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HALF YEAR FINANCIAL REPORT

31 DECEMBER 2019

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**CORPORATE INFORMATION****Jupiter Energy Limited**

ABN 65 084 918 481

**Directors**

Geoffrey Gander (Executive Chairman/Chief Executive Officer)  
Baltabek Kuandykov (Non-Executive Director)  
Alexey Kruzhkov (Non-Executive Director)  
Alexander Kuzev (Non-Executive Director)  
Phil Warren (Non-Executive Director)

**Group Secretary**

Emma Wates

**Registered Office & Principal Place of Business**

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**Solicitors**

Steinepreis Paganin  
Level 4,  
16 Milligan Street  
Perth WA 6000

**Auditors**

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

**Bankers**

National Australia Bank Ltd  
UB13.03, 100 St Georges Terrace  
Perth WA 6000

**Share Registry**

Computershare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
Perth WA 6000

Telephone 1300 557 010 (only within  
Australia)

+61 8 9323 2000

Facsimile +61 8 9323 2033

Website [www.computershare.com](http://www.computershare.com)

**Stock Exchange Listing**

Jupiter Energy Limited shares are listed on the  
Australian Securities Exchange under the code  
"JPR".

## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2019.

### Directors

The names of directors who held office during or since the end of the half-year:

Geoffrey Gander  
Baltabek Kuandykov  
Alexey Kruzhkov  
Alexander Kuzev  
Phil Warren

The directors have been in office since the beginning of the period unless otherwise stated.

### Operating Results

This review covers the 6 months from 1 July 2019 to 31 December 2019 and the "Subsequent Events" section includes any significant events that have occurred between 1 January 2020 and the release date of this report.

The consolidated loss for the period after income tax was \$35,386,388 (31 December 2018: \$6,410,770). Included within the loss for the period, was an impairment charge of \$32,592,342 which is a non-recurring expense.

At the end of December 2019, cash levels were \$686,537 (June 2019: \$534,690). Assets decreased to \$22,733,366 (June 2019: \$54,478,718) and equity decreased to negative \$60,234,292 (June 2019: negative \$24,713,787).

### Review of Operations

The six month period to 31 December 2019 ("the Review Period") saw the Company continue to produce oil from wells on the Akkar North (East Block), Akkar East and West Zhetybai oilfields.

Production on the Akkar North (East Block) was from well J-50, production from the Akkar East oilfield was from wells 19, J-51 and J-52 and oil from the West Zhetybai oilfield was produced from the J-58 well. All oil was produced under Trial Production Licences and sold into the domestic market.

### Oil Production and Revenues:

There were approximately 134,000 barrels of oil (2018: 112,750 barrels) produced during the Review Period.

Revenues from oil sales in this Review Period amounted to \$A4,835,623 (\$US3,381,970). Sales in the previous period were \$A4,128,833 (\$US2,992,169).

**Production Report:****Production – Akkar North (East Block) Oilfield (J-50 well):**

The J-50 well is located on the Akkar North (East Block) accumulation and this well resumed production in 2019 after the resolution of a dispute with Jupiter's neighbour over the division of the Akkar North reserves. During the Review Period, approximately 17,500 barrels of oil were produced from the J-50 well.

**Production – Akkar East Oilfield (J-51, J-52, J-53 and # 19 wells):**

During the Review Period, approximately 76,800 barrels of oil (2018: 60,250) were produced from Wells 19, J-51 and J-52 under their respective TPL's. These three wells are located on the northern section of the permit and are part of the East Akkar oilfield.

The J-53 well, which is also located on the Akkar East oilfield, was shut in for the entire Review Period, awaiting further remedial work before potentially coming back onto production. This work will be carried out when the appropriate funding and approvals are in place.

**Production – West Zhetybai Oilfield (J-55, J-58 and J-59 wells):**

During the Review Period, approximately 39,700 barrels of oil (2018: 52,500) were produced from the J-58 well. No oil was produced from the J-59 well. These two wells are located on the southern section of the permit and are part of the West Zhetybai oilfield.

The J-55 well, which is also located on the West Zhetybai oilfield, was shