022	Nil	A\$0.24	Service condition ⁽³⁾	N/A	N/A
							A\$0.09	Performance hurdle 1 ⁽⁵⁾⁽⁷⁾		
							A\$0.127	Performance hurdle 2 ⁽⁶⁾⁽⁷⁾		

⁽¹⁾ The value at grant date of performance rights granted are calculated in accordance with AASB 2 Share-Based Payments. Refer to Note 7.4 of the Financial Report for details of the assumptions used in calculating the value of each performance right as at their effective grant date. The grant of performance rights under the 2017 and 2018 awards have 75% and 60%, for executive directors and Other KMP respectively, of each tranche granted subject to performance conditions resulting in a value per right for service based awards and a value per right for awards subject to both performance and service conditions.

⁽²⁾ Tranche 1 – 1/7th of total performance rights awarded
Tranche 2 – 2/7th of total performance rights awarded
Tranche 3 – 4/7th of total performance rights awarded

⁽³⁾ The following vesting conditions will be assessed for the KMP on the Vesting Date:

- Service based vesting conditions subject to the participant being employed by the Company throughout the relevant test period (2018: being the period from the grant date up to and including the Vesting Date for each tranche of an award. 2017: being the period from the grant date up to and including 1 January of the year of vesting), 25% for executive directors and 40% for Other KMP of the relevant tranche of an award that may vest on a particular Vesting Date will vest;

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⁽⁴⁾ The following vesting conditions will be assessed for the Executive KMP on the Vesting Date for the 2018 LTI Plan Award:

- Performance hurdle 1: up to 37.5% for executive directors and 30% for Other KMP of the relevant tranche of award that may vest on a particular Vesting Date will vest in accordance with the following vesting schedule dependent on the performance of the Company's Absolute TSR performance measure, being the increase of the Company's volume weighted average price (VWAP) for the month of December 2017 to the VWAP of the Company for the month of December prior to the particular Vesting Date.

Vesting Schedule - Absolute TSR - 2018 Granted

ATS TSR increase compared to December 2017 VWAP of A\$0.215	<10%	≥10%	≥15%	≥20%	≥25%	≥30%	≥40% +
Vesting to occur:	% of Absolute TSR tested tranche that vests						
31 Jan 2019 (December 2018 VWAP)	0%	25%	37.5%	50%	75%	100%	100%
31 Jan 2020 (December 2019 VWAP)	0%	10%	25%	37.5%	50%	75%	100%
31 Jan 2021 (December 2020 VWAP)	0%	0%	0%	25%	37.5%	50%	100%

⁽⁵⁾ The following vesting conditions will be assessed for the Other KMP on the Vesting Date for the 2017 LTI Plan Award:

- Performance hurdle 1: up to 30% for Other KMP (executive directors did not participate) of the relevant tranche of award that may vest on a particular Vesting Date will vest in accordance with the following vesting schedule dependent on the performance of the Company's Absolute TSR performance measure, being the increase of the Company's share price from the IPO issue price of (A\$0.25) to the VWAP of the Company for the month of December prior to the particular Vesting Date.

ATS TSR increase compared to IPO Price A\$0.25	<10%	≥10%	≥ 15%	≥ 20%	≥ 25%	≥ 30%	≥ 40%	≥ 50%	≥ 60%
Vesting to occur:	% of Absolute TSR tested tranche that vests								
31 Jan 2018 (December 2017 VWAP)	0%	25%	37.5%	50%	62.5%	75%	100%	100%	100%
31 Jan 2019 (December 2018 VWAP)	0%	0%	25%	37.5%	50%	62.5%	75%	100%	100%
31 Jan 2020 (December 2019 VWAP)	0%	0%	0%	25%	37.5%	50%	62.5%	75%	100%

⁽⁶⁾ The following vesting condition will be assessed on the Vesting Date for the Other KMP for the 2017 LTI Plan Award and for all Executive KMP for the 2018 LTI Plan Award:

- Performance hurdle 2
 - 2017 Award: up to 30% for Other KMP (executive directors did not participate) of the relevant tranche of the award that may vest on a particular Vesting Date will vest in accordance with the following vesting schedule dependent on the relative TSR Performance of the Company (being the comparison of the Company's VWAP for the month of December prior to the Vesting Date and the Company's IPO price of A\$0.25) with the TSR performance of a selected peer group of ASX listed companies for the same period as listed in section 10.2 (being the largest 16 ASX listed oil and gas exploration and production companies with a market capitalisation of less than A\$300 million as at 31 December 2016). Each peer company's TSR is calculated by comparing its VWAP for the month of December prior to the current Vesting Date with its December 2016 VWAP. The ranking of the Company's TSR performance within the peer group will determine the achieved percentage of the relevant tranche of awards that will vest on a particular Vesting Date, as set out in the table below.

- 2018 Award: up to 30% for Other KMP and 37.5% for Executive Directors of the relevant tranche of the award that may vest on a particular Vesting Date will vest in accordance with the following vesting schedule dependent on the relative TSR Performance of the Company (being the comparison of the Company's VWAP for the month of December prior to the Vesting Date and the Company's December 2017 VWAP) with the TSR performance of a selected peer group of ASX listed companies for the same period as listed in section 10.2 (being the 16 largest ASX listed oil and gas exploration and production companies with a market capitalisation between A\$100 million and A\$600 million). Each peer company's TSR is calculated by comparing its VWAP for the month of December prior to the current Vesting Date with its December 2017 VWAP. The ranking of the Company's TSR performance within the peer group will determine the achieved percentage of the relevant tranche of awards that will vest on a particular Vesting Date, as set out in the table below.

ATS Ranking within Peer Group	LTI Vesting for the Relative TSR portion of the 2018 and 2017 LTI
1st	100.0%
2nd	87.5%
3rd	75.0%
4th	62.5%
5th	50.0%
6th	37.5%
7th	25.0%
8th	12.5%
9th	0.0%

- ⁽⁷⁾ If either of the relevant TSR performance hurdles for Tranche 1 or Tranche 2 of an award are not satisfied on the relevant Vesting Date for either of the tranches, the portion of awards eligible to vest but which do not vest on the relevant Vesting Date will be re-tested on the Tranche 3 Vesting Date in relation to the Tranche 3 Performance Targets.
- ⁽⁸⁾ Performance rights can only be exercised if they have vested and can be exercised for two years from the date of vesting. Upon exercise each performance right is convertible into one ordinary share which will rank equally with all other issued ordinary shares.
- ⁽⁹⁾ Performance rights carry no dividend or voting rights.
- ⁽¹⁰⁾ There are no restrictions on the transfer of performance rights after vesting.

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8. SHARE-BASED AWARDS GRANTED AND/OR VESTED DURING THE YEAR

The following options and performance rights were granted and / or vested to KMP:

Table 6: KMP share-based awards granted and/or vested during 2018

	Award	Grant date	Grant value ⁽¹⁾ (A\$)	Number of rights/options granted ⁽³⁾	Number of rights/options vested during year	Number of rights/options lapsed during year
Non-executive directors						
Alan Watson	A\$0.275 (Series C) options	24 May 2016	-	-	140,000	-
Steve Scudamore	A\$0.3125 (Series A,B and C) options	10 April 2017	-	-	140,000	-
Executive directors						
Ian Lusted	2018 LTI Plan	25 May 2018	\$297,500	1,383,721	-	-
Graham Dowland	2018 LTI Plan	25 May 2018	\$210,000	976,744	-	-
Other KMP						
Michael Verm	A\$0.35 (Series C) options	28 Apr 2016	-	-	1,000,000	-
	2017 LTI Plan	15 June 2017	-	-	33,832	-
	2018 LTI Plan	25 May 2018	\$200,962	934,707	-	-
Darren Wasylucha ⁽²⁾	\$0.345 options	18 Dec 2017	-	-	500,000	-
	2018 LTI Plan	25 May 2018	\$142,376	662,214	-	-

⁽¹⁾ The grant value of performance rights represents fair value at the date of grant was calculated by RSM Australia Pty Ltd using a binomial tree distribution and Monte Carlo simulation valuation technique as set out in Note 7.4 to the Financial Report.

⁽²⁾ The number of options granted were determined by the Board as at the date of appointment of the CCO on 18 December 2017 being the effective date of grant.

⁽³⁾ The number of performance rights granted to Executive KMP for the 2018 LTI Award was calculated by dividing an amount equal to a percentage of base salary as at 1 January 2018 by the Australis VWAP for the month of December 2017. The percentage applied to base salary was determined by the Board.

⁽⁴⁾ The assessed fair value of the options and performance rights at grant date is allocated to remuneration equally over the period from effective grant date to Vesting Date.

9. SHARE-BASED AWARDS EXERCISED DURING THE YEAR

There were no share-based awards granted to KMP that were exercised during the year.

10. CONSOLIDATED ENTITY PERFORMANCE

10.1 Company Performance

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must, in each location of operations and presence including Australia and the USA, attract, motivate and retain highly skilled directors and executives.

In considering performance in terms of an increase in longer term shareholder value the Board has noted the following commonly used measures of performance for each financial year / period:

	Year ended			Six months ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2016	30 June 2018	30 June 2017
Revenue from oil sales (US\$'000)	33,704	23,347	-	16,028	7,030
Profit/(Loss) after tax (US\$'000)	85	(1,159)	(7,461)	(395)	(2,310)
Profit/(Loss) per share (US cents)					
- Basic	0.01	(0.18)	(2.71)	(0.05)	(0.44)
- Diluted	0.01	(0.18)	(2.71)	(0.05)	(0.44)
Share price at start of year/period	A\$0.23	A\$0.22	n/a	A\$0.23	A\$0.22
Share price at end of year/period	A\$0.28	A\$0.23	A\$0.22	A\$0.46	A\$0.25
Proved reserves (mmbbl)	31.9	29	-	29	5
Proved plus Probable reserves (mmbbl)	49.7	47	-	47	5
2C Contingent Resource					
- TMS (mmbbl)	107.8	98	26	98	107
- Portugal (Bcf)	458	458	458	458	458
Gross sales (Wt) (bbls)	506,000	469,000 ⁽¹⁾	-	255,000	148,900
Net (after royalties) sales (NRI) (bbls)	409,000	374,000 ⁽²⁾	-	207,000	120,870

⁽¹⁾ Gross sales are for the period April – December 2017

⁽²⁾ Net sales are for the period April – December 2017

10.2 LTI Plan Peer Group

The peer group for the 2018 and 2017 LTI Relative TSR Performance is set out below:

2018 LTI Plan Award

AWE Ltd⁽²⁾
 Blue Energy Ltd
 Buru Energy Ltd
 Byron Energy Ltd
 Carnarvon Petroleum Ltd
 Comet Ridge Ltd
 Cooper Energy Ltd
 Far Ltd
 Freedom Oil and Gas Ltd
 Global Energy Ventures Ltd
 Karoon Gas Australia Ltd
 Horizon Oil Ltd
 Liquefied Natural Gas Ltd
 Senex Energy Ltd
 Sino Gas & Energy Holdings Ltd⁽²⁾
 88 Energy Ltd

2017 LTI Plan Award

Buru Energy Ltd
 Blue Energy Ltd
 Cooper Energy Ltd
 Central Petroleum Ltd
 Cue Energy Resources Ltd
 Carnarvon Petroleum Ltd
 Elk Petroleum Ltd
 Freedom Oil and Gas Ltd
 Horizon Oil Ltd
 Nuenergy Gas Ltd⁽¹⁾
 Petsec Energy Ltd
 Range Resources Ltd
 Sundance Energy Australia Ltd
 Sino Gas & Energy Holdings Ltd⁽¹⁾
 Strike Energy Ltd
 88 Energy Ltd

⁽¹⁾ Nuenergy Gas Ltd and Sino Gas & Energy Holdings Ltd were delisted from the ASX in 2018 and will therefore not be included in the peer group for the performance testing of Tranche 2 and Tranche 3 of the 2017 LTI Plan Award.

⁽²⁾ AWE Ltd and Sino Gas & Energy Holdings Ltd were delisted from the ASX in 2018 and will therefore not be included in the peer group for the performance testing of the 2018 LTI Plan Award.

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11. TOTAL REMUNERATION SUMMARY

11.1 Remuneration of KMP

Details of the total remuneration of KMP as required to be disclosed under the Corporations Act 2001 is set out below:

Table 7: KMP total remuneration per Corporations Act (all US\$)

Name	Short term benefits			Post-employment benefit	Total Cash	Annual leave provision	Share-based	Total	Performance related	
	Cash salary & fees	STI ⁽¹⁾	Other benefits ⁽²⁾	Super-annuation	Remuneration		Options/Rights ⁽³⁾	Remuneration		
Non-executive directors										
Jonathan Stewart										
31 Dec 2018	164,179	-	16,033	15,597	195,809	-	-	195,809	-	
31 Dec 2017	153,195	-	9,681	14,553	177,429	-	554,599	732,028	-	
Alan Watson										
31 Dec 2018	62,936	-	-	5,979	68,915	-	6,828	75,743	-	
31 Dec 2017	59,363	-	-	5,639	65,002	-	15,553	80,555	-	
Steve Scudamore										
31 Dec 2018	62,936	-	-	5,979	68,915	-	14,672	83,587	-	
31 Dec 2017	59,363	-	-	5,639	65,002	-	26,159	91,161	-	
Executive directors										
Ian Lusted										
31 Dec 2018	330,245	178,436	12,294	18,359	539,334	1,394	134,060	674,788	41%	
31 Dec 2017	340,770	158,686	6,763	15,695	521,914	77,485	221,840	821,239	19%	
Graham Dowland										
31 Dec 2018	268,462	122,266	12,294	18,623	421,645	(8,591) ⁽⁴⁾	94,631	507,685	37%	
31 Dec 2017	270,252	113,440	6,763	23,308	413,763	2,874	184,866	601,503	19%	
Other KMP										
Michael Verm										
31 Dec 2018	285,000	114,891	19,230	16,500	435,621	24,157	151,797	611,575	30%	
31 Dec 2017	237,735	81,136	17,508	14,265	350,644	33,842	89,527	474,013	17%	
Darren Wasylucha ⁽⁵⁾										
31 Dec 2018	250,062	75,698	6,091	8,867	340,718	7,847	91,387	439,952	26%	
Total 2018	1,423,820	491,291	65,942	89,904	2,070,957	24,807	493,375	2,589,139		
Total 2017	1,120,678	353,262	40,715	79,099	1,593,754	114,201	1,092,544	2,800,499		

⁽¹⁾ STI represent the amount earned in relation to 2018 which will be paid in 2019 after release of the 2018 Annual Financial Statements. Amounts were translated to USD using closing spot rate on 31 December 2018. 2017 STI's represent the amount earned in relation to 2017 which were paid in 2018 after release of the 2017 Annual Financial Statements. Amounts were translated to USD using closing spot rate on 31 December 2017.

