



SOUTH PACIFIC RESOURCES LIMITED

ABN 30 073 099 171

ANNUAL REPORT and FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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CORPORATE DIRECTORY**Directors**

Domenic Martino (Managing Director)
Joseph Goldberg (Non-Executive Director)
Alvin Tan (Non-Executive Director)

Company Secretary

Louisa Martino

Registered Office

Level 5, 56 Pitt Street
Sydney NSW 2000
Telephone: +612 8823 3177
Facsimile: +612 8823 3188
Website: www.southpacificresourceslimited.com

Auditors

Pitcher Partners Corporate & Audit (WA) Pty Ltd
Level 1, 914 Hay Street
Perth Western Australia 6000
Telephone: +618 9322 2022
Facsimile: +618 9322 1262
Email: partners@pitcher-wa.com.au
Website: <http://www.pitcher.com.au>

Share Registry

Advanced Share Registry Services Pty Ltd
110 Stirling Highway
Nedlands Western Australia 6909
Telephone: +618 9389 8033
Facsimile: +618 9262 3723

Stock Exchange Listing

The Company is listed on the Australian Securities Exchange Limited and Deutsche Borse AG
Home Exchange-Perth, Australia

ASX Code- SPB

WKN Code-924249

Australian Business Number

ABN 30 073 099 171

DIRECTORS' REPORT

The Directors submit their report on South Pacific Resources Limited (the "Company" or "SPR") and its controlled entities (the "Group") for the year ended 30 June 2017.

1. DIRECTORS

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:

Name	Length of Service
Domenic Martino	5 years
Joseph Goldberg	5 years
Alvin Tan	17 years

Domenic Martino - Managing Director

Mr Martino is a Chartered Accountant and an experienced director of ASX listed companies. Previously CEO of Deloitte Touch Tohmatsu in Australia, he has significant experience in the development of "micro-cap" companies.

Mr Martino is a key player in the re-birth of a broad grouping of ASX companies including Cokal Limited, Clean Global Energy Limited (renamed Citation Resources Ltd) and NuEnergy Capital Limited. He has a strong reputation in China, with a lengthy track record of operating in Papua New Guinea (PNG) and Indonesia, where he has successfully closed key energy and resources deals with key local players. He has a proven track record in capital raisings across a range of markets.

Mr Martino was a recipient of the Centenary Medal 2003 for his service to Australian society through business and the arts.

During the past three years Mr Martino held the following directorships in other ASX listed companies:

Australasian Resources Ltd (27 November 2003-Current), Cokal Ltd (24 December 2010-Current), Food Revolution Group Limited (11 February 2016 – 31 August 2016) ORH Limited (6 May 2009-Current), Pan Asia Corporation Ltd (24 December 2010 - 3 July 2017) and Skyland Petroleum Limited (18 December 2013 – Current).

Joseph (Yosse) Goldberg – Non-Executive Director

In the early 1960s Mr Goldberg joined Denis Silver and formed Silver Goldberg and Associates. The practice grew and became a leading architectural office, based in Perth and expanding its activities throughout Australia, Asia and Iran. The practice is operating today, after almost 60 years, under the name Silver, Hanley Thomas.

In mid 1970s Mr Goldberg became a property developer and designed, built, owned and operated, either on his own or in partnership, four medium-sized suburban shopping centres, apartments, a modern pig farm, 6PR radio station, managed land subdivisions and established a horse racing and breeding farm (Jane Brook Stud and Shamrock Park) providing agistment/training for 250-300 horses.

In later years he lived in the UK, Spain, USA and Canada where he helped Australian companies in establishing operations in those countries.

On his return to Australia he became a consultant and major shareholder in a number of companies and helped companies create a foothold in countries such as PNG, Indonesia, Cameroon, South Africa and Turkey. Mr Goldberg has also consulted to Sydney Gas Limited, Blue Energy Limited, Kimberley Diamond Company NL, Sundance Resources Limited, CuDeco Limited, Gindalbie Metals Ltd about resource projects such as iron ore, oil and gas bed methane and copper. Recently Mr Goldberg has been engaged in establishing a major thermal, cooking oil and gas project in Indonesia requiring major infrastructure and financing.

During the past three years Mr Goldberg held a directorship in ASX listed company Ausmex Mining GP Limited (2 August 2017 – Current)

DIRECTORS' REPORT (CONTINUED)**Alvin Tan - Non-Executive Director**

Alvin Tan has over 17 years corporate experience in Australia and Asia, including mergers, acquisitions, capital raisings and listings (on ASX, the Alternative Investments Market (AIM) of the London Stock Exchange, Kuala Lumpur Stock Exchange (KLSE) and the German Stock Exchange). Mr Tan studied at the University of Western Australia, gaining a Bachelor of Commerce with honours, and subsequently was employed by KPMG in Kuala Lumpur from 1993-1995 as a financial consultant.

Returning to Australia, Mr Tan worked with the stockbroking firm of DJ Carmichael before pursuing other business interests. He was a founding director of various companies which are now listed on ASX.

Mr Tan currently serves on the board of ASX listed Advanced Share Registries Ltd and BKM Management Ltd. He also has interests in companies in exploration, property development, plantation and investment holdings.

During the past three years Mr Tan held the following directorships in other ASX listed companies:

Non- Executive Director of Advanced Share Registry Ltd (11 September 2007-Current) and BKM Management Limited (5 February 2002-Current).

2. COMPANY SECRETARY**Louisa Martino - Company Secretary**

Ms Martino provides company secretarial and accounting services through Transaction Services Pty Ltd. Prior to this she was the Chief Financial Officer of a private company during its stage of seeking investor financing.

Ms Martino previously worked for a corporate finance company, assisting with company compliance (ASIC and ASX) and capital raisings. She also has experience working for a government organisation in its Business Development division where she performed reviews of business opportunities and prepared business case documents seeking Government funding.

Ms Martino previously worked for a major accounting firm in Perth, London and Sydney where she provided corporate advisory services, predominantly on IPOs and mergers and acquisitions and also performed due diligence reviews. She has a Bachelor of Commerce from the University of Western Australia, is a member of the Financial Services Institute of Australasia (FINSIA).

3. DIRECTORS' SHAREHOLDINGS

The following table sets out each current Director's relevant interest in shares of the Company or a related body corporate as at the date of this report.

	Fully Paid Ordinary Shares
--	-------------------------------

Mr Martino	14,578,000
Mr Goldberg	14,504,545
Mr Tan	1,115,984

4. DIVIDENDS

No dividend has been paid during the financial year and no dividend is recommended for the current year.

DIRECTORS' REPORT (CONTINUED)**5. DIRECTORS' MEETINGS**

The number of Directors' meetings either attended in person or by telephone during the financial year and the number of meetings attended by each Director during the financial year are:

	No. Eligible to Attend	No. Attended
Mr Martino	2	2
Mr Goldberg	2	2
Mr Tan	2	2

6. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were oil and gas exploration.

7. REVIEW OF OPERATIONS

The operating loss after income tax of the Group for the year ended 30 June 2017 was \$1,152,093 (30 June 2016: loss \$1,145,321). The loss for the year ended 30 June 2017 includes an impairment provision for exploration expenditure of \$392,741 (30 June 2016: \$338,954). This provision has been raised as a result of the uncertainty surrounding the veracity of the exploration licences held by the Company's 100% owned subsidiary, Coral Sea Petroleum (PNG) Limited ("CSP (PNG)") and their commitments. Once confirmation has been received from the PNG Department of Petroleum and Energy as to the standing of the licences, directors may consider reversing the provision, thereby re-instating the exploration expenditure as an asset on the statement of financial position.

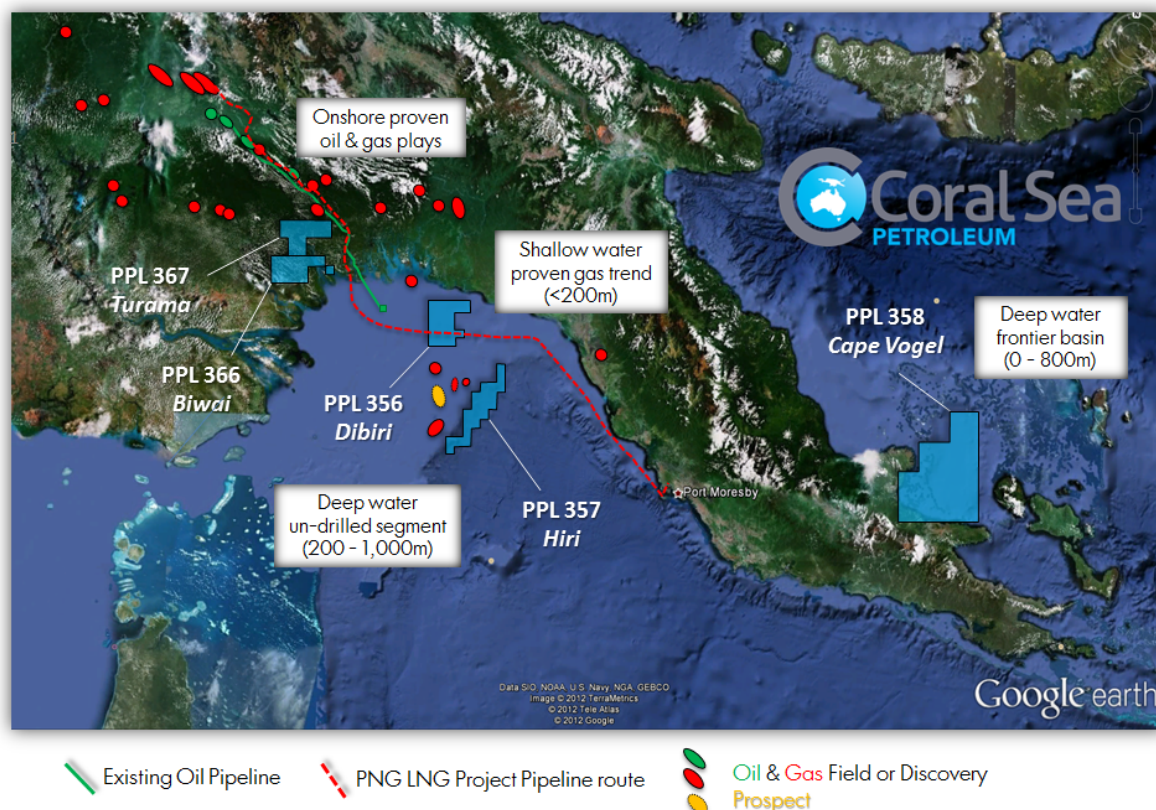
The Group is seeking to build a successful, sustainable, oil and gas entity, with a regional focus. The Group aims to be a significant oil and gas business in Papua New Guinea and plans to achieve this through the pursuit, exploration and development of the prospecting licences, while continuing to identify and target new projects via proven relationships and networks in Papua New Guinea.

