



ACN 138 145 114

# **ANNUAL REPORT 2017**

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## CORPORATE DIRECTORY

### Directors

Mark Stowell, B.Bus, CA  
Non-executive Chairman

Gerry McGann, B.Sc (Hons)  
Non-executive Technical Director

Matthew McCann, J.D.  
Non-executive Director

John Whisler, B.Sc  
Managing Director and CEO

### CFO & Company Secretary

Simon Adams, B.Bus, M.Acc, AGIA

### Registered office

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Perth  
WA 6000  
Australia

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### Principal place of business

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Colorado 80202  
USA

Telephone: +1 (720) 763-3190

### Auditors

Butler Settineri (Audit) Pty Ltd  
Unit 16, First Floor  
Spectrum Offices  
100 Railway Road  
Subiaco WA 6008  
Australia

### Solicitors

Johnson Winter & Slattery  
Level 4, 167 St George's Terrace  
Perth  
WA 6000  
Australia

### Share Registrar

Link Market Services  
Level 12 QV1 Buildings  
250 St George's Terrace  
Perth  
WA 6000  
Australia  
Telephone: +61 1300 554 474  
Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

### Bankers

Commonwealth Bank of Australia  
300 Murray Street  
Perth  
WA 6000  
Australia

### Home Exchange

Australian Securities Exchange Ltd  
Level 40, Central Park  
152 St George's Terrace  
Perth  
WA 6000  
Australia

This annual report is of the group comprising Eon NRG Limited (“the parent entity”) and its subsidiaries (see Note 24 to Financial Statements) (collectively “the Group”). The Group’s functional and presentation currency is US Dollars (\$). Unless otherwise stated, all amounts in the Annual Report are in US Dollars.

A description of the Group’s operations and of its principal activities is included in the operations review on pages 4 to 5. The Directors’ Report is not part of the financial report.

## CHAIRMAN'S REPORT

Dear Shareholder

Eon commenced 2018 under its new name in February this year, with re-branding and revised energy vision to initiate a Battery Minerals division, and recent entry into Cobalt exploration. Our strong cashflow base from the production of oil, gas and NGL's continue to underpin the operations, and oil prices rising to over \$60 in 2018 is most welcome.

Continued expansion in the USA energy market, both in conventional oil and gas, and battery minerals is Eon's focus in 2018. Cobalt exploration properties have recently been acquired in Nevada, and others are under evaluation in Nevada and elsewhere. The changing energy market is something that your board has been following for quite some time, and considered that the timing was right to expand the company's energy asset base using our in-house geological and engineering expertise. Oil and gas continues to provide the solid cashflow for the company, and work continues to identify further economic oil and gas projects with new high impact oil well

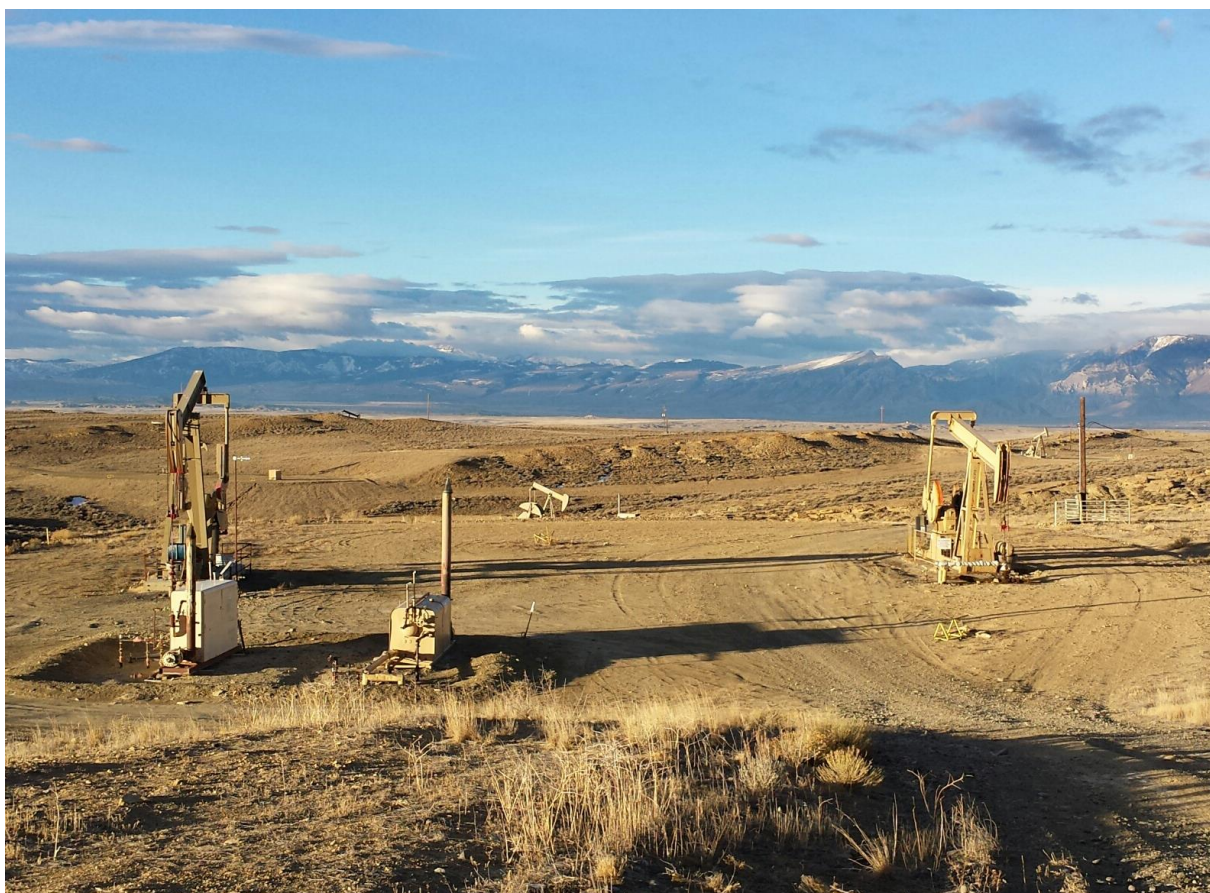
development opportunities to participate in, preferably as operator.

Balancing the significant company changing upside of higher risk, high reward prospects and wells, with our base cashflow assets was paramount in our planning for 2018.

On behalf of the Board I thank our management, staff, contractors and consultants for their diligent work during the 2017 year and look forward to Eon's continued growth in 2018. We appreciate the continued support of our shareholders and look forward to an exciting year ahead for Eon.



Mark Stowell  
Chairman  
29 March 2018



## DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Eon NRG Limited (also referred to hereafter as the 'Company' or 'parent entity' or 'Eon') and the entities it controlled at the end of, or during, the year ended 31 December 2017.

### 1. PRINCIPAL ACTIVITIES

Eon NRG Limited is an onshore energy company which is focused on assets in the USA. The Group targets high impact energy projects in oil, gas, and battery minerals, supported by its owned and operated long-life oil and gas production assets and associated cashflow.

The Group has changed its strategic approach to driving value through a more aggressive discovery program.

### 2. FINANCIAL RESULTS OVERVIEW

Eon NRG Limited has continued to demonstrate strong financial results with a continuation of its consistent record of EBITDA (earnings before interest, tax, depreciation, amortization and impairment) over the last six years. A portfolio of profitable assets and a strong discipline of cost management has maintained a positive EBITDA through a low commodity price cycle.

Eon has recorded a net profit after tax in 2017 of \$582,778.

	2017	2016	2015	2014
Sales Volume (BOE) (Gross)	167,323	223,725	161,478	74,644
Oil (Bbls)	57,845	85,521	87,426	72,128
Gas (BOE)	71,956	96,821	48,880	2,516
NGL (BOE)	37,522	41,383	25,172	-
Sales Revenue	\$4,958,280	\$5,335,620	\$4,707,061	\$6,466,932
Net profit/(loss) after tax (NPAT)	\$582,778	(\$575,771)	(\$2,726,105)	(\$8,347,969)
EBITDA <sup>(1)</sup>	\$946,236	\$426,116	\$226,569	\$2,108,159

EBITDA is reconciled to net profit/ (loss) after tax as follows:

	2017	2016	2015	2014
	US\$	US\$	US\$	US\$
EBITDA <sup>(1)</sup>	946,236	426,116	226,569	2,108,159
Impairment reversal / (impairment) / (asset write down)	1,180,000	1,171,713	(878,619)	(7,524,896)
Interest income / (expense)	(352,411)	(364,421)	(246,614)	(163,095)
Depreciation / amortisation	(1,191,047)	(1,809,179)	(1,827,441)	(2,399,208)
Tax (expense) / benefit	-	-	-	(368,929)
Net Profit / (loss) after income tax	582,778	(575,771)	(2,726,105)	(8,347,969)

- EBITDA is a non-IFRS measure. The information above is unaudited but is extracted from the audited financial statements. EBITDA excludes impairment, amortisation, depreciation, interest and tax. EBITDA is used as part of the key performance indicators for the management as it represents a more accurate measure aligned with operational performance of the Group.

### 3. OPERATIONS REVIEW

#### a) Borie Oilfield, Wyoming

Eon completed the purchase of the Borie Oilfield located west of Cheyenne in the DJ Basin, Wyoming in December 2017.

Operated - 11 producing wells and 2 water injection wells, average net revenue interest of 82%

Non-Operated - 3 producing wells and 1 water injection well, average net revenue interest of 22%

Lease Area - 2,850 acres (Net) all held by production

Net Reserves (as at Dec-17) - 1P (Proved Developed Producing - PDP)	279 MBO
1P (Proved Undeveloped - PUD)	275 MBO
<b>1P Total</b>	<b>554 MBO</b>

The Borie Field has a long production history of oil and gas from conventional vertical wells that produce from the Muddy Formation. The DJ Basin is a prolific oil and gas producing basin that covers parts of Colorado, Nebraska and Wyoming. Wells have been drilled in the Borie Field at various times from the 1950's to the early 2000's and there remains the potential for further drilling of new wells within this field.

#### b) Silvertip Field, Wyoming

Eon owns a 100% working interest in the Silvertip Field located in the Bighorn Basin, Wyoming.

Operated - 96 producing wells and 2 water injection wells (105 wells in total), 100% working interest and an average net revenue interest of 82%

Lease Area - 4,437 net acres all held by production

Net Reserves (as at 31-Dec-17) - 1P Oil (Proved Developed Producing - PDP)	188 MBO
1P Gas (Proved Developed Producing - PDP)	2,777 MMCF
1P Gas (Proved Developed Not producing - PDNP)	790 MMCF
<b>1P Total</b>	<b>782 MBOE</b>

The Silvertip Field has significant infrastructure including a fully functioning gas processing plant with a capacity of 4.5 MMcf per day, oil and NGL storage tanks, a field gas pipeline network which connects to two interstate gas transportation pipelines, a workshop and an office building.

During 2017, Eon carried out field development work by performing a number of successful well recompletions that targeted gas production from formations that are behind the existing well pipe and above the original target formation. These development activities have been carried out at a low capital cost and were timed to take advantage of higher commodity prices.

#### c) California Oilfields

Eon owns 100% of two fields in the San Joaquin Basin.

Operated - Sheep Springs: 12 operating wells, 100% working interest and a net revenue interest of 83%

Round Mountain: 7 operating wells and 1 water injection well, 100% working interest and a net revenue interest of 88%

Lease Area - Sheep Springs: 160 net acres (all held by production)

Round Mountain: 320 net acres (all held by production)

Net Reserves (as at 31-Dec-17) - Sheep Springs:	
1P Oil (Proved Developed Producing - PDP)	236 MBO
1P Gas (Proved Developed Producing - PDP)	147 MMCF
Round Mountain:	
1P Oil (Proved Developed Producing - PDP)	69 MBO
<b>1P Total</b>	<b>330 MBOE</b>



Total Reserves for the Group are as follows:

NET (Mboe) <sup>(1)</sup>	Sheep Springs and Round Mountain California		Silvertip, Wyoming		Borie, Wyoming	TOTAL (Mboe)
	Oil	Gas	Oil	Gas		
<b>1P Proved Reserve</b>	<b>305</b>	<b>25</b>	<b>188</b>	<b>595</b>	<b>554</b>	<b>1,667</b>
Proved developed producing (PDP)	305	25	188	463	279	1,260
Proved developed not producing (PDNP)	-	-	-	132	-	132
Proved Undeveloped (PUD)	-	-	-	-	275	275

1. Mboe – Thousands of barrels of oil equivalent at standard oilfield conditions with gas converted to barrels of oil equivalent at a rate of 6:1.

#### d) Battery Minerals Division

With a long term strategic view that global energy demands will require a range of new technologies and energy supply and storage solutions in the future, the Group has established a new division that will look at opportunities to participate in the broader energy sector where future diversification outside of hydrocarbon discovery may become increasingly relevant. Onshore oil and gas discovery will remain as a primary focus in the short term but all energy related opportunities will be assessed on their merits and potential for value accretion.

#### e) Corporate Activities

The Company completed a placement of new shares and options through a rights issue in November 2017 which raised A\$1.98 million (before costs). 197.9 million shares were issued at a price of A\$0.01 per share and an equivalent number of options exercisable at A\$0.02 expiring on 29 November 2019 were also issued. Funds raised were used to acquire the Borie Oilfield and associated bonding and working capital costs.

The Group's debt facility remains in place with ANB Bank and all repayment obligations and covenants have been met. US\$1.396M of debt was repaid in 2017. The revolving line of credit facility was extended to July 1, 2019. The total debt to ANB Bank as at 31 December 2017 was US\$6.371M.

## 4. FINANCIAL REVIEW

Eon recorded a net profit after tax of \$582,778 in 2017 compared to a loss in 2016 of (\$575,771). The major drivers of this profit result were:

- Revenue decreased by 10% due mainly to the loss of oil sales revenue from the sale of the Florence Oilfield (~45 bopd) effective from January 2017, a number of wells being shut in at the Silvertip Field due to mechanical issues and from natural field decline.
- Revenues increased due to higher commodity prices in 2017 compared to the prior year. Net average oil price for the year increased by 30% to \$48.33 per barrel. Gas increased by 15% and Natural gas liquids increased by 70%.
- Field operating expenses were relatively unchanged from 2016 to 2017.
- There was a reversal of impairment of \$1.18M in relation to the Sheep Springs and Round Mountain Fields in 2017 as a result of the net present value of these assets increasing in line with higher oil prices.
- A gain on purchase of the Borie Field of \$0.9M was recorded as a result of the fair value at purchase (as determined by an independent certified reservoir engineer based on oil price assumptions at the time of purchase) being higher than the purchase price of the field.

Cash held by the Company at the end of 2017 was \$1.23M. Of this cash, \$0.67M was held a security deposit for environmental bonds associated with the Silvertip and Borie Fields.

## **5. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

At an extraordinary shareholder meeting held on 6<sup>th</sup> February 2018, approval was given to change the company's name to Eon NRG Limited in line with the Company's strategy to driving value through a more aggressive discovery program. Eon NRG Limited started trading on the Australian Securities Exchange (ASX) under the trading code E2E on 16<sup>th</sup> February 2018.