⁽²⁾ Other benefits include car parking, health and travel benefits and associated fringe benefit tax, where applicable.

⁽³⁾ AASB 2 – Share Based Payments requires the fair value at grant date of the options and performance rights granted be expensed over the vesting periods. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual KMP may ultimately realise should these equity interests vest. No options or performance rights were granted to directors during 2018 other than as set out in Section 8.

⁽⁴⁾ At 31 December 2018 Mr Dowland had utilised annual leave advanced from 2019 prior to 2018 year end.

⁽⁵⁾ Mr Wasylucha did not meet the definition of KMP per AASB 124 for the year prior to 2018. Previous years comparative figures from the date of appointment as COO on 18 December 2017 are not shown.

11.2 Share-based compensation benefits

The Corporations Act and accounting standards require that all incentive based options granted to KMP be valued at the date of grant using a valuation model such as Black Scholes Option Pricing Model. The value attributed to the grant of the options is allocated to remuneration for KMP in each reporting period over the vesting period of the options whether the options vest or not. For example, if options do not vest due to performance conditions not being achieved, the value of the options that lapse will still be included as remuneration in the Corporations Act disclosure.

The actual realisable value of the options granted to KMP will depend on the future success of the Company and in particular its future share price exceeding the exercise price.

In order to exercise the options granted to KMP the following cash payments will be made to the Company in Australian dollars by KMP at or prior to the time of exercise.

Table 8: Cash payments for exercise of options

Type	Expiry	Exercise Price	Jonathan Stewart A\$	Ian Lusted A\$	Graham Dowland A\$	Alan Watson A\$	Steve Scudamore A\$	Michael Verm A\$	Darren Wasylucha A\$
\$0.25 Options	31/12/20	A\$0.25	\$2,500,000	\$1,000,000	\$800,000	-	-	-	-
\$0.275 (Series B, C & D) Options	24/05/21	A\$0.275	-	-	-	\$115,500	-	-	-
\$0.30 (Series A) Options	31/12/20	A\$0.30	\$4,500,000	\$1,800,000	\$1,500,000	-	-	-	-
\$0.30 (Series B) Options	31/12/20	A\$0.30	-	-	-	-	-	\$300,000	-
\$0.3125 (Series A, B and C) Options	30/11/21	A\$0.3125	-	-	-	-	\$131,250	-	-
\$0.35 (Series A) Options	31/12/20	A\$0.35	\$5,250,000	\$2,100,000	\$1,750,000	-	-	-	-
\$0.35 (Series C and D) Options	31/12/20	A\$0.35	-	-	-	-	-	\$700,000	-
\$0.285 (Series A) Options	31/12/22	A\$0.285	-	-	-	-	-	-	\$142,500
\$0.345 (Series A) Options	31/12/22	A\$0.345	-	-	-	-	-	-	\$172,500
\$0.40 (Series A) Options	31/12/22	A\$0.40	-	-	-	-	-	-	\$200,000
Total Cost of Exercising all Options			\$12,250,000	\$4,900,000	\$4,050,000	\$115,500	\$131,250	\$1,000,000	\$515,000

If options are not exercised by their expiry date they will be forfeited and will have no value.

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The specific details of options and performance rights granted, vested and forfeited for KMP are set out below:

The maximum value of options or performance rights yet to vest has been determined based on the fair value at the grant date. This amount will be exercised over the remaining vesting period.

Table 9: Summary of option and performance rights (as at 31 December 2018)

Name	Type of grant	Year granted	Vested %	Retest ⁽¹⁾ %	Forfeited %	Financial year in which benefits have or may vest	Maximum total value of grant yet to vest A\$
Non-executive directors							
Jonathan Stewart	\$0.25 options	2015	100%	-	-	31 Dec 2015	-
	\$0.30 (Series A) options	2015	100%	-	-	31 Dec 2016	-
	\$0.35 (Series A) options	2015	100%	-	-	31 Dec 2017	-
Alan Watson	\$0.275 (Series B) options	2016	100%	-	-	31 Dec 2017	-
	\$0.275 (Series C) options	2016	100%	-	-	31 Dec 2018	-
	\$0.275 (Series D) options	2016	-	-	-	31 Dec 2019	17,654
Steve Scudamore	\$0.3125 (Series A) Options	2016	100%	-	-	31 Dec 2017	-
	\$0.3125 (Series B) Options	2016	100%	-	-	31 Dec 2018	-
	\$0.3125 (Series C) Options	2016	-	-	-	31 Dec 2019	21,770
Executive directors							
Ian Lusted	\$0.25 options	2015	100%	-	-	31 Dec 2015	-
	\$0.30 (Series A) options	2015	100%	-	-	31 Dec 2016	-
	\$0.35 (Series A) options	2015	100%	-	-	31 Dec 2017	-
	2018 LTI Plan Tranche 1	2018	-	-	-	31 Dec 2019	53,297
	2018 LTI Plan Tranche 2	2018	-	-	-	31 Dec 2020	102,057
	2018 LTI Plan Tranche 3	2018	-	-	-	31 Dec 2021	191,154
Graham Dowland	\$0.25 options	2015	100%	-	-	31 Dec 2015	-
	\$0.30 (Series A) options	2015	100%	-	-	31 Dec 2016	-
	\$0.35 (Series A) options	2015	100%	-	-	31 Dec 2017	-
	2018 LTI Plan Tranche 1	2018	-	-	-	31 Dec 2019	37,621
	2018 LTI Plan Tranche 2	2018	-	-	-	31 Dec 2020	72,040
	2018 LTI Plan Tranche 3	2018	-	-	-	31 Dec 2021	134,932
Other KMP							
Michael Verm	\$0.30 (Series B) options	2016	100%	-	-	31 Dec 2016	-
	\$0.35 (Series C) options	2016	100%	-	-	31 Dec 2017	-
	\$0.35 (Series D) options	2016	100%	-	-	31 Dec 2018	-
	2017 LTI Plan Tranche 1	2017	40%	60%	-	31 Dec 2018	2,242
	2017 LTI Plan Tranche 2	2017	-	-	-	31 Dec 2019	18,191
	2017 LTI Plan Tranche 3	2017	-	-	-	31 Dec 2020	38,534
	2018 LTI Plan Tranche 1	2018	-	-	-	31 Dec 2019	36,680
	2018 LTI Plan Tranche 2	2018	-	-	-	31 Dec 2020	70,910
	2018 LTI Plan Tranche 3	2018	-	-	-	31 Dec 2021	134,815
	Darren Wasylucha	\$0.285 options	2017	100%	-	-	31 Dec 2017
\$0.345 options		2017	100%	-	-	31 Dec 2018	-
\$0.40 options		2017	-	-	-	31 Dec 2019	22,000
2018 LTI Plan		2018	-	-	-	31 Dec 2019	25,987
				-	-	31 Dec 2020	50,237
			-	-	31 Dec 2021	95,513	

⁽¹⁾ The performance rights that did not vest during the year for Tranche 1 of the 2017 LTI Plan award will be retested along with Tranche 3 of the 2017 LTI Plan Award.

12. KMP INTERESTS IN SHARES, PERFORMANCE RIGHTS AND OPTIONS

12.1 Shareholdings, performance rights and option holdings

The number of shares, options and performance rights in the Company held during the financial year by KMP, including their personally related parties, are set out below. No shares were issued or granted during the period ending 31 December 2018 (2017 - nil) as compensation.

Table 10: 2018 KMP shareholding, performance rights and option holding reconciliation

	Type of Equity	Balance at start of year	Granted	Exercised	Net other changes	Balance at end of year	Vested and exercisable	Unvested
Non-executive directors								
Jonathan Stewart ⁽¹⁾	Shares	61,042,859	-	-	1,000,000	62,042,859	n/a	n/a
	Options	45,000,000	-	-	-	45,000,000	45,000,000	-
Alan Watson ⁽²⁾	Shares	3,810,000	-	-	100,000	3,910,000	n/a	n/a
	Options	875,000	-	-	-	875,000	735,000	140,000
Steve Scudamore ⁽³⁾	Shares	97,215	-	-	100,000	197,215	n/a	n/a
	Options	420,000	-	-	-	420,000	280,000	140,000
Executive directors								
Graham Dowland ⁽⁵⁾	Shares	14,750,000	-	-	-	14,750,000	n/a	n/a
	Options	13,500,000	-	-	-	13,500,000	13,500,000	-
	Performance Rights (2018)	-	976,744	-	-	976,744	-	976,744
Ian Lusted ⁽⁴⁾⁽⁵⁾	Shares	14,518,572	-	-	150,000	14,668,572	n/a	n/a
	Options	16,250,000	-	-	-	16,250,000	16,250,000	-
	Performance Rights (2018)	-	1,383,721	-	-	1,383,721	-	1,383,721
Other KMP								
Michael Verm ⁽⁵⁾	Shares	3,000,000	-	-	-	3,000,000	n/a	n/a
	Options	3,250,000	-	-	-	3,250,000	3,250,000	-
	Performance Rights (2017)	592,064	-	-	-	592,064	33,832	558,232
	Performance Rights (2018)	-	934,707	-	-	934,707	-	934,707
Darren Wasylucha ⁽⁵⁾	Shares	250,000	-	-	-	250,000	n/a	n/a
	Options	1,500,000	-	-	-	1,500,000	1,000,000	500,000
	Performance Rights (2018)	-	662,214	-	-	662,214	-	-

(1) On 28 and 29 November 2018 Mr Stewart acquired shares on market.

(2) On 28 November 2018 Mr Watson acquired shares on market.

(3) On 30 November 2018 Mr Scudamore acquired shares on market.

(4) On 30 November 2018 Mr Lusted acquired shares on market.

(5) Of the 3,957,386 performance rights granted to executive KMP in 2018, 565,341 related to Tranche 1, 1,130,682 related to Tranche 2 and 2,261,363 related to Tranche 3.

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Table 11: 2017 KMP shareholding, performance rights and option holding reconciliation

	Type of Equity	Balance at start of year	Granted	Exercised	Net other changes	Balance at end of year	Vested and exercisable	Unvested
Non-executive directors								
Jonathan Stewart ^(1,2)	Shares	59,542,859	-	-	1,500,000	61,042,859	n/a	n/a
	Options	45,000,000	-	-	-	45,000,000	45,000,000	-
Alan Watson ⁽³⁾	Shares	3,810,000	-	-	-	3,810,000	n/a	n/a
	Options	875,000	-	-	-	875,000	595,000	280,000
Steve Scudamore ⁽⁴⁾	Shares	97,215	-	-	-	97,215	n/a	n/a
	Options	-	420,000	-	-	420,000	140,000	280,000
Executive directors								
Graham Dowland ⁽⁵⁾	Shares	14,750,000	-	-	-	14,750,000	n/a	n/a
	Options	13,500,000	-	-	-	13,500,000	13,500,000	-
Ian Lusted ^(6,7)	Shares	14,303,572	-	-	215,000	14,518,572	n/a	n/a
	Options	16,250,000	-	-	-	16,250,000	16,250,000	-
Other KMP								
Michael Verm ⁽⁸⁾	Shares	3,000,000	-	-	-	3,000,000	n/a	n/a
	Options	3,250,000	-	-	-	3,250,000	2,250,000	1,000,000
	Performance Rights	-	592,064	-	-	592,064	-	592,064

⁽¹⁾ On 9 November and 7 December 2018 Mr Stewart acquired shares on market.

⁽²⁾ 37,822,859 were restricted securities for 24 months from quotation, being 25 July 2016.

⁽³⁾ 609,200 were restricted securities for 24 months from quotation, being 25 July 2016.

⁽⁴⁾ The grant of the options to Mr Scudamore was approved by shareholders at a general meeting held on 10 April 2017.

⁽⁵⁾ 11,475,572 were restricted securities for 24 months from quotation, being 25 July 2016.

⁽⁶⁾ 11,463,572 were restricted securities for 24 months from quotation, being 25 July 2016.

⁽⁷⁾ On 12 December 2018 Mr Lusted acquired shares on market.

⁽⁸⁾ Of the 592,064 performance rights granted, 84,580 related to Tranche 1, 169,160 related to Tranche 2 and 338,324 related to Tranche 3. Subsequent to year end 33,832 of the performance rights granted, vested.

13. EMPLOYMENT AGREEMENTS KMP

Executive KMP have employment agreements with Australis which include provisions relating to remuneration, notice period, termination entitlements and post-employment restraints as follows:

Name	Employing Company	Contract Duration	Termination – Material Diminution	Termination notice period company ⁽²⁾	Termination notice period executive	Post-employment restraints ⁽³⁾
Ian Lusted	Australis Oil & Gas Limited	Unlimited	1 month ⁽¹⁾	12 months	12 months	12 months
Graham Dowland	Australis Oil & Gas Limited	Unlimited	1 month ⁽¹⁾	12 months	12 months	12 months
Michael Verm	Australis TMS Inc	Unlimited	2 months ⁽¹⁾	3 months	3 months	3 months
Darren Wasylucha	Australis Oil & Gas Limited	Unlimited	2 months	6 months increasing by one month for each anniversary to a maximum of 9 months.	3 months	6 months

⁽¹⁾ The contractual Termination Benefits were approved by shareholders in General Meeting on 27 June 2016.

⁽²⁾ The Company may terminate without notice for serious misconduct including serious or persistent breach of duty, failure to perform obligations under agreement.

⁽³⁾ Non-compete and non-solicitation provisions apply from notification of termination.

Deed of Indemnity

Australis has entered into deeds of access, indemnity, and insurance with each of its directors and officers.

Policy for Trading in Company Securities

Australis has in place a Policy for Trading in Company Securities which can be found on the Company's website.

The Policy prohibits KMP and other executives from entering into agreements or transactions which operate to limit the economic risk of their holdings in Company securities.

Remuneration Report

14. 2019 REMUNERATION STRATEGY

Remuneration Consultants

The RNC has the authority, as it deems necessary or appropriate, to engage and compensate external consultants or specialists for advice in relation to remuneration related matters.

During 2018, at the request of the RNC, management undertook a review of remuneration statistics and trends and peer remuneration practices as part of setting the 2019 remuneration strategy.

Remuneration data from US based oil and gas companies who were similar in terms and size and/or stage of development, geographic region or focus and/or with whom the Company competes for executive services was collated by Management with the assistance of Australis external HR and payroll advisors. Similar data was obtained from publicly available remuneration data in Australia.

The data obtained was used by the RNC to develop a remuneration framework for 2019 that provides for a blend of fixed and variable pay and short and long term incentives that are comparable to the remuneration packages offered by the Company's peers in each jurisdiction.

2019 Fixed Remuneration

For 2019 fixed remuneration has been set for all KMP based on the benchmarking exercise undertaken above.

2019 Short Term Incentives

The STI Plan for Executive KMP was reviewed by the RNC in November 2018 and approved by the Board in January 2019.

2019 Long Term Incentives

The grant of the 2019 awards under the LTI Plan are anticipated to occur immediately following the 2019 Annual General Meeting (AGM). Approval for the grant of performance rights to executive directors will be sought from Shareholders at the AGM.

The LTI Plan was approved by Shareholders in general meeting on 27 June 2016. Shareholder approval permits the Company to issue shares under the Plan under Listing Rule 7.2 exception 9 such that any shares issued to employees other than directors are treated as having been made with the approval of shareholders for the purpose of Listing Rule 7.1. Approval under the exception lasts for 3 years after which further shareholder approval must be sought in general meeting. Approval of Australis Shareholders will be sought at the AGM in 2019.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	US\$'000	US\$'000
Operating revenue	2.1	33,704	23,347
Cost of sales	2.2	(20,220)	(14,119)
Gross profit		13,484	9,228
Other income	2.1	-	430
Other expenses	2.2	(13,801)	(10,912)
(Loss) from operating activities		(317)	(1,254)
Net finance income	2.7	402	95
Profit / (loss) from continuing operations before income tax expense		85	(1,159)
Income tax expense	2.8	-	-
Net profit / (loss) attributable to owners of the Company		85	(1,159)
Other comprehensive income / (loss)			
Items that may be reclassified to profit or loss;			
Change in fair value of cash flow hedges	4.3	3,767	(646)
Other comprehensive income / (loss) for the year net of tax		3,767	(646)
Total comprehensive income / (loss) for the year attributable to the owners of the Company		3,852	(1,805)
Profit / (loss) per share attributable to owners of the Company			
Basic profit / (loss) per share (cents per share)	2.9	0.01	(0.18)
Diluted profit / (loss) per share (cents per share)	2.9	0.01	(0.18)

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

Consolidated Statement of Financial Position

As at 31 December 2018

		31 December 2018	31 December 2017
	Notes	US\$'000	US\$'000
Current assets			
Cash and cash equivalents	4.1	37,943	16,602
Trade and other receivables	5.1	7,100	5,134
Inventories	5.2	254	572
Derivative financial instruments hedge	5.4	2,160	-
Total current assets		47,457	22,308
Non-current assets			
Oil and gas properties	3.1	86,181	61,091
Exploration and evaluation	3.2	47,336	39,696
Property, plant and equipment	3.3	7,849	5,765
Other receivables	5.1	698	705
Derivative financial instruments hedge	5.4	961	-
Total non-current assets		143,025	107,257
Total assets		190,482	129,565
Current liabilities			
Trade and other payables	5.3	(23,872)	(7,157)
Provisions	5.5	(372)	(248)
Derivative financial instruments hedge	5.4	-	(646)
Borrowings	5.7	(2,000)	-
Total current liabilities		(26,244)	(8,051)
Non-current liabilities			
Provisions	5.6	(2,380)	(1,600)
Borrowings	5.7	(5,818)	-
Total non-current liabilities		(8,198)	(1,600)
Total liabilities		(34,442)	(9,651)
Net assets		156,040	119,914
Equity			
Contributed equity	4.2	154,996	125,253
Treasury Shares	4.2	(59)	-
Option reserve	4.3	8,182	5,592
Foreign exchange reserve	4.3	(467)	(467)
Cash flow hedge reserve	4.3	3,121	(646)
Accumulated losses	4.3	(9,733)	(9,818)
Total equity		156,040	119,914

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Contributed Equity US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total US\$'000
Balance as at 1 January 2017	53,219	-	3,767	(8,659)	48,327
Loss for the year	-	-	-	(1,159)	(1,159)
Other comprehensive loss					
Exchange differences on translation of foreign operations	-	-	(646)	-	(646)
Total Comprehensive Loss	-	-	(646)	(1,159)	(1,805)
Transactions with owners, in their capacity as owners					
Contributed equity net of transaction costs	72,034	-	-	-	72,034
Option expense recognised during the year	-	-	1,358	-	1,358
Balance as at 31 December 2017	125,253	-	4,479	(9,818)	119,914
Balance as at 1 January 2018	125,253	-	4,479	(9,818)	119,914
Profit for the year	-	-	-	85	85
Other comprehensive income					
Change in fair value of cash flow hedges	-	-	3,767	-	3,767
Total Comprehensive Income	-	-	3,767	85	3,852
Transactions with owners, in their capacity as owners					
Contributed equity net of transaction costs	29,743	-	-	-	29,743
Purchase of treasury shares	-	(59)	-	-	(59)
Share based payments	-	-	1,332	-	1,332
Transaction costs	-	-	1,258	-	1,258
Balance as at 31 December 2018	154,996	(59)	10,836	(9,733)	156,040

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers		31,954	20,648
Payments to suppliers and employees		(29,254)	(18,078)
Net cash inflow from operating activities	2.11	2,700	2,570
Cash flows from investing activities			
Payments for acquisition of exploration interests		(7,397)	(8,448)
Payment for property, plant and equipment		(2,141)	(635)
Payment for capitalised oil and gas assets		(10,194)	-
Payment for business combinations	7.8	-	(68,126)
Transaction costs		-	(1,484)
(Acquisition) of security deposits and bonds		(113)	(431)
Interest Received		539	95
Net cash (outflow) from investing activities		(19,306)	(79,029)
Cash flows from financing activities			
Proceeds from share applications		31,060	74,995
Share issue costs		(1,317)	(2,961)
Treasury shares acquired		(59)	-
Acquisition of cash flow hedge bond		-	(1,000)
Proceeds from borrowings		10,000	-
Debt facility costs		(1,062)	-
Net cash inflow from financing activities		38,622	71,034
Net increase / (decrease) in cash and cash equivalents		22,016	(5,425)
Cash and cash equivalents at the beginning of the period		16,602	21,474
Effect of exchange rates on cash holdings in foreign currencies		(675)	553
Cash and cash equivalents at the end of the financial year	4.1	37,943	16,602

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

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Section 1: Basis of Reporting Notes to the Financial Statements

For the year ended 31 December 2018

CORPORATE INFORMATION

The consolidated financial report for the year ended 31 December 2018 comprises the financial statements of Australis Oil & Gas Limited, the parent entity and its controlled entities ("Group" or "Consolidated Entity"). Australis Oil & Gas Limited ("Company" or "Australis") was incorporated in Australia as a private company on the 12 November 2015 as Australis Oil & Gas Holdings Pty Limited. On 10 June 2016 the Company converted to a public company and changed its name to Australis Oil & Gas Limited.

In July 2016, the Company successfully completed an initial public offering and was admitted to the Official List of the Australian Securities Exchange (Ticker code: ATS). The Company commenced trading on 25 July 2016.

The principal activity of the Group is oil and gas exploration, development and production.

1.1 FINANCIAL REPORT

The notes to the consolidated financial statements are set out in the following sections:

1. Basis of Reporting – summarises the basis of preparation of the financial statements.
2. Results for the Year – sets out the performance of the Group and highlights the significant accounting policies impacting on the results for the year.
3. Invested Capital – sets out expenditure during the year on oil & gas properties, exploration and evaluation, property, plant & equipment and the commitments of the Group.
4. Capital and Debt Structure – provides information about the Group financing structure.
5. Other Assets & Liabilities – sets out the working capital balances of the Group.
6. Group Structure – sets out the ownership and intra-group transactions with subsidiaries.
7. Other Notes

1.2 BASIS OF PREPARATION AND COMPLIANCE STATEMENT

The consolidated financial statements of the Group are general purpose financial statements prepared in accordance with Australian Accounting Standards applicable to for profit entities, Accounting Interpretations and other pronouncements issued by the Australian Accounting Standards Board and the Corporations Act 2001. The Australian Accounting Standards incorporate International Financial Reporting Standards (IFRS's) as issued by the International Accounting Standards Board. As such, the consolidated financial statements comply with IFRS. The accounting standards have been consistently applied to all financial years presented.

The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in US dollars and are rounded to the nearest thousand dollars (US'000) as permitted under ASIC Corporations Instrument 2016/191.

The accounting policies adopted are consistent with those of previous financial years, other than as follows.

Changes in accounting policy and disclosures

- (i) Australis elected to change its presentational currency from Australian dollars to US dollars effective 1 January 2017. The operational activities of the Group are conducted through US and Portuguese subsidiaries, with the expenditure from these activities contributing to the majority of the groups' expenditure, being denominated in US dollars. As a result, the Board considered that the change in presentational currency provided shareholders with a more consistent and meaningful reflection of the Group's underlying performance.

Effective 1 January 2017 the functional currency of Australis, the parent company, and subsidiaries incorporated in Australia and the United Kingdom has changed from Australian dollars to US dollars as the trend in the source currency of the majority of costs of the parent and subsidiary companies from Australian dollars to US dollars was not considered temporary.

Section 1: Basis of Reporting Notes to the Financial Statements

For the year ended 31 December 2018

1.2 BASIS OF PREPARATION AND COMPLIANCE STATEMENT (CONTINUED)

- (ii) As at 1 January 2017 the Group early adopted AASB 9 Financial Instruments (2014). AASB 9 (December 2014) is a new standard which replaces AASB 139 (as amended). This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

On adoption of AASB 9, there was no material changes in the classification of financial assets and liabilities. Fair value changes resulting from credit risk did not have a significant impact on future results. The introduction of the expected loss impairment model for determining credit provisions did not have a material impact.

The adoption of AASB 9 will mean the following key changes to the Group's hedge accounting:

- Effectiveness measurement testing will only be performed on a prospective basis.

As a result of adopting AASB 9, the accounting policies for financial instruments and hedging were updated to align with AASB 9.

The following accounting standard was issued with an effective date of 1 January 2018.

- AASB 15 Revenue from Contracts with Customers – AASB 15 provides a single, principles-based five-step model to be applied to all contracts and customers. Under this standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Board has reviewed the new accounting standard and has assessed that the adoption of the new standard has no impact on the results for the year ended 31 December 2018. A summary of the Groups revenue recognition policy can be found in section 2.1.

In addition there are several standards and amendments issued which are not applicable to the group and have no material effect on any of the amounts recognised in the current year or any prior period consolidated financial report.

1.3 BASIS OF CONSOLIDATION

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of Australis and its controlled entities as at 31 December 2018 and the financial performance of the Company and its controlled entities for the year 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 the subsidiaries are consistent 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.

Section 1: Basis of Reporting Notes to the Financial Statements

For the year ended 31 December 2018

1.3 BASIS OF CONSOLIDATION (CONTINUED)

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. 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.

- (v) Joint Operations – A joint arrangement is when two or more parties hold joint control in an arrangement. Joint control exists when decisions about the relevant activities require the unanimous consent of the parties sharing control with a Joint Operation being a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Australis has an arrangement that meets this definition for its oil and gas leases.

In accordance with AASB 11, the arrangements have been classified as joint operations (whereby the jointly controlling parties have rights to the assets and obligations for the liabilities relating to the arrangement). The Group therefore recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations and have been incorporated into the consolidated financial statements under appropriate classifications. Details of joint operations can be found in Note 7.2.

1.4 FOREIGN CURRENCY

- (i) Functional and presentational currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The functional currency of the Company and its subsidiaries is US dollars. The United States and Portuguese subsidiaries have a functional currency of US dollars. The presentational currency of the Company and its subsidiaries is US dollars.

- (ii) Translation and balances

Foreign currency transactions are translated into functional currency of the Group using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency as at the exchange rate existing at reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised costs in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency difference arising on retranslation are generally recognised in profit or loss.

- (iii) Group Companies

The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income balance are translated at average exchange rates; and
- exchange differences arising on translation of intercompany payable and /or receivables of foreign operations, in a currency that is not the same as the parent's functional currency, are recognised in the foreign currency translation reserve, as a separate component of equity.
- these differences are only recognised in the Consolidated Statement of Profit or Loss upon disposal of the foreign operations.

Section 1: Basis of Reporting Notes to the Financial Statements

For the year ended 31 December 2018

1.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined using either a Monte Carlo simulation valuation technique or a Black Scholes Option Pricing Model.

Key inputs to the Black Scholes options pricing model include the expected price volatility and risk free interest rate. The expected price volatility is based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information. The risk interest is the risk free rate of securities with comparable terms to maturity.

The vesting conditions of the Absolute TSR (ATSR) Rights and the Relative TSR (RTSR) Rights have been reflected in assessment of the fair value of the Rights through the use of a Monte-Carlo simulation model which determines the probability of the market conditions being fulfilled at the vesting dates and, as such, whether the Rights will vest.

In determining a valuation for the Absolute and Relative TSR conditions in addition to service conditions, the Monte-Carlo simulation valuation technique has been used, each simulation entails the following steps:

1. Simulate the share price of the company, and the company in the peer group, as at a performance test date. The share prices are simulated such that they are consistent with the assumed distribution of, and correlation between, share price outcomes.
2. Determine whether any awards vest at the current test date, based on the simulated share price.
3. For any vesting awards calculate the value using the simulated share price. This valuation uses the analytic or binomial tree methodology.
4. Factors in a re-test facility whereby any Rights do not do vest on the Tranche 1 and /or Tranche 2 vesting data pursuant to the RTSR performance targets, will be re-tested at the Tranche 3 vesting date.
5. Calculate the present value of the award as the valuation date.

Future restoration costs – Note 3.1

Reserve estimates – Note 3.1

Depletion and depreciation – Note 3.1

Impairment – Notes 3.1 & 3.2

1.6 CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting year

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year

All other assets are classified as non-current.

Section 1: Basis of Reporting Notes to the Financial Statements

For the year ended 31 December 2018

1.6 CURRENT VERSUS NON-CURRENT CLASSIFICATION (CONTINUED)

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting year

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities when recognised.

1.7 FAIR VALUE MEASUREMENT

The Group measures financial and non-financial assets at fair value at each balance sheet date. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

1.8 FINANCIAL AND CAPITAL RISK MANAGEMENT

The management of financial and capital risks aims to ensure that available capital, funding and cash flow are sufficient to meet the Groups financial commitments as and when they fall due and to ensure the capacity to fund its current projects is maintained.

The financial risks that arise during the normal course of Australis' operations comprise market risk, foreign currency risk, credit risk and liquidity risk (see Notes 4.1, 5.1, 5.3, 5.4) The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Board of Australis is responsible for approving Australis' policies on risk oversight and management and ensuring management has developed and implemented an effective risk management and internal control system. Whilst maintaining ultimate responsibility for financial risk management, the Board has delegated responsibility for effective implementation of the Risk Management Policy and objectives to the Audit and Risk Management Committee.

Australis' Audit and Risk Management Committee oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Australis. The CEO, with the assistance of senior executives as required, has responsibility for identifying, assessing, treating and monitoring risks on a day to day basis and reporting to the Audit and Risk Management Committee and the Board on risk management on a regular basis.

1.9 RECENTLY ISSUED STANDARDS NOT IN EFFECT

The following recently issued standards, interpretations and amendments which are not yet effective and have not been applied, however the Company is in the process of assessing their impact:

- AASB 16 Leases (effective 1 January 2019)
- AASB Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.1 REVENUE AND OTHER INCOME

Recognition and measurement

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

All revenue is generated from oil sales. Revenue from the sale of produced hydrocarbons is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Australis enters into contracts with oil marketing groups for the sale of oil produced from its operated properties including the sale of production for and on behalf of the joint property partners. A sale is recognised upon transfer of the product to the purchasers transportation mode, currently via truck, at the Company operated oil production facilities which is the point that title passes.

Revenue is recognised on the basis of the Group's working interest in a producing field (the entitlement method).

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Oil sales	34,748	24,243
Realised (loss) on forward commodity price contracts	(1,044)	(896)
Total revenue from continuing operations	33,704	23,347

Recognition and measurement

Policies on the accounting treatment of foreign exchange are detailed in Note 1.4.

	Year ended 31 December 2018 US \$'000	Year ended 31 December 2017 US \$'000
Other Income		
Unrealised foreign exchange gain	-	430
Total other income	-	430

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.2 COST OF SALES & OTHER EXPENSES

Recognition and measurement

Policies on the accounting for expenditure are set out in the notes throughout the financial statements.

	Notes	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Cost of sales			
Production costs		(9,655)	(6,500)
Royalties		(6,655)	(4,669)
Production taxes		(1,765)	(951)
Depletion	3.1	(874)	(1,065)
Depreciation - production equipment	3.3	(933)	(744)
Other		(338)	(190)
Total cost of sales		(20,220)	(14,119)
Other expenses			
Administrative expenses	2.3	(11,342)	(7,737)
Exploration costs expensed	2.5	(329)	(1,673)
Depreciation	3.3	(123)	(144)
Unrealised foreign exchange loss		(675)	-
Share based payments	7.4	(1,332)	(1,358)
Total expenses		(13,801)	(10,912)

The administrative expenses for the year ended 31 December 2018 include the following material expenses;

Employee benefits expensed – Note 2.4.

Good 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.

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.2 COST OF SALES & OTHER EXPENSES (CONTINUED)

Foreign exchange risk

The functional currency of the Group is US dollars (USD), however the Group operates internationally and is exposed to various currencies including the Australian Dollar (AUD), Euro (EUR) and Pound Sterling (GBP). The Group is primarily exposed to foreign exchange risk arising from fluctuations in AUD and USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The exposure to risks is measured using sensitivity analysis and cash flow forecasting. Refer to Notes 4.1, 5.1, 5.3 and 5.4.

The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The Group does not have any further material foreign currency dealings other than the noted currencies.

2.3 ADMINISTRATIVE EXPENSES

Administrative expenses of the Group include the following:

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	US\$'000	US\$'000
Administrative expenses			
Personnel expenses	2.4	(7,840)	(4,243)
General & administration expenses		(3,502)	(3,494)
	2.2	(11,342)	(7,737)

2.4 EMPLOYEE BENEFITS EXPENSED

Recognition and measurement

The Group's accounting policy for employee benefits other than superannuation is set out in Note 5.5. The policy for share based payments is set out in Note 7.4. For Australian based employees the Group makes superannuation contributions in accordance with the Superannuation Guarantee (Administration) Act 1992 to plans nominated by employees. US-based employees receive a contribution towards retirement plans (401k) which matches their own contribution to such plans. In 2018, contributions for US-based employees were matched up to a maximum of 6% of the base salary of each employee.

Expensed employee benefits of the Group are as follows:

		Year ended 31 December 2018	Year ended 31 December 2017
		US\$'000	US\$'000
Employee benefits			
Salaries and fees		(4,942)	(3,011)
Short term incentives		(1,367)	(396)
Superannuation		(364)	(245)
Other Payroll Expenses ⁽¹⁾		(1,167)	(591)
	2.3	(7,840)	(4,243)
Share based payments	7.4	(1,332)	(1,358)
		(9,172)	(5,601)

⁽¹⁾ Includes medical benefits and employer on costs in the USA and the movement in annual leave provision for the year of US\$124,000 (2017: \$126,000)

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.5 EXPLORATION EXPENDITURE

Recognition and measurement

The exploration expense represents expenditures which cannot be capitalised as exploration and evaluation assets under the Company's capitalisation policy which is set out in Note 3.2. This includes but is not limited to geological and geophysical costs.

Exploration expenditure also includes the costs associated with evaluation of projects which are not directly attributable to an acquisition.

Exploration expenditure of the Group includes the following:

		Year ended 31 December 2018	Year ended 31 December 2017
	Notes	US\$'000	US\$'000
Exploration expenditure			
Portuguese exploration expenditure written off		(329)	(342)
Other expenses ⁽¹⁾		-	(1,331)
	2.2	(329)	(1,673)

⁽¹⁾ 2017 expenditure includes evaluation costs associated with the acquisition of the Encana assets of US\$911,000. The Encana TMS acquisition was deemed to be a business combination under AASB 3 – Business Combinations rather than a direct asset acquisition. Accordingly, the evaluation costs cannot be capitalised.

2.6 SEGMENT REPORTING

Recognition and measurement

During 2017 the Group revised its reportable segments following the acquisition of all the Tuscaloosa Marine Shale ("TMS") assets from Encana Oil & Gas (USA), a subsidiary of Encana Corporation ("Encana"). Management has determined, based on the reports reviewed by the executive management group (the chief operating decision makers) and used to make strategic decisions, that the Group has the following reportable segments:

Oil & Gas Production

Development and production from oil & gas assets in the United States.

Exploration

Oil and gas exploration and evaluation in the United States and Portugal.

Other

Corporate overhead. The Group's management and administration office is located in Perth, Australia and the operating office is located in Houston, Texas.

There has been no other impact on the measurement of the Company's assets and liabilities.

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.6 SEGMENT REPORTING (CONTINUED)

US\$000	Oil & Gas Production		Exploration		Other		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
External revenues	33,704	23,347	-	-	-	-	33,704	23,347
Direct operating costs	(18,413)	(14,464)	-	-	-	-	(18,414)	(14,464)
Corporate	-	-	-	-	(11,342)	(5,583)	(11,342)	(5,583)
Unrealised Foreign currency gains / (losses)	-	-	-	-	(675)	430	(675)	430
Share based payments	-	-	-	-	(1,332)	(1,358)	(1,332)	(1,358)
EBITDAX⁽¹⁾	15,291	8,883	-	-	(13,349)	(6,511)	1,943	2,372
Depletion	(874)	(1,065)	-	-	-	-	(874)	(1,065)
Depreciation	(933)	(761)	-	-	(123)	(127)	(1,057)	(888)
Exploration costs expensed	-	-	(329)	(1,673)	-	-	(329)	(1,673)
EBIT⁽²⁾	13,484	7,057	(329)	(1,673)	(13,472)	(6,638)	(317)	(1,254)
Net finance income/ (costs)	(137)	-	-	-	539	95	402	95
Segment profit / (loss)	13,347	7,057	(329)	(1,673)	(12,933)	(6,543)	85	(1,159)

⁽¹⁾ EBITDAX represents net loss for the year including net realised hedging effect of \$1.04 million (2017: \$914,000), before income tax expense or benefit, finance costs, depletion, depreciation and exploration and evaluation expenses.

⁽²⁾ EBIT represents net loss for the year before income tax expense or benefit and finance costs.

Capital expenditure	Oil & Gas Production		Exploration		Other		Total	
Exploration and evaluation assets	-	-	7,803	12,228	-	-	7,803	12,228
Oil and gas assets								
- production	25,021	62,156	-	-	-	-	25,021	62,156
- rehabilitation provision	780	-	-	-	-	-	780	-
- transfer from exploration and evaluation	163	-	-	-	-	-	163	-
Other plant and equipment	3,472	5,634	-	-	283	970	3,755	6,604
	29,436	67,790	7,803	12,228	283	970	37,522	80,988

US\$000	Oil & Gas Production		Exploration		Other		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Segment assets	103,763	71,546	47,588	39,827	39,131	18,192	190,482	129,565
Segment liabilities	(24,290)	(7,691)	(136)	(406)	(10,016)	(1,554)	(34,442)	(9,651)

Geographical segments

The Group operates primarily in the United States of America, but also has activities in Portugal and head office in Australia. In presenting information on the basis of geographical segments, segment revenue and segment assets are grouped based on the location of operating activities.

Production from the designated segments is sold on commodity markets.

US\$'000	Revenue		Non-current assets	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
United States of America	33,704	23,347	134,231	106,673
Portugal	-	-	8,278	-
Australia	-	-	516	584
	33,704	23,347	143,025	107,257

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.7 NET FINANCE INCOME

Recognition and measurement

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Revenue from the provision of services is recognised when an entity has a legally enforceable right to receive payment for services rendered.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Interest income	539	95
Amortised debt finance transaction costs	(137)	-
	402	95

2.8 INCOME TAX EXPENSE

Recognition and measurement

The income tax benefit/(expense) for the year is the tax payable on the current year 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.

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.8 INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Income tax expense	-	-
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense	85	(1,159)
Prima facie tax benefit at the Australian statutory tax rate of 30% (31 December, 2017: 30%)	26	(348)
Tax effect of amounts that are not deductible (taxable) in calculating taxable income		
Share-based payment expense	176	407
Other non-allowable deductions	7	3
Income tax rate difference	336	(256)
	545	(194)
Movements in unrecognised temporary differences	(5,643)	(1,212)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	5,098	1,406
Income tax expense / (benefit)	-	-

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.8 INCOME TAX EXPENSE (CONTINUED)

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
(c) Tax affect relating to each component of other comprehensive income		
Cash flow hedges	-	-
	-	-
(d) Deferred tax asset		
<i>Arising from temporary differences attributable to</i>		
Other provisions and accruals	1,287	1,148
Tax losses in Australia	3,009	1,455
Tax losses in USA	4,994	583
Tax losses in Portugal	428	373
Tax losses in United Kingdom	62	39
Total deferred tax assets	9,780	3,598
(e) Deferred tax liability		
Oil and gas properties	5,698	-
Other accruals	147	(1,028)
Unrealised foreign exchange gain	203	(129)
Total deferred tax liabilities	6,048	(1,157)

Potential deferred tax assets have not been brought to account at 31 December 2018 (31 December 2017: Nil) as the directors do not believe that realisation of the deferred tax assets is probable at this point in time.

These benefits will only be obtained if:

- i. The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- ii. The Company continues to comply with conditions for deductibility imposed by law; and
- iii. No changes in tax legislation adversely affect the Company in realising the benefit.

Tax consolidation

As of 1 January 2018, Australis and its 100% owned Australian resident subsidiaries are part of a tax consolidated group. As a result, from this date all members of the tax consolidated group will be taxed as a single entity. Australis is the head entity of the tax consolidated group.

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.9 EARNINGS PER SHARE

Recognition and measurement

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

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

	Year ended 31 December 2018	Year ended 31 December 2017
	US\$	US\$
Profit per share attributable to members of the Company		
Basic profit / (loss) per share	0.01	(0.18)
Diluted profit / (loss) per share	0.01	(0.18)
	US\$'000	US\$'000
Profit used in calculation of basic / diluted loss per share		
Net profit / (loss) after tax	85	(1,159)
	Shares	Shares
Weighted average number of ordinary shares used as the denominator in calculating:		
Basic profit/ (loss) per share ⁽¹⁾	865,871,341	652,794,690
Diluted profit/(loss) per share ⁽²⁾	991,492,348	652,794,690

⁽¹⁾ Options and rights on issue are considered to be potentially ordinary shares and have not been included in the calculation of basic earnings per share.

⁽²⁾ When a loss has been recognised the exercise of options is considered to be antidilutive as their exercise to ordinary shares would decrease the loss per share. In accordance with AASB 133, they are excluded from the diluted loss per share calculation when a loss has been recognised.

Refer to Note 7.4 for details of options and Performance Rights on issue.

2.10 DIVIDENDS

No dividend has been paid or is proposed in respect of the year ended 31 December 2018 (2017: Nil).

Section 2: Results for the Year Notes to the Financial Statements

For the year ended 31 December 2018

2.11 RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Net profit / (loss) for the year	85	(1,159)
<i>(i) Add / (less) non-cash items</i>		
Depreciation, depletion and amortisation	2,067	1,953
Share based payment expense	1,332	1,358
Net foreign exchange loss / (gain)	675	(430)
<i>(ii) Add / (less) items classified as investment / financing activities:</i>		
Net interest received	(539)	(95)
Transaction costs	-	1,484
<i>(iii) Change in assets and liabilities during the financial year</i>		
(Increase) in receivables	(1,845)	(3,897)
Decrease / (increase) in inventories	318	(571)
Increase in payables	483	3,801
Increase in employee provisions	124	126
Net inflow from operating activities	2,700	2,570

2.12 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES:

	2017 US\$'000	Cash Flows US\$'000	Non-cash Movements Fair Value Changes US\$'000	2018 US\$'000
Long term borrowings	-	8,940	(1,122)	7,818
Total liabilities from financing activities	-	8,940	(1,122)	7,818

3.1 OIL AND GAS PROPERTIES

Recognition and measurement

Assets in development

Upon the discovery of extractable hydrocarbons, the oil and gas assets enters the development phase. The costs of oil and gas assets in development are separately accounted for and include the transfer of past exploration and evaluation costs, development drilling and other subsurface expenditure. When the committed development expenditure programs are completed and production commences, these costs are transferred to producing assets and become subject to amortisation.

Producing assets

Producing projects are stated at cost less accumulated amortisation and impairment charges. Producing projects include construction, installation or completion of production and infrastructure facilities such as pipeline, the transfer of past exploration and evaluation costs and past development costs, the ongoing costs of continuing to develop reserves for production and the provision for restoration.

In the statement of cash flows, those cash flows associated with oil and gas properties are classified as cash flows used in investing activities.

Amortisation and depreciation of producing projects

Australis uses the "units of production" ("UOP") approach when amortising and depreciating field-specific assets. Using this method of amortisation and depreciation requires Australis to compare the actual volume of production to the reserves and then to apply this determined rate of depletion to the carrying value of depreciable asset.

Capitalised producing projects costs relating to commercially producing wells are depreciated/amortised using the UOP basis once commercial quantities are being produced within an area of interest. The reserves used in these calculations are the Proved reserves and are reviewed at least annually.

Critical accounting estimates and judgements

Future restoration costs

The Group estimates the future rehabilitation costs of production facilities, wells and pipelines at different stages of the development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of restoration activities and the future removal technology available and liability specific discount rates to determine the present value of these cash flows. As at 31 December 2018 rehabilitation obligations have a carrying value of US\$2,380,000 (31 December 2017: US\$1,600,000).

Reserve estimates

Estimation of reported recoverable quantities of Proven reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. These factors used to estimate reserves may change from period to period.

Reserve estimates are used to calculate amortisation of producing assets and therefore a change in reserve estimates impacts the carrying value of assets and the recognition of deferred tax assets due to the changes in expected future cash flows.

Depletion and depreciation

In relation to the depletion of capitalised producing oil and gas assets and the depreciation of property plant and equipment related to producing oil and gas assets, the Group uses a unit of production reserve depletion model to calculate depletion and depreciation. This method of depletion and depreciation necessitates the estimation of the oil and gas reserves over which the carrying value of the relevant assets will be expensed to the profit or loss. The calculation of oil and gas reserves is extremely complex and requires management to make judgements about commodity prices, future production costs and geological structures. The nature of reserve estimation is such that reserves are not intended to be 100% accurate but rather provide a statistically probable outcome in relation to the economically recoverable reserve. As the actual reserve can only be accurately determined once production has ceased, amortisation and depreciation expensed during the production may not on a year to year basis accurately reflect the actual percentage of reserve depleted. However, over the entire life of the producing assets all capitalised costs will be expensed to the profit or loss.

Section 3: Invested Capital Notes to the Financial Statements

For the year ended 31 December 2018

3.1 OIL AND GAS PROPERTIES (CONTINUED)

Impairment

In the absence of readily available market prices, the recoverable amounts of assets are determined by discounting the expected future net cash flows from production and comparing these to the carrying value of the relevant asset or group of assets to determine the asset's net present value. The calculation of net present value is based on assumptions concerning discount rates, reserves, future production profiles, commodity prices and costs (as set out in the announcement titled "Reserve and Resource Update Year End 2018" which was lodged with the ASX on 6th February 2019).

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000	
2018			
At cost	88,120	62,156	
Accumulate depletion	(1,939)	(1,065)	
	86,181	61,091	
	Producing Projects US\$'000	Development Projects US\$'000	Total US\$'000
2018			
Balance at 1 January 2018	51,226	9,865	61,091
Additions	9,067	15,954	25,021
Transfer from exploration and evaluation assets	163	-	163
Increase in restoration provision	780	-	780
Depletion / Depreciation	(874)	-	(874)
Balance at 31 December 2018	60,362	25,819	86,181
	Producing Projects US\$'000	Development Projects US\$'000	Total US\$'000
2017			
Balance at 1 January 2017	-	-	-
Additions	-	23	23
Business combinations – additions ⁽¹⁾	50,691	9,842	60,533
Restoration provision	1,600	-	1,600
Depletion / Depreciation charge	(1,065)	-	(1,065)
Balance at 31 December 2017	51,226	9,865	61,091

⁽¹⁾ On 13 April 2017, Australis TMS Inc, a wholly owned subsidiary acquired 100% of the Tuscaloosa Marine Shale assets owned by Encana Oil & Gas USA. Additions represent the fair value of the oil and gas assets and acreage held by production. Refer to Note 7.8 – Business Combinations for further information regarding the TMS Encana acquisition.

3.2 EXPLORATION AND EVALUATION ASSETS

Recognition and measurement

Areas of interest are recognised at a field level. Exploration and evaluation expenditure other than the costs of acquisition are written off to the Consolidated Statement of Profit or Loss in the year that they are incurred.

The costs of acquiring, renewing or extending leases or concessions, together with associated expenses 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-lease or concession costs are expensed in the year in which they are incurred.

The costs of acquiring, renewing or extending leases or concessions, together with associated expenses are capitalised as exploration and evaluation assets. If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through profit or loss as exploration expenditure. All geological and geophysical costs, dry hole costs and unproved leasehold costs are also expensed as incurred in accordance with the successful efforts method of accounting for oil and gas exploration and evaluation expenditure.

If extractable hydrocarbons are discovered the exploration and evaluation costs are transferred to Oil and Gas Properties – Development Projects whilst further appraisal activity is undertaken to assess the commercial potential of a reservoir following the initial discovery of hydrocarbons. Costs associated with the drilling of development wells are also capitalised and depletion commences.

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.

During the year ended 31 December 2018, \$163,000 of exploration and evaluation expenditure was transferred to Oil and Gas Properties in relation to leases that had transitioned to held by production status during the year (2017: \$nil).

In the statement of cash flows, those cash flows associated with capitalised exploration and evaluation expenditure are classified as cash flows used in investing activities and the cash flows associated with exploration expenditure including geological and geophysical and dry hole costs are included in cash flows from operating activities.

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.

Section 3: Invested Capital Notes to the Financial Statements

For the year ended 31 December 2018

3.2 EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Impairment

All exploration and evaluation costs that meet the requirements of AASB 6 – *Exploration and Evaluation of Mineral Resources* are capitalised and carried at cost unless the Company becomes aware of an indicator of impairment.

Capitalised costs relating to Oil & Gas Properties are assessed for impairment at each reporting date.

	Year ended 31 December 2018	Year ended 31 December 2017
	US\$'000	US\$'000
Opening balance	39,696	27,468
Additions ⁽¹⁾	7,803	12,228
Transfer to oil and gas properties	(163)	-
Closing balance	47,336	39,696

⁽¹⁾ Capitalised Expenditure

Additions represent the costs associated with the acquisition of new leases and the renewal and extension of existing leases in the TMS during the year.

In 2017 additions include the cost of non-developed acreage of \$3,556,000 acquired as part of the Encana TMS acquisition. Refer to Note 7.8 – Business Combinations

Exploration commitments

	Year ended 31 December 2018	Year ended 31 December 2017
	US\$'000	US\$'000
Oil and gas exploration		
Payable:		
Within one year ⁽¹⁾	-	509
After one year, not more than five years	-	-
Total exploration commitments	-	509

⁽¹⁾ Payable within one year

At 31 December 2017 this figure is made up of the 2018 Annual Work Program and Budget of the working interest in Tuscaloosa Marine Shale and the 2018 Concession obligations in Portugal. The Tuscaloosa Marine Shale budget is primarily for acquisition of new leases and the renewal and extension of existing leases as well as associated brokerage costs and accordingly this expenditure will be dependent upon the success of the leasing activity currently underway in the US. The 2018 Portuguese Concession obligations make up the balance in the amount of 352,000 Euros (US\$419,000). As at 31 December 2018 no such commitments were in place as an Environmental Impact Assessment process is currently being conducted resulting in a mutually agreed pause for the 2019 Portugal Concession Work Program and Budget.

Section 3: Invested Capital Notes to the Financial Statements

For the year ended 31 December 2018

3.2 EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Critical accounting estimates and judgements

Area of Interest

An area of interest (AOI) is defined by the Group as an individual geographical area whereby the presence of hydrocarbons is considered favourable or proved to exist. The Group has established criteria to recognise and maintain an AOI.

Impairment of exploration and evaluation assets

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective AOI. Each potential or recognised AOI is reviewed half-yearly to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support continued carry forward of the capitalised costs. Where a potential impairment is indicated, assessment is performed using a fair value less cost to dispose method, to determine the recoverable amount for each AOI to which the exploration and evaluation expenditure is attributed.

This assessment requires management to make certain estimates and apply judgement in determining assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

3.3 PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

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 year.

The estimated useful lives of fixtures and fittings used in the calculation of depreciation is 3 to 10 years.

	Office Equipment US\$'000	Production Equipment US\$'000	Motor Vehicles US\$'000	Total US\$'000
2018				
Opening net book amount	691	4,890	184	5,765
Additions	283	3,472	-	3,755
Write down in year	(615)	-	-	(615)
Depreciation charge	(90)	(933)	(33)	(1,056)
Closing net book amount	269	7,429	151	7,849
2017				
At cost	455	9,123	213	9,791
Accumulated depreciation	(186)	(1,694)	(62)	(1,942)
Closing net book amount	269	7,429	151	7,849

Section 3: Invested Capital Notes to the Financial Statements

For the year ended 31 December 2018

3.3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office Equipment US\$'000	Production Equipment US\$'000	Motor Vehicles US\$'000	Total US\$'000
2017				
Opening net book amount	49	-	-	49
Additions ⁽¹⁾	757	-	-	757
Business combinations	-	5,634	213	5,847
Depreciation charge	(115)	(744)	(29)	(888)
Closing net book amount	691	4,890	184	5,765
2017				
At cost	824	5,634	213	6,671
Accumulated depreciation	(133)	(744)	(29)	(906)
Closing net book amount	691	4,890	184	5,765

⁽¹⁾ On 13 April 2017 Australis TMS Inc, a wholly owned subsidiary, acquired 100% of the Tuscaloosa Marine Shale assets owned by Encana Oil & Gas USA. Additions represent the fair value of the surface equipment and motor vehicles acquired.

4.1 CASH AND CASH EQUIVALENTS

Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid.

Cash and cash equivalents as defined above, consist of:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
<i>Held with Australian banks and financial institutions</i>		
Cash at bank and in hand	27,036	14,350
Deposits at call	-	-
<i>Held with Portuguese banks and financial institutions</i>		
Cash at bank and in hand	104	263
<i>Held with UK banks and financial institutions</i>		
Cash at bank and in hand	1	1
<i>Held with US banks and financial institutions</i>		
Cash at bank and in hand	10,802	1,988
	37,943	16,602

Cash and cash equivalents in the Cash Flow Statement comprises the following Balance Sheet amounts:

Cash on hand and balances at bank	17,613	16,602
Short term deposits	20,330	-
Cash and cash equivalents	37,943	16,602

Section 4: Capital and Debt Structure Notes to the Financial Statements

For the year ended 31 December 2018

4.1 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash & cash equivalents held in foreign currency

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Amount in Currency	Amount in USD	Amount in Currency	Amount in USD
	\$'000	US \$'000	\$'000	US \$'000
Cash & cash equivalents				
AUD Dollars	5,154	3,634	6,189	4,828
Euro	91	104	158	189
UK Pounds	1	1	1	1
		3,739		5,018

Foreign exchange risk

The Group held US \$3.7 million of cash and cash equivalents at 31 December 2018 (31 December 2017: US\$5.0 million) in currencies other than US dollars (predominantly AUD dollars).

A reasonable possible change in the exchange rate of the US dollar to the AUD dollar (+ 10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current year or previous year. A reasonable possible change in the exchange rate of the US dollar to the Euro (+ 10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current year.

Credit risk

The maximum exposure to credit risk with respect to cash and cash equivalents and the bank guarantee at the end of the reporting year is the carrying amount of each class of cash and cash equivalents set out above. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent with the exception of the financial guarantee with Bank Inter, which is currently rated with Standard & Poor as BBB- (adequate capacity to meet its financial commitments).

Interest rate risk

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits earn interest at the respective short-term deposit rate.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at and during the year ended 31 December 2018, the Group's interest-bearing assets consisted of cash and cash equivalents and a bank guarantee held with Australian and Portuguese banks and financial institutions and earned interest at 0.28% floating rate (31 December 2017: 0.23%). As such the impact on the Group's income and operating cash flows from movements in market interest rates is not considered material.

Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash and access to capital markets. It is the policy of the Board to ensure the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities by ensuring the Group has sufficient working capital and the preserving or resetting of the 15% share issue limit available to the Company under the ASX Rules.

Capital risk management

The Group manages its capital to ensure entities in the Group will be able to continue as a going concern while maximising the potential return to shareholders. The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and potential investment opportunities.

On the 5th June 2018 Australis entered into a credit agreement with Macquarie Bank Limited providing for a three-year senior secured US\$75 million term credit facility. Under the Facility, the Group is required to maintain at least US\$10 million standing to the credit of it's combined accounts. As at 31 December 2018 US\$10 Million was drawn from the facility, refer to Note 5.7 for further information.

Section 4: Capital and Debt Structure

Notes to the Financial Statements

For the year ended 31 December 2018

4.2 CONTRIBUTED EQUITY

Recognition and measurement

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

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Securities	Securities	US\$'000	US\$'000
Share capital				
Ordinary shares	895,936,178	776,339,475	154,996	125,253
Treasury shares	(290,215)	-	(59)	-
Total contributed equity	895,645,963	776,339,475	154,937	125,253

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and any proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting or by proxy, is entitled to one vote. Upon poll every holder is entitled to one vote per share held.

(b) Movements in contributed equity

	Date	Number of Securities	Issue Price A\$	US\$'000
Balance at 1 January 2017		341,556,866		53,219
Placement	13 Apr 17	434,782,609	0.23	74,995
Share issue costs		-		(2,961)
Balance at 31 December 2017		776,339,475		125,253
Placement ⁽¹⁾	29 Mar 18	115,280,000	0.34	30,164
Share issue costs		-	-	(1,317)
Exercise of options	26 Feb 18	2,250,000	0.275	483
Exercise of Options	25 May 18	100,568	0.275	21
Exercise of Options	5 Jun 18	115,000	0.275	24
Exercise of Options	11 Jul 18	275,000	0.275	56
Exercise of Options	19 Jul 18	35,000	0.275	7
Exercise of Options	31 Aug 18	404,771	0.275	82
Exercise of Options	19 Oct 18	1,136,364	0.275	223
Balance at 31 December 2018		895,936,178		154,996

⁽¹⁾ On 29 March 2018 Australis issued 115.28 million new fully paid ordinary shares at A\$0.34 per share to raise A\$39 million before costs of issue. The funds raised have been applied to the initial drilling program in the TMS.

Section 4: Capital and Debt Structure Notes to the Financial Statements

For the year ended 31 December 2018

4.2 CONTRIBUTED EQUITY (CONTINUED)

(c) Treasury shares

Treasury shares are shares held in Australis Oil & Gas Limited by the Australis Oil & Gas Limited Employee Share Trust for the purpose of issuing shares under the Australis Oil & Gas Limited Employee Equity Incentive Plan.

	Date	Number of securities acquired on market	Purchase price per share A\$	US\$'000
Balance at 31 December 2017		-		-
Australis Oil & Gas Employee Share Trust Acquisition	8 Jan 18	56,216	0.241	11
Australis Oil & Gas Employee Share Trust Acquisition	9 Jan 18	83,784	0.241	16
Australis Oil & Gas Employee Share Trust Acquisition	10 Jan 18	60,000	0.258	12
Australis Oil & Gas Employee Share Trust Acquisition	11 Jan 18	100,000	0.260	20
Australis Oil & Gas Employee Share Trust Distribution	3 May 18	(9,785)		-
Balance at 31 December 2018		290,215		59

4.3 RESERVES AND ACCUMULATED LOSSES

Balance at end of the year	Year ended 31 December 2018 US \$'000	Year ended 31 December 2017 US \$'000
(a) Option reserve		
Balance at the beginning of the financial year	5,592	4,234
Share based payment expense arising during the year	1,332	1,358
Transaction cost – Macquarie options	1,258	-
Balance at end of the year	8,182	5,592
(b) Foreign exchange reserve		
Balance at the beginning of the financial year	(467)	(467)
Currency translations differences arising during the year	-	-
Balance at end of the year	(467)	(467)
(c) Cash flow hedge reserve		
Balance at the beginning of the financial year	(646)	-
Change in derivatives financial instruments at fair value through comprehensive income	3,767	(646)
Balance at end of the year	3,121	(646)
(d) Accumulated losses		
Balance at the beginning of the financial year	(9,818)	(8,659)
Net profit / (loss) for the year	85	(1,159)
Balance at end of the year	(9,733)	(9,818)

Section 5: Other Assets and Liabilities

Notes to the Financial Statements

For the year ended 31 December 2018

5.1 TRADE AND OTHER RECEIVABLES

Recognition and measurement

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for uncollectible amounts. Subsequent recoveries of amounts previously written off are credited against expenses in the income statement.

Impairment

In determining the recoverability of a trade or other receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. As prescribed under AASB 9, the simplified approach has been to provide for expected credit losses, which requires the use of the lifetime expected loss provision for all trade receivables. There are no expected credit losses.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Current assets		
Trade receivables	5,367	3,667
Cash flow hedge deposit	1,000	1,000
Other receivables	733	467
	7,100	5,134
Non-current assets		
Other receivables	698	705
	698	705

Trade and other receivables held in foreign currency

	31 December 2018 Amount in Currency \$'000	31 December 2018 Amount in USD US\$'000	31 December 2017 Amount in Currency \$'000	31 December 2017 Amount in USD US\$'000
Trade and other receivables				
AUD Dollars	37	26	153	119
Euro	86	99	156	186
		125		305

Fair value

The carrying amount of trade and other receivables are assumed to approximate fair value due to their short term nature.

Risks

Liquidity Risk

All amounts recognised as trade and other receivables are non-interest bearing and are expected to be received within the next 12 months.

Section 5: Other Assets and Liabilities Notes to the Financial Statements

For the year ended 31 December 2018

5.1 TRADE AND OTHER RECEIVABLES (CONTINUED)

Credit Risk

Trade and other receivables are generally due for settlement within 30 days and therefore classified as current. No Group receivables were past due or impaired as at 31 December 2018 (2017: Nil) and there is no indication that amounts recognised as other receivables will not be recoverable in the normal course of business

A security deposit of US\$1,000,000 was provided to Commonwealth Bank of Australia (CBA) as part of the cash flow hedge facility arrangements. This deposit is refundable at the end of the CBA hedging period.

At 31 December 2018, other receivables consisted of letters of credit, security deposits and government tax refunds. Accordingly, the Group's exposure to credit risk arising from the default of third party debtors at 31 December 2018 is considered immaterial.

Foreign exchange risk

The Group held other receivables in AUD of US\$26,000 at 31 December 2018 (31 December 2017: US\$119,000) and EURO of US\$99,000 at 31 December 2018 (31 December 2017: US\$186,000). A reasonable possible change in the exchange rate of the US dollar to the AUD and Euro (+ 10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current year.

5.2 INVENTORIES

Recognition and measurement

Inventories include hydrocarbon stocks, consumable supplies and maintenance spares. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes direct costs and an appropriate portion of fixed and variable production overheads where applicable. Inventories determined to be obsolete or damaged are written down to net realisable value, being the estimated selling price less selling costs.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Oil Inventory	90	90
Warehouse stores and Inventory ⁽¹⁾	164	482
	254	572

⁽¹⁾ On 13 April 2017, Australis TMS Inc, a wholly owned subsidiary acquired 100% of the TMS owned by Encana. Oil and material inventory of US\$486,000 was recognised on acquisition.

5.3 TRADE AND OTHER PAYABLES

Recognition and measurement

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

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Trade payables ⁽¹⁾	22,124	4,577
Other payables	1,748	2,580
	23,872	7,157

⁽¹⁾ On 13 April 2017, Australis TMS Inc, a wholly owned subsidiary acquired 100% of the Tuscaloosa Marine Shale assets owned by Encana Oil & Gas USA. Suspended revenues held on behalf of royalty owners of US\$2,296,000 was recognised on acquisition.

Section 5: Other Assets and Liabilities

Notes to the Financial Statements

For the year ended 31 December 2018

5.3 TRADE AND OTHER PAYABLES (CONTINUED)

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Amount in Currency	Amount in USD	Amount in Currency	Amount in USD
	\$'000	US\$'000	\$'000	US\$'000
Trade and other payables				
AUD Dollars	139	98	784	611
Euro	109	124	200	238
UK Pounds	9	11	9	12
		233		861

Fair value

The carrying value of payables are assumed to approximate fair value due to their short term nature.

Risks

Liquidity risk

Trade and other payables are non-interest bearing and normally settled within 30 to 60 day terms except US\$3,226,000 (2017: US\$2,613,000) held in suspense on behalf of royalty owners. This relates to royalty payments due to owners that is held by the operator until certain requirements are met. All amounts recognised as trade and other payables are non-interest bearing and are expected to be settled within the next 12 months.

Foreign exchange risk

The Group held US\$233,000 of trade and other payables at 31 December 2018 (31 December 2017: \$861,000) in currencies other than US dollars (being AUD dollars, Euros and British pounds). A reasonable possible change in the exchange rate of the US dollar to the Australian dollar (+ 10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current period. A reasonable possible change in the exchange rate of the US dollar to the Euro (+ 10%/-10%), with all other variables held constant, would not have a material impact on the Group's equity or the profit or loss in the current period.

The impact on post tax profits and equity of a hypothetical change in the US dollar / Sterling exchange rate is not considered significant.

5.4 DERIVATIVE FINANCIAL INSTRUMENTS

Recognition and measurement

Derivatives are initially recognised at their fair value when the Group becomes a party to the contract. Oil price commodity contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve while any ineffective portion is recognised immediately in the statement of profit or loss. The Group uses oil price commodity contracts as hedges of its exposure to commodity price risk in forecast transactions. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss – when the hedge instrument is settled. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the transaction settlement.

Under the Macquarie Facility Agreement, Australis is obligated to fulfil minimum hedging obligations for the duration of the loan period.

Section 5: Other Assets and Liabilities Notes to the Financial Statements

For the year ended 31 December 2018

5.4 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The outstanding contracts held by the Group at 31 December 2018 are as follows:

Period of Deliver	Subject of Contract	Reference	Option Traded	Barrels	Put Price \$US	Floor Price \$US	Fair Value US\$'000
Jan – Jun 2019	Oil	Nymex WTI	Zero Cost Collar	60,000	55.00	69.00	506
Jan – Jun 2019	Oil	Nymex WTI	Zero Cost Collar	60,000	55.00	67.70	572
Jul – Dec 2019	Oil	Nymex WTI	Zero Cost Collar	109,998	55.00	87.65	1,082
Jan – Jun 2020	Oil	Nymex WTI	Zero Cost Collar	64,998	55.00	81.65	625
Jul – Dec 2020	Oil	Nymex WTI	Zero Cost Collar	30,000	55.00	77.00	276
Jan – Jun 2021	Oil	Nymex WTI	Zero Cost Collar	7,002	55.00	73.05	60
Total				331,998			3,121

Fair value

The derivative financial instruments relate to the Group's hedging activities to hedge against cash flow risks from movements in oil price, for which hedge accounting has been applied. The fair value of the derivative financial instruments are level 2 of the fair value hierarchy and are obtained from third party valuation reports. The fair value is determined using valuation techniques which maximise the use of observable market data.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Forward commodity contracts – cash flow hedges:		
Current (2019 Settlement)	2,160	(646)
Non-Current (2020 and 2021 Settlement)	961	-
	3,121	(646)

Risks

Credit risk

The maximum exposure to credit risk with respect to cash flow hedges at the end of the reporting year is the carrying amount set out above. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent.

Commodity price and liquidity risk

The Group uses oil price commodity contract to manage some of its transaction exposures and reduce the variability of cash flows arising from oil sales during the year. These contracts are designated as cash flow hedges and are entered into for periods consistent with oil price exposure of the underlying transactions, generally from 1 to 24 months, with volumes generally weighted to earlier periods.

Commodity price risk arises from the sale of oil denominated in US dollars. Revenue from oil and gas sales for the year ended 31 December 2018 is \$33,704,000 (2017: \$23,347,000). Impact on after tax profit based on the oil volumes transacted would be as follows;

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
If the WTI + LLS average price was 15% (2017: 10%) higher ⁽¹⁾	5,056	2,334
If the WTI + LLS average price was 15% (2017: 10%) lower ⁽¹⁾	(5,056)	(2,334)

⁽¹⁾ WTI is defined as West Intermediate and LLS is defined as Louisiana Light Sweet.

Section 5: Other Assets and Liabilities

Notes to the Financial Statements

For the year ended 31 December 2018

5.5 PROVISIONS FOR EMPLOYEE BENEFITS

Recognition and measurement

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 year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year 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.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(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 year 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 year. Expected future payments are discounted using market yields at the end of the reporting year on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Employee benefit provisions	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Balance at beginning of year	248	122
Arising during the year	450	300
Utilisation	(326)	(174)
Balance at end of year	372	248
Comprising		
Current	372	248
Non-current	-	-
	372	248

A breakdown of employee benefits and charges included in the income statement can be found in Note 2.4

Section 5: Other Assets and Liabilities Notes to the Financial Statements

For the year ended 31 December 2018

5.6 PROVISIONS – NON-CURRENT

Recognition and measurement

Provision for future removal and restoration costs are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

	31 December 2018 US\$'000	31 December 2017 US\$'000
Restoration provision	2,380	1,600
Reconciliation of movement in restoration provision		
Balance at beginning of year	1,600	-
Provision made during the year ⁽¹⁾	780	1,600
Balance at end of year	2,380	1,600

⁽¹⁾ On 13 April 2017, Australis TMS Inc, a wholly owned subsidiary acquired 100% of the TMS assets owned by Encana Oil & Gas USA. Provision for restoration of US\$1,600,000 was recognised on acquisition. During 2018, the provision was increased to reflect the estimated cost to restore the Group's operated sites.

Section 5: Other Assets and Liabilities

Notes to the Financial Statements

For the year ended 31 December 2018

5.7 BORROWINGS

Recognition and measurement

The Group recognises financial liabilities on the trade date, which is the date that the Group becomes party to the contractual provisions of the instrument. Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expire.

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised and amortised over the life of the loan through the profit and loss. Borrowing costs that are not directly attributable are recognised in the profit or loss.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Interest bearing loans and borrowings		
Borrowings ⁽¹⁾ Current	2,000	-
Borrowings ⁽²⁾ Non Current	5,818	-
Total interest bearing loans and borrowings	7,818	-

⁽¹⁾ Under the Macquarie Facility Agreement, Australis is required to make repayments of US\$1 million each quarter for the period of the loan, commencing in the September quarter 2019. Australis expects to make two repayments of US\$1 million during 2019.

⁽²⁾ Net of capitalised transaction costs of \$2.18 million, of which \$1.26 million relates to the fair value of the 20 million options granted to Macquarie Bank Limited which vested on the initial drawdown of Tranche 1 funding, expiring on 4 June 2021.

	2018		2017	
	Carrying amount US\$'000	Fair value US\$'000	Carrying amount US\$'000	Fair value US\$'000
Borrowings	7,818	10,075	-	-
	7,818	10,075	-	-

On 5 June 2018, Australis TMS Inc, a wholly owned subsidiary entered in to a credit agreement with Macquarie providing for a three-year senior secured US\$75 million term credit facility (Facility). This Facility will be applied to the initial drilling program within the significant TMS acreage leasehold position owned by Australis TMS Inc. in Mississippi and Louisiana. Drilling commenced in the second half of 2018. The initial commitment under the Facility is US\$75 million, with an additional US\$25 million available, if requested by Australis, subject to further credit approval by Macquarie. First availability of committed funds under the Facility is subject to completion of customary conditions precedent, which are expected to be satisfied in due course.

Key Terms of the Facility include:

- US\$75 million has been committed and is available in two tranches:
 - Tranche 1: US\$35 million available immediately upon satisfaction of customary conditions, and
 - Tranche 2: US\$30 million available upon satisfactory initial well results.
 - A further US\$10m is available in Tranche 1 now that ATS spent, from its own capital resources, US\$20 million on the Initial Drilling Program.
- Interest rate of LIBOR plus 6.0% p.a.
- Quarterly principal repayments of US\$1 million commencing nine months after the initial draw down, with the balance of the principle due on maturity date.
- Senior secured non-revolving facility, with security over US based assets.
- The Facility may be cancelled by the Company at any time without penalty once any drawn funds are repaid.

Section 5: Other Assets and Liabilities Notes to the Financial Statements

For the year ended 31 December 2018

5.7 BORROWINGS (CONTINUED)

In addition to customary upfront and drawdown fees payable to Macquarie, the Company issued to Macquarie 30,000,000 options to subscribe for fully paid ordinary shares in the Company, all of which were or are subject to vesting conditions. The key pricing terms of the Option issue include:

- 20 million options at an exercise price of A\$0.49 (representing a 20% premium to the 30 day VWAP prior to 5 June 2018) vesting on initial draw down of Tranche 1 funding and expiring on 4 June 2021.
- 10 million options at an exercise price of A\$.51 (representing a 25% premium to the 30 day VWAP prior to 5 June 2018) vested on the initial draw down of Tranche 2 funding and expiring on 4 June 2021.

At 31 December 2018, \$10 million was drawn under the Facility and future draw downs are at the discretion of the Board and management of Australis. As such 20 million options have vested at the reporting date and an expense of \$1.3 million was recognised in borrowings and is amortised over the life of the facility.

Australis TMS Inc obligations under the Facility are guaranteed by pledged security from the parent entity, Australis and Australis USA 1 Pty Limited a wholly owned subsidiary of Australis (Obligors). At 31 December 2018 the following remained pledged as security:

Grantor	Issuer	Percentage owned	Percentage pledged	Class of stock
Australis Oil & Gas Ltd	Australis USA 1 Pty Ltd	100%	100%	Ordinary shares
Australis USA 1 Pty Ltd	Australis TMS Inc	100%	100%	Common Stock

The security package includes mortgages on leases held by Australis TMS Inc. within existing PDP units and leases within units of the Initial Drilling Plan locations.

Under the Facility there are industry standard financial covenants which include minimum liquidity, ratios and PDP reserves ratios.

6.1 CONTROLLED ENTITIES

The consolidated financial statements of the Group include the following subsidiary companies:

	Principal activities	Country of Incorporation	% Equity interest 31 December 2018 and 2017
Australis Europe Pty Limited	Oil & gas exploration	Australia	100%
Australis USA 1 Pty Limited	Oil & gas exploration	Australia	100%
Australis Oil & Gas UK Ltd	Oil & gas exploration	United Kingdom	100%
Australis Oil & Gas Portugal Sociedade Unipessoal Lda	Oil & gas exploration	Portugal	100%
Australis TMS Inc	Oil & gas exploration	United States	100%
Australis Services Inc	Oil & gas exploration	United States	100%

Section 6: Group Structure Notes to the Financial Statements

For the year ended 31 December 2018

6.2 TRANSACTIONS WITH CONTROLLED ENTITIES

Australis Oil and Gas Limited provides equity funding and working capital to its controlled entities. Transactions between Australis and other controlled entities in the wholly owned Group during the year ended 31 December 2018 consisted of:

- Equity funding by Australis Oil and Gas Limited to fund working capital of its subsidiaries;
- Provision of services by Australis Oil and Gas Limited to subsidiary companies;
- Provision of services by Australis TMS Inc to subsidiary companies;
- Expenses paid by Australis Oil and Gas Limited on behalf of its controlled entities.

The recharges of goods and services to subsidiaries were made on normal credit terms.

During the financial year:

- Australis Oil & Gas Limited resolved to convert the total indebtedness of its wholly owned subsidiary Australis Europe Pty Ltd in the amount of A\$1.39 million to equity by way of a contribution to equity in exchange for an extinguishment of the liability relating to the indebtedness.
- Australis Europe Pty Limited resolved to convert the total indebtedness of its wholly owned subsidiary Australis Oil and Gas UK Limited in the amount of £759,000 to equity by way of a contribution to equity in exchange for an extinguishment of the liability relating to the indebtedness.
- Australis Oil & Gas UK Limited resolved to convert the total indebtedness of its wholly owned subsidiary Australis Oil & Gas Portugal Sociedade Unipessoal LDA in the amount of EUR869,000 to equity by way of a contribution to equity in exchange for an extinguishment of the liability relating to the indebtedness.
- Australis Oil & Gas Limited resolved to convert the total indebtedness of its wholly owned subsidiary Australis USA1 Pty Ltd in the amount of A\$18.24 million to equity by way of a contribution to equity in exchange for an extinguishment of the liability relating to the indebtedness.
- Australis USA1 Pty Ltd resolved to convert the total indebtedness of its wholly owned subsidiary Australis TMS Inc in the amount of US\$13.5 million to equity by way of a contribution to equity in exchange for an extinguishment of its liability relating to the indebtedness.
- There was no conversion of debt to issued capital in any of the other subsidiaries other than those mentioned above.

6.2 TRANSACTIONS WITH CONTROLLED ENTITIES (CONTINUED)

Details of transactions with controlled entities during the year are as follows:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Sales of goods and services		
Management fees and expense recharges to subsidiaries	2,583	1,394
Advances to subsidiaries		
Balance at beginning of year	2,162	1,168
Advanced during year	14,072	2,882
Converted to equity	(14,072)	(1,888)
Balance at end of year	2,162	2,162

At 31 December 2018 an amount of US\$2.8 million was owed to Australis Oil & Gas Limited by its subsidiaries (2017: US\$870,000). The amounts outstanding are repayable on normal credit terms.

Section 6: Group Structure Notes to the Financial Statements

For the year ended 31 December 2018

6.3 PARENT ENTITY INFORMATION

Select financial information of the parent entity, Australis Oil & Gas Limited, is set out below:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Summary financial information		
Current assets	28,303	15,300
Non-current assets	119,419	106,172
Total assets	147,722	121,472
Current liabilities	(1,067)	(932)
Total liabilities	(1,067)	(932)
Net assets	146,655	120,540
Contributed equity	154,996	125,253
Treasury shares	(59)	-
Share-based payment reserve	8,182	5,592
Foreign currency translation reserve	10	10
Accumulated losses	(16,474)	(10,315)
Total equity	146,655	120,540
(Loss) for the year	(6,159)	(3,667)
Total comprehensive (loss) for the year	(6,159)	(3,667)

Section 7: Other Notes

Notes to the Financial Statements

For the year ended 31 December 2018

7.1 OPERATING LEASES

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Operating lease commitments – Group as Lessee		
Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:		
Rent		
Payable:		
Within one year	235	204
After one year, not more than five years	1,229	1,340
	1,464	1,544

7.2 JOINT ARRANGEMENTS

Australis holds through an indirect wholly owned subsidiary approximately 94% working interest in 32 operated wells and an average 10% working interest in 17 non-operated wells held in the TMS, onshore USA.

Australis holds through an indirect wholly owned subsidiary a 100% working interest (subject to a consultant incentive of 3% working interest) in two concessions located onshore in the Lusitanian Basin, Portugal, known as the Batalha and Pombal concessions which collectively cover an area of approximately 620,000 acres.

7.3 OIL AND GAS LEASES AND CONCESSIONS

Following the initial entry into the TMS in 2016 through an acquisition and an active leasing program, Australis started 2017 with a core position of approximately 19,000 net acres. Through the business combination completed 13 April 2017 and targeted acquisition and leasing program, Australis built this position to 95,000 net acres on highly attractive terms. During 2018 Australis continued to increase its position in the TMS and at 31 December 2018 Australis holds approximately 110,000 net acres in the TMS.

The two Portuguese concessions were awarded on 30 September 2015 to a Portuguese incorporated company that was acquired by Australis on 31 December 2015. The concessions have independently assessed contingent and prospective resources allocated to them and are held under eight-year concession contracts with a minimum work program for each year.

Section 7: Other Notes Notes to the Financial Statements

For the year ended 31 December 2018

7.4 SHARE BASED PAYMENTS

The Group provides benefits to its employees (including KMP) in the form of share-based payments whereby employees render services for shares (equity-settled transactions).

The movement in the year is set out below:

	Year ended 31 December 2018	Year ended 31 December 2017
	Number	Number
Balance at beginning of year	104,830,933	102,910,933
- granted ⁽¹⁾	30,000,000	1,920,000
- exercised	(4,316,703)	-
Balance at end of year	130,514,230	104,830,933
Vested and exercisable at end of the year	118,594,230	77,830,000

⁽¹⁾ In 2018, 30,000,000 options were granted to Macquarie, please refer to section 5.7 Borrowings for further information.

The options are not listed and carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

Recognition and measurement

The fair value of options granted during the year was calculated using the Black Scholes options pricing model. The expense is apportioned pro-rata to reporting periods where vesting periods apply. Key inputs to the Black Scholes options pricing model used in the calculation of each grant of options during the year ended 31 December 2018 and 31 December 2017 were as follows:

Grant date:	Expected price volatility ⁽¹⁾	Exercise Price	Vest Date	Expiry Date	Share price at grant date	Risk free interest rate ⁽²⁾	Fair value per option
10 Apr 17 ⁽⁴⁾							
\$0.3125 (Series A) Options	85%	A\$0.3125	See note ⁽⁴⁾	30-Nov-21	A\$0.26	2.05%	A\$0.13
\$0.3125 (Series B) Options	85%	A\$0.3125	See note ⁽⁴⁾	30-Nov-21	A\$0.26	2.05%	A\$0.14
\$0.3125 (Series C) Options	85%	A\$0.3125	See note ⁽⁴⁾	30-Nov-21	A\$0.26	2.05%	A\$0.15
18 Dec 17							
\$0.285 Options	43%	A\$0.285	18-Dec-17	31-Dec-22	A\$0.24	2.29%	A\$0.06
\$0.345 Options	43%	A\$0.345	18-Dec-18	31-Dec-22	A\$0.24	2.29%	A\$0.05
\$0.400 Options	43%	A\$0.400	18-Dec-19	31-Dec-22	A\$0.24	2.29%	A\$0.04

⁽¹⁾ For options granted prior to listing (July 2016), the expected volatility was based on historical peer group volatility and factors that may influence Australis future volatility. Since listing any option grant valuation is based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information.

⁽²⁾ Risk free rate of securities with comparable terms to maturity.

⁽³⁾ Independent director options vest 33.3% on each anniversary from the date of grant, subject to the grantee remaining a director of the Company.

⁽⁴⁾ Independent director options vest 33.3% on each anniversary from the date of grant, subject to the grantee remaining a director of the Company. 420,000 options were granted on 30 November 2016 subject to shareholder approval obtained 10 April 2017.

Section 7: Other Notes

Notes to the Financial Statements

For the year ended 31 December 2018

7.4 SHARE BASED PAYMENTS (CONTINUED)

(ii) Performance Rights

A long term incentive plan operates to provide incentives to employees. Participation in the plan is for invited employees of the Group. Performance Rights were issued during the year at nil consideration. These rights vest in annual tranches over a three year period and upon vesting, each Performance Right can be exercised, within the following 2 years, into an ordinary share in the parent entity.

Testing of the Performance Rights will occur at the conclusion of each annual performance period and any Performance Rights remaining unvested from either the first or second annual performance period may be retested in accordance with the performance requirements of the third performance period.

The performance period is each calendar year beginning with the 2017 year. Performance Rights granted will be tested for vesting on the basis of 1/7th, 2/7th and 4/7ths each year respectively.

The performance hurdles for vesting of Performance Rights is continued employment and based on seniority an increasing portion is subject to additional hurdles relating to the total shareholder return (TSR) on an "absolute" and "relative" basis as follows:

- a. Absolute TSR – at the vesting date of a particular tranche of Performance Rights that are subject to the Absolute TSR hurdle the following occurs: The Australis volume weighted average share price (VWAP) for the month of December prior to the vesting date is compared to the Performance Right issue price, the outcome of which is measured to a pre-set range of outcomes that stipulate the percentage of Performance Rights that vest.
- b. Relative TSR - at the vesting date of a particular tranche of Performance Rights that are subject to the Relative TSR hurdle the following occurs: An absolute TSR is calculated for Australis by comparing the Australis VWAP for the month of December prior to the vesting date to the Performance Right issue price. The absolute TSR's for a peer group of companies (see Remuneration Report section 10.2) listed on the ASX is then calculated by reference to each companies VWAP for December prior to grant of the Performance Right and each companies VWAP for the December prior to the vesting date. If at the vesting date the Australis absolute TSR is ranked lower than the 50th percentile within the peer group, 0% of the eligible rights vest. For each percentile increment the Australis TSR ranking within the peer group exceeds the 50th percentile of the peer group, 2% of the Performance Rights in that particular tranche that are subject to Relative TSR hurdles will vest.