During the year the Company established a relationship with Tamarind Management (Tamarind) that has significantly enhanced South Pacific Resource Limited's technical and commercial capacity enabling the Company to invest additional efforts in better understanding of the conventional, unconventional and business development opportunities in PNG while exploring appropriate expansion into neighbouring jurisdictions where the Company's unique skills and experience will enable a competitive advantage.

Conventional Licences

The Group is the 100% holder of five petroleum prospecting licences in Papua New Guinea. PPL 366 & 367 are located onshore and PPL 356 & 357 offshore in the highly prospective Papuan Basin close to discovered oil and gas fields. PPL 358 is in the frontier Cape Vogel Basin where oil and gas indications have been reported (refer Figure 1, below).

Tamarind and the Group continue to review the prospectivity of these blocks and are progressing discussions with the PNG Department of Petroleum and Energy to extend license tenure.

DIRECTORS' REPORT (CONTINUED)*Figure 1 Location of the five PPLs (on Google Earth image)***Unconventional Licences**

In February 2016, The Government of PNG enacted new legislation, The PNG Unconventional Hydrocarbons Act, specifically designed to recognise the requirements of the unconventional sector. The legislation envisaged that the licensing, development and ultimate production from unconventional resources requires different investment timeframes and intensity, different logistics and a different approach to community relations when compared to conventional oil and gas resource developments. The Group continues to support the efforts of the government as the regulations in support of the legislation are finalised.

The Group has applied for a 75% interest in five unconventional licences covering 75,000 km sq coincidental with all of the major conventional oil basins in PNG. Upon completion of the regulations and final license gazettal, the Group will be able to progress the further appraisal on these licences. Commercial and technical discussions with potential industry partners and oilfield service providers is ongoing.

Applications lodged for five unconventional licences covering 75,000km²

Since the introduction of the new legislation, the Company established two 75% owned subsidiaries who have each lodged five applications for Unconventional Hydrocarbon Prospecting Licences. The applications, covering some 75,000km², encompass all of the prospective areas identified in the country-wide screening, including:

- The shales surrounding the producing Foldbelt oil and gas fields, which could potentially provide the resources to extend the lives of the Kutubu, Gobe / SE Gobe, and other diminishing fields in the Foldbelt;
- The shales surrounding the Hides, Juha and P'Nyang gas fields that presently provide gas for the PNG LNG Project, for which a third train is presently being contemplated;
- The highly prospective shales surrounding the Elk / Antelope / Triceratops gas discoveries that comprise the proposed Papua LNG Project which is presently awaiting confirmation of sufficient reserves to enable the project's proponents to reach FID;
- The areas surrounding the proposed Stanley LNG Project in Western Province, which is presently looking for additional reserves sufficient to underpin a small-scale LNG project; and
- A large area of the Foreland where a number of stranded unconventional oil and gas fields presently sit.

DIRECTORS' REPORT (CONTINUED)

In recognition of the Company's ongoing work, and in order to satisfy the original undertakings made by the Government at the time, the Minister for Petroleum and Energy has undertaken that his Department shall review and consider the five South Pacific Resource Limited applications first, for determination by the Petroleum Advisory Board.

Business Development

During the second quarter of the 2017 calendar year, Tamarind and a PNG oil producer commenced a joint review of a late-life producing field. The initial aim of the review for quarters three and four in 2017 is to evaluate field redevelopment and appraisal opportunities within the identified asset. If the study outcome is promising, the review will be expanded to evaluate near-field exploration and development opportunities.

Petroleum Prospecting Licenses

Conventional licences held at the end of the year are as follows:

Petroleum Prospecting License	Location	The Group's equity
PPL 356	Offshore Papuan Basin, PNG	100%
PPL 357	Offshore Papuan Basin, PNG	100%
PPL 358	Offshore Cape Vogel Basin, PNG	100%
PPL 366	Onshore Papuan Basin, PNG	100%
PPL 367	Onshore Papuan Basin, PNG	100%

8. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no other significant changes in the Group's state of affairs during the year ended 30 June 2017.

9. MATERIAL AND AFTER BALANCE SHEET DATE EVENTS

There are no significant events after balance date likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

10. ENVIRONMENTAL ISSUES

The Group is not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board is not aware of any breach of environmental requirements as they apply to the Group.

DIRECTORS' REPORT (CONTINUED)**11. REMUNERATION REPORT (Audited)**

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001. There were no company executives and other key management personnel who were not also Directors of the Company for the financial year.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

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

- A Remuneration Philosophy
- B Remuneration Structure
- C Remuneration Approvals
- D Remuneration and Performance
- E Details of Directors' Remuneration
- F Compensation Options Granted, Exercised or Lapsed During the Financial Year
- G Share-based Compensation
- H Equity Instruments Issued on Exercise of Remuneration Options
- I Other Transactions with KMP and/or their Related Parties
- J Shareholding of KMP

The remuneration arrangements detailed in this report are for Chairman the Managing Director / Chairman and Non-Executive Directors during the financial year as follows:

Domenic Martino	Managing Director and Chairman
Alvin Tan	Non-Executive Director
Joseph Goldberg	Non-Executive Director

The previous remuneration report was considered at the Company's last Annual General Meeting held on 11 November 2016. There were no comments on the previous remuneration report that were discussed at the 2016 Annual General Meeting and shareholders approved the remuneration report.

A Remuneration Philosophy

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Directors of the Company. The performance of the Group depends upon the quality of its key management personnel. To prosper the Group must attract, motivate and retain appropriately skilled directors and executives.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Group does not have an employee share option scheme and no remuneration options or shares have been issued to Directors.

A remuneration consultant has not been employed by the Group to provide recommendations in respect of the remuneration, given the size of the Group and its current structure.

DIRECTORS' REPORT (CONTINUED)**B Remuneration Structure**

There are no formal agreements with Directors. Directors are paid on a month to month basis. All Directors are paid via their director-related entity, with the exception of Mr Martino who is paid directly and whose remuneration includes superannuation.

Executive Director

Mr Martino's employment with the Company is on a month to month basis at \$120,000 plus superannuation for the financial year (2016: \$120,000).

Non-Executive Directors

Mr Goldberg, Non-Executive Director, accrues on a month to month basis at \$36,000 for the financial year (2016: \$120,000).

Mr Tan, Non-Executive Director, accrues on a month to month basis at \$36,000 for the financial year (2016: \$36,000).

No other agreements with key management personnel or their controlled entities during the financial year have been entered into.

The Group currently does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

The following table shows the gross revenue, profit/(losses), share prices and dividends of the Company at the end of the respective financial years.

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
Revenue (\$)	28,511	34,570	13,965	-	2
Net loss (\$)	(1,210,035)	(3,298,274)	(1,566,672)	(1,145,321)	(1,152,093)
Share price (cents)	17.0	7.0	5.6	3.0	1.5
Dividend (\$)	Nil	Nil	Nil	Nil	Nil
Return of capital	Nil	Nil	Nil	Nil	Nil

C Remuneration Approvals

Remuneration of Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors.

Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. The current limit is \$500,000 per annum as resolved at the 2012 Annual General Meeting.

D Remuneration and Performance

Director remuneration is currently not linked to either long term or short term performance conditions. The Board feels that the shares currently on issue to the Directors are a sufficient, long term incentive to align the goals of the Directors with those of the shareholders to maximise shareholder wealth, and as such, has not set any performance conditions for the Directors of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Group in future years.

DIRECTORS' REPORT (CONTINUED)**E Details of Directors' Remuneration**

2017	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Goldberg	36,000	-	-	-	-	-	-	-	-	36,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	192,000	-	-	-	11,400	-	-	-	-	203,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	192,000	-	-	-	11,400	-	-	-	-	203,400	-

* All directors' fees were paid to the Directors' entity, with the exception of Mr Martino.

2016	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Goldberg	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	276,000	-	-	-	11,400	-	-	-	-	287,400	-
Other key management personal											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	276,000	-	-	-	11,400	-	-	-	-	287,400	-

* All directors' fees were paid to the Directors' entity, with the exception of Mr Martino.

DIRECTORS' REPORT (CONTINUED)**F. Compensation Options Granted, Exercised or Lapsed During the Financial Year**

There were no options issued to Directors as part of their remuneration in the past 12 months. There were no compensation options that were exercised or lapsed during the year.

Details of compensation options held directly, indirectly or beneficially by key management personnel and their associated entities during the year ended 30 June 2017 are as follows:

Company Directors and associated entities		Opening Balance \$	Granted as Remuneration \$	Options Acquired \$	Net Change Other \$	Closing Balance \$	Total Vested and Exercisable as at Year End \$	Unvested as at Year End \$
Mr Martino	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
Mr Goldberg	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
Mr Tan	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-

G Share-based Compensation

The Company may reward Directors for their performance and align their remuneration with the creation of shareholder wealth by issuing share options and or shares. Share-based compensation is at the discretion of the Board and no individual has a contractual right to participate in any share-based plan or to receive any guaranteed benefits. During 2017 Mr Martino and Mr Goldberg received shares as payment of past director fees and superannuation outstanding to 30 June 2016. The shares were issued at \$0.10 per share. No share based compensation has occurred in 2016.

(i) Options

There were no options granted to Directors during the financial year, nor were shares issued upon exercise of options. As at the date of this report no options have been exercised.

(ii) Shares

During the financial year, shares were issued to entities related to Mr Martino and Mr Goldberg. These shares were issued in payment of outstanding director fees and superannuation at 10 cents per share as follows:

Domenic Martino:

- Fanucci Pty Ltd as trustee for the Fanucci Trust – 3,100,000 shares in payment of director fees owing; and
- Domenal Enterprises Pty Ltd as trustee for the DVM Superannuation Fund – 228,000 shares in payment of superannuation owing.

Joseph (Yosse) Goldberg:

- Lightglow Enterprises Pty Ltd ATF The Paloma Investments Trust – 3,254,545 shares in payment of director fees owing.

(iii) Link to Performance

The Company does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

H Equity Instruments Issued on Exercise of Remuneration Options

No shares were issued during the financial year to Directors or key management as a result of exercising remuneration options.

There are currently no contractual arrangements with directors, they are engaged on a month to month basis.

DIRECTORS' REPORT (CONTINUED)**I Other Transactions with KMP and/or their Related Parties**

- i) Transaction Services Pty Ltd, a related party of Mr. Martino, provided company secretarial, accounting, office rental and administration services to the Company up to 30 September 2016. From October 2016, Transaction Services Pty Ltd provided office rental and office supplies. Transaction Services Pty Ltd has been paid \$261,652 (2016: \$51,239) inclusive of GST. A total of \$76,719.80 (2016: \$166,352), inclusive of GST, remains due and payable at year end.
- ii) From 1 October 2016, Indian Ocean Corporate Pty Ltd was a related party of Mr Martino, providing company secretarial, accounting and administration services to the Company. Indian Ocean Corporate Pty Ltd has been paid \$10,000, excluding GST (2016: nil). A total of \$99,000 (2016: \$Nil), inclusive of GST, remains due and payable at year end.
- iii) During the year the Company repaid its loan of \$63,500 (2016: Nil) owing to Impact Nominees Pty Ltd, a company related to Mr. Domenic Martino. The loan was interest free.

J Shareholding of KMP

The number of shares in the Company held by directors or other key management personnel of the Company, including their associated entities at the end of the financial year as follows:

Company Directors and Associated Entities		Opening Balance \$	Received During Year on Exercise of Options \$	Net Change Other \$	Closing Balance \$
Mr Martino	2017	11,250,000	-	3,328,000	14,578,000
	2016	11,250,000	-	-	11,250,000
Mr Goldberg	2017	11,250,000	-	3,254,545	14,504,545
	2016	11,250,000	-	-	11,250,000
Mr Tan	2017	423,190	-	692,794	1,115,984
	2016	423,190	-	-	423,190

END OF REMUNERATION REPORT

DIRECTORS' REPORT (CONTINUED)**12. OPTIONS**

During the 2017 financial year, the Company issued 34,850,000 options. These options have various exercise prices and expiry dates as follows:

Expiry Date	Exercise Price	Number or Options
3 February 2017	12.5 cents	9,350,000
3 August 2017	12.0 cents	5,500,000
Various (i)	Various (i)	20,000,000

- (i) On 11 November 2016 the Company issued 20,000,000 options to Tamarind Management on the following terms:
- 2,500,000 unlisted options with an exercise price of 8 cents and a 12 month term after vesting upon achieving a 20 day share price VWAP of 10 cents;
 - 2,500,000 unlisted options with an exercise price of 8 cents and a 12 month term after vesting upon achieving a 20 day share price VWAP of 15 cents;
 - 5,000,000 unlisted options with an exercise price of 10 cents and an 18 month term after vesting upon execution of the first monetisation deal (including for example a strategic alliance, joint venture, farm-in or abandonment deal);
 - 5,000,000 unlisted options with an exercise price of 12 cents and a 24 month term after vesting upon execution of the second monetisation deal (as defined above);
 - 5,000,000 unlisted options with an exercise price of 15 cents and a 36 month term after vesting upon Tamarind being engaged for a period of two years, unless terminated by the Company in which case the options vest immediately.

Option holders do not have any rights to participate in any issues of shares or other interests of the Company or any other entity.

13. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or its controlled entities, or to intervene in any proceedings to which the Company or its controlled entities are a party, for the purposes of taking responsibility on behalf of the Company or its controlled entities for all or part of those proceedings.

14. INDEMNIFYING OFFICERS

During the financial year, the Company paid a premium in respect of a contract insuring all its Directors and current and former executive officers against a liability incurred as such a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

15. NON-AUDIT SERVICES

The Board of Directors, at the date of this report, is satisfied that the provision of non-audit services during the 30 June 2017 financial year was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services does not compromise the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

DIRECTORS' REPORT (CONTINUED)

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below:

Audit services

<i>Pitcher Partners Corporate & Audit (WA) Pty Ltd</i>	\$27,800
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Non-audit services – Taxation

<i>Pitcher Partners (WA) Pty Ltd</i>	\$6,950
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16. **AUDITOR'S INDEPENDENCE DECLARATION** The auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 54.

Signed in accordance with a resolution of the Board of Directors.



Domenic Martino
Director

Date: 29th day of September 2017

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of South Pacific Resources Limited (the “Company” or “SPR”) is responsible for the corporate governance of the Company, having regard to the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (3rd edition). The Board guides and monitors the business and affairs of SPR on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Council’s principles are summarised as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Act ethically and responsibly
Principle 4	Safeguard integrity in corporate reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of security holders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

This statement outlines the main corporate governance practices in place during the year ended 30 June 2017, which comply with the ASX Corporate Governance Council recommendations, except where noted.

This Corporate Governance Statement is current as at 29 September 2017 and has been adopted by the Board.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the Board.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a minimum of three directors, with a majority of non-executive directors;
- the Chairman should be a non-executive director;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise. The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

BOARD SKILLS MATRIX

The Board uses a skills matrix to guide its assessment of the skills and experience of current Directors, and those skills that the Board considers will complement the effective functioning of the Board. Current Directors possess a range of professional skills summarised in the following table:

Industry specific knowledge and expertise	Specific experience, knowledge and expertise gained across the mining and exploration industry
Country specific knowledge and expertise	Specific experience, knowledge and expertise gained from regions and countries related to the Company’s strategy and activities (in particular Asia Pacific) and specific knowledge of Papua New Guinea
Financial acumen	Financial knowledge and experience, including an understanding of the financial statements of organisations the type and size of the Company
Strategic and commercial acumen	An ability to define strategic objectives and implement strategy using analytical and technical expertise
Risk management	An understanding of risk management, including operational, financial reporting and compliance risks
Governance and compliance	Commitment to, and knowledge of, governance (incorporating experience gained from working in publicly listed companies) and sustainability issues

CORPORATE GOVERNANCE STATEMENT (continued)

REMUNERATION COMMITTEE

Given the current size of the Company and size and composition of the Board, the Board believes that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. All decisions regarding remuneration of Directors, executives and key employees are made by the full Board. As the Board has not established a separate remuneration committee, it does not have a remuneration committee charter. The Company has a standing agenda item at each Board meeting to deal with any remuneration related matters that would normally be carried out by a remuneration committee.

The Board will periodically review the Company's circumstances and a remuneration committee will be discussed and formed if deemed necessary by the Directors, should the Company experience a change in structure and Board membership. The Company recognises that formal and transparent remuneration and nomination policies assist in promoting understanding and confidence in remuneration and nomination decisions.

The Company has established a remuneration policy that states:

- non-executive Directors are to receive fees which are determined by the Board within the aggregate limit set by the shareholders at a general meeting; and
- executive Directors' remuneration is determined by the Board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by the size and nature of operations.

Remuneration levels are set by the Board in accordance with industry standards to attract suitable qualified and experienced directors and senior management.

AUDIT COMMITTEE

The Board is of the view that given the current size of the Company and the size and composition of the board, that there would be no efficiencies or other benefits gained by having a separate audit committee. However, the issues relevant to the integrity of the Company's financial reporting typically dealt with by such a committee are dealt with by the full Board. The Company has as a standing agenda item at each Board meeting to deal with any audit related matters that would normally be carried out by an audit committee.

The Company will assess the need to form an audit committee on a regular basis.

As the Board has not established an audit committee, it does not have a formal audit committee charter.

The Company has appointed external auditors who have clearly demonstrated quality and independence. The performance of the external auditors is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

BOARD AND SENIOR EXECUTIVE RESPONSIBILITIES

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Company has a board charter that discloses the specific responsibilities of the Board, and those delegated to senior executives. The responsibility for the operation and administration of the Company is delegated by the Board to the Managing Director. The Board ensures that the Managing Director is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, contractors and consultants. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chairman. If there is no Chairman in place, the matter is to be reported to the independent directors.

CORPORATE GOVERNANCE STATEMENT (continued)

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. Procedures are in place to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

MONITORING OF BOARD AND SENIOR EXECUTIVE PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of the Board and all individual directors is to be reviewed annually by the Chairman or independent directors. Directors whose performance is unsatisfactory are asked to retire.

CODE OF CONDUCT

A formal code of conduct for the Company applies to all directors and employees. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The directors, managers and employees are expected to act with the utmost integrity and objectivity, observe the highest standards of behaviour and business ethics and strive at all times to enhance the good reputation and performance of the Group by acting in the best interests of the Group, being responsible and accountable for their actions and observing the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

The Group has developed an extensive code of conduct which is encapsulated in the corporate governance policies and the Company's terms and conditions of employment. Conduct guidelines apply to all employees which address the values and vision of the Company, business ethics and protocol, policies and procedures, employee entitlements, responsibilities and expectations of both the Group and employees and compliance with relevant legal, shareholder and stakeholder obligations.

All employees have position descriptions that reinforce their duties, rights and responsibilities and all are required to participate in performance reviews to ensure the Group expectation is aligned with employee goals and key performance indicators. Actual performance is reviewed annually and, if necessary, more frequently. The Company encourages regular feedback, review and continuous improvement so as to maintain and enhance the desired corporate culture and standard of ethical behaviour.

SHAREHOLDER COMMUNICATION POLICY

The Board encourages shareholder communication and ensures that shareholders are kept up to date with the Company's activities.

The Company has established procedures to provide shareholders with important information in a timely manner via electronic communication. All information, including financial information, disclosed to the ASX is posted to the Company's website as soon as practicable after release to the market. A copy of the Company's annual report is issued to shareholders who have requested one and is posted on the Company's website as soon as practicable after disclosure to the ASX has been made and confirmation of receipt has been received.

CORPORATE GOVERNANCE STATEMENT (continued)**BEST PRACTICE RECOMMENDATION**

Outlined below are the 8 Principles of Good Corporate Governance and Best Practice Recommendations as outlined by the ASX Corporate Governance Council (3rd edition).

Best Practice Recommendation	Action Taken
<p>Principle 1: Lay solid foundation for management and oversight</p> <p>1.1 A listed entity should disclose:</p> <p>(a) The respective roles and responsibilities of its board and management; and</p> <p>(b) Those matters expressly reserved to the board and those delegated to management</p> <p>1.2 A listed entity should:</p> <p>(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</p> <p>1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their employment.</p> <p>1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair; on all matters to do with the proper functioning of the board.</p> <p>1.5 A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p> <p>1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p>	<p>The Company's corporate governance policies include a board charter that discloses the specific responsibilities of the Board, and those delegated to senior executives. The responsibility for the operations and administration of the Company is delegated by the Board to the Managing Director. Refer page 15, Board and Senior Executive Responsibilities.</p> <p>The Board identifies potential candidates and may take advice from an external consultant. Potential new directors are subject to appropriate and prudent background and screening checks prior to appointment. Board candidates must stand for election at the next general meeting of shareholders following such appointment, where information is set out to shareholders including; biographical details, other material directorships, any material adverse information revealed by checks and details of interest, position, association or relationship that might have influence.</p> <p>The Company does not adhere to letters of appointment for directors. Their service is on a month to month basis. The performance of all senior executives is reviewed annually by the Chairman or independent directors which includes measuring actual performance against planned performance. There were no senior executives employed by the Company during the year.</p> <p>The Company Secretary reports directly to the Board and supports the Board by advising on governance matters, monitoring implementation of policy and procedures, co-ordinating and timely despatch of Board papers and ensuring minutes accurately capture the business conducted at Board meetings.</p> <p>The Company continues to strive towards achieving objectives established towards increasing diversity. It does not propose to establish measurable gender diversity objectives in the future as:</p> <ul style="list-style-type: none"> The Group's Directors and senior executives is a small, stable team of experienced personal. There is no intention to make changes in the near future; and The Group is committed to making all selection decisions on the basis of merit. Setting specific objectives for such a small team would potentially influence decision making to the detriment of the Group. <p>At the end of the reporting period (30 June 2017), the Board of Directors consisted of three men and the Company Secretary is female.</p> <p>Evaluations of the Board, committees and executives (if any) occurred during the year. The Company has not disclosed the basis of such evaluation processes. The Board takes ultimate responsibility for these matters and does not consider disclosure of performance evaluation necessary at this stage.</p>

Best Practice Recommendation	Action Taken
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	
<p>1.7 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> <p>Principle 2: Structure the Board to add value</p> <p>2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p> <p>2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> <p>2.3 A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p> <p>2.4 A majority of the board of a listed entity should be independent directors.</p>	<p>The Managing Director is responsible for annual evaluations of senior executives (if any). There are no senior executives (who are not directors) and therefore no evaluations of senior executives took place during the year, nor has the Company disclosed the basis of such evaluation processes adopted by the Company. The Board takes ultimate responsibility for these matters and does not consider disclosure of performance evaluation necessary at this stage.</p> <p>The Company is not of a size that justifies having a separate nomination committee. However, matters typically dealt with by such a committee are dealt with by the full Board.</p> <p>As part of its usual role, the full Board oversees the appointment and induction process for directors, and the selection, appointment, evaluation and succession planning process of the Company's directors and senior executives. When a vacancy exists or there is a need for a particular skill, the Board determines the selection criteria that will be applied. The Board then identifies suitable candidates, with assistance from an external consultant if required, and will interview and assess the selected candidates.</p> <p>Refer "Board Skills Matrix" above.</p> <p>One (Mr Tan) of the three Board members is considered independent.</p> <p>Not applicable</p> <p>The length of service of each director is set out in the Directors' Report, specifically on page 2 of the Annual Report.</p> <p>The majority of the board is not independent. To assist the Directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chairman or independent directors for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.</p>

Best Practice Recommendation	Action Taken
<p>2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p> <p>2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>The Managing Director and Chairman is Mr Domenic Martino who is not independent.</p> <p>The Group has an informal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit the Group's areas of interest and meet with management to gain a better understanding of business operations. Directors are encouraged to undertake continuing professional education and, if this involves industry seminars and approved education courses, where appropriate, this is paid for by the Company.</p>
<p>Principle 3: Act Ethically and Responsibly</p> <p>3.1 A listed entity should:</p> <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	<p>The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics in conducting its business activities and intends to maintain a reputation of integrity. The Company has subscribed to a general Code of Conduct. The Code of Conduct lists the standards of ethical behaviour that are expected to be met by the Directors and employees of the Company. Such persons are also expected to meet the ethical standards of any professional bodies they belong to. Any breaches of the Code of Conduct are to be reported to the Chairman for notification to the Board. The Board will decide on appropriate disciplinary action and may report breaches to the appropriate authorities.</p> <p>All Directors, managers and employees are required to act honestly, in good faith and in the best interests of the Company while exercising due care and diligence, recognising and respecting their responsibility to shareholders and other stakeholders of the Company. All Directors, managers and employees of the Company are required to act in an ethical manner at all times, avoiding conflicts of interest and observing the principals of independence in decision-making.</p>

Best Practice Recommendation	Action Taken
<p>Principle 4: Safeguard integrity in corporate reporting</p> <p>4.1 The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, who is not the chair of the board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;</p> <p>OR</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner</p> <p>4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p> <p>4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	<p>The Board is of the view that given the current size of the Company and the size and composition of the Board, that there would be no efficiencies or other benefits gained by having a separate audit committee. However, the issues relevant to the integrity of the Company's financial reporting typically dealt with by such a committee are dealt with by the full Board. The Company has as a standing agenda item at each Board meeting to deal with any audit related matters that would normally be carried out by an audit committee.</p> <p>The Managing Director and Chief Financial Officer (CFO) provide a certification to the Board on the integrity of the Company's external financial reports for the half-year and full year. The Managing Director and CFO also provide assurance to the Board that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks. In addition reporting of the management of the Company's material business risks, forms part of routine management reporting to the Board.</p> <p>The Company receives assurances from the Managing Director and CFO in respect of the yearly and half-yearly financial statements. Given the volume of accounting transaction and the size of the management team, quarterly assurances are not considered necessary</p> <p>The performance of the external auditor is reviewed annually. It is both the Company's and the auditor's policy to rotate audit engagement partners at least every five years.</p> <p>The external auditor provides an annual declaration of their independence to the Board. The external auditor is requested to attend annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.</p>
<p>Principle 5: Make timely and balanced disclosure</p> <p>5.1 A listed entity should:</p> <p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>SPR has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. The Board has also adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings.</p> <p>The Managing Director and the Company Secretary have been nominated as the Company's primary disclosure officers.</p> <p>SPR is committed to providing shareholders and stakeholders with extensive, transparent, accessible and timely communications on the Company's activities, strategy and performance.</p>

Best Practice Recommendation	Action Taken
<p>Principle 6: Respect the rights of security holders</p> <p>6.1 A listed entity should provide information about itself and its governance to investors via its website.</p> <p>6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p> <p>6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p> <p>6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	<p>The Company maintains a website that contains its corporate governance policies (www.southpacificresourceslimited.com).</p> <p>The Company does not currently have an investor relations program, however shareholders are able to contact the company secretary or board directly should they have any queries / comments.</p> <p>The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals.</p> <p>The Company does not currently have the facilities to send and receive correspondence electronically with shareholders. The directors will review this option, in light of the cost associated with maintaining the electronic system for communication</p>
<p>Principle 7: Recognise and manage risk</p> <p>7.1 The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p> <p>7.2 The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p> <p>7.3 A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; OR</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>The Group is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a separate risk management committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.</p> <p>The Group has in place policies and procedures, including a risk management framework (as described in the Company's Risk Management Policy), which is developed and updated to help manage these risks. The Risk Management Policy is located on the Company's website.</p> <p>The Company's risk management policy is designed to provide the framework to identify, assess, monitor and manage the risks associated with the Company's business.</p> <p>Main areas of risk include fluctuating commodity prices and exchange rate fluctuation, political and economic climate, exploration and development and continuous disclosure obligations. Regular consideration is given to these matters by the Board.</p> <p>The Company has in place an internal control framework to assist in identifying, assessing, monitoring and managing risk. This framework includes quarterly financial reporting, maintenance of and adherence to the Company's continuous disclosure policy and regular informal operations reports provided by the Managing Director for the Board.</p> <p>The Company's internal control system is monitored by the Board and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations.</p> <p>The Company has a small management team who interact with directors on a regular basis and ensures constant communication of material business risks.</p> <p>The Group does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.</p>

Best Practice Recommendation	Action Taken
<p>7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>The Group undertakes minerals exploration and mining development in PNG and, as such, faces risks inherent to its business, including economic, environmental and social sustainability risks, which may materially impact the Group's ability to create or preserve value for security holders over the short, medium or long term.</p> <p>The Group views sustainable and responsible business practices as an important long term driver of performance and shareholder value and is committed to transparency, fair dealing, responsible treatment of employees and partners and positive interaction with the community.</p>
<p>Principle 8: Remunerate fairly and responsibly</p> <p>8.1 The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; <u>OR</u></p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> <p>8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p> <p>8.3 A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>The Board has not established a formal remuneration committee. The full Board attends to the matters normally attended to by a remuneration committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced directors and senior executives.</p> <p>For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.</p> <p>Non-executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a general meeting.</p> <p>Executive Directors' remuneration is determined by the Board with reference to current market rates and remuneration paid to executives in comparable listed companies determined by the size and nature of operations.</p> <p>Remuneration for all Directors and key management personnel has been disclosed in the Directors' Report.</p> <p>There is no formal equity-based remuneration scheme, however shares and options can be issued as part remuneration. Securities can only be issued to Company Directors under a resolution at a general meeting of shareholders. The Directors and senior executives who participate in equity-based remuneration are prohibited from entering into transactions or arrangements that limit the economic risk of participating in unvested entitlements or entitlements subject to a holding lock.</p>



SOUTH PACIFIC RESOURCES LIMITED

ABN 30 073 099 171

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017	2016
		\$	\$
Continuing Operations			
Other income		2	-
Total other income		-	-
Total Revenues and other income		-	-
Consultancy and other professional fees		(453,363)	(570,907)
Computer and office expenses		(138,294)	(78,653)
Travel and entertainment expenses		(62,732)	(71,810)
Impairment provision against exploration expenditure	7	(392,741)	(338,954)
Net foreign exchange gain / (losses)		22,806	30,245
Other expenses		(127,771)	(115,242)
Total Expenditure	2	(1,152,095)	(1,145,321)
Loss from ordinary activities before income tax expenses		(1,152,093)	(1,145,321)
Income tax expenses relating to ordinary activities	3	-	-
Loss for the year		(1,152,093)	(1,145,321)
Other Comprehensive Income			
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations	11	(15,765)	(52,837)
Total comprehensive loss for the year attributable to the owners of the parent		(1,167,858)	(1,198,158)
Loss per share	12		
Basic and diluted loss per share (cents)		(0.72)	(0.84)
From continuing operations	12		
Basic and diluted loss per share (cents)		(0.72)	(0.84)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 29 to 58.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017	2016
		\$	\$
Current Assets			
Cash and cash equivalents	4	46,341	9,325
Trade and other receivables	5	75,820	68,780
Prepayments	6	2,337	-
Total Current Assets		<u>124,498</u>	<u>78,105</u>
Non-Current Assets			
Exploration expenditure	7	-	-
Computer equipment		3,242	-
Total Non-Current Assets		<u>3,242</u>	<u>-</u>
Total Assets		<u>127,740</u>	<u>78,105</u>
Current Liabilities			
Trade and other payables	8	1,578,955	2,070,106
Borrowings	9	38,038	64,000
Total Current Liabilities		<u>1,616,993</u>	<u>2,134,106</u>
Total Liabilities		<u>1,616,993</u>	<u>2,134,106</u>
Net Liabilities		<u>(1,489,253)</u>	<u>(2,056,001)</u>
Equity			
Issued capital	10	6,772,845	5,139,069
Reserves	11	348,751	263,686
Accumulated losses		(8,610,849)	(7,458,756)
Total Equity		<u>(1,489,253)</u>	<u>(2,056,001)</u>

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 29 to 58.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Ordinary Shares	Option Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Attributable to Members
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	5,139,069	-	141,417	122,269	(7,458,756)	(2,056,001)
<i>Comprehensive expenses for the year:</i>						
Foreign exchange movement	-	-	-	(15,765)	-	(15,765)
Loss for the year	-	-	-	-	(1,152,093)	(1,152,093)
Total comprehensive loss for the year	-	-	-	(15,765)	(1,152,093)	(1,167,858)
<i>Transactions with owners in their capacity as owners:</i>						
18,700,000 shares and one free attaching option issued at \$0.06 per share to provide working capital	1,122,000	-	-	-	-	1,122,000
6,582,545 shares issued at \$0.10 per share in satisfaction of debt owing	658,254	-	-	-	-	658,254
5,500,000 options issued as placement and corporate advisor fee	(60,165)	-	60,165	-	-	-
20,000,000 options issued as consultant incentive options based on key development and corporate milestones	-	-	40,665	-	-	40,665
Capital raising costs	(86,313)	-	-	-	-	(86,313)
Balance at 30 June 2017	6,772,845	-	242,247	106,504	*(8,610,849)	(1,489,253)
Balance at 1 July 2015	4,986,607	55,606	-	175,106	(6,313,435)	(1,096,116)
<i>Comprehensive expenses for the year:</i>						
Foreign exchange movement	-	-	-	(52,837)	-	(52,837)
Loss for the year	-	-	-	-	(1,145,321)	(1,145,321)
Total comprehensive loss for the year	-	-	-	(52,837)	(1,145,321)	(1,198,158)
<i>Transactions with owners in their capacity as owners:</i>						
Transfer option premium reserve to share based payment reserve as options were issued for services (refer note 11)	-	(55,606)	55,606	-	-	-
4,200,000 shares and free attaching options issued at \$0.05 per share	210,000	-	-	-	-	210,000
1,000,000 shares issued at \$0.04 per share	40,000	-	-	-	-	40,000
3,100,000 options issued in lieu of placement fee	(85,811)	-	85,811	-	-	-
Capital raising costs	(11,727)	-	-	-	-	(11,727)
Balance at 30 June 2016	5,139,069	-	141,417	122,269	(7,458,756)	(2,056,001)

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 29 to 58.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$	2016 \$
Cash Flows From Operating Activities			
Cash paid to suppliers and employees		(539,068)	(136,156)
Interest received		2	-
Net cash used in operating activities	4(b)	(539,066)	(136,156)
Cash Flows From Investing Activities			
Exploration expenditure		(467,046)	(62,743)
Acquisition of subsidiaries		-	(6,648)
Net cash used in investing activities		(467,046)	(69,391)
Cash Flows From Financing Activities			
Proceeds from borrowings		37,538	92,500
Repayment of borrowings		(63,500)	(29,000)
Proceeds from issue of shares		1,122,000	110,000
Share capital costs		(52,910)	(4,464)
Net cash from financing activities		1,043,128	169,036
Net increase/(decrease) in cash and cash equivalents		37,016	(36,511)
Cash and cash equivalents at beginning of the year		9,325	45,836
Cash and cash equivalents at end of year	4(a)	46,341	9,325

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 29 to 58.

Notes to the Financial Statements
For the year ended 30 June 2017

PREFACE TO THE NOTES

The notes include information which is required to understand the financial statements and is material and relevant to the operations and financial position and performance of the Company. Information is considered relevant and material if:

- The amount is significant due to its nature or size;
- The amount is important in understanding the results of the Company;
- It helps to explain the impact of significant changes in the Company's business; or
- It relates to an aspect of the Company's operations that is important to its future performance.

The notes are organised in the following sections:

- Basis of preparation;
- Key numbers;
- Capital;
- Risk management;
- Group structure and management;
- Unrecognised items; and
- Other notes

1. Basis of Preparation**a) Reporting Entity**

South Pacific Resources Limited (the "Company" or "SPR") is a company limited by shares, incorporated in Australia and listed on the Australian Securities Exchange. The financial statements for the consolidated entity consist of SPR and its subsidiaries (the "Group")

The nature of the operations and principal activities of the Group are described in the Directors' Report.

b) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

For the purpose of preparing the financial statements, the Group is a for-profit entity.

The financial statements were approved by the Board of Directors on 29 September 2017.

c) Basis of preparation

The financial statements have been prepared on the basis of historic costs, except for the financial assets for which the fair value basis of accounting has been applied.

The Group has 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 current reporting period.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reports for the current or prior periods.

d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Group's functional currency.

Notes to the Financial Statements
For the year ended 30 June 2017

1. Basis of Preparation (continued)

e) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period.

f) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

g) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

A list of controlled entities is contained in Note 15(e).

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the financial report as well as their results for the period then ended.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Subsidiaries are eliminated from the date on which control is established and are de-recognised from the date that control ceases.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

h) Comparative figures

When required by the Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for year.

i) Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred a net loss after tax for the year ended 30 June 2017 of \$1,152,093 (30 June 2016: \$1,145,321), and a net cash outflow from operations of \$539,066 (30 June 2016: \$136,156). As at 30 June 2017 the Group had net current liabilities of \$1,489,253 and net equity of negative \$1,489,253 (30 June 2016: \$2,056,001).

The Group's ability to continue as a going concern and pay its debts as and when they fall due is dependent upon the following:

- The Group raising additional capital via any means available to it inclusive of, but not limited to, placements, option conversions, rights issues, or joint venture arrangement in a timely manner in order to fund the ongoing exploration and operation activities;
- The Group seeking approval to delay exploration activities in certain tenements if sufficient funds are not raised;

Notes to the Financial Statements
For the year ended 30 June 2017

1. Basis of Preparation (continued)

- The Group selling certain tenements in Papua New Guinea if sufficient funds are not raised;
- The non-executive and executive Directors not receiving payment for their fees if the Group is not in a position to pay these fees;
- The accounting, company secretarial and office rental fees will not be paid if the Group is not in a position to pay these fees; and
- A letter of support from a director to ensure the Company has adequate working capital for at least 12 months from the date of this report.

The Directors have reviewed the business outlook and cash flow forecasts after taking into account the above matters and are of the opinion that the use of the going concern basis of accounting is appropriate as the Directors believe the Group will achieve the matters set out above and be able to pay its debts as and when they fall due.

j) New standards and interpretation not yet adopted

Accounting Standards Issued But Not Yet Effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 9: Financial Instruments (December 2014), AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014), AASB 2014-8: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2018).

These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch'
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

Notes to the Financial Statements
For the year ended 30 June 2017

1. Basis of Preparation (continued)

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: Revenue from Contracts with Customers,
AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15,
AASB 2016-3: Amendments to Australian Accounting Standards – Clarifications to AASB 15 and AASB 2016-7: Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities (applicable to for profit entities for annual reporting periods commencing on or after 1 January 2018 and to not-for-profit entities for annual reporting periods commencing on or after 1 January 2019).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's reported revenue, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
 - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to

Notes to the Financial Statements
For the year ended 30 June 2017

1. Basis of Preparation (continued)

ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's accounting for its operating leases, it is impracticable at this stage to provide a reasonable estimate of such impact.

k) Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group engages in two businesses being exploration and development of oil and gas licences and investment management, activities from which it incurs costs. The major results of the Group are from the exploration and development of oil and gas licences, the investment management business is immaterial and consequently the results of the Group are analysed as a whole by the chief operating decision maker.

2. Expenditure

	Note	2017 \$	2016 \$
Provision for exploration expenditure	7	392,741	338,954
Director fees		192,000	276,000
Superannuation expense		11,400	11,400
Accounting and audit fees		88,684	107,738
Travel and accommodation		58,932	71,225
Office rental		132,607	68,535
Company secretarial		60,000	60,000

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- (a) Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) Receivables and payables are stated with amounts of GST included.

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

Commitments or contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements
For the year ended 30 June 2017

3. Income Tax Expenses

	2017	2016
	\$	\$

(a) Income tax expense

The components of income tax expense / (benefit) comprise:

Current tax	-	-
Deferred tax	-	-
	-	-

(b) Reconciliation of income tax expense / (benefit) to prima facie tax payable on accounting profit / (loss)

Accounting loss before tax	(1,152,093)	(1,145,321)
Australian prima facie tax benefit on loss at 30% (2016: 30%)	(211,335)	(280,379)
Papua New Guinea prima facie tax benefit on loss at 30% (2016: 45%)	(134,293)	(63,386)
Effect of expenses that are not deductible in determining taxable profit	1,140	175
Impairment of intercompany loan	-	(336,387)
Tax losses not brought to account	344,489	679,977
Income tax expenses	-	-

(c) Deferred tax assets and liabilities not brought to account

The directors estimate that the potential deferred tax assets and liabilities carried forward but not brought to account as at year end at the Australian and Papua Ne Guinean corporate tax rate of 30% are made up as follows:

Carried forward tax losses	8,419,369	8,843,808
Deductible temporary differences	1,127,771	(52,099)
	9,547,140	8,791,709

Notes to the Financial Statements
For the year ended 30 June 2017

3. Income Tax Expenses (continued)

The Company estimates the Group has accumulated income tax losses of \$29,643,330 (2016: \$28,491,237). The benefit of these losses and timing difference will only be obtained if:

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

The Group expects to have carried forward tax losses, which have not been recognised as deferred assets, as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the relevant jurisdictions. The utilisation of the tax losses is subject to the Group passing the required Continuity of Ownership and Same Business Test rules at the time the losses are utilised. Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences can be utilised.

Deferred income tax is provided on all temporary differences at the balance sheet 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; and
- in respect of taxable 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 balance sheet 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.

Deferred tax assets and deferred tax liabilities shall be offset only if:

- (a) there is a legally enforceable right to set-off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

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

Notes to the Financial Statements
For the year ended 30 June 2017

4. Cash and Cash Equivalents

	2017	2016
	\$	\$
Cash and cash equivalents	46,341	9,325
(a) Reconciliation to cash at the end of the year		
Balance as per above	46,341	9,325
Balance per statement of cash flows	46,341	9,325
(b) Reconciliation of loss after income tax to net cash flows used in operations		
Operating loss after income tax	(1,152,093)	(1,145,321)
<i>Adjustments for non-cash items</i>		
Issue of shares in payment of debt	658,255	-
Issue of shares to consultants	-	40,000
Goodwill on acquisition of subsidiary		6,552
Depreciation	648	-
Provision for exploration expenditure	392,741	338,954
<i>Changes in assets and liabilities</i>		
Trade and other receivables	(9,377)	(8,520)
Trade and other payables	(444,693)	579,070
Accrued expenses	953	76,655
Foreign exchange movement (affect on operating loss)	14,500	(23,546)
Net cash used in operating activities	(539,066)	(136,156)

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Notes to the Financial Statements
For the year ended 30 June 2017

5. Trade and Other Receivables

	2017	2016
	\$	\$
Rental bond	50,000	50,000
GST receivables	25,820	18,780
Total trade and other receivables	<u>75,820</u>	<u>68,780</u>

The Group has no impairments to other receivables or have receivables that are past due but not impaired.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

As at 30 June 2017, the only financial assets are in the 'loans and receivables' category.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

(ii) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a Group's of financial assets or financial liabilities of both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and AASB 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Financial Statements**For the year ended 30 June 2017****5. Trade and Other Receivables (continued)**

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporate any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

(iii) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivable assets could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

(v) De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantively all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantively all the risks and rewards of ownership and continue to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantively all the risks and rewards of ownership of a transferred financial asset, the Group continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the Financial Statements
For the year ended 30 June 2017

6. Prepayments

	2017	2016
	\$	\$
Prepayments	2,337	-
Prepayment of exploration licences	1,154,555	899,689
Impairment provision	(1,154,555)	(899,689)
	<u>2,337</u>	<u>-</u>

An impairment provision has been made against the prepayment of exploration licences given the uncertainty surrounding whether these licences will be granted.

7. Exploration Expenditure

	2017	2016
	\$	\$
Capitalised exploration expenditure	<u>-</u>	<u>-</u>

Movement in carrying values

Capitalised exploration expenditure		
Carrying value at the beginning of the year	-	-
Additions	392,741	96,443
Impairment provision recorded against exploration expenditure	(392,741)	(96,443)
Carrying value at end of Year	<u>-</u>	<u>-</u>

An impairment provision has been made against exploration expenditure given the uncertainty surrounding the veracity of the exploration licences (refer Note 18).

Notes to the Financial Statements
For the year ended 30 June 2017

7. Exploration Expenditure (continued)

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through successful development on the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserve. If ultimately the areas of interest are abandoned or are not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would need to be written down to its recoverable amount;

Accumulated costs in relation to an abandoned area are written off in full against the statement of comprehensive income in the year in which the decision to abandon the area is made.

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

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental rehabilitation obligations) and changes to commodity prices.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments including those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial report:

- The Group has capitalised significant exploration and evaluation expenditure on the basis either that this is expected to be recouped through future successful development or alternatively sale of the areas of interest. If ultimately the areas of interest are abandoned or are not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would need to be written down to its recoverable amount;
- The Group has recorded an impairment provision in the accounts as a result of the uncertainty surrounding the veracity of the exploration licences held by CSP (PNG) and their commitments. Once confirmation has been received from the PNG Department of Petroleum and Energy as to the standing of the licences, directors may consider reversing the impairment provision, thereby re-instating the exploration expenditure as an asset on the statement of financial position; and
- The Group has carried forward tax losses which have not been recognised as deferred tax assets because it is not considered sufficiently probable at this point in time, that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

Notes to the Financial Statements
For the year ended 30 June 2017

8. Trade and Other Payables

	2017	2016
	\$	\$
Trade payables	1,543,489	1,786,236
Accrued expenses	35,466	283,870
Total trade and other payables	<u>1,578,955</u>	<u>2,070,106</u>

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 year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

9. Borrowings

	2017	2016
	\$	\$
Loans payable – related parties	-	64,000
Loans payable – other	<u>38,038</u>	<u>-</u>

The loans payable are from related parties, are unsecured without interest and repayable on demand.

Notes to the Financial Statements
For the year ended 30 June 2017

10. Issued Capital

	2017	2017	2016	2016
	No.	\$	No.	\$
Fully paid ordinary shares	164,515,311	6,772,845	139,232,766	5,139,069

During the year ended 30 June 2017, the following movements of ordinary shares were noted:

	Number of shares	\$
Balance as at 1 July 2016	139,232,766	5,139,069
03/08/2016 - Issue of 18,700,000 shares with 9,350,000 unlisted options at an issue price of \$0.06 per share	18,700,000	1,122,000
24/11/2017 - Issue of 6,582,545 shares at an issue price of \$0.10 per share	6,582,545	658,254
03/08/2016 - Issue of 5,500,000 unlisted options to brokers and consultants in respect of capital raising	-	(60,165)
Capital raising costs	-	(86,313)
Closing balance as at 30 June 2017	164,515,311	6,772,845

Ordinary shares have no par value. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

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

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

11. Reserves

	2017	2016
	\$	\$
Option Premium Reserve		
Opening balance as at 1 July 2016 / 2015	-	55,606
The issue of 7,500,000 options to PNG consultants	-	-
Transfer to Share Based Payment Reserve	-	(55,606)
Closing balance as at 30 June 2017 / 2016	-	-

Notes to the Financial Statements
For the year ended 30 June 2017

11. Reserves (continued)

	2017	2016
	\$	\$
Share Based Payment Reserve		
Opening balance as at 1 July 2016 / 2015	141,417	-
The issue of 5,500,000 unlisted options to brokers and consultants	60,165	-
The issue of 20,000,000 unlisted options to consultants	40,665	-
Transfer from Option Premium Reserve	-	55,606
The issue of 3,100,000 unlisted options as placement and corporate advisor fees	-	85,811
Closing balance as a 30 June 2017 / 2016	<u>242,247</u>	<u>141,417</u>
Foreign Currency Translation Reserve		
Opening balance as at 1 July 2016 / 2015	122,269	175,106
Foreign exchange movement	(15,765)	(52,837)
Closing balance as a 30 June 2017 / 2016	<u>106,504</u>	<u>122,269</u>
Total Reserves	<u>348,751</u>	<u>263,686</u>

Nature and Purposes of Reserves*(i) Option Premium Reserve*

The option premium reserve records the issue of share options for cash.

(ii) Share Based Payment Reserve

The share based payment reserve records the issue of share options in consideration for services rendered.

(iii) Foreign Currency Translation Reserve

The foreign currency translation reserve records the exchange difference resulting from the translation of the CSP (PNG) accounts from United States Dollars.

Share based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value of shares is measured by reference to the quoted market price. Fair value of options is measured by use of valuation techniques. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Foreign currency translation and balances

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

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

Notes to the Financial Statements**For the year ended 30 June 2017****11. Reserves (continued)**

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

12. Earnings Per Share

	2017	2016
	\$	\$
Net loss attributable to the ordinary equity holders of the Company (\$)	(1,152,093)	(1,145,321)
Weighted average number of ordinary shares for basis per share	<u>160,140,373</u>	<u>136,363,175</u>
Continuing operations		
- Basic and diluted loss (cents per share)	<u>(0.72)</u>	<u>(0.84)</u>

The effect of options has been excluded from the calculation of the diluted EPS on the basis that this would indicate a better EPS resulting from dividing the loss by a larger number of securities.

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

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

Notes to the Financial Statements
For the year ended 30 June 2017

13. Share Based Payments

	2017	2016
	\$	\$
(a) Recognised share based payment expenses		
Opening balance	141,417	-
Expense arising from equity settled share-based payment transactions as costs of equity raising	60,165	85,811
Expense recognised for consulting services (expensed as part of impairment to exploration expenditure)	40,665	55,606
Share based payments	<u>242,247</u>	<u>141,417</u>
Being:		
Fair value of issue of options as placement and corporate adviser fees	-	85,811
Fair value of issue of options as placement and corporate adviser fees (Note i)	60,165	-
Booked as cost of equity	<u>60,165</u>	<u>85,811</u>
Fair value of issue of options as consultancy fees	-	55,606
Fair value of issue of options as consultancy fees (Note ii)	40,663	-
Recognised as an expense - Impairment to exploration expenditure	<u>40,663</u>	<u>55,606</u>

Notes:

- (i) In August 2016, the Company issued 5,500,000 unlisted options exercisable at \$0.12 and with an expiry date of 3 August 2017 as broker and corporate advisory fees in respect of the placement.

The fair value of each option when granted was determined as \$0.01094 per option. These values were calculated using an option pricing model applying the following inputs:

Share Price:	\$0.04
Exercise Price:	\$0.12
Expected share price volatility:	141.88%
Vesting date:	3 August 2016
Expiry date:	3 August 2017
Risk-free interest rate:	2.98%
Dividends:	0%

- (ii) In November 2016, the Company issued 20,000,000 unlisted options with various terms and conditions to a consultant as payment for services provided. The options were issued and valued with the following terms and conditions:

Notes to the Financial Statements
For the year ended 30 June 2017

13. Share Based Payments (continued)

Vesting Date	Probability of Vesting	No. of Options	Expiry date (from vesting)	Exercise Price	Expected share price volatility	Value per option
Upon achieving a 20 day VWAP of \$0.10	50%	2,500,000	12 months	\$0.08	142.62%	\$0.01465
Upon achieving a 20 day VWAP of \$0.15	50%	2,500,000	12 months	\$0.08	142.62%	\$0.01465
Upon execution of the first monetisation deal (strategic alliance, joint venture, farm-in)	25%	5,000,000	18 months	\$0.10	151.52%	\$0.02331
Upon execution of the second monetisation deal (strategic alliance, joint venture, farm-in)	25%	5,000,000	24 months	\$0.12	165.86%	\$0.02867
Upon consultant being engaged for a period of 2 years, unless terminated by the company in which case the options vest immediately	100%	5,000,000	36 months	\$0.15	250.60%	\$0.03591
		20,000,000				

The options have been valued using an option pricing model and have been given a total market value of \$281,134.15, of which \$40,664.81 has been booked as an impairment to exploration expenditure for the period ended 30 June 2017. Assuming the vesting conditions are met, a further \$40,664.81 will be booked to exploration expenditure in FY2018, \$69,711.10 FY2019, \$59,029.45 FY2020, \$50,705.96 FY2021, \$43,074.93 FY2022 and \$17,947.89 FY2023. The following inputs were used for each option class:

Share Price:	\$0.040
Exercise Price:	As above
Expected share price volatility:	As above
Vesting date:	As above
Expiry date:	As above
Risk-free interest rate:	2.98%
Dividends:	0%

Notes to the Financial Statements
For the year ended 30 June 2017

13. Share Based Payments (continued)

(b) Options issued as Share Based Payments

Options issued under share based payment arrangements entered into, or existing during the years ended 30 June 2017 and 30 June 2016 are set out below:

	2017		2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the period	10,600,000	\$0.068	7,500,000	\$0.075
Granted during the period	25,500,000	\$0.114	3,100,000	\$0.050
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Closing balance	36,100,000	\$0.101	10,600,000	\$0.068
Exercisable at the end or the period	36,100,000	\$0.101	10,600,000	\$0.068

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value of shares are measured by reference to the quoted market price. Fair value of options are measured by use of valuation techniques. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity settled employee benefits reserve. The volatility is estimated based on the historical volatility of the previous period equal to the life of the option granted.

14. Financial Risk Management

The Group's financial instruments consist of deposits with banks, accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk.

Risk management is carried out by the Board of Directors who monitor, evaluate, and manage the Group's financial risk across its operating units.

Notes to the Financial Statements
For the year ended 30 June 2017

14. Financial Risk Management (continued)

The non-interest bearing financial assets and liabilities of the Group in the table below are due or payable within 30 days.

	Weighted Average Interest Rate %	<6 months \$	>6 - 12 months \$	> 12 months \$	Total Contractual Cash Flows \$	Carrying Amount \$
2017						
Financial assets						
Cash	-	46,341	-	-	-	46,341
Non-interest bearing	-	75,820	-	-	-	75,820
		122,161	-	-	-	122,161
Financial liabilities						
Non-interest bearing	-	1,435,995	-	-	-	1,435,995
		1,435,995	-	-	-	1,435,995

	Weighted Average Interest Rate %	<6 months \$	>6 - 12 months \$	> 12 months \$	Total Contractual Cash Flows \$	Carrying Amount \$
2016						
Financial assets						
Cash	-	9,325	-	-	9,325	9,325
Non-interest bearing	-	68,780	-	-	68,780	68,780
		78,105	-	-	78,105	78,105
Financial liabilities						
Non-interest bearing	-	2,134,106	-	-	2,134,106	2,134,106
		2,134,106	-	-	2,134,106	2,134,106

(a) Capital risk management

The Company's capital includes share capital, reserves and accumulated losses. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to achieve this, the Company may issue new shares in order to meet its financial obligations.

(b) Financial risk management objectives and policies

The Board of Directors monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Notes to the Financial Statements
For the year ended 30 June 2017

14. Financial Risk Management (continued)

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financing loss from defaults. The Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below:

	2017	2016
	\$	\$
Cash and cash equivalents	46,341	9,325
Receivables	75,820	68,780

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

All receivables noted above are due within 30 days. None of the above receivables are past due.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on the following:

- transactions carried out in Papua New Guinea in the local currency, Kina and USD;
- recording of CSP (PNG) financial accounts in USD from 1 July 2013 onwards; and
- translation of the CSP (PNG) financial accounts on consolidation.

The Group has not entered into any forward exchange contracts as at balance date and is currently fully exposed to foreign exchange risk.

Based on the above, the Group is exposed to USD and Papua New Guinea Kina foreign currency risk. The Group's exposure to foreign currency risk for years 2016 and 2015 was as follows:

2017	Kina	USD
Current:		
Cash and cash equivalents	8,329	-
Payables	398,256	117,000
2016		
Current:		
Cash and cash equivalents	1,095	-
Payables	23,120	-

Notes to the Financial Statements
For the year ended 30 June 2017

14. Financial Risk Management (continued)

(e) Interest rate risk exposure

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The weighted average interest rates are nil% for the Company (2016: NIL%).

	2017	2016
	\$	\$
<u>Interest bearing financial instruments:</u>		
Cash and cash equivalents	46,341	9,325
Effective interest rate	-	-
Weighted average effective interest rate	-	-

(f) Fair value

The fair value of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Assets carried at fair value				
Cash and cash equivalents	46,341	46,341	9,325	9,325
Assets carried at amortised cost				
Receivables	75,820	75,820	68,780	68,780
Liabilities carried at amortised cost				
Payables	1,435,995	1,435,995	2,134,106	2,134,106
Fair value hierarchy				

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements
For the year ended 30 June 2017

14. Financial Risk Management (continued)

2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets	-	-	-	-

2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets	-	-	-	-

There were no transfers among levels during the year.

(i) Sensitivity analysis

The Group has performed sensitivity analyses on its exposure to foreign exchange risk on balances as at balance date.

The analysis demonstrates the effect on current year results and equity that would result from a 10% movement in the United States Dollar / Australian Dollar exchange rate. Directors believe that a 10% movement for the 2017 financial year sensitivity gives a reasonable reflection of the possible movement in United States Dollar / Australian Dollar exchange rates in light of current economic conditions.

Since the Group has no investments and no borrowings, exposure to equity price risk and interest rate risk is immaterial in terms of the possible impact on the statement of comprehensive income and total equity. It has therefore not been included in the sensitivity analysis.

Foreign exchange rate risk	2017	2016
	\$	\$
<i>Change in other comprehensive income</i>		
Increase Kina / AUD rate by 10% (2016 Kina / AUD: 10%) – reduction in loss	(16,625)	(947)
Decrease Kina / AUD rate by 10% (2016 Kina / AUD: 10%) – increase in loss	16,625	1,158
Increase USD / AUD by 10% - reduction in loss	(15,211)	-
Increase USD / AUD by 10% - increase in loss	15,211	-

Notes to the Financial Statements
For the year ended 30 June 2017

15. Related Party Disclosure

(a) Key management personnel

Disclosures relating to Directors and executives are set out in Note 16.

(b) Transactions and balances with related parties

Disclosures relating to transactions and balances with related parties are set out in Note 16.

(c) Equity Interests in related parties

Details of the percentage of ordinary shares held by Directors or their related entities are disclosed in Note 16.

(d) Loans from related parties

Refer to Note 9.

(e) Subsidiaries

The consolidated financial report includes the financial information of South Pacific Resources Limited and the subsidiaries listed in the following table:

Name	Country of incorporation and operation	Principal activity	Equity interest		Investment	
			2017 %	2016 %	2017 \$	2016 \$
Indo Pacific Energy Pty Ltd	Australia	Holding company	100	100	2,076,827	2,076,827
Coral Sea Petroleum (PNG) Ltd	Papua New Guinea	Oil and gas exploration	100	100	1	1
Pacific Shale Gas Ltd	Papua New Guinea	Oil and gas exploration	100	100	6,600	6,600
South Pacific Resources Ltd	Papua New Guinea	Oil and gas exploration	100	100	48	48

16. Key Management Personnel Disclosures

(a) Key management personnel

The following persons were key management personnel of South Pacific Resources Limited during the financial year:

(i) Directors

Domenic Martino	Managing Director
Joseph Goldberg	Non-Executive Director
Alvin Tan	Non-Executive Director

No agreements with key management personnel or their controlled entities have been entered into.

Remuneration of Non-Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors.

The Company does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits and, as such, there are no performance related links to the existing remuneration policies.

The key management personnel of the Company are the Directors of South Pacific Resources Limited. Details of the remuneration of the Directors of the Company are set out below:

Notes to the Financial Statements
For the year ended 30 June 2017

16. Key Management Personnel Disclosures (continued)

2017	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Goldberg	36,000	-	-	-	-	-	-	-	-	36,000	-
Mr Tan	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	192,000	-	-	-	11,400	-	-	-	-	203,400	-
Other key management personnel											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	192,000	-	-	-	11,400	-	-	-	-	203,400	-

2016	Short-Term				Post employment			Long-term	Share-based payments	TOTAL	Total performance related
	Salary fees *	Cash bonus	Non-monetary	Other	Super-annuation	Retirement benefits	Termination benefits	Incentive plans	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Mr Martino	120,000	-	-	-	11,400	-	-	-	-	131,400	-
Mr Tan	120,000	-	-	-	-	-	-	-	-	120,000	-
Mr Goldberg	36,000	-	-	-	-	-	-	-	-	36,000	-
Sub-total	276,000	-	-	-	11,400	-	-	-	-	287,400	-
Other key management personnel											
None	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-
Total	276,000	-	-	-	11,400	-	-	-	-	287,400	-

¹ Mr Sandt resigned on 29 April 2015.

* All directors' fees were paid to the Directors' related entities, except for Mr Martino.

Notes to the Financial Statements
For the year ended 30 June 2017

16. Key Management Personnel Disclosures (continued)

	2017	2016
	\$	\$
Short-term employee benefit	192,000	276,000
Post employment benefit	11,400	11,400
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	<u>203,400</u>	<u>287,400</u>

(b) Equity instruments disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

No options were provided to key management personnel as remuneration during the current or previous year.

(ii) Shares issued on exercise of compensation options

No shares were issued on exercise of compensation options for the current or previous year.

(iii) Option holdings

Details of options held directly, indirectly or beneficially by key management personnel and their related parties during the year ended 30 June 2017 are as follows:

Company Directors and Related Parties		Opening Balance	Granted as Remuneration	Options Acquired	Net Change Other¹	Closing Balance	Total Vested and Exercisable as at Year End	Unvested as at Year End
		\$	\$	\$	\$	\$	\$	\$
Mr Martino	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
Mr Goldberg	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
Mr Tan	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-

(iv) Shareholdings

The number of shares in the Company held by directors or other key management personnel of the Company, including their associated entities at the end of the financial year as follows:

Notes to the Financial Statements
For the year ended 30 June 2017

16. Key Management Personnel Disclosures (continued)

Company Directors and Associated Entities		Opening Balance \$	Received During Year on Exercise of Options \$	Net Change Other \$	Closing Balance \$
Mr Martino	2017	11,250,000	-	3,328,000	14,578,000
	2016	11,250,000	-	-	11,250,000
Mr Goldberg	2017	11,250,000	-	3,254,545	14,504,545
	2016	11,250,000	-	-	11,250,000
Mr Tan	2017	423,190	-	692,794	1,115,984
	2016	423,190	-	-	423,190

During the year shares were issued to entities associated with Mr Martino and Mr Goldberg as payment of director fees and superannuation to 30 June 2016. The shares were issued at \$0.10 per share.

(c) Loans to Directors

There were no loans made to the Directors of the Company, including their related parties during the financial year.

(d) Other transactions with key management personnel including their related parties

Transaction Services Pty Ltd, a related party of Mr. Martino, provided company secretarial, accounting, office rental and administration services to the Company up to 30 September 2016. From October 2016, Transaction Services Pty Ltd provided office rental and office supplies. Transaction Services Pty Ltd has been paid \$261,652 (2016: \$51,239) inclusive of GST. A total of \$76,719.80 (2016: \$166,352), inclusive of GST, remains due and payable at year end.

From 1 October 2016, Indian Ocean Corporate Pty Ltd was a related party of Mr Martino, providing company secretarial, accounting and administration services to the Company. Indian Ocean Corporate Pty Ltd has been paid \$10,000, excluding GST (2016: nil). A total of \$99,000 (2016: \$Nil), inclusive of GST, remains due and payable at year end.

During the year the Company repaid its loan of \$63,500 (2016: Nil) owing to Impact Nominees Pty Ltd, a company related to Mr. Domenic Martino. The loan was interest free.

Notes to the Financial Statements
For the year ended 30 June 2017

17. Business Combination

During August 2015, South Pacific Resources Limited acquired 100% of the issued capital of Pacific Shale Gas Limited for \$6,600.

The Group recognised the fair values of identifiable assets and liabilities of Pacific Shale Gas Limited based on the information available as at the date of acquisition as follows:

	Recognised on acquisition \$
Cash and cash equivalents	48
Fair value of identifiable net assets	48
Goodwill	6,552
	<u>6,600</u>
Cost of the combination:	
Purchase price	6,600
Total cost of the combination	<u>6,600</u>

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

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

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

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

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

Notes to the Financial Statements
For the year ended 30 June 2017

18. Commitments and Contingent Liabilities

The Group's commitments in respect of its oil and gas licences as at 30 June 2017 were as follows:

The Group has re-filed for its exploration licences with the Papua New Guinea Department of Petroleum and Energy, which once processed will re-commence commitment requirements. The Group awaits correspondence from the Department in his regard. An impairment provision has previously been raised in the Group accounts in relation to all of the exploration licences held by CSP (PNG) in accordance with Australian Accounting Standard requirements. The Group will review its exploration results and may, in the future, choose to relinquish all or part of one or more PPLs and focus its efforts and funds on the other PPLs.

The Group is also still waiting on the Department to issue the unconventional hydrocarbon prospecting licences that were applied for previously

It should be noted that the Company has not met commitments to November 2016 but applied for variations to the licences. In July 2014 and again on 18 March 2016, CSP (PNG) applied for variations to its licences, essentially reducing the licence commitments to USD 150,000 for each licence except in respect of PPL 358 for which a reduction to USD 200,000 has been requested. The Group awaits correspondence from the Papua New Guinean

During September 2016 the Company has entered into a licence agreement with Transaction Services Pty Ltd, a related party of Domenic Martino, whereby the Company will occupy its premise for five years to 31 August 2021 at a cost of \$11,000 per month (excl GST), increasing at a rate of 4%p.a. As at 30 June 2017, the total commitment outstanding is \$604,954.

There are nil contingent liabilities for the Group as at 30 June 2017 (30 June 2016: nil).

19. Subsequent Events

There are no significant events after balance date likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

20. Dividend

No dividend has been paid during the year and no dividend is recommended for the year.

21. Remuneration of Auditors

	2017	2016
	\$	\$
<i>Current year</i>		
Auditors of the Company – Pitcher Partners Corporate & Audit (WA) Pty Ltd and its associated Pitcher Partners (WA) Pty Ltd		
Remuneration for audit and review of the financial report	27,800	27,500
Remuneration for other services - taxation	6,950	6,700
	<u>34,750</u>	<u>34,200</u>

Notes to the Financial Statements
For the year ended 30 June 2017

22. Parent Entity Information

South Pacific Resources Limited is the legal parent entity of the consolidated group. The following information is provided for the Company:

Financial position

	2017	2016
	\$	\$
Assets		
Current assets	100,248	52,469
Non-current assets	6,600	6,600
Total assets	106,848	59,069
Liabilities		
Current liabilities	734,399	1,267,982
Total liabilities	734,399	1,267,982
Equity		
Issued capital	39,269,745	37,635,969
Option reserve	-	55,606
Share based payment reserve	242,247	85,811
Retained earnings	(40,139,543)	(38,986,299)
Total equity	(627,551)	(1,208,913)
Financial performance		
Loss for the year	(1,153,244)	(919,266)
Other comprehensive income	-	-
Total comprehensive loss	(1,153,244)	(919,266)

Commitments and contingent liabilities of the parent entity

During September 2016 the Company entered into a licence agreement with Transaction Services Pty Ltd, a related party of Domenic Martino, whereby the Company will occupy its premise for five years to 31 August 2021 at a cost of \$11,000 per month (excl GST), increasing at a rate of 4%p.a. As at 30 June 2017, the total commitment outstanding is \$604,954. There were nil commitments and contingent liabilities of the parent entity for the 2016 financial year.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 29 to 58 are in accordance with the *Corporations Act 2001*:

- a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- b) As stated in Note 2(a) the financial statements also comply with International Financial Reporting Standards; and
- c) Give a true and fair view of the financial position of the Group at 30 June 2017 and of their performance for the year ended on that date.

In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Managing Director and Company Secretary to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2017.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Directors



Domenic Martino

Director

29th day of September 2017

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SOUTH PACIFIC RESOURCES LTD**

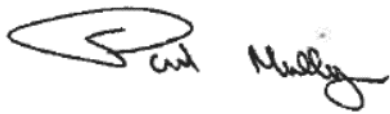
In relation to the independent audit for the year ended 30 June 2017, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of South Pacific Resources Ltd and the entities it controlled during the year.

Pitcher Partners Corporate & Audit (WA) Pty Ltd

PITCHER PARTNERS CORPORATE & AUDIT (WA) PTY LTD



PAUL MULLIGAN
Executive Director
Perth, 29 September 2017

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of South Pacific Resources Ltd "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of 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, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1(i) in the financial report, which indicates that the Group incurred a net loss of \$1,152,093 during the year ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its total assets by \$1,489,253. As stated in Note 1(i), these events or conditions, along with other matters as set forth in Note 1(i), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

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.

Exploration Expenditure

Refer to Note 7

As at 30 June 2017 the carrying value of exploration and evaluation expenditure was \$0 and exploration expenditure impairment charge for the period was \$392,741.

In accordance with *AASB 6- Exploration and Evaluation of Mineral Resources* the Group is required to assess each area of interest to ensure that the carrying value does not exceed its recoverable amount.

Assessing the carrying value of exploration assets involves significant management judgement and subjectivity with regards to the applicability of impairment indicators and the assessment of the recoverable amount of assets which are not in the production phase. The ability of the Group to determine whether the area of interest is economically viable is dependent on advancing feasibility studies to a juncture whereby information is readily available to undertake value in use assessments.

This is a key audit matter due to the nature of the balance and the judgements required in determining recoverable amounts, including the subjective nature of the assumptions and estimates used in the impairment analysis

Our procedures included, amongst others:

Gaining an understanding and documenting the processes and internal controls which the Group accounts for exploration additions and around managements review and assessment of impairment.

Testing a sample of additions to exploration assets by sighting source invoices and assessing that each item was appropriately classified as an exploration addition.

Reviewing impairment charges for the period.

Assessing the appropriateness of the disclosures included within the financial report.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

Going Concern

Refer to Note 1(i)

The Group continues to focus on building capacity to advance the significant conventional and unconventional portfolio held in Papua New Guinea.

Revenue from the Group's operations is difficult to predict and as a result of the investments made by the Group it has been loss making and cash utilising for a number of years.

The Directors have continued to adopt the going concern basis of preparation in preparing the Group's Financial Statements, having taken into account the ability to raise additional capital in equity markets and having prepared detailed cash flow forecasts which support the assertion that the Group will have sufficient resources to continue for a period of at least 12 months from the date these Financial Statements were approved.

The Director's assessment of the Group's going concern ability was an area of audit focus and particular attention was paid to the key assumptions and judgements taken by the Directors that most significantly impacted these cash flow forecasts, including forecasted cost savings of its current operations and the likelihood that the Group would need to raise additional capital.

Our procedures included, amongst others:

Reviewing the cash flow forecasts prepared by the Directors to ensure consistency with those approved by the Board and that they are being prepared in accordance with the Group's pre-determined review and approval process.

We are assessing and challenging managements views that the Group has sufficient cash flow for the next 12 months with contingences in place such as:

- Seeking approval to delay exploration activities in certain tenements;
- Selling certain tenements in PNG if sufficient funds are not raised;
- Obtaining financial support from a director;
- Directors and key suppliers forgoing fees until the Group is in a position to pay these fees.

Assessing the Group's disclosures within the financial report and the appropriateness, including consistency with the assumptions and judgements made by management.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

- 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
SOUTH PACIFIC RESOURCES LTD**

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

Report on the Remuneration Report

Opinion on the Remuneration Report

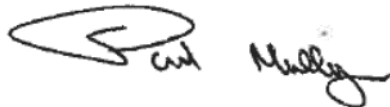
We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of South Pacific Resources Ltd, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group 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.

Pitcher Partners Corporate & Audit (WA) Pty Ltd

PITCHER PARTNERS CORPORATE & AUDIT (WA) PTY LTD



PAUL MULLIGAN
Executive Director
Perth, 29 September 2017

STOCK EXCHANGE INFORMATION

Additional information required by Australian Securities Exchange Limited and not shown elsewhere in this Annual Report is as follows. The information is as at 15 September 2017.

NUMBER OF HOLDERS OF EQUITY SECURITIES

ORDINARY SHAREHOLDERS

There are 164,515,311 fully paid ordinary shares on issue, held by 714 individual shareholders. Each member entitled to vote may vote in person or by proxy or by attorney and on a show of hands every person who is a member or a representative or a proxy of a member shall have one vote and on a poll every member present in person or by proxy or attorney or other authorised representative shall have one vote for each share held.

TWENTY LARGEST SHAREHOLDERS (AS AT 15 September 2017)

Ordinary Shareholders	Fully Paid Ordinary	
	Number	Percentage
HSBC Custody Nominees (Australia) Limited	35,878,745	21.81
Lightglow Enterprises Pty Ltd <The Paloma Investments A/c>	14,504,545	8.82
JP Morgan Nominees Australia Limited	12,469,125	7.58
Adelaide PNG Investments Pty Ltd	5,250,000	3.19
Ms Natalia Albuquerque Silva	3,600,000	2.19
Fanucci Pty Ltd <Fanucci A/C>	3,100,000	1.88
McNeil Nominees Pty Ltd	2,937,175	1.78
Mrs Sara Louise Hawkins	2,537,500	1.54
Australian Executor Trustees Limited <No. 1 A/C>	2,535,205	1.54
Roadhound Electronics Pty Ltd	2,533,668	1.54
Adelaide PNG Investments Pty Ltd	2,500,000	1.52
Cauduro Management Pty Ltd <Yenda Fruit & Case S/F A/C>	2,400,000	1.46
Slade Technologies Pty Ltd <Embrey Family Superfund A/C>	2,237,806	1.36
Mr Andrew Lloyd White <The White Family No 2 A/C>	2,099,999	1.28
Brynwilliams Pty Ltd	2,021,050	1.23
RBJ Enterprises Pty Ltd	2,000,000	1.22
Colvic Pty Ltd	1,858,075	1.13
Innovation Marketing & Finance Pty Ltd	1,791,843	1.09
Mr Colin Weekes	1,751,005	1.06
C4 Shares Pty Ltd <C4 Share A/C>	1,600,000	0.97
	<hr/>	<hr/>
	105,605,741	64.19

STOCK EXCHANGE INFORMATION

VOTING RIGHTS

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

- (a) each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

HOLDERS OF NON-MARKETABLE PARCELS

There are 424 shareholders who hold less than a marketable parcel of shares.

DISTRIBUTION OF SHARE HOLDERS (AS AT 15 September 2017)

	Number of Holders	Number of Shares
1 to 1,000	146	40,729
1,001 to 5,000	153	414,839
5,001 to 10,000	106	917,223
10,001 to 100,000	163	6,167,178
100,001 and over	146	156,975,342
	714	164,515,311

OPTIONS

As at 15 September 2017 the following unlisted options were on issue:

- 7,500,000 unlisted options with an exercise price of 7.5 cents and an expiry date of 19 February 2018
- 4,200,000 unlisted options with an exercise price of \$0.05 and an expiry date of 31 December 2018
- 2,000,000 unlisted options with an exercise price of \$0.05 and an expiry date of 24 February 2019
- 2,500,000 unlisted options with an exercise price of \$0.08 and a 12 month term after vesting upon achieving a 20 day share price VWAP of \$0.10
- 2,500,000 unlisted options with an exercise price of \$0.08 and a 12 month term after vesting upon achieving a 20 day share price VWAP of \$0.15
- 5,000,000 unlisted options with an exercise price of \$0.10 and an 18 month term after vesting upon execution of the first monetisation deal (including for example a strategic alliance, joint venture, farm-in or abandonment deal)
- 5,000,000 unlisted options with an exercise price of \$0.12 and a 24 month term after vesting upon execution of the second monetisation deal (as defined above)
- 5,000,000 unlisted options with an exercise price of \$0.15 and a 36 month term after vesting upon) Tamarind being engaged for a period of two years, unless terminated by the Company in which case the options vest immediately

STOCK EXCHANGE INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at report date, there are 2 shareholders recorded in the Register as Substantial Shareholders:

Fanucci Pty Ltd as trustee for the Fanucci Trust	14,578,000 shares
Lightglow Enterprises Pty Ltd <The Paloma Investments A/c>	14,504,545 shares

SHARE BUY-BACKS

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

RESTRICTED SECURITIES

There are no restricted securities at 15 September 2017.

OTHER INFORMATION

South Pacific Resources Limited, incorporated and domiciled in Australia, is a public listed Company limited by shares.