At the meeting on 6<sup>th</sup> February, shareholder approved the issue of 6,288,374 shares to a non-executive director of the Company, Mr Matthew McCann, at a price of A\$0.01 per share along with the equivalent number of free attaching options exercisable at A\$0.02 each expiring on 29 November 2019 which were the same terms offered to shareholders in the rights issue that was completed in November 2017.

## **6. MATERIAL BUSINESS RISKS**

This section describes some of the material business risks associated with Eon. It does not purport to list every risk that may be associated with Eon's business or the industry in which it operates, and the occurrence or consequences of some of the risks described in this section are partially or completely outside of the control of Eon, its Directors and the senior management team.

The selection of risks included in this section has been based on an assessment of the most significant areas of uncertainty for Eon's business and operations that could have an adverse impact on the achievement of the financial performance and outcomes for the business. There is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Eon is exposed to risks in relation to the Group's existing and proposed business operations. These include, without limitation:

### **a) Group operations**

The operations of the Group in its business activities of oil and gas exploration and production may be affected by various factors, including failure to achieve predicted well production flow rates, operational and technical difficulties encountered in production, difficulties in gaining government or regulatory approvals, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated reservoir problems which may affect field production performance, adverse weather conditions, industrial and environmental accidents, force majeure events by suppliers, product processes and pipeline/ road transporters, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, commodities, plant and equipment. Any of these outcomes could increase Eon's costs or cause other adverse effects to Eon's financial position.

Eon's management systems, experienced staff, selection of experienced consultants and contractors, company risk management system and insurance policies are in place to minimise risks and outcomes of factors affecting company operations and resulting financial performance.

### **b) Petroleum reserves**

Estimates of Petroleum reserves are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may change significantly when new information or techniques become available. In addition, by their nature, petroleum reserves estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change.

Eon uses experienced external engineers from third party petroleum engineering consultants to review its Petroleum reserves, supervised by Eon senior personnel who have sufficient experience that is relevant to the company's reserves to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules.

### **c) Oil and gas commodity price and exchange rate**

The revenue that Eon may derive through the sale of oil, gas and other commodities exposes the potential income of the Group to commodity prices and exchange rate risks. Oil and gas prices fluctuate and are affected by many factors beyond the control of the Group. Such factors include international and US domestic supply and demand fluctuations, forward selling activities and other macro-economic factors.

The price of oil and gas sold by Eon is denominated in United States dollars exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets. The Company reports its financial results in US Dollars but its securities are traded on the Australian Securities Exchange in Australian Dollars.

**d) Environmental**

The operations and proposed activities of the Group are subject to laws and regulations concerning the environment applicable in the jurisdiction of those activities. As with most development or production operations, the Group's activities will have an impact on the environment. It is the Group's practice to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

**e) Sovereign**

The Group's projects are in the USA and are subject to the risks associated with operating in that country. These risks may include economic, social or political instability or change, changes of laws (such as those affecting foreign ownership), government participation, taxation, working conditions, rates of exchange, exchange control, approvals and licensing, export duties, repatriation of income or return of capital, environmental protection, labour relations as well as government control over natural resources or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents.

**f) Status of leases and tenure**

All petroleum licenses associated with Eon's project interests are subject to granting and approval by relevant government bodies and ongoing compliance with license terms and conditions. There is an ongoing potential risk to Eon's business from an unexpected change in the status of the Group's licenses.

**g) Insurance**

Eon maintains insurance coverage limiting financial loss resulting from certain operating risks, in accordance with standard industry practice or as determined by the Board. However, not all risks inherent to Eon's operations can be adequately insured economically or at all, and losses and liabilities arising from uninsured or underinsured operational events or the failure of one of its insurance providers could increase Eon's costs or cause other adverse effects to its financial position.

**h) Reliance on key personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of the Group depends substantially on its senior management and key personnel.

There can be no assurance given that there will be no detrimental impact on the Group if one or more of these personnel cease their employment or appointment with the Company (or its group) or if the composition of the Company's board of Directors changes, potentially resulting in disruption to Eon's business and operations with resulting financial impacts.

Eon maintains competitive remuneration policies and incentive plans for its Directors and staff to incentivise due effort and commitment and maximise retention to avoid potential disruption and financial impacts resulting from personnel movements.

**i) Regulatory Risk**

The introduction of new legislation or amendments to existing legislation by governments, developments in existing law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations (particularly in the USA), could impact adversely on the assets, operations and, ultimately, the financial performance of the Company.

Eon seeks to maintain compliance with legislative, regulatory and contractual requirements through engagement of external legal, financial and technical advisors in relation to operation of its business. Eon's management maintains awareness of the regulatory environment through general participation in the oil and gas sector, via sector related news flow from media, attendance at conferences.

## **7. ENVIRONMENTAL REGULATION**

The Group's operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The Group conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The Directors are not aware of any breaches in relation to environmental matters.

## **8. INDEMNITY AND INSURANCE OF DIRECTORS**

The Company has entered into a Deed of Indemnity, Insurance and Access ("Deed") with each Director and the Company Secretary (collectively "Officers"). Under the Deed, the Company indemnifies the Officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the



Director or Officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed. The total amount of insurance premiums paid for Directors and Officers Indemnity insurance in 2017 was \$19,815 (2016 - \$11,994).

## 9. INDEMNITY OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Butler Settineri (Audit) Pty Ltd (2016 - Ernst & Young Australia), as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Butler Settineri (Audit) Pty Ltd (2016 - Ernst & Young) during or since the financial year.

## 10. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## 11. NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Butler Settineri, in 2017 and no non-audit services provided by the entity's previous auditor, Ernst and Young in 2016.

## 12. AUDITOR INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 31 December 2017 has been received and is to be found on page 18

## 13. DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors or related entities in the shares and options of Eon NRG Limited were:

Director	Ordinary Shares	Unlisted Options A\$0.1485 exercise price, expiring 27/7/18	Listed Options A\$0.02 exercise price, expiring 29/11/19
M Stowell	33,664,472	5,000,000	17,332,236
G McGann	24,715,004	-	-
M McCann	7,526,374	-	6,288,374
J Whisler <sup>1</sup>	8,865,100	-	2,500,000

- The number of shares shown above includes shares that are not yet vested under the employee share plan that is in place.

## 14. PRINCIPAL ACTIVITIES

The principal activity during the year of entities within the Group is oil and gas exploration and production in North America. There has been no significant change in the nature of these activities during the year.

## 15. DIVIDENDS

No dividends were paid or declared during the financial year or subsequent to the year end.

## 16. OPERATIONS AND FINANCIAL REVIEW

A full review of operations of the consolidated entity during the year ended 31 December 2017 is included in the section entitled "Operations Review" preceding this Directors' Report (pages 4 to 5).

## 17. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Eon will continue with its current range of activities in 2018 with a focus on developing the Borie Field in addition to seeking to acquiring new assets that offer exploration upside.

Information of the likely future activities is contained within the Operations Review section in the Annual Report.

## 18. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report in relation to the acquisition of the Borie Oilfield and the establishment of the Battery Minerals Division within the Group.

## 19. FINANCIAL CONDITION

The Company has sufficient funds to repay debts as and when they fall due. The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in 2017 of \$106,497 (2016 - increase of \$203,475) of which operational activities contributed a surplus of \$27,619 (2016 - \$183,396).

Analyses of the components of the changes in cash are detailed in the consolidated statement of cash flows. Eon repaid \$1,425,106 of debt during 2017 (2016 - \$995,237 repaid). The Company completed a rights issue which raised capital in 2017 resulting in an inflow of \$1,520,250 (Placement of shares in 2016 - \$1,147,152). Outflows of cash relate to investing activities are mainly in relation to the purchase of the Borie Oilfield while the main reason for the inflow of cash from investment activities was as a result of the sale of the Florence Oilfield.

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activity and realization of assets and the settlement of liabilities in the normal course of business (refer Going Concern Note 1(c) on the Financial Statements).

## 20. SHARE ISSUES DURING THE YEAR AND TO THE DATE OF THIS REPORT

The number of shares on issue at 31 December 2017 was 400,100,786. Details of the issues of shares are set out in Note 18 to the accounts. In March 2018, a further 6,288,374 ordinary shares were issued at a price of A\$0.01 per share.

## 21. SHARE OPTIONS

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Date of Expiry	Exercise Price (AUD)	Number under option
27 July 2018	14.85 cents	5,000,000
29 November 2019	2.00 cents	204,194,580

On 26 May 2017, 400,000 options exercisable at A\$0.07 per share expired. No options have been exercised during 2017 and since the end of the reporting date to the date of this report.

## 22. DIRECTOR INFORMATION

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors and officers were in office for the entire period unless otherwise stated.

### Mr M. Stowell, B.Bus CA (Chairman)

Appointed to the Board July 2009

Appointed Chairman 20 May 2014

Age: 54

Mr Stowell has been involved in the public company corporate sector for more than 25 years, formerly as a manager in Arthur Andersen Corporate, involved in significant IPO and merger activity in the resource and energy sectors. Subsequently he has gained extensive experience at a board and management level in a number of successful ventures as principal in a wide variety of industries. Mr Stowell was a founder and Director of Incremental Petroleum Ltd from its inception in 2003 until its sale in 2009. Originally acquiring a 1500 bopd oilfield in Turkey, Incremental Petroleum Ltd expanded production to 2000 bopd by the time it was sold.

Other current public company appointments in addition to Eon NRG Limited are:

- Non-executive Director of Kula Gold Ltd

Additional directorships in the last 3 years include:

- Non-executive Director of Nvoi Ltd – formally Orrex Resources Ltd– resigned 28 June 2016
- Non-executive Director of Mawson West Ltd – resigned 31 October 2016

**Mr J. Whisler B.Sc (Managing Director)**

Appointed to the Board July 2014

Appointed Managing Director 14 October 2014

Age: 47

Mr Whisler has more than 25 years of experience in leading, developing, and implementing projects that have created value in the oil and gas industry. He has a successful track record of managing and growing both public and private exploration and production companies. His diverse and extensive background in the US oil and gas industry covers all aspects of operations, including exploration, business development, acquisitions and divestures, corporate and project management, financial and economic analysis, field operations, production and extensive experience in drilling and completions.

Mr Whisler joined Delek Energy US and Elk Companies in July 2008 as the Vice President of Operations, was promoted to Chief Operating Officer in January of 2009, and was then promoted to Chief Executive Officer in May 2010. He served as Chief Executive Officer until 2011 when he was personally responsible for the divesture of all the US assets in multiple transactions, in order to assist the parent company in funding the new natural gas discoveries off the coast of Israel with Noble Energy. While at Delek, Mr Whisler was responsible for acquiring multiple assets in the USA, designing and implementing work-over plans and re-completions, and optimizing production in multiple mature fields.

Mr Whisler is also a member of the Society of Petroleum Engineers. He has served on several non-profit company boards and advisory teams.

Other current public company appointments in addition to Eon NRG Limited are:

- None

Additional directorships in the last 3 years include:

- None

**Mr G. McGann, B.Sc (Hons) (Non-executive Technical Director)**

Appointed to the Board July 2009

Age: 69

Mr McGann has over 40 years experience in the upstream oil and gas industry, in a career that has spanned all five continents. As a petroleum geologist, he has been instrumental in the discovery of oilfields totalling more than 200 million barrels in Australia, Middle East and the North Sea, and been part of teams that have discovered other substantial oil resources.

Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum Ltd. He identified the Selmo Oilfield in South-east Turkey in 2005, and increased the production from a declining 1,500 bopd to 2,000 bopd when the company was sold in March 2009.

Mr McGann has published 14 technical papers and is a certified petroleum geologist with the American Association of Petroleum Geologists.

Other current public company appointments in addition to Eon NRG Limited are:

- None

Additional directorships in the last 3 years include:

- None

**Mr M. McCann, J.D. (Non-executive Director)**

Appointed to the Board April 2014

Age: 49

Mr McCann earned a Doctorate of Jurisprudence from the University of Oklahoma--College of Law in 1995 and a B.Sc. in Business Administration from the University of Vermont in 1991.

In 2001, after serving in private practice in the US for 6 years, Mr McCann became General Counsel at Riata Energy, Inc., which later became SandRidge Energy, Inc., a NYSE listed corporation. Before leaving SandRidge in 2007, he ultimately served as Senior Vice President, General Counsel, and Corporate Secretary. From 2007-2015 Matt worked for the Riata Corporate Group, a large privately

owned group of companies that has substantial oil and gas interests in the US where he focused on business development.

Mr McCann was Chief Executive Officer at TransAtlantic Petroleum Ltd, a TSX and NYSEMKT listed oil and gas exploration and production company from 2009 until 2011 where he was instrumental in growing TransAtlantic from a junior explorer to a significant international oil and gas producer.

Other current public company appointments in addition to Eon NRG Limited are:

- None

Additional directorships in the last 3 years include:

- Blue Ridge Mountain Resources (previously Magnum Hunter Resources)

#### **Company Secretary/CFO**

**Mr S. Adams, B.Bus M.Acc AGIA**

Appointed Secretary – 18 May 2012

Mr Adams has a wide range of experience in the area of corporate and financial management, corporate compliance and business development. Mr Adams has worked in a range of industries across the resource and industrial sectors. Prior to joining Eon NRG Limited in May 2012 as CFO/Company Secretary, Mr Adams served 12 years with Atlas South Sea Pearl Ltd, a listed pearl production and distribution company, in the capacity of CEO and CFO. Simon is a member of the Governance Institute of Australia.

#### **Committee Memberships**

As at the date of this report, the Company had an audit and risk committee and a remuneration and nomination committee of the Board of Directors.

Memberships of Board committees by Board members are as follows:

<b>Director</b>	<b>Audit and Risk committee</b>	<b>Remuneration and nomination committee</b>
M Stowell	X	X
G McGann	-	X
M McCann	X	-

#### **Corporate governance**

The Board of Eon NRG Limited is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its Shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth in addition to providing accountability.

In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website rather than in the Annual Report. Accordingly, information about the Company's Corporate Governance practices is set out on the Company's website at [www.eonnrg.com](http://www.eonnrg.com).

#### **Directors' Meetings**

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

<b>DIRECTORS</b>	<b>DIRECTORS' MEETINGS</b>		<b>AUDIT &amp; RISK COMMITTEE</b>		<b>REMUNERATION COMMITTEE</b>	
	<b>HELD</b>	<b>ATTENDED</b>	<b>HELD</b>	<b>ATTENDED</b>	<b>HELD</b>	<b>ATTENDED</b>
M Stowell	15	15	2	2	1	1
G McGann	15	13	-	-	1	1
M McCann	15	13	2	2	-	-
J Whisler	15	15	-	-	-	-

### **Directors' benefits**

Other than the disclosure on pages 12-17 (Remuneration Report), no Director of the Company has received or become entitled to receive a benefit because of a contract that the Director or a firm of which the Director is a member or an entity in which the Director has a substantial financial interest made with the Company or an entity that the Company controlled, or a body corporate that was related to the company, when the contract was made or when the Director received, or became entitled to receive the benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors which is stated in the Remuneration Report above.

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

## **REMUNERATION REPORT**

### **(Audited)**

This Remuneration Report for the year ended 31 December 2017 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

This Remuneration Report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company, Eon NRG Limited ("the Parent" or "Eon").

Eon NRG Limited received more than 99% of the votes in favour of the Remuneration Report for the 2016 financial year at the annual general meeting held on May 31, 2017.

### **Details of Directors and Key Management Personnel**

The Directors of Eon NRG Limited during the year were:

- Mark Stowell (Chairman)
- Gerry McGann (Non-Executive Technical Director)
- Matthew McCann (Non-Executive Director)
- John Whisler (Managing Director)

The key management personnel (other than the Directors) during the year were:

- Simon Adams (Company Secretary and CFO)

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

### **Remuneration Policy**

The performance of the Group depends on the quality of its key management personnel and other employees. In order to achieve the Company's financial and operational objectives, it must attract, motivate and retain highly skilled directors and executives.

To this end the Group embodies the following principles in its remuneration policy:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- A proportion of executive compensation 'at risk', dependent upon meeting pre-determined targets; and
- Establishing appropriate performance hurdles in relation to variable executive compensation.

Remuneration is not currently linked to profit performance. The remuneration policy is for executives to be paid on terms that are competitive with those offered by entities of a similar size with the same industry. Packages are reviewed annually by the Remuneration Committee with any recommendations of this committee reviewed and approved by the Board.

The Company's remuneration policy seeks to encourage alignment between the performance of the Company and total shareholder returns, and the remuneration of Executives. Short term and, in particular, long term 'at risk' incentives only vest when predetermined Company performance objectives are achieved. These performance objectives are operational in nature (production outcomes) but are linked to financial performance and Company value indirectly.

The following table shows the Company's performance over the reporting period and the previous four financial years against overall remuneration for these years:

	2017	2016	2015	2014
Basic EPS (US\$)	\$0.026	(\$0.033)	(\$0.0168)	(\$0.0527)
Year-end share price (A\$)	\$0.009	\$0.048	\$0.035	\$0.034
Market Capitalisation (A\$ million)	\$3.601	\$9.705	\$5.729	\$5.451
Total KMP Remuneration (US\$)	\$669,849	\$672,446	\$807,416	\$800,529

The members of the Company's remuneration committee are Mark Stowell (Chair) and Gerry McGann.

The Company has not used any remuneration consultants during the year.

#### Non-Executive Director Remuneration

The Board policy is to remunerate non-executive Directors based on market rates and with consideration given to the time, commitment and responsibility of the role. Fees are determined within an aggregate fee pool limit, which is periodically recommended for approval by shareholders. This amount is separate from any specific tasks that the Directors may take on for the Company. The current aggregate fee pool limit approved by shareholders is AUD\$350,000.

The table below summarises the Non-Executive Director fees (all set in US\$):

Chairman	US\$60,000 pa
Non-Executive Director (Australia)	US\$40,000 pa plus superannuation (9.5%)
Non-Executive Director (USA)	US\$40,000 pa

#### Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the senior executive remuneration policy the remuneration of senior executives may be comprised of the following:

- fixed salary that is comparable with the market and reflects core performance requirements, expertise and responsibility expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option schemes which align executive and shareholder values; and
- statutory and co-contribution superannuation and pension contributions where required by regulations or as part of the executive's overall remuneration package.

There are no fixed terms of employment in the senior executive employment agreements.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders through the improvement of Company performance. The Board may use its discretion with respect to the payment of bonuses, stock options, share purchase plans and other incentives.

The Company's performance is measured through net cash flow, the increase of average daily gross production of oil, acquisition of projects and business opportunities, and the growth of reserves by development drilling and acquisitions. These factors are basis of the performance and incentives for senior executives as set out in their service agreements. In 2016, bonuses were paid to management and staff in relation to the improved production performance of the Company. In 2017 a discretionary bonus was paid to the CFO.

#### Details of Share Based Payments Compensation

In 2013, an employee share plan was established which entitles the Board of Directors to offer key management personnel within the Group the right to acquire shares in the Company subject to satisfying specific performance hurdles. Shares that the employees will have a right to own are acquired and held in trust for the employees until they have met the service or performance conditions. The shares rank equally with other fully paid ordinary shares.



In January 2017, 360,000 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.044 cents per share.

In March 2016, 150,000 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.045 cents per share.

The shares do not have an expiry date under the scheme.

The details relating to the allocation of shares to Directors and key management personnel under the employee share plan are as follows:

Name	Date granted	Dates shares vested	Number of shares granted	Value of shares at grant date US\$( <sup>1</sup> )	No. of shares forfeited during the year	Value at date of forfeiture	Forfeited %
John Whisler	2013 - 2015	Various dates (see prior annual reports)	1,115,100	\$47,941	Nil	\$Nil	-
John Whisler	30 Sep 2013	Based on performance	4,000,000	\$300,000	Nil	\$Nil	-
Simon Adams	2013 to 2015	Various dates (see prior annual reports)	458,600	\$23,939	Nil	\$Nil	-
Simon Adams	1 Jul 2014	Based on performance	1,500,000	\$72,323	Nil	\$Nil	-
Simon Adams	30 Jan 2017	30 Jan 2017	90,000	\$2,990	Nil	\$Nil	-

- The value at grant date calculated in accordance with AASB 2 Share-based payment of shares granted during the year as part of remuneration.

Name	Salary & Fees ( <sup>1</sup> ) US\$	Short Term Benefits		Post-Employment Benefits	Share Based Payments	Termination Benefits US\$	TOTAL US\$	Portion of Remuneration	Portion of Remuneration
		Other Benefits ( <sup>2</sup> ) US\$	Cash Bonuses US\$	Pension/ Superannuation US\$	Shares/ Options US\$			paid as Options/ Rights %	that is performance related %
<b>Directors (Non-Executive)</b>									
<b>2016</b>									
M Stowell	55,699	2,399	-	2,499	-	-	<b>60,597</b>	-	-
G McGann	37,061	2,399	-	3,521	-	-	<b>42,981</b>	-	-
M McCann	36,496	2,399	-	-	-	-	<b>38,895</b>	-	-
<b>2017</b>									
M Stowell	60,135	3,963	-	-	-	-	<b>64,098</b>	-	-
G McGann	53,863	3,963	-	3,806	-	-	<b>61,632</b>	-	-
M McCann	40,000	3,963	-	-	-	-	<b>43,963</b>	-	-
<b>Directors (Executive)</b>									
<b>2016</b>									
J Whisler	280,308	30,281	45,000	11,193	26,557	-	<b>393,339</b>	7%	7%
<b>2017</b>									
J Whisler	300,000	31,750	-	12,000	3,412	-	<b>347,162</b>	1%	1%
<b>Key Management Personnel</b>									
<b>2016</b>									
S Adams	113,409	2,399	6,393	11,381	3,052	-	<b>136,634</b>	2%	2%
<b>2017</b>									
S Adams	127,134	3,963	7,800	12,819	1,278	-	<b>152,994</b>	1%	1%
<b>Total 2016</b>	<b>522,973</b>	<b>39,877</b>	<b>51,393</b>	<b>28,594</b>	<b>29,609</b>	-	<b>672,446</b>	<b>4%</b>	<b>4%</b>
<b>Total 2017</b>	<b>581,132</b>	<b>47,602</b>	<b>7,800</b>	<b>28,625</b>	<b>4,690</b>	-	<b>669,849</b>	<b>1%</b>	<b>1%</b>

- Directors and management remuneration was reduced by 15% from 1 February 2016 following a decision by the Board to assist in addressing cost pressures. These fees were reinstated to the full values from 1 August 2016.
- Other benefits comprise health insurance and employment related benefits as well as the cost of D&O insurance (which is split equally between the Directors and other KMP).

## Equity instrument disclosures relating to key management personnel

### Options and rights -

The number of options and rights over ordinary shares in the Company including incentive shares that were held in the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

2017	Balance at 1 Jan 2017	Granted as Remuneration	Vested during the year	Exercised during the year	Changed during the year	Balance at 31 Dec 2017
	Number	Number	Number	Number	Number	Number
<b>Directors</b>						
G McGann	-	-	-	-	-	-
M Stowell	5,000,000 <sup>(1)</sup>	-	-	-	17,332,236 <sup>(4)</sup>	22,332,236
M McCann	400,000	-	-	-	(400,000) <sup>(2)</sup>	-
J Whisler						
Rights <sup>(3)</sup>	2,000,000	-	-	-	-	2,000,000
Options	-	-	-	-	2,500,000 <sup>(4)</sup>	2,500,000
<b>Other Key Management personnel</b>						
S Adams						
Rights <sup>(3)</sup>	750,000	-	-	-	-	750,000
Options	-	-	-	-	821,039 <sup>(4)</sup>	821,039
<b>Total</b>	<b>8,150,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,253,275</b>	<b>28,403,275</b>

1. 5,000,000 options exercisable at A\$0.1485 expiring 27 July 2018
2. 400,000 options expired 26 May 2017
3. Employee shares not yet vested
4. Options (at no cost) attached to shares purchase in rights issue (Nov-17)

No amount was paid or due on the vesting and exercise of these rights.

No options were issued as remuneration in 2016 or 2017.

### Shares -

The number of ordinary shares in the Company that were held in the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below.

	Balance at 1 January 2017	Shares vested	Changed during the year	Balance at 31 December 2017
	Number	Number	Number	Number
<b>Directors</b>				
M Stowell	16,236,952	-	17,427,520 <sup>(1)</sup>	33,664,472
G McGann	24,715,004	-	-	24,715,004
M McCann	1,238,000	-	-	1,238,000
J Whisler	4,365,100	-	2,500,000 <sup>(1)</sup>	6,865,100
<b>Other key management personnel</b>				
S Adams	1,358,600	-	976,039 <sup>(1)</sup>	2,334,639
<b>Total</b>	<b>47,913,656</b>	<b>-</b>	<b>20,903,559</b>	<b>68,817,215</b>

1. Shares purchased by Directors and KMP from entitlements via rights issue in November 2017 (Refer Note 18)

There have been no other transactions with the KMP since the end of the previous financial year and as at the year end.

### Service Agreements

Remuneration arrangements for Managing Director and KMP are formalised in employment contracts. The following outlines the details of these contracts.

**Mr J Whisler (Managing Director)**

- Term of Agreement: No fixed term
- Base Salary: US\$300,000
- Pension Plan: Company to match up to a maximum of the lower of 4% of base salary or \$17,500 pa when a contribution is made by the employee
- Benefits: Full use of Company vehicle and health and income/life insurance
- Cash bonus: If half yearly production average > 500 bopd, bonus of 15% of base salary (if this milestone has not yet been achieved or paid)  
If half yearly production average > 1000 bopd, bonus of 30% of base salary (this milestone has not yet been achieved or paid)  
If half yearly production average > 1500 bopd, bonus of 45% of base salary (this milestone has not yet been achieved or paid)
- Employee Share Plan: Entitled to participate in the Eon NRG Employee Share Participation Program. Shares in Eon NRG equivalent in value up to 10% of base salary may be offered at the discretion of the Board on an annual basis.
- Incentive shares: Entitled to incentive shares in Eon NRG Limited. Shares offered at a price equivalent to the market price or an appropriate weighted average price at the time of issue. The shares will be held in trust and will be subject to vesting terms. The shares shall vest in four tranches of 1.0M shares each as follows:
- i) Tranche 1: following close of a project(s) acquisition(s) (Project A) which are approved by the Board and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days. These conditions were met in 2015.
  - ii) Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period. These conditions were met in 2015.
  - iii) Tranche 3: following close of project(s) acquisition(s) (Project B), which are approved by the Board and which take place after Project A, and which contributes an average of 300 Gross boepd for 30 days; and
  - iv) Tranche 4: following total Company production reaching an average of 750 Gross boepd over a continuous 6 month period.
- New Project Bonus: Entitled to an introduction bonus of 0.5% of the ultimate purchase price of each new acquisition- capped at one years' base salary. At the election of the Managing Director this bonus can be paid in cash or shares.
- Divestiture Bonus: Entitled to a divestiture bonus of 0.2% of the ultimate sale price of each sale, exchange, merger or other divestiture of oil or gas properties or interests therein.
- Termination: The contract may be terminated by either the Company or Mr Whisler with Mr Whisler being entitled to 8 months base salary. If the termination of employment is mutual by both parties then no such severance pay will be made.

**Mr S Adams (CFO & Company Secretary)**

- Term of Agreement: No fixed term
- Base Salary: A\$165,000
- Superannuation: 9.5% of base salary
- Employee Share Plan: Entitled to participate in the Eon NRG Employee Share Participation Program. Shares in Eon NRG Limited equivalent in value to 10% of base salary may be offered at the discretion of the Board on an annual basis.
- Incentive shares: Entitled to incentive shares in Eon NRG. Shares offered at a price equivalent to the market price or an appropriate weighted average price at the time of issue. The shares will be held in trust and will be subject to vesting terms. The shares shall vest in four tranches of 375,000 shares each as follows:
- i) Tranche 1: following close of a project(s) acquisition(s) (Project A) which are approved by the Board and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days and where operational cash flow meets the approved criteria of the Board for this Project A. These conditions were met in the 2015 year.
  - ii) Tranche 2: following production of Project A reaching an average of 200 Gross boepd over a continuous 6 month period and operational project

cash flow meets the approved criteria of the Board for this Project A. These conditions were met in the 2015 year.

- iii) Tranche 3: flowing close of project(s) acquisition(s) (Project B), which are approved by the Board and which take place after Project A, contributes an average of 300 Gross boepd for 30 days and operational project cash flow meets the approved criteria of the Board for this Project A: and
- iv) Tranche 4: following total Company production reaching an average of 750 Gross boepd over a continuous 6 month period.

The approved criteria of the Board for project cash flow will be set at the time of the acquisition being approved by the Board and will be weighted towards achieving the projected cost control above the projected revenue (which is determined by production rates and commodity price).

Termination: The contract may be terminated by either the Company or Mr Adams with Mr Adams being entitled to 4 months base salary. If the termination of employment is mutual by both parties then no such severance pay will be made.

**Mr G McGann (Technical Director)**

Term of Agreement: No fixed term  
Consultancy Fee: US\$900 per day  
Superannuation: Nil  
Activities covered: The consultancy remuneration paid to Mr McGann is for work undertaken in relation to project evaluation, investor relations and other activities that are carried out over and above the normal hours expected and covered by the non-executive director duties.

During 2017, US\$ 13,750 was paid to Mr McGann under this consultancy arrangement. No consultancy fees were paid to Mr McGann in 2016.

**Directors' benefits**

In November 2015, Eon NRG Limited entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company which the Chairman, Mr Mark Stowell is a director of, to rent office accommodation space at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is an arms-length commercial rate for comparable premises. The lease agreement terms are as follows:

Lease term: 1 year plus 3 x one year options  
Rental payment: A\$16,260 per annum

This rental arrangement continued in 2017. The rent plus outgoings paid to Ascot Park Enterprises Pty Ltd in 2017 was A\$21,336 (2016 - A\$20,249).

In November 2017, Eon agreed to purchase an Echo-meter fluid well analyser and Dynameter from Mr Whisler for an amount of \$19,300. This equipment had been the personal property of Mr Whisler but had been used and continued to be used at the Silvertip Field as part of the regular maintenance of the field. The price that was paid reflected that it was second hand/used equipment and comparable market prices for similar use equipment was used to determine the price that was paid.

**End of Remuneration Report.**

On behalf of the Directors



John Whisler  
Managing Director  
29 March 2018

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Eon NRG Limited and its controlled entities for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA  
Director

Perth

Date: 29 March 2018

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

	<u>Note</u>	<b>2017 US\$</b>	<b>2016 US\$</b>
Oil and gas sales	3a	4,958,280	5,335,620
Cost of sales -			
Royalty costs		(853,962)	(930,573)
Other production expenses		(2,162,550)	(2,167,713)
Amortisation and depreciation	3(b)(iii)	<u>(1,164,431)</u>	<u>(1,787,878)</u>
Gross profit from operations		777,337	449,456
Other operating revenue	3a	96,852	74,790
Administrative expenses	3(b)(iv)	(1,217,001)	(1,221,664)
Other operating expenses	3(c)	(601,669)	(684,326)
Interest and finance expenses	3(b)(i)	(353,894)	(365,740)
Exploration expenditure	3(b)(viii)	(207,503)	-
Impairment reversal	3(b)(vi), 11	1,180,000	1,171,713
Gain on Bargain Purchase	3(b)(vii)	<u>908,656</u>	<u>-</u>
<b>Profit/(Loss) before income tax</b>		582,778	(575,771)
Income tax (expense) / benefit	4	<u>-</u>	<u>-</u>
<b>Profit / (Loss) after tax</b>		582,778	(575,771)
<b>Profit / (Loss) for the period attributable to members of the entity</b>		<u>582,778</u>	<u>(575,771)</u>
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit and loss		-	-
Items that may be reclassified to profit and loss		<u>-</u>	<u>-</u>
<b>Other comprehensive income / (loss) for the period, net of tax</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income / (loss) for the period attributable to members of the entity</b>		<u>582,778</u>	<u>(575,771)</u>
<b>Basic earnings / (loss) per share attributable to ordinary equity holders of the entity (cents)</b>	20	0.26	(0.33)
<b>Diluted earnings / (loss) per share attributable to ordinary equity holders of the entity (cents)</b>	20	0.26	(0.33)

The above 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**

	<b>Note</b>	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>Current assets</b>			
Cash and cash equivalents	8	545,486	658,450
Trade and other receivables	9	606,705	654,587
Inventories	10	85,073	75,343
Assets held for sale	11	4,920,343	2,430,988
<b>Total current assets</b>		<u>6,157,607</u>	<u>3,819,368</u>
<b>Non-current assets</b>			
Other financial assets	12	688,480	322,734
Oil properties	13	9,075,981	10,218,971
Plant and equipment	14	2,596,116	2,928,625
Deferred tax asset	4(b)	-	-
<b>Total Non-current assets</b>		<u>12,360,577</u>	<u>13,470,330</u>
<b>Total assets</b>		<u>18,518,184</u>	<u>17,289,698</u>
<b>Current liabilities</b>			
Trade and other payables	15	961,856	1,034,699
Interest bearing liabilities	16	200,000	950,000
Taxes payable	4(a)	126,265	126,265
Provisions	17	150,072	115,166
Liabilities held for sale	11	523,409	488,190
<b>Total current liabilities</b>		<u>1,961,602</u>	<u>2,714,320</u>
<b>Non-current liabilities</b>			
Trade and other payables	15	-	40,159
Interest bearing liabilities	16	6,172,402	6,817,914
Provisions	17	5,047,679	4,317,494
Deferred tax liabilities	4(b)	-	-
<b>Total non-current liabilities</b>		<u>11,220,081</u>	<u>11,175,567</u>
<b>Total liabilities</b>		<u>13,181,683</u>	<u>13,889,887</u>
<b>Net assets</b>		<u>5,336,501</u>	<u>3,399,811</u>
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	18	25,157,925	23,796,744
Shares reserved for employee share plan	18	(2,474)	4,795
Reserves	19	349,661	349,661
Accumulated losses		<u>(20,168,611)</u>	<u>(20,751,389)</u>
<b>Total Equity</b>		<u>5,336,501</u>	<u>3,399,811</u>

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**

<b>2017</b>	<b>Issued capital (Note 18)</b>	<b>Shares reserved for employee share plan</b>	<b>Accumulated losses</b>	<b>Share option reserve</b>	<b>Total equity</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>At 31 December 2016</b>	<b>23,796,744</b>	<b>4,795</b>	<b>(20,751,389)</b>	<b>349,661</b>	<b>3,399,811</b>
Profit attributable to members of the Group	-	-	582,778	-	582,778
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	582,778	-	582,778
Issue of shares	1,508,561	-	-	-	1,508,561
Issue of employee shares	11,959	(11,959)	-	-	-
Transaction costs	(159,339)	-	-	-	(159,339)
Issue of Options	-	-	-	-	-
Share based payment expense	-	4,690	-	-	4,690
<b>At 31 December 2017</b>	<b>25,157,925</b>	<b>(2,474)</b>	<b>(20,168,611)</b>	<b>349,661</b>	<b>5,336,501</b>
<b>2016</b>	<b>Issued capital</b>	<b>Shares reserved for employee share plan</b>	<b>Accumulated losses</b>	<b>Share option reserve</b>	<b>Total equity</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>At 31 December 2015</b>	<b>22,717,388</b>	<b>(27,699)</b>	<b>(20,175,618)</b>	<b>349,661</b>	<b>2,863,732</b>
(Loss) attributable to members of the Group	-	-	(575,771)	-	(575,771)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(575,771)	-	(575,771)
Issue of shares	1,147,153	-	-	-	1,147,153
Issue of employee shares	5,160	(5,160)	-	-	-
Transaction costs	(72,957)	-	-	-	(72,957)
Issue of Options	-	-	-	-	-
Share based payment expense	-	37,654	-	-	37,654
<b>At 31 December 2016</b>	<b>23,796,744</b>	<b>4,795</b>	<b>(20,751,389)</b>	<b>349,661</b>	<b>3,399,811</b>

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER**

	<u>Note</u>	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		5,194,315	4,851,100
Payments to suppliers and employees		(4,514,621)	(3,912,312)
Interest received		1,483	1,319
Interest paid		(320,051)	(338,145)
Production tax paid		(333,507)	(418,566)
<b>Net cash provided by operating activities</b>	21	<u>27,619</u>	<u>183,396</u>
<b>Cash flows from investing activities</b>			
Acquisition of Borie Oilfield	22	(920,772)	-
Oil property development expenditure		(485,428)	(636,218)
Exploration expenditure		(207,503)	-
Payments for performance bonds		(365,747)	-
Proceeds from sale of Florence Oilfield		1,951,186	50,000
Proceeds from sale of assets		20,924	28,298
Payments for purchases of property plant and equipment		(62,851)	(959)
<b>Net cash used in investing activities</b>		<u>(70,191)</u>	<u>(558,879)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		1,520,520	1,147,152
Transaction costs for issue of shares		(159,339)	(72,957)
Repayment of borrowings		(1,425,106)	(995,237)
Proceeds of borrowings		-	500,000
<b>Net cash (used in)/ provided by financing activities</b>		<u>(63,925)</u>	<u>578,958</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(106,497)	203,475
<b>Exchange differences on cash balances held</b>		(6,467)	9,556
<b>Cash and cash equivalents at beginning of the year</b>		658,450	445,419
<b>Cash and cash equivalents at end of year</b>	8	<u>545,486</u>	<u>658,450</u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

### 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Corporate Information

The consolidated financial statements of Eon NRG Limited and its subsidiaries (the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 28 March 2017.

Eon NRG Limited is a company limited by shares incorporated and domiciled in Australia where shares are publicly traded on the Australian Securities Exchange (ASX), and the entity is a for profit entity.

The principal activity during the year of entities within the Group was oil and gas exploration and production in North America. There has been no significant change in the nature of these activities during the year.

The significant policies that have been adopted in the preparation of this financial report are:

#### a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis and accrual accounting. The financial report is presented in United States dollars (US\$ or USD).

#### b) Statement of compliance

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has, where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 31 December 2017 including:

#### *AASB 2016-1: Recognition of Deferred Tax Assets for Unrealised Losses (amendments to AASB 112 Income Taxes)*

The changes clarify four issues regarding recognition and measurement of deferred tax assets (DTAs) as follows:

- If all other recognition criteria are met, DTAs must be recognised for the deductible temporary difference between the fair value and tax base on fixed rate debt instruments that are not deemed to be impaired;
- Deductible temporary differences must be compared to taxable profits of the same type (e.g. capital or revenue profits) to determine whether there is sufficient taxable profit against which the deductible temporary differences can be utilised;
- To avoid 'double dipping', when comparing deductible temporary differences against the amount of future taxable profits, the calculation of future taxable profits must exclude tax deductions resulting from the reversal of those deductible temporary differences;
- The estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount. Examples would include:
  - Property measured using cost model for which an external valuation has been conducted,
  - Fixed rate debt instruments held to maturity.

#### *AASB 2016-2: Amendments to Australian Accounting Standards - Disclosure Initiative (amendments to AASB 107 Statement of Cash Flows)*

Recent amendments to AASB 107 Statement of Cash Flows mean that for annual periods beginning on or after 1 January 2017, a reconciliation of cash and non-cash movements in liabilities arising from financing activities will need to be disclose. A reconciliation for movements in financial assets used to hedge liabilities arising from financing activities (e.g. interest rate swaps used to hedge variable interest rates on borrowings) will also be required to disclose.

*AASB 2017-2: Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

*AASB 5 Non-current Assets Held for Sale and Discontinued Operations* requires that disclosures in other standards do not apply to non-current assets (or disposal groups) held for sale unless those other standards specify disclosures in respect of these non-current assets (or disposal groups) held for sale.

These amendments clarify that where an interest in a subsidiary, joint venture or associate is classified as held for sale (or is part of a disposal group classified as held for sale), there is no exemption from disclosures in *AASB 12 Disclosure of Interests in Other Entities*. Disclosures set out in AASB 12, paragraphs B10 – B16 do not need to be provided for entities within the scope of AASB 5.

**c) Going Concern**

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activity and realization of assets and the settlement of liabilities in the normal course of business. At 31 December 2017, the Group has the following going concern indicators:

- (i) The Group incurred a cash outflow from operating and investing activities of \$42,572 prior to mandatory debt repayments for the year of \$425,106\* for the year ended 31 December 2017. The group's cash on hand at 31 December 2017 was \$545,486.

\* Note – Total repayment of borrowings during the year was \$1,425,106 of which \$1,000,000 from sale proceeds of the Florence Oilfield was applied against the outstanding debt.

- (ii) The Group's mandatory debt repayments for the 12 month period ended 31 December 2018 are \$200,000.

Notwithstanding the above the Directors believe they have a reasonable basis to prepare the financial statements on a going concern basis after consideration of the following:

- (i) The Company has an additional \$843,000 available for draw down on its current line of credit facility if required.
- (ii) Management's cashflow forecasts show that the Group will remain in a positive net cash balance position. The forecasts are sensitive to production and price assumptions.
- (iii) Should the Company require funding to meet the Group's ongoing financial commitments over the course of the next 12 months, the Directors are satisfied that this can be achieved through the sale of assets and/or equity raising from the issue of new shares.

Should the Group not be able to execute the strategies set out above, there would be material uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Group not be able to achieve the matters set out above, and thus be able to continue as a going concern.

**d) New accounting standards not yet effective**

At the date of the authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective and have not been adopted by the Company for the annual reporting period ending 31 December 2017.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Application date for the Company</b>
AASB 9 'Financial Instruments'	1 Jan 2018	1 Jan 2018
AASB 15 'Revenue from Contracts with Customers'	1 Jan 2018	1 Jan 2018
AASB 16 Leases	1 Jan 2019	1 Jan 2019
AASB 2016-5 'Amendments to Australian Accounting Standards – Classification and Measurement of Share-Based Payment Transactions (AASB 2)'	1 Jan 2018	1 Jan 2018

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Application date for the Company
AASB 2016-6 'Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts'	1 Jan 2018	1 Jan 2018
AASB 2017-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 4 Insurance Contracts'	1 Jan 2018	1 Jan 2018
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	1 Jan 2019	1 Jan 2019
AASB 2017-5 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections'	1 Jan 2018	1 Jan 2018
AASB 2017-7 'Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures'	1 Jan 2019	1 Jan 2019
AASB Interpretation 22 'Foreign Currency Transactions and Advance Consideration'	1 Jan 2018	1 Jan 2018

The Group has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations, the Group's assessment of those new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

- **AASB 9: Financial Instruments**

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- Financial assets that are debt instruments will be classified based on the objective of the Company's business model for managing the financial assets and the characteristics of the contractual cash flows
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income
- Introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specially, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
- Financial assets can be designated and measured at fair value through profit and loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets and liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - The change attributable to changes in credit risk are presented in other comprehensive income
  - The remaining change is presented in profit or loss
- New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

The Company does not expect that there will be any material impact on its financial statements as a result of AASB 9.

- **AASB 15: Revenue from Contracts with Customers**

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity recognises revenue in accordance with that core principle by applying the following steps:



- Step 1: identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Eon has agreements with mineral rights owners who are paid a percentage of the gross oilfield sales in return for the minerals/hydrocarbons that it can extract and sell. Under the current accounting treatment, the sales revenue is reflected as a gross value including royalty owners' share, with an equal amount booked to cost of sales as a royalty charge. Under AASB15, the sales transaction price will exclude amounts collected on behalf of third parties, including the mineral rights/royalty owners. For reporting periods beginning 1 January 2018, sales figures will be reduced by the royalty portion, and cost of sales will reduce by the same amount. Although there will be no impact to the profit and loss statement overall, there will be a material change to the sales and cost of sales figures individually. If this new change were to be applied in this financial report, the impact would be a decrease in sales revenue of \$0.854m and a decrease in cost of sales of \$0.854m

- **AASB 16: Leases**

The key features are as follows:

**Lessee Accounting**

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities
- Assets and liabilities arising from a lease are initially measured on a present value basis
- AASB 16 contains disclosure requirements for lessees

**Lessor accounting**

- AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently
- AASB 16 also has required enhanced disclosures

Eon NRG Limited does not have any material leases aside from the lease of its business premises in Denver, USA and Perth, Australia.

If this new change were to be applied in this financial report, the impact would be to recognise a right-of-use asset of \$466,000 and a lease liability of \$497,000 in the balance sheet. The profit and loss impact would be an additional expense of \$5,000.

**e) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Eon NRG Limited and its subsidiaries (as outlined in note 24) as at and for the period ended 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

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

Where the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions have been eliminated in full.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results of the part of the reporting period during which Eon NRG Limited has had control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

#### **f) Taxation**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## **g) Financial instruments**

### **Initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

### **Financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale assets. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the Market place.

### *Loans and receivables*

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category generally applies to trade and other receivables.

### **De-recognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement: and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### **Impairment of financial assets**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal repayments or other observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or derivatives designed as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade payables and loans and borrowings.

### **Loans and borrowings**

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

### **h) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment - 5 to 10 years.

Any item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

### **i) Exploration and evaluation expenditure**

Expenditure incurred during exploration and the early stages of evaluation of new areas of interest are capitalised until such time as it is determined that the area of interest is uneconomical at which time the cost is written off. Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

Costs of acquisition of exploration areas of interest are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future. Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

### **j) Oil and Gas Assets Assets in development**

The costs of oil and gas assets in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When the committed development expenditure programs are completed and production commences, these costs are subject to amortisation. Once the required statutory documentation for a production licence is lodged the accumulated costs are transferred to oil and gas assets – producing assets.

### **Producing assets**

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to amortisation.

Where asset costs incurred in relation to a producing field are under evaluation and appraisal, those costs will be continually reviewed for recoupment of those costs by future exploitation. When a determination has been made that those expenditures will not be recouped and/or further appraisal will be undertaken, they will be written off.

### **Amortisation of oil and gas assets**

Costs in relation to producing assets are amortised on a production output basis. Non-producing assets under evaluation and appraisal are not subject to amortisation until such time as the evaluation and appraisal stage is complete.

### **Restoration costs**

Site restoration costs are capitalised within costs of the associated assets and the provision is included in the statement of financial position at total present value of the estimated cost to restore operating locations. These costs are estimated and based on judgements and assumptions regarding removal dates, environmental legislation and technologies. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The costs of restoration are brought to account in the profit and loss through depreciation of the associated assets over the economic life of the projects with which these costs are associated. The unwinding of the discount is recorded as an accretion charge within finance costs.

### **k) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **l) Share-based payment transactions**

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Eon NRG Limited ("market conditions"). The cost of equity-settled transactions with employees is measured by reference to the fair values of the equity instruments at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account the likelihood of employee turnover;
- (iii) the expired portion of the vesting period.

The charge to the income statement for the year is the cumulative amount, as calculated above, less the amounts charged in the previous years. There is a corresponding amount to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated.

Where the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**m) Leases**

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

**n) Foreign currency translation**

*i) Functional and presentation currency*

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. From 1 January 2011 all companies in the Group adopted US dollars as the functional and presentational currency. All amounts included in the financial statements are in US dollars unless otherwise indicated.

An entity's functional currency is the currency of the primary economic environment in which the entity operates. The economic entity has a significant US dollar revenue stream and most of its costs are paid in US dollars. Consequently, the Directors have determined that the functional currency of the Company and all its subsidiaries is US dollars.

*ii) Transactions & balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss.

**o) Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

**p) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of those goods and services.

**q) Share capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.



#### *Treasury shares*

The Group's own equity instruments, which are acquired for later use in employee share-based payment arrangements, are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

#### **r) Trade and other receivables**

Debtors are carried at amounts due. The recoverability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

#### **s) Employee benefits**

Wages, salaries, and other short term benefits are expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised only when the leave is taken and are measured at the rates paid or payable.

#### **t) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### **u) Inventories**

Oil stocks and field repair inventory amounts are physically measured, counted or estimated and valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product. Cost is determined as follows:

- (i) Materials, which include drilling and maintenance stocks, are valued at cost; and
- (ii) Petroleum products, comprising extracted crude oil stored in tanks, are valued at cost.
- (iii) Material stocks are valued at weighted average cost

For inventories and material stocks, cost is determined on a FIFO (first in, first out) basis.

#### **v) Revenue recognition**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

##### *i) Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a vessel, train, conveyor or other delivery mechanisms. Revenue is not reduced for royalties and other taxes payable from production, and therefore recognised on a gross basis.

##### *ii) Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

##### *iii) Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

#### **w) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to include any costs of servicing equity (other than dividends) and preference share dividends divided by the average weighted number of ordinary shares adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares; and
- Dilutive potential ordinary shares, adjusted for any bonus element.

#### **x) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with the current year disclosures.

### **2) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

#### **Impairment of non-financial assets**

In determining the recoverable amount of assets, estimations are made regarding the present value of future cash flows using asset-specific discount rates and a "value in use" discounting cash flow methodology. Additional disclosures are provided about the discount rate and any other significant assumptions in the notes. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

In determining the amount of an impairment reversal, the Company considers evidence of the fair values of assets, either through calculating their recoverable amount based on the above estimates or from evidence that becomes available upon negotiations for its sale.

#### **Share based payment transactions**

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 accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

#### **Allowance for impairment loss on trade receivables**

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. The normal trading terms of the Company with all of its purchasers is determined by their individual contracts. In the event that a customer did not settle its outstanding payments within 90 days of the due date, an impairment review would be considered.

#### **Capitalised exploration and evaluation expenditure**

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could impact future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes and changes to

commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable, profits and net assets will be reduced in the period in which determination is made.

#### **Estimation of useful lives of assets**

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 14.

#### **Recovery of deferred tax assets**

Judgment is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

#### **Oil and Gas reserve and resource estimates**

Oil and Gas reserves are estimates of the amount of oil and gas that can be economically and legally extracted from the Group's mining properties. The Group estimates its Oil and Gas reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the reserve, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the reserves. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

#### **Units-of-production ("UOP") amortisation**

Estimated recoverable reserves are used in determining the amortisation of oilfield assets. This results in an amortisation charge proportional to the depletion of the anticipated remaining life of field production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Barrels of oil produced as a proportion of 1P developed reserves are used as the depreciation methodology. The calculation of the rate of UOP amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves for future capital expenditure changes. Changes to reserves could arise due to changes in the factors or assumptions used in estimating reserves. Changes are accounted for prospectively. Amortisation charges are included in note 13.

#### **Restoration obligations**

Where a restoration obligation exists, the Group estimates the future removal costs of oil and gas platforms, production facilities, wells and pipelines at the time of the installation of the assets. 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 reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows.

### Assets and Disposal Groups Held for Sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use and operations. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for distribution.

	2017 US\$	2016 US\$
<b>3) Revenues and Expenses from continuing operations</b>		
(Loss)/Profit from ordinary activities before income tax includes the following items of revenue and expense.		
<b>a) Sales revenue</b>		
Oil and gas sales	4,954,511	5,319,692
Royalties	3,769	15,928
	<u>4,958,280</u>	<u>5,335,620</u>
<b>Other operating revenue</b>		
Interest Income	1,483	1,319
Other revenue	95,369	73,471
	<u>96,852</u>	<u>74,790</u>
<b>b) Expenses</b>		
i) Interest and finance expenses		
Interest on bank loans	(320,051)	(338,145)
Financing charges	(33,843)	(27,595)
	<u>(353,894)</u>	<u>(365,740)</u>
ii) Foreign exchange		
Gain	11,191	13,610
Loss	(16,297)	(6,637)
	<u>(5,106)</u>	<u>6,973</u>
iii) Depreciation and amortisation included in the statement of profit or loss		
Amortisation – oil and gas properties	(829,614)	(1,307,899)
Depreciation – oil and gas property plant & equipment	(334,817)	(479,979)
	<u>(1,164,431)</u>	<u>(1,787,878)</u>
Depreciation – other plant & equipment (see note 3(b)(iv) below)	(26,616)	(21,311)
	<u>(1,191,047)</u>	<u>(1,809,189)</u>
iv) Administrative expenses		
Salaries, Directors fees and employee benefits	(1,190,385)	(1,200,353)
Depreciation – other plant and equipment	(26,616)	(21,311)
	<u>(1,217,001)</u>	<u>(1,221,664)</u>
v) Net gain/(loss) on sale		
Oil properties and exploration assets	85,659	-
Equipment	(9,224)	(14,922)
	<u>76,435</u>	<u>(14,922)</u>

	2017 US\$	2016 US\$
<b>3) Revenues and Expenses (Cont.)</b>		
vi) Impairment reversal of assets		
Oil properties		
- Florence	-	828,403
- Sheep Springs	918,811	-
- Round Mountain	206,632	-
Impairment reversal of property, plant and equipment (Note 13)	<u>54,557</u>	<u>343,310</u>
	<u>1,180,000</u>	<u>1,171,713</u>
Refer note 11, 13 & 14 for details of impairment charges.		
vii) Bargain Purchase		
Gain from acquisition of oil and gas properties		
- Borie	<u>908,656</u>	<u>-</u>
viii) Exploration Expenditure		
Cost of participation in Newport Field exploration well (written off)	207,503	-
<b>c) Other operating expenses</b>		
Compliance costs	194,469	172,464
Operating lease costs	78,223	195,577
Foreign exchange (gain) / loss	5,105	(6,973)
Net (gain) /loss on sale of assets	(76,435)	14,922
Travel expenses	33,727	43,825
Operating taxes	808	11,810
Investor relations	44,353	51,171
Insurance	142,757	113,896
IT expenses	52,758	34,148
Miscellaneous	<u>125,904</u>	<u>53,486</u>
	<u>601,669</u>	<u>684,326</u>
<b>4) Income tax (benefit)/ expense</b>		
<b>Current income tax</b>		
Current income tax (benefit) /expense	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
<b>Deferred income tax/(revenue) expense included in income tax expense comprises:</b>		
(Decrease)/increase in deferred tax	-	-
Adjustment for deferred tax of prior period – Australia	-	-
Adjustment for deferred tax of prior period – USA	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total income tax (benefit)/expense	<u>-</u>	<u>-</u>
<b>Reconciliation of income tax (benefit)/expense to prima facie tax payable</b>		
Profit/(Loss) from continuing operations before income tax	<u>582,778</u>	<u>(575,771)</u>
<b>Accounting (loss)/profit before income tax</b>	<u>582,778</u>	<u>(575,771)</u>

	2017 US\$	2016 US\$
<b>4) Income tax (Cont.)</b>		
Prima facie tax (benefit)/payable on profit/(loss) from ordinary activities at 30% (2016 – 30%)	174,833	(172,732)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of different taxation rates of other countries	34,310	(44,058)
Deferred tax assets not recognised	-	254,954
Tax losses utilised	(211,121)	-
Tax effect of amounts which are not deductible in calculating taxable income	1,978	30,061
Benefit of tax losses not previously recognised	-	-
Temporary differences and tax losses previously not brought to account – Australia	-	(68,225)
Prior year under-provision	-	-
Income tax (benefit)/ expense	<u>-</u>	<u>-</u>
<b>Movement in deferred income tax for the year ended 31 December relates to the following:</b>		
<b>Deferred tax liabilities</b>		
Depreciable assets	(415,865)	147,624
<b>Deferred tax assets</b>		
Interest and management fees	415,865	(147,624)
Capital raising costs	-	-
Provision for expenses	-	-
<b>Deferred tax (income)/expense</b>	<u>-</u>	<u>-</u>
<b>Tax liabilities</b>		
<b>a) Current</b>		
Income tax payable	<u>126,265</u>	<u>126,265</u>
<b>b) Non- Current</b>		
Deferred income tax recognised at 31 December from foreign source income relates to the following:		
<b>Deferred tax assets (at 21%, 2016 – 35%)</b>		
Interest & management fees	177,391	593,256
	<u>177,391</u>	<u>593,256</u>
<b>Deferred tax liabilities (at 21%, 2016 – 35%)</b>		
Depreciable assets	177,391	593,256
	<u>177,391</u>	<u>593,256</u>
Net deferred tax asset/(liability)	<u>-</u>	<u>-</u>
Deferred income tax at 31 December from Australian source income relates to the following:		
<b>Deferred tax assets (at 30%)</b>		
Provision for expenses	-	-
Capital raising costs	-	-
	<u>-</u>	<u>-</u>

	2017 US\$	2016 US\$
<b>4) Income tax (Cont.)</b>		
<b>Deferred tax liabilities (at 30%)</b>		
Receivables	-	-
Unrealised foreign exchange gains	-	-
	-	-
	-	-
Net deferred tax asset	-	-
	-	-
Total deferred tax asset/(liability)	-	-
<b>c) Reconciliations</b>		
The overall movement in recognised deferred tax is as follows:		
Opening balance	-	-
(Charge) / credit to statement of comprehensive income	-	-
Other movements	-	-
Closing balance	-	-
<b>d) Unrecognised deferred tax assets (at 30%) from Australian source income</b>		
<b>Deferred tax assets (at 30%)</b>		
Capital raising costs	59,110	21,976
Provision for expenses	15,752	19,886
Carry forward tax losses	48,759	69,328
	123,621	111,190
<b>e) Unrecognised deferred tax assets (at 21%, 2016 – 35%) from foreign source income</b>		
<b>Deferred tax assets (at 21%, 2016 – 35%)</b>		
Carry forward revenue tax losses	3,094,271	2,387,087
Other timing differences	2,640,032	7,506,185
	5,734,303	9,893,272
<b>5) Key management personnel disclosure</b>		
<b>Key management personnel compensation</b>		
	2017 US\$	2016 US\$
Short-term employee benefits	636,532	614,243
Post-employment benefits	28,625	28,594
Other long-term benefits	-	-
Termination Benefits	-	-
Share-based Payments	4,690	29,609
<b>Total compensation paid to key management personnel</b>	669,847	672,446

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

**6) Share-based payments**  
**(a) Eon NRG Employee Share Participation Program**

In 2013, an employee share plan was established which entitles the Board of Directors to offer employees within the Group the right to acquire shares in the Company subject to satisfying specific performance hurdles. Shares that the employees will have a right to own are acquired and held in trust for the employees until they have met the service or performance conditions. The shares rank equally with other fully paid ordinary shares. The fair value is determined at the share price at the date of issue.

In January 2017, 360,000 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.044 cents per share.

In March 2016, 150,000 shares were issued to the employee share trust for the benefit of employees at a price of A\$0.045 cents per share.

The shares do not have an expiry date under the scheme.

The equity remuneration is subject to service and performance conditions. A summary of the vesting terms for shares that have been issued to employees are set out below:

No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2017)
2,440,900	Various dates from 2013 to 2015	50% vested after 12 months of service (from date of issue) 50% vested after 24 months of service (from date of issue)	2,440,900
1,000,000	30 June 2014	On close of a project(s) acquisition(s) (Project A) which is(are) approved by the Board, and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days <sup>(2)</sup>	1,000,000
1,000,000	30 June 2014	On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period <sup>(2)</sup>	1,000,000
1,000,000	30 June 2014	On close of project(s) acquisition(s) which take place after the project(s) in (i) above (Project B) which are approved by the Board, and which contributes an average of 300 additional Gross boepd for 30 days <sup>(2)</sup>	Nil
1,000,000	30 June 2014	When total Company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>	Nil
375,000	30 June 2014	On close of a project(s) acquisition(s) (Project A) which is(are) approved by the Board, and which individually or cumulatively contributes an average of 100 Gross boepd for 30 days <sup>(2)</sup>	375,000
375,000	30 June 2014	On production of above new Project A reaching an average of 200 Gross boepd over a continuous 6 month period <sup>(2)</sup>	375,000
375,000	30 June 2014	On close of project(s) acquisition(s) which take place after the project(s) in (i) above (Project B) which are approved by the Board, and which contributes an average of 300 additional Gross boepd for 30 days <sup>(2)</sup>	Nil



No. of shares	Grant date	Vesting conditions	Shares vested (as at 31 December 2017)
375,000	30 June 2014	When total Company production reaches an average of 750 Gross boepd over a continuous 6 month period <sup>(2)</sup>	Nil
150,000	18 March 2016	50% vest after 12 months of service (from date of issue) <sup>(1)</sup> 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>	150,000
360,000	30 January 2017	50% vest after 12 months of service (from date of issue) <sup>(1)</sup> 50% vest after 24 months of service (from date of issue) <sup>(1)</sup>	Nil

1. These shares do not have performance conditions attached to them as this served as part of the retention plan
2. There are service and various performance conditions attached to these awards

**(b) Other share based payments**

There were no options issued in the 2016 financial year.

**(c) Expenses arising from share-based payment transactions**

Share-based payment transactions recognised during the period were as follows:

	2017 US\$	2016 US\$
Shares issued under employee share scheme recognised in wages and salaries	4,690	37,654
	<u>4,690</u>	<u>37,654</u>

**7) Auditors remuneration**

The auditor of Eon NRG is Butler Settineri. (2016 - Ernst and Young)

Amounts received or due and receivable by auditor for:

An audit or review of the financial report of the entity and any other entity in the consolidated group

18,330	66,820
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Other services in relation to the entity and any other entity in the consolidated group

Tax related

-	-
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<u>18,330</u>	<u>66,820</u>
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Amounts receivable or due and receivable by non-Butler Settineri audit firms for:

Audit or review of financial report

-	66,820
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<u>-</u>	<u>66,820</u>
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**8) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December

Cash at bank and on hand

<u>545,486</u>	<u>658,450</u>
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Cash of \$672,734 is held on term deposit as security for performance bonds and is classified as non-current other receivables in the balance sheet (refer Note 12).

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>9) Trade and other receivables</b>		
Oil and gas sales debtors	547,020	580,414
Other receivables	59,685	74,173
	<u>606,705</u>	<u>654,587</u>

- (i) Trade and other receivables are non-interest bearing and generally 30 - 90 day terms. An allowance for doubtful debts is made where there is objective evidence that a trade receivable is impaired eg: non-payment of receivable for more than 90 days from the date due.
- (ii) For details of credit risk of receivables, refer to Note 29 (b).
- (iii) Trade and other receivables do not contain impaired assets and are not past due.

**Ageing analysis of current receivables:**

	<b>Total US\$</b>	<b>0-30 Days US\$</b>	<b>31-60 days US\$</b>	<b>60 -90 days US\$</b>	<b>90 days + US\$</b>
<b>2017</b>	606,705	569,373	5,574	5,574	26,184
<b>2016</b>	654,587	590,856	5,412	5,412	52,907

The receivables shown in the 90 days + category are prepayments which fall due at that time. These prepayments are not subject to impairment unless the party providing the service relating to the prepayment defaults on their obligation.

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>10) Inventories</b>		
Oil and NGL inventory at cost of production	<u>85,073</u>	<u>75,343</u>

**11) Assets held for sale**

In May 2017, the Board of Directors decided to divest of the following two oilfield assets, Sheep Springs and Round Mountain. Both of these assets remain as assets held for sale and are being actively marketed to potential buyers.

In December 2016 Eon NRG entered into an agreement with Austin Exploration Ltd to divest of the Florence Oilfield, Colorado. The purchase and sale agreement (PSA) was executed in March 2017 for the sale of the Group's membership interest in Incremental Oil and Gas (Florence) LLC which owned a 100% working interest in the Florence Field.

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>Profit and loss items associated with assets held for sale</b>		
Oil and gas sales	1,455,771	724,501
Cost of sales:		
Royalty costs	(228,361)	(136,519)
Other production expenses	(343,364)	(204,013)
Amortisation and depreciation	(155,388)	(225,267)
Results from operating activities	<u>728,658</u>	<u>158,702</u>
Income tax (expense) / benefit	-	-
Profit from discontinued operations, net of tax	<u>728,658</u>	<u>158,702</u>
Reversal of impairment relating to assets held for sale	1,180,000	1,171,713

11) Assets held for sale (Cont.)	2017 US\$	2016 US\$
<b>Balance sheet items classified as assets held for sale</b>		
Assets:		
Production assets and plant and equipment (net of accumulated amortisation, depreciation and impairment)	3,740,343	2,430,988
Impairment reversal (note 13)	<u>1,180,000</u>	<u>-</u>
	<u>4,920,343</u>	<u>2,430,988</u>
Liabilities:		
Restoration liability associated with production assets classified as held for sale	(523,409)	(488,190)
	<u>4,396,934</u>	<u>1,942,798</u>
<b>Cash flow from/(used in) assets held for sale</b>		
Net cash flow from operating activities	820,685	228,182
Net cash flow used in investing activities	<u>(14,639)</u>	<u>(2,407)</u>
Net cash flow for the year	<u>806,685</u>	<u>225,775</u>
<b>12) Other financial assets</b>		
<b>Non-current</b>		
Cash held as security by ANB bank for issuance of performance bonds	672,734	322,734
Lease deposit for Denver offices	<u>15,747</u>	<u>-</u>
	<u>688,480</u>	<u>322,734</u>
<b>13) Oil and gas properties</b>		
Cost of acquisition and enhancements	11,204,616	17,425,120
Accumulated amortisation and impairment	<u>(2,128,635)</u>	<u>(7,206,149)</u>
	<u>9,075,981</u>	<u>10,218,971</u>
Opening balance	10,218,971	11,738,860
Acquisition of Borie (note 22)	1,758,656	-
Reclassified as assets held for sale	(3,607,454)	(1,523,573)
Additions	503,686	636,218
Asset Retirement Obligation	1,028,884	(152,858)
Amortisation	(826,762)	(1,307,899)
Impairment reversal (see below)	-	828,403
Closing balance	<u>9,075,981</u>	<u>10,218,971</u>

As at 31 December 2017 the Company assessed each project on a value in use basis to determine whether an indicator of impairment existed, including future selling price, future costs and reserves. As a result, the recoverable amounts of the cash generating units were formally estimated on the basis of value in use calculation using cashflow projections over the life of the oilfields (i.e. 16 to 48 years) resulting in an impairment reversal of \$1,180,000 being recognised for the year. The following assumptions were used in the assessment of the cash generating units' recoverable amounts:

- Discount rate - the discount rate used for the assessment of operating oilfields with a similar production profile, similar characteristics as all existing oil fields is 12%, which was applied to the pre-tax cash flows, expressed in real terms. The discount rate was derived from the Group's weighted average cost of capital, with appropriate adjustments made to reflect the risks specific to the region and the oilfields.

### 13) Oil and gas properties (Cont.)

- Oil price - the oil price for future cash flow generation has been based on the forward curve price at the date of assessment. Oil prices are adjusted to account for variances in refinery/transportation charges with a range of \$55 per barrel to \$74 per barrel. Gas charges are adjusted to account for the market into which the product is delivered with prices ranging from \$2.80 per Mcf to \$3.86 per Mcf.

#### Impairment charge

As at 31 December 2017 the Company assessed each project on a value in use basis to determine whether an indicator of impairment existed. It was determined that a reversal of impairment of the Sheep Springs field of \$970,000 and a reversal of impairment of the Round Mountain field of \$210,000 should be recognised. The trigger for this review was the agreement by the Company to sell the membership interests in the subsidiary companies that owned and operated the Sheep Spring and Round Mountain fields at a price that was higher than the net book value of the assets. The assets that are to be sold as part of this cash-generating unit are the Sheep Springs and Round Mountain Oilfields. The recoverable amount used to determine the impairment reversal value is determined by using its fair value (based on the agreed selling price) less costs to sell.

The resulting impairment assessment on each field at the end of 2017 was as follows:

Cash Generating Unit (CGU)	Description	Net Recoverable amount <sup>(1)</sup>	Net book value	Impairment Reversal
Sheep Springs	Oil and Gas field	\$4,001,619	\$3,001,137	\$918,811
	Plant and equipment		\$28,232	\$40,402
Round Mountain	Oilfield	\$905,320	\$685,427	\$206,632
	Plant and equipment		\$9,891	\$14,155
Silvertip	Oil and Gas field	\$9,378,848	\$6,690,538	\$Nil
	Plant and equipment		\$2,454,471	\$Nil
Borie	Oil and Gas field	\$2,689,748	\$2,380,664	\$Nil
	Plant and equipment		\$50,000	\$Nil
		<u>\$16,975,535</u>	<u>15,300,360</u>	<u>\$1,180,000</u>

- Assessment of fair market value is based a consensus of a range of discounted net present cash flow estimates using various assumptions.

The determination of value in use for each CGU are considered to be Level 3 fair value measurements in both years, as they are derived from valuation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

#### Sensitivity Analysis

Any variation in the key assumptions used to determine value in use would result in a change of the estimated recoverable amount. If the variation in assumption had a negative impact on recoverable amount it could indicate a requirement for additional impairment to non-current assets.

It is estimated that changes in the key assumptions would have the following approximate impact on the recoverable amount of the CGUs in its functional currency.

Valuation variable		Estimated change US\$'000 <b>Sheep Springs</b>	Estimated change US\$'000 <b>Round Mountain</b>	Estimated change US\$'000 <b>Silvertip</b>	Estimated change US\$'000 <b>Borie</b>
Change in oil price (per Bbl)	+\$5	386	125	414	364
	-\$5	(386)	(125)	(364)	(440)
Change in gas price (per Mcf)	+\$0.50	12	-	872	-
	-\$0.50	(12)	-	(909)	-
Change in discount rate	+1%	(228)	(41)	(394)	(153)
	-1%	251	44	338	91
Change in operating costs pa	+10%	(85)	(54)	(550)	(291)
	-10%	85	54	605	213

It should be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption which may have an offsetting impact. Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>14) Plant and equipment</b>		
<b>Balance at beginning of year</b>		
Cost	3,862,299	5,798,077
Accumulated depreciation and impairment	(933,674)	(1,761,797)
Net carrying amount	<u>2,928,625</u>	<u>4,036,280</u>
<b>Balance at end of year</b>		
Cost	3,502,845	3,862,299
Accumulated depreciation and impairment	(906,729)	(933,674)
Net carrying amount	<u>2,596,116</u>	<u>2,928,625</u>
For details of impairment charge see note 13. For details of assets held for security see note 16.		
Opening balance: net of accumulated depreciation and impairment	2,928,625	4,036,280
Acquisition of Borie equipment	50,000	-
Additions	60,292	959
Transfers from inventory	-	-
Disposals	(30,145)	(43,220)
Depreciation charge	(361,432)	(501,290)
Impairment reversal	-	343,310
Assets reclassified as held for sale	(51,224)	(907,414)
Closing balance: net of accumulated depreciation and impairment	<u>2,596,116</u>	<u>2,928,625</u>

	2017 US\$	2016 US\$
<b>15) Trade and other payables</b>		
Current		
Trade payables and accruals	<u>961,856</u>	<u>1,034,699</u>
Trade payables are non-interest bearing payables and are normally settled on 30 day terms.		
Non-Current		
Trade payables and accruals	<u>-</u>	<u>40,159</u>
<b>16) Interest Bearing Liabilities</b>		
Current -		
Bank Loan (Secured)	<u>200,000</u>	<u>950,000</u>
Non-current -		
Bank Loan (Secured)	<u>6,172,402</u>	<u>6,817,914</u>

The secured bank loans are provided by ANB Bank as a US Dollar denominated loan facility. The loans are made up of one term loan and a line of credit as detailed below. An additional Term Loan of \$3 million was provided in May 2014 for a four-year term and was repaid in full in 2017.

**Term Loan -**

- Security - mortgages over the Company's gas processing plant and spare well equipment at Silvertip Field
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (Dec 2017 – 4.50%)
- Term - five years from July 2015
- Principal repayments - monthly equal instalments (\$16,667)
- Initial face value of loan - \$1.0 million (Balance Dec 2017 - \$271,086)

**Line of Credit -**

- Security - mortgages over the Company's producing oilfield in Wyoming
- Interest - paid monthly at a rate of 0.50% above the Prime Rate (Dec 2017 – 4.50%)
- Maturity date - 1 July 2019
- Principal repayments - interest only repayments on a monthly basis. Principal due to be repaid on or before maturity. Any part of the principal that is repaid before the maturity date may be redrawn up until the maturity date of the loan.
- Initial loan facility limit - \$7.0 million (facility limit Dec-17 - \$7,000,000)
- Loan balance Dec 2017 - \$6,157,160

**Financial covenants for above loan facilities -**

- Modified Current Ratio shall not be less than 1:1  
**Modified Current Ratio** means, as of the end of any Fiscal Quarter ending after the Closing Date, the ratio of: (a) the sum of Borrower's current assets (including as a current asset any and all unused availability under the Revolving Loan, but excluding assets resulting from any mark-to-market of unliquidated hedge contracts); to (b) the sum of Borrower's current liabilities (excluding the current portion of long term Debt with the exception of principal that is due within ninety (90) days and liabilities resulting from any mark-to-market of unliquidated hedge contracts), all determined on a consolidated basis pursuant to the most recent financial statements delivered by Borrower to Lender. Oil in inventory, not reported on the most recent financial statement, will be added to the current assets at market price.)

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>17) Provisions</b>		
Current		
Employee entitlements – annual leave	<u>150,072</u>	<u>115,166</u>
Non-current -		
Asset retirement obligation	<u>5,047,680</u>	<u>4,317,494</u>
	<b>Employee entitlements  (Current)</b>	<b>Asset retirement obligation (Non- current)</b>
<b>As at 1 January 2017</b>	115,166	4,317,494
Movement during the year	109,128	1,102,349
Utilised/unwinding of discount	(74,222)	151,246
Reclassified as liabilities held for sale	-	(523,409)
<b>As at 31 December 2017</b>	<u>150,072</u>	<u>5,047,680</u>
<b>As at 1 January 2016</b>	89,105	4,792,830
Movement during the year	108,641	(152,859)
Utilised/unwinding of discount	(82,580)	165,713
Reclassified as liabilities held for sale	-	(488,190)
<b>As at 31 December 2016</b>	<u>115,166</u>	<u>4,317,494</u>

#### **Asset retirement obligation**

The asset retirement obligation provision is for plugging and abandoning wells at the end of their economic life. The provision is the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed.

The cost has been capitalised as the restoration obligation is recognised during the evaluation stage.

These provisions have been created based on estimates provided to the Group. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil prices, which are inherently uncertain. These estimates of restoration are subject to significant estimates and assumptions, refer Note 2. The expected timing of the asset retirement obligation is over the life of the oilfields, ranging from 15 to 30 years.

	2017 US\$	2016 US\$
<b>18) Issued capital</b>		
400,100,786 Fully paid ordinary shares (2016: 201,834,580)	25,157,925	23,796,744
<b>Shares reserved for employee share plan</b>		
2,750,000 Fully paid ordinary shares (2016: 2,900,000)	(2,474)	4,795

**Shares reserved for employee share plan**

The Group's own equity instruments, which are acquired for later use in employee share-based payment arrangements, are deducted from equity.

Movement in ordinary shares on issue	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	No.	US\$	No.
Equity at the start of the year	23,796,744	201,834,580	22,717,388	163,684,580
Placement of new shares	1,520,520	198,266,206	1,152,313	38,150,000
Transaction costs	(159,339)	-	(72,957)	-
At 31 December	25,157,925	400,100,786	23,796,744	201,834,580

In November 2017 the Company completed a placement of new shares to existing shareholders and new investors through a rights issue to raise A\$1.98 million, before costs and fees. The placement consisted of 197,906,206 ordinary shares priced at A\$0.01

In January 2017 there were 360,000 employee shares issued at A\$0.044 per share.

**Capital management**

When managing capital, the Board's objective is to ensure the Consolidated Entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board may in the future adjust the capital structure to take advantage of favourable costs of capital and issue further shares in the market.

The Consolidated Entity is not subject to any externally imposed capital requirements.

Management monitors capital by reviewing the level of cash on hand, future revenue streams from oil and gas reserves and assessing the impact of possible future commitments in respect of the potential capital structure that would be required to meet those potential commitments.

	2017 US\$	2016 US\$
<b>19) Reserves</b>		
Share option reserve	349,661	349,661

**Share Options**

At 31 December 2017 there were the following listed and unlisted options over unissued fully paid ordinary shares on issue:

**Listed Options** – 197,906,206 (2016: Nil) unlisted option exercisable at \$0.02 per option on or before 29 November 2019.

**Unlisted Options** - 5,000,000 (2016: 5,000,000) unlisted options exercisable at A\$0.1485 per option on or before 27 July 2018.

**Share option reserve**

The share option reserve is used to recognise the value of equity-settled share based payments provided to employees and suppliers.



**20) Earnings per share**

Basic earnings / (loss) per share amounts are calculated by dividing profit / (loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the profit / (loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all diluted potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic earnings per share computations:

	<b>2017 US\$</b>	<b>2016 US\$</b>
Profit / (loss) attributable to ordinary equity holders of the parent for basic and diluted earnings per share	<u>582,778</u>	<u>(575,771)</u>
	<b>Cents per share</b>	<b>Cents per share</b>
Basic earnings / (loss) per share	0.26	(0.33)
	<b>No. of shares</b>	<b>No. of shares</b>
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share	222,225,730	176,461,424
Effect of dilution:		
Share options	<u>-</u>	<u>-</u>
The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share	<u>222,225,730</u>	<u>176,461,424</u>
	<b>Cents per share</b>	<b>Cents per share</b>
Diluted earnings/(loss) per share	0.26	(0.33)

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted as at the 31 December as potential ordinary shares, which may have a dilutive effect on the result of the Group. As at 31 December 2017, 202,906,206 potential ordinary shares were not considered dilutive.

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>21) Reconciliation of net profit/(loss) after tax to net cash flows from operations</b>		
Profit/(loss) per accounts	582,778	(575,771)
Adjustments for		
Leave provision	34,906	26,060
(Impairment reversal)/Impairment of assets	(1,180,000)	(1,171,713)
Gain on Bargain Purchase	(905,656)	-
Amortisation	829,614	1,307,899
Depreciation	361,432	501,290
Share based payments	(7,269)	37,654
Loss on disposal of assets	9,224	14,922
Gain on sale of assets	(25,285)	-
Write-down of assets	207,503	-
(Decrease)/Increase in provisions	163,530	165,713
Decrease/(Increase) in current receivables	76,449	(254,008)
Decrease in inventories	34,805	31,848
(Decrease)/Increase in trade and other payables	(160,879)	109,058
Exchange differences	6,468	(9,556)
Cash used in operating activities	<u>27,619</u>	<u>183,396</u>

## 22) Business Combinations

### Acquisitions in 2017

#### Acquisition of Borie Oil Field

On 1 October 2017, the Company completed the acquisition of a 94% working interest in the Borie Oil Field ("Borie") from HRM Resources II, LLC (assignor). This field is located in DJ Basin in Wyoming. Borie is made up of leases covering approximately 3,590 acres (Net acres 2,850). At the time of acquisition, there were 20 operating wells in the Field along with pumping and piping equipment and oil storage facilities. The acquisition of Borie increases the oil and gas production and reserves and forms part of the Company's growth strategy.

#### Consideration Transferred

EON NRG transferred a sum of \$920,00 for the purchase of this field. The amount paid at the time of close of the transaction is show below:

	Fair value consideration paid US\$
<b>Purchase Price</b> (incl. Plant & Equipment \$50,000)	900,000
Upward Adjustments to Price at close	20,772
<b>Consideration paid to Assignor</b>	<b>920,772</b>

#### Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the Group as at the date of acquisition were:

	Fair value recognised on acquisition US\$
<b>Assets</b>	
Oil Properties at fair value	2,414,500
Plant and equipment	50,000
Asset retirement obligation	(655,844)
	<b>1,808,656</b>
Less: Purchase price	(900,000)
<b>Bargain purchase</b>	<b>908,656</b>

No cash was acquired on acquisition.

As at the date of acquisition, a reserve report and valuation of the Borie oilfield was prepared by an independent certified Petroleum Engineer which demonstrated that the Borie Oilfield had an estimated value of \$2.4145m. This reserve report analyses the remaining proven developed reserves of the oilfield, and applies a production curve over the life of the oilfield, an estimate of forward oil prices (passed on the NYMEX WTI forward contract strip at the effective date) to generate the revenue and the expected lease operating costs (based on historical data) to determine a discounted net present future cashflow value.

The cash consideration was funded through the Company's equity raising in November 2017.

The fair value of oil properties is based on the estimated net present value of proved developed producing reserves as provided by an independent certified engineer.

An asset retirement obligation of \$655,844 was determined based on the NPV of the estimated plug and abandonment cost of the wells in the Borie Field as follows:

- Life of field – based on certified reserve report
- Discount rate – based on US Government bond rate determined by life of field
- Inflation rate – the median of an inflation projection from a range of qualified banking and NGO institutions

**22) Business Combinations (Cont.)**

From the date of acquisition, Borie contributed \$158,093 of gross revenue and \$17,174 to profit before tax from continuing operations of the Group. If the Borie Field had been owned from 1 January 2017, it would have contributed approximately \$1.29m to gross revenue and \$55,000 to net profit. This is based on publicly available production data, oil prices, refinery deducts and operating cost estimates for the period from January to September and actual revenue and operating costs from October to December when Eon was the owner of the field.

**23) Commitments and contingencies**

The Company has entered into a lease agreement for office and parking facilities in Australia on a year by year basis commencing 1 December 2015. The Company has entered into a lease agreement for offices in Denver for the United States operations for 40 months commencing 01 April 2017.

	<b>2017 US\$</b>	<b>2016 US\$</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	126,786	58,757
Later than 1 year but not later than 5 years	162,353	307,301
Later than 5 years	-	-
	<u>289,139</u>	<u>366,058</u>

There are no capital commitments in place in relation to the acquisition of property, plant and equipment. Other than those disclosed above there are no further commitments or contingent liabilities.

**24) Information relating to subsidiaries**

<b>Name of entity</b>	<b>Country of Incorporation</b>	<b>Ownership Interest</b>
<b>Parent entity</b>		
Eon NRG Limited	Australia	
<b>Controlled entity</b>		
Incremental Oil and Gas USA Holdings Inc	United States	100%
Incremental Oil and Gas LLC	United States	100%
Incremental Oil and Gas (Round Mountain) LLC	United States	100%
Incremental Oil and Gas (Silvertip) LLC	United States	100%

Set out above are the Company's subsidiaries as at 31 December 2017. Unless otherwise stated, the subsidiaries as listed above have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

**25) Information relating to Eon NRG Limited (the Parent)**

	<b>Company 2017</b>	<b>Company 2016</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>
Current assets	161,528	25,602
Non-current assets	4,778,550	3,595,609
Total assets	<u>4,940,078</u>	<u>3,621,211</u>
<b>Liabilities</b>		
Current liabilities	301,298	221,400
Non-current liabilities	-	-
Total Liabilities	<u>301,298</u>	<u>221,400</u>
Net Assets	<u>4,638,780</u>	<u>3,399,811</u>
<b>Equity</b>		
Issued Capital	25,157,925	23,796,744
Shares reserved for employee share plan	(2,474)	4,795
Accumulated losses	(20,866,332)	(20,751,389)
Reserves	349,661	349,661
Total Equity	<u>4,638,780</u>	<u>3,399,811</u>
<b>Financial performance</b>		
(Loss) /Profit for the period	(114,943)	698,515
Total comprehensive income of the parent entity	(114,943)	698,515

The Company has not guaranteed the debts of any of its subsidiaries.

The Company has no contingent liabilities.

The Company has no commitments for the acquisition of property, plant and equipment.

**26) Segment Information**

The Group has determined that it operates in one operating segment, being oil and gas production and this is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources in the Group. Accordingly, the financial results of the segment are equivalent to the financial statements of the Group as a whole.

The Australian head office does not engage in business activities from which it generates or earn revenues. As a result, the Australian head office does not represent an operating segment.

The following segment disclosure is required:

**27) Related Party Disclosures**

In June 2017, Eon NRG Limited entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company associated with the Chairman, Mr Mark Stowell, to rent office space at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is at an arms-length commercial rate for comparable premises. The lease agreement terms are as follows:

Lease term: 1 year plus 3 x one year options  
 Current Rental payment: A\$16,260 per annum

In November 2017, Eon agreed to purchase an Echo-meter fluid well analyser and Dynameter from Mr Whisler for an amount of \$18,935. This equipment had been the personal property of Mr Whisler but had been used and continued to be used at the Silvertip Field as part of the regular maintenance of the field. The price that was paid reflected that it was second hand/used equipment and comparable market prices for similar use equipment was used to determine the price that was paid.

## 28) Events after the reporting date

At an extraordinary shareholder meeting held on 6 February 2018, shareholders approved the issue of 6,288,374 shares at a price of A\$0.01 per share plus a free attaching option exercisable at A\$0.02 and expiring on 29 November 2019 to a non-executive director, Matthew McCann. These shares and options were issued in March 2017.

There are no other significant events subsequent to reporting date.

## 29) Financial risk management

The Group's principal financial liabilities, comprise of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables and cash that derive directly from its operations.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

### Fair values

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2017:

	Loans and receivables	Fair value through profit and loss	Fair value through other comprehensive income
	US\$	US\$	US\$
<b>Financial assets</b>			
Trade and other receivables	606,705	-	-
<b>Total current financial assets</b>	<b>606,705</b>	-	-
Other receivables	688,480	-	-
Other assets	-	-	-
<b>Total non-current financial assets</b>	<b>688,480</b>	-	-
<b>Total financial assets</b>	<b>1,295,185</b>	-	-
<b>Financial liabilities</b>			
Trade and other payables	961,856	-	-
Term loan	200,000	-	-
<b>Total current financial liabilities</b>	<b>1,161,856</b>	-	-
Trade and other payables	-	-	-
Line of credit	6,101,316	-	-
Term loan	71,086	-	-
<b>Total non-current financial liabilities</b>	<b>6,172,402</b>	-	-
<b>Total financial liabilities</b>	<b>7,334,258</b>	-	-

## 29) Financial Risk Management (Cont.)

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2017:

	Carrying amount US\$	Fair value US\$
<b>Financial assets</b>		
Trade and other receivables	606,705	522,904
<b>Total current financial assets</b>	<b>606,705</b>	<b>522,904</b>
Other receivables	688,480	688,480
Other assets	-	-
<b>Total non-current financial assets</b>	<b>688,480</b>	<b>688,480</b>
<b>Total financial assets</b>	<b>1,295,185</b>	<b>1,211,384</b>
<b>Financial liabilities</b>		
Trade and other payables	961,856	1,046,321
Term loan	200,000	200,000
<b>Total current financial liabilities</b>	<b>1,161,856</b>	<b>1,246,321</b>
Trade and other payables	-	-
Line of credit	6,101,316	6,101,316
Term loan	71,086	71,086
<b>Total non-current financial liabilities</b>	<b>6,172,402</b>	<b>6,172,402</b>
<b>Total financial liabilities</b>	<b>7,334,258</b>	<b>7,418,723</b>

The carrying value of the financial assets and financial liabilities approximate their fair value.

### a) Market Risk

#### i) Foreign Exchange Risk

The Group operates internationally and are exposed to foreign exchange risk arising from currency exposures with respect to the Australian dollar.

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 group does not hedge its currency risk which is mainly an exposure to Australian Dollar expenditure and assets/liabilities.

The financial assets that are exposed to foreign exchange risk are:

	2017 US\$	2016 US\$
Cash and cash equivalents	92,248	20,085
Trade and other receivables	46,488	706
Trade and other payables	(175,108)	(169,162)
	<u>(36,371)</u>	<u>(148,371)</u>

The following table demonstrates the sensitivity to a reasonable possible change in AUD exchange rates with all other variables held constant.

	Change in AUD rate	Effect on profit before tax/equity US\$
2017	+10%	(3,637)
	-10%	3,637
2016	+10%	(14,837)
	-10%	14,837

## 29) Financial Risk Management (Cont.)

### ii) *Commodity price risk*

The Group is exposed to commodity price risk as its income is determined by reference to international prices of oil and gas. Pricing of the Group's oil is benchmarked off West Texas Intermediate crude oil prices. The Group's gas sales revenue is benchmarked off the CIG Rocky Mountain Natural Gas price. Market forces on both the physical and non-physical markets cause volatility to be out of the Group's control. As at the reporting date, the Group had no financial instruments with material exposure to commodity price risk.

### iii) *Cash flow and fair value interest rate risk*

Interest rate risk in relation to the fair value or future cash flow may arise from interest rate fluctuations. The Group's main interest rate risk arises from borrowings which have a variable rate of interest indexed against the US Prime Rate. No hedging is in place by way of interest rate swaps or any other financial derivatives to limit the interest rate risk exposure.

At the end of the reporting period, the Group had the following variable rate borrowings.

	Weighted average interest rate % 2017	Weighted average interest rate % 2016	31 December 2017	31 December 2016
			US\$	US\$
Bank loan	5.00%	4.25%	6,372,402	7,767,914

The following table demonstrates the sensitivity to a reasonable possible change in interest rates on the Group's profit before tax based on outstanding debt at the year end, with all other variables held constant.

	Change in interest rate (basis points)	Effect on profit before tax/equity US\$
2017	+25	(15,931)
	-25	15,931
2016	+25	(19,545)
	-25	19,545

The assumed movement in basis point volatility for the interest rate sensitivity analysis is based on the observable market movements in interest rates in the recent past which have been relatively stable.

### b) **Credit Risk**

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure relating to outstanding receivables and committed transactions. The Group has minimal credit risk with regards to its bank held deposits which are all held with reputable institutions. The Group has minimal credit risk in relation to its receivables. All sales are normally settled within 30 days of the issue of the invoice and existing customers have no record of default with the Company. The maximum exposure to credit risk at the reporting date is the carrying amount of the receivables. Collateral is not held as security.

## 29) Financial Risk Management (Cont.)

### b) Credit Risk (Cont)

The Group relies on six customers to generate its sales revenue. The ability for these customers to continue to buy the Group's production in the medium to long term is unclear but there are no indications that the demand for the Company's products are likely to create a risk of a demand shortfall. There is no evidence that any of the Company's customers would not be in a position to make payments in relation to the purchase of the products that are sold. Most of these customers are large companies and there has been no experience that would suggest that there is an enhanced credit risk.

The Group does not have any exposure to any derivative financial instruments.

### c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group management aims at maintaining flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments such as term deposits that are highly liquid.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents. In addition, the Group's liquidity policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

The group had access to borrowings as disclosed in note 16. Note 16 also discloses the security for these borrowings.

The fair value of bank loans equals their carrying amount, as the impact of discounting is not significant.

Maturities of financial liabilities is shown below. The tables analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non- derivative financial liabilities. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

Contractual maturities of financial liabilities at 31 December 2017	Less than 6 Months	6-12 Months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
Trade payables	961,856	-	-	-	961,856	961,856
Borrowings	257,104	257,194	6,356,190	-	6,870,488	6,395,302
<b>Total</b>	<b>1,218,960</b>	<b>257,194</b>	<b>6,356,190</b>	<b>-</b>	<b>7,832,344</b>	<b>7,357,158</b>

Contractual maturities of financial liabilities at 31 December 2016	Less than 6 Months	6-12 Months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
Trade payables	1,034,699	-	40,159	-	1,074,858	1,074,858
Borrowings	63,814	630,219	6,726,565	301,812	8,296,410	7,767,914
<b>Total</b>	<b>1,672,513</b>	<b>630,219</b>	<b>6,766,724</b>	<b>301,812</b>	<b>9,371,268</b>	<b>8,842,772</b>



## 29) Financial Risk Management (Cont.)

### d) Fair value measurements

The fair value of the financial instruments is included at 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 following method and assumption was used to estimate the fair values:

Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow models that use discount rates to reflect the issuer's borrowing rate as at the end of the reporting period. The Group's own non-performance risk as at 31 December 2017 was assessed to be insignificant.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments measured at fair value use Level 2 valuation techniques in both years.

There have been no transfers between fair value levels during the reporting period.

**End of Financial Report**

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Eon NRG Limited I state that:

1. In the opinion of the Directors
  - (a) The financial statements, and notes of Eon NRG Limited for the financial year ended 31 December 2017 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and the Corporations Regulations 2001;
  - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b); and
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable having regard to the matters disclosed in Note 1(c).
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 31 December 2017.

On behalf of the Board



John Whisler  
Managing Director

29 March 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EON NRG LIMITED

### Report on the Financial Report

#### Opinion

We have audited the financial report of Eon NRG Limited (“the Company”) and its controlled entities (“the Group”), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

In our opinion,

- (a) the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the Group’s financial position as at 31 December 2017 and of its financial performance for the year then ended; and
  - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (b) to the financial report.

#### Basis for Opinion

We have conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements 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 date 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.

## Material Uncertainty Related to Going Concern

Without qualifying our opinion above, we wish to draw your attention to Note 1(c) of the financial statements "Going Concern". The matters as set forth in Note 1(c) "Going Concern" indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

## 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

<b>Key Audit Matter</b>	<b>How we addressed the Key Audit Matter</b>
<p><b>Oil and Gas Property and Assets Held for Sale</b> <i>(refer notes 11 and 13)</i></p> <p>The Group assessed during the reporting period whether there is any indication that an asset may be impaired or previously recognised impairment charges, should be reversed.</p> <p>Based on this assessment an impairment reversal was recognised for the assets held for sale.</p> <p>No impairment indicators existed for the other oilfields as stated in Note 13 to the financial report.</p> <p>The impairment assessment is complex and involves significant judgements and estimates in determining the present value of future cash flows using asset-specific discount rates and a "value in use" discounting cash flow methodology as disclosed in note 2 to the financial report.</p>	<p>We have challenged management's assumptions in the impairment assessment which was based on various key estimates, including future expected cash flows.</p> <p>We ensured that key inputs in the future expected cash flows were consistent with other financial and operational information and assessed that the disclosures per Note 13 were appropriate and in line with the Australian Accounting Standards.</p> <p>We assessed the independence and competence of the Group's external expert used to prepare the reserve report, as this data was used to produce the future expected cash flows.</p> <p>We assessed the accuracy and completeness of the calculation.</p>

<p><b>Asset Retirement Obligation</b> (refer note 17)</p> <p>The Group recognises rehabilitation provision for plugging and abandoning wells at the end of their economic life as disclosed in note 17 to the financial report.</p> <p>The provision is recognised based on estimates provided to the Group and these estimates are regularly reviewed to take into account any material changes to the assumptions. Certain assumptions are based on information provided by management’s appropriately qualified expert.</p> <p>The estimation is complex and highly subjective as disclosed in note 2 to the financial report.</p>	<p>We evaluated management’s approach in determining the valuation of the rehabilitation provision by reviewing the cost elements and key estimates used in the estimated rehabilitation provision.</p> <p>We ensured that key inputs were consistent with other financial and operational information.</p> <p>We assessed the accuracy and completeness of the calculation.</p> <p>We assessed the independence and competence of the Group’s external expert used to prepare the reserves report, as this data was a key input in the estimation.</p>
<p><b>Gain on Bargain Purchase</b> (refer note 22)</p> <p>The Group acquired an oil property during the year as disclosed in note 22 to the financial report.</p> <p>The acquisition was recorded as a business combination and as a result the Group recognised a gain on bargain purchase.</p> <p>The fair value of the assets and liabilities of the oil property was determined at acquisition date by an independent expert, which demonstrated a fair value significantly exceeding the purchase consideration.</p>	<p>We reviewed the supporting documentation relating to the acquisition and assessed whether management has recognised the purchase and related gain in accordance with Australian Accounting Standards.</p> <p>We have reviewed management’s calculations to determine whether the purchase has been recorded accurately.</p> <p>We assessed the independence and competence of the Group’s external expert used to fair value the asset.</p>

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 31 December 2017, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 the 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have 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 the financial report.

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

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## **Report on the Remuneration Report**

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

We have audited the Remuneration Report included on pages 12 to 17 of the directors' report for the year ended 31 December 2017.

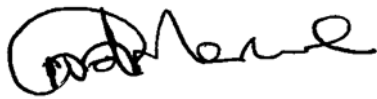
In our opinion, the remuneration Report of Eon NRG Limited and its controlled entities, for the year ended 31 December 2017, complies with section 300A of the Corporations Act 2001.

### ***Responsibilities***

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BUTLER SETTINERI (AUDIT) PTY LTD

A handwritten signature in black ink, appearing to read 'Marius van der Merwe', written in a cursive style.

MARIUS VAN DER MERWE CA  
Director

Perth  
Date: 29 March 2018



## ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Stock Exchange. The information is current as at 22 March 2017.

- a) Distribution schedule and number of holders of equity securities of Eon NRG Limited as at 22 March 2017 is shown in the table below:

	Fully Paid Ordinary Shares	Quoted Options – exercisable at A\$0.02 expiring 29 December 2019	Unquoted Options – exercisable at A\$0.07 expiring 26 May 2017
1-1,000	24	3	-
1,001-5,000	22	5	-
5,001-10,000	66	11	-
10,001-100,000	202	55	-
100,001 and over	246	119	1
<b>TOTAL</b>	<b>560</b>	<b>193</b>	<b>1</b>

Total fully paid ordinary shares issued 406,389,160  
 Holders with less than a marketable parcel 198

Total quoted options (exercise price A\$0.02, expiry date 29 November 2019) issued 204,194,580

- b) Twenty largest shareholders  
 The names of the 20 largest holders of quoted equity securities (ASX code – IOG) as at 22 March 2017 are as follows:

	Name	No. of Shares	%age
1	MCGANN PTY LTD	20,940,640	5.15%
2	ROOKHARP INVESTMENTS PTY LIMITED	20,000,000	4.92%
2	FAST LANE AUSTRALIA PTY LTD	20,000,000	4.92%
3	MERCHANT HOLDINGS PTY LTD	18,200,000	4.48%
4	ASCOT PARK ENTERPRISES PTY LTD	15,264,472	3.76%
5	SMARTEQUITY EIS PTY LTD	12,200,900	3.00%
6	UPORA PTY LTD	7,750,000	1.91%
7	MRS DANIELLE SUSAN BORGAS	7,497,049	1.84%
8	MR KIM MAXWELL STEDMAN & MRS JANICE CATHERINE STEDMAN	7,007,236	1.72%
9	MATTHEW MCCANN	6,788,374	1.67%
10	MRS VIVIANA DAVIES	6,497,034	1.60%
11	MR BRIAN MCCUBBING	6,278,268	1.54%
12	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	6,040,002	1.49%
13	ANDERBY QLD PTY LTD	5,500,000	1.35%
14	LINEAR A PTY LTD	5,400,067	1.33%
15	MR PETER JOHN DOWLING	5,400,000	1.33%
16	MRS SARAH CAMERON	5,000,000	1.23%
16	SUGARLOAF VENTURES PTY LTD	5,000,000	1.23%
16	MRS ZI JUAN QI	5,000,000	1.23%
16	CM SUPER FUND PTY LTD	5,000,000	1.23%
17	THE HON JOHN ALEXANDER LINDSAY MACDONALD	4,625,001	1.14%
18	BRYAN WELCH PTY LTD	4,083,700	1.00%
19	MR JIMMY FAUSTO CAFFIERI & MRS LUCIA CAFFIERI	4,000,000	0.98%
19	A N SUPERANNUATION PTY LTD	4,000,000	0.98%
19	MR JIMMY FAUSTO CAFFIERI & MRS LUCIA CAFFIERI	4,000,000	0.98%
19	MR PETER JOHN DOWLING & MRS JANET MARGARET DOWLING	4,000,000	0.98%
19	D N SUPERANNUATION FUND PTY LTD	4,000,000	0.98%
19	M2 ASSETS PTY LTD	4,000,000	0.98%
20	MR BURTON JOHN HARRIS	3,898,574	0.96%
		<b>117,595,445</b>	<b>58.17%</b>

Listing has been granted on the Australian Securities Exchange to all ordinary fully paid shares of the Company on issue.

- c) **Substantial shareholders**  
 Substantial shareholders of Eon NRG Limited and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices given to the Company are listed below:

Name	No. of shares held	%age of issued capital
M Stowell and related entities	33,664,472	8.28%
G McGann and related entities	24,715,004	6.08%

- d) **Unlisted securities**  
 Details of the unlisted securities issued by Eon NRG Limited as at 15 March 2017 are as follows:
- Unlisted options – exercisable at A\$0.1485, expiring 27 July 2018 5,000,000
- e) Mr Stowell holds 100% of the unlisted options exercisable at A\$0.1485. These options in total would represent 2.47% of the total issued capital if they were exercised in full.
- No other holder owns more than 20% of any unlisted securities as at the same date.
- f) **Restricted securities –**  
 As at 22 March 2017, there were no restricted securities on issue.
- g) **Voting Rights**  
 All fully paid ordinary shares carry one vote per share without restrictions. Listed and unlisted options have no voting rights.
- h) **Company Secretary**  
 The Company Secretary of the Company is Mr Simon Adams.
- i) **Registered Office**  
 The details of the Company's registered office are:  
 20 Howard Street  
 Perth WA 6000  
 Australia
- Telephone: +61 (0)8 6144 0590  
 Facsimile: +61 (0)8 6144 0593
- j) **Share Registry**  
 The Company's share registry is Link Market Services  
 L4, Central Park  
 152 St. George's Terrace  
 Perth WA 6000  
 Australia
- Telephone: 1300 554 474 or +61 (0)2 9287 0303  
 Facsimile: +61 (0)2 9287 0309  
 Web site: <https://investorcentre.linkmarketservices.com.au/Login>
- k) **On-market buyback**  
 The Company is not performing an on-market buyback at the time of this report.
- l) **Application of funds**  
 During the financial year, the Company has used cash and assets in a manner which is consistent with its business objectives.

## GLOSSARY

Basin	A depression in the earth's surface containing relatively thick deposits of sedimentary rocks
Bbl	Barrel - A unit of measure commonly used in quoting liquid hydrocarbon volumes. 1 barrel = 42 U.S. gallons, 35 imperial gallons (approx), 159 litres (approx).
Bcf, BCF	Billion cubic feet or 28.317 million cubic metres. A unit commonly used in quoting volumes of natural gas.
Behind Pipe	Behind-pipe reserves are expected to be recovered from zones in existing wells, which require additional recompletion work prior to the start of production
BOE	Barrels of oil equivalent - A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BOPD	Barrels of Oil per day. A measure of the rate of flow of oil.
BOEPD	BOE per day - A measure of the rate of flow of oil equivalent.
Completion	The process in which a well is enabled to produce hydrocarbons.
Exploration well	A well drilled into a previously undrilled or non-commercial trap to test for the presence of a new hydrocarbon accumulation.
Field	A subsurface accumulation of hydrocarbons.
Formation	A formal term used to reference a genetically related rock unit.
Forward strip	A series of sequential prices either for future delivery of a physical asset eg: oil or gas, or expected future settlements of an index eg: oil or gas futures contract.
Henry Hub	Located in Louisiana, the Henry Hub is a major natural gas distribution centre, and is the key focal point of natural gas spot and future trading in the U.S. Henry Hub is a widely quoted index of natural gas prices.
Hydrocarbons	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
IP	Initial production (rate).
MBbls	Thousands of barrels of oil. A measure of oil flow rates from a producing well.
MCF, mcf	Thousand cubic feet. A widely quoted unit used for natural gas measurement.
MCFPD, mcfpd	Thousands of cubic feet per day. A measure of a volume of gas.
MMbbls	Million barrels. A measure of a volume of liquid.
MMBO	Millions of barrels of oil.
MMCF	Million cubic feet. A widely quoted unit used for natural gas measurement.
NGL	Natural Gas Liquid - Naturally occurring elements found in natural gas, and include propane, butane and ethane, among others. The liquids are extracted from the natural gas and sold separately from the gas
Perforate	To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off.
Petroleum	(See Hydrocarbons)
Proved Reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.

## GLOSSARY

Proved developed not producing reserve (PDNP)	Proved Reserves that are subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production.
Proved developed producing reserve (PDP)	Proved Reserves that are subcategorized as Developed Producing reserves which are expected to be recovered from existing wells including reserves behind pipe.
Proved undeveloped reserve (PUD)	Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.
Proved or Proven Reserves	Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions.
PV10	Present value of estimated future net oil and gas revenues (net of royalty burdens, production taxes and estimated direct expenses associated with production), discounted at an annual rate of 10%.
Recompletion	After the initial completion of a well, the action and techniques of re-entering the well and redoing or repairing the original completion to restore the well's productivity.
Reserves	The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.
Reservoir	A porous rock unit in which hydrocarbons occur in an oil field.
Risk	A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.
Structure	A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.
Working Interest (WI)	Target's percentage interest in a project before royalties and state taxes.
Workover	The repair or stimulation of an existing production well for the purpose of restoring, prolonging or enhancing the production of hydrocarbons.
WTI	West Texas Intermediate is a benchmark oil price for light sweet crude oil traded in the USA.



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