The Performance Rights are not listed and carry no dividend or voting rights. Upon exercise, each performance right is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

Section 7: Other Notes Notes to the Financial Statements

For the year ended 31 December 2018

7.4 SHARE BASED PAYMENTS (CONTINUED)

The movement in the year is set out below:

	Year ended 31 December 2018	Year ended 31 December 2017
	Number	Number
Balance at beginning of year	2,786,325	-
- granted	10,321,907	2,982,427
- exercised	(51,523)	-
- forfeited	(421,008)	(196,102)
Balance at end of year	12,635,701	2,786,325
Vested at end of the year	258,818	-

Recognition and measurement

The fair value of services received in return for the performance rights granted are measured by reference to the fair value of performance rights granted. The estimate of the fair value of the services received is measured through the use of a Monte-Carlo simulation model which determines the probability of the market conditions being fulfilled at the vesting dates and, as such, whether rights will vest.

Performance rights fair value assumptions

	24 May 2018	15 June 2017
Share price	A\$0.405	A\$0.24
Expected volatility	55%	33.9%
Risk free rate ⁽¹⁾	2.04% to 2.18%	1.66% to 1.75%
Dividend yield	0%	0%

⁽¹⁾ Risk free rate of securities with comparable terms to maturity.

⁽²⁾ Expected price volatility is based on the historical volatility from the first date of trading to the valuation date and adjusted for any future impacts on volatility

Expense arising from share based payment transactions

The total expense arising from share based payment transactions recognised during the reporting year as part of employee benefit expense were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	US\$'000	US\$'000
Options expense	119	1,206
Performance rights expense	1,213	152
	1,332	1,358

Section 7: Other Notes

Notes to the Financial Statements

For the year ended 31 December 2018

7.4 SHARE BASED PAYMENTS (CONTINUED)

Critical accounting estimates and judgements

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes Option Pricing Model.

The Performance Rights are valued using the Monte-Carlo Simulation Model for the Absolute TSR Performance Rights and the Hoadley's Model for the Relative TSR Performance Rights.

The expense is apportioned pro-rata to reporting periods where vesting periods apply.

7.5 RELATED PARTY DISCLOSURES

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

There no transactions with related parties during the year. In 2017 US\$9,051 was billed to Jonathan Stewart for professional services provided by the Company.

Key management personnel

Further detailed disclosures relating to key management personnel are set out in the Remuneration Report section.

	Year ended 31 December 2018	Year ended 31 December 2017
	US\$	US\$
Short-term incentives and benefits (inc. annual leave provision)	2,005,860	1,628,856
Post-employment benefits	89,904	79,099
Share-based payments	493,375	1,093,254
	2,589,139	2,800,499

Subsidiaries

Interests in subsidiaries are set out in Note 6.1.

Transactions with wholly-owned controlled entities

Australis advanced funds to wholly owned controlled entities on at arm's length terms. In addition to these advances, Australis paid expenses on behalf of its controlled entities and provided support services to Australis USA 1 Pty Ltd and Australis Europe Pty Ltd on commercial terms.

Transactions with other related parties

No transactions with other related parties have been entered into in respect of the year ended 31 December 2018.

Section 7: Other Notes Notes to the Financial Statements

For the year ended 31 December 2018

7.6 CONTINGENCIES

The company had no contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

7.7 AUDITOR'S REMUNERATION

The Auditor of Australis Oil & Gas Limited is BDO Audit (WA) Pty Ltd. During the year the following fees were paid or payable for services provided by the auditor of the Group.

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
BDO Audit (WA) Pty Ltd for		
Audit and assurance services:		
Audit and review of financial statements	109	68
Total remuneration of BDO Audit (WA) Pty Ltd	109	68
BDO LLP (UK) for		
Audit and assurance services:		
Audit and review of financial statements	15	7
Total remuneration of BDO LLP (UK)	15	7
Total auditor's remuneration	124	75

It is the Group's policy to engage BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally due diligence reporting on acquisitions. It is the Group's policy to seek competitive tenders for all major consulting projects.

Section 7: Other Notes

Notes to the Financial Statements

For the year ended 31 December 2018

7.8 BUSINESS COMBINATIONS

On 28 February 2017 Australis TMS Inc, a wholly owned subsidiary entered into a Purchase and Sale Agreement (PSA) with Encana, to acquire all of Encana's TMS assets for cash consideration of US\$80 million, subject to closing adjustments.

Settlement of the acquisition occurred on 13 April 2017, US time.

The acquisition was settled with the cash consideration of US\$68.13 million, being the contract price of US\$80 million less the net effect of the various adjustments totalling US\$11.7 million, reflecting the operating period from contract effective date, 1 November 2016, through to 13 April 2017.

Details of the net assets acquired and the fair value of net assets acquired are as follows:

	US\$'000
Purchase consideration:	
Cash paid	68,126
The assets and liabilities provisionally recognised as a result of the acquisition are as follows:	
	Fair value US\$'000
Exploration and evaluation assets – Undeveloped acreage	3,556
Oil and gas properties – Producing wells and HBP acreage	60,533
Oil and gas properties – Restoration asset	1,600
Oil and gas properties – Surface equipment	5,634
Other property, plant and equipment – motor vehicles	213
Inventory	486
Restoration provision	(1,600)
Suspended revenues	(2,296)
Net identifiable assets acquired	68,126

Revenue and profit contribution

If the acquisition had occurred on 1 January 2017, consolidated revenue and profit for the year ended 31 December would have been US\$32,539,000 and US\$1,237,000 respectively. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depletion that would have been charged assuming the fair value adjustments to oil and gas properties had been applied from 1 January 2017, together with the consequential tax effects.

Acquisition related costs

Acquisition related costs of US\$1,484,000 are included in evaluation expenses in the Statement of Profit or Loss and Other Comprehensive Income and in operating cash flows in the Statement of cash flows for the 2017 year.

Section 7: Other Notes Notes to the Financial Statements

For the year ended 31 December 2018

7.9 EVENTS AFTER THE REPORTING DATE

On 18 February 2019 Australis announced that it had successfully completed a placement of 87 million shares at A\$0.35 per share to raise A\$30.45 million before costs of issue. The placement was split into two tranches with:

- settlement of Tranche 1 (A\$29.3 million) expected on 27 February 2019; and
- settlement of Tranche 2 (A\$1.1 million), the issue to the Directors, immediately after the AGM in April 2019.

Other than disclosed above, no event has occurred since 31 December 2018 that would materially affect the operations of the Group, the results of the Group or the state of the affairs of the Group not otherwise disclosed in the Group's financial statements.

Directors' Declaration

In the Director's opinion:

- a. The financial statements and accompanying notes set out on pages 65 to 111 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 2018 and of its performance for the financial year 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 year ended 31 December 2018.

For and on behalf of the Board



Jonathan Stewart
Chairman
Perth, Western Australia
26 February 2019

Auditor's Independence Declaration



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DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF AUSTRALIS OIL & GAS LIMITED

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

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

This declaration is in respect of Australis Oil & Gas Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', is written over a light blue horizontal line.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 26 February 2019

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

Independent Audit Report



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INDEPENDENT AUDITOR'S REPORT

To the members of Australis Oil & Gas Limited

Report on the Audit of the Financial Report

Opinion

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

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

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

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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



Carrying Value of Oil and Gas Properties

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's carrying value of oil and gas properties as disclosed in note 3.1 is a key audit matter as the assessment of carrying value requires management to exercise judgement in identifying indicators of impairment for the purposes of determining whether the assets need to be tested for impairment.</p>	<p>We evaluated management's assessment of impairment indicators at 31 December 2018 in accordance with AASB 136: <i>Impairment of Assets</i>. Our work included but was not limited to the following procedures:</p> <ul style="list-style-type: none"> • Obtaining and reviewing available reserve report data from the management's external expert to determine whether they indicate a significant change that would impact the value of the asset. This included assessing the competency and objectivity of management's expert; • Benchmarking and analysing management's oil and gas price assumptions against external market data, to determine whether they indicate a significant change that would impact the value of the asset; • Reviewing the Director's minutes and ASX announcements for evidence of consistency of information with management's assessment of the carrying value; • Considering whether there were any other facts and circumstances that existed to indicate impairment testing was required; and • Assessing the adequacy of the related disclosures in note 3.1 to the financial report.

Independent Audit Report



Other information

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

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 41 to 64 of the annual report for the year ended 31 December 2018.

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

Responsibilities

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', written over a faint, light-colored BDO logo.

Glyn O'Brien

Director

Perth, 26 February 2019

ASX Additional Information

Part A The shareholder information set out below was applicable as at 12th February 2019.

1. Twenty largest shareholders

Ordinary shares	Number	Percentage
JP Morgan Nominees Australia Limited	151,088,110	16.86%
Citicorp Nominees Pty Limited	91,866,875	10.25%
HSBC Custody Nominees (Australia) Limited	88,177,492	9.84%
National Nominees Limited	86,649,801	9.67%
Zero Nominees Pty Ltd	79,162,144	8.84%
JK Stewart Investments Pty Ltd <The Stewart Investment A/C>	33,392,858	3.73%
Epicure Superannuation Pty Ltd <Epicure Superannuation A/C>	26,150,001	2.92%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	20,480,068	2.29%
BNP Paribas Noms Pty Ltd <Drp>	12,590,684	1.41%
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	12,448,591	1.39%
Everzen Holdings Pty Ltd <Lusted Family A/C>	10,803,572	1.21%
Ms Treffina Joyce Dowland	10,803,571	1.21%
Precision Opportunities Fund Ltd <Investment A/C>	8,698,210	0.97%
Mr Kane Christopher Weiner	8,660,870	0.97%
UBS Nominees Pty Ltd	7,990,000	0.89%
Seneschal (WA) Pty Ltd <Winston Scotney Fam Sf A/C>	7,000,000	0.78%
Mirrabooka Investments Limited	5,732,184	0.64%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	5,488,351	0.61%
Inkese Pty Ltd	4,750,000	0.53%
Varedi Pty Ltd	4,455,755	0.50%
Total top 20	676,389,137	75.50%
Other	219,547,041	24.50%
Total ordinary shares on issue as at 12th February 2019	895,936,178	100.00%

2. Substantial shareholders

Set out below are the names of the substantial holders and the number of equity securities held by those substantial holders (including those equity securities held by their associates), as disclosed in the substantial holding notices given to the Company:

Shareholder	As at date of lodgment		
	Date lodged	Number of shares	Percentage
Commonwealth Bank of Australia	3 April 2018	65,728,068	7.90%
Jon Stewart, Carolyn Stewart, Epicure Superannuation Pty Ltd and JK Stewart Holdings Pty Ltd	18 April 2017	59,542,859	7.67%
Westoz Funds Management	30 August 2016	25,525,000	7.47%
Greencape Capital Pty Ltd	8 February 2019	62,112,386	6.93%
Kinetic Investment Partners Ltd	4 June 2018	60,460,589	6.76%
Challenger Limited	8 August 2018	59,844,036	6.69%
Eley Griffiths Group Pty Ltd	19 April 2017	46,423,896	6.50%
JP Morgan Chase & Co	29 March 2018	53,099,656	5.94%
Ellerston Capital Limited	16 August 2017	43,269,992	5.57%
H.E.S.T Australia Limited	8 February 2019	46,870,663	5.23%

3. Distribution of equity securities

	Ordinary shares	Ordinary Shares No of Holders	Unlisted securities	Unlisted securities No of Holders
1 - 1,000	13,533	39	-	-
1,001 – 5,000	690,459	249	-	-
5,001 - 10,000	1,355,637	160	-	-
10,001 and 100,000	29,457,402	630	931,589	17
100,001 and over	864,419,147	350	142,218,342	49
	895,936,178	1,428	143,149,931	66
Unmarketable parcels	1,352	70	-	-

4. Voting rights

See section 4.2 and 7.4.

5. On-market buy back

There is currently no on-market buy back program for any of Australis's listed securities.

6. Company secretary, registered and principal administrative office and share registry

Details can be found in the Corporate Directory of the Annual Report.

7. List of interests in mining tenements and petroleum leases

Location	Tenement	Net Acres
Louisiana / Mississippi	Tuscaloosa Marine Shale	110,000
US Total		110,000
Portugal	Batalha	307,480
Portugal	Pombal	312,886
Portugal Total		620,366

Australis holds a 100% working interest in the Batalha and Pombal Concessions, however this interest is subject to a 3% working interest option granted to a contractor.

Corporate Directory

Directors

Mr Jonathan Stewart – Non-executive Chairman
Mr Alan Watson – Independent non-executive Director
Mr Steve Scudamore – Independent non-executive Director
Mr Ian Lusted – Chief Executive Officer and Managing Director
Mr Graham Dowland – Chief Finance Officer and Director

Company Secretary

Ms Julie Foster

Registered and Principal Office

Level 29, Allendale Square, 77 St Georges Terrace
Perth, Western Australia 6000
Telephone: +61 8 9220 8700
Facsimilie: +61 8 9220 8799

Office in North America

Australis TMS Inc.
333 Clay Street, Suite 3680
Houston, Texas, USA 77002-4107
Telephone: +1 (346) 229 2525
Facsimile: +1 (346) 229 2526

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth, Western Australia 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Solicitor

Gilbert & Tobin
Level 16, Brookfield Place Tower 2
123 St Georges Terrace, Perth, WA 6000

Stock Exchange Listing

The ordinary shares of Australis Oil & Gas Limited are listed on the Australian Securities Exchange (Ticker code: ATS)

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street,
Subiaco, Western Australia 6008

Website and Email

www.australisoil.com
contact@australisoil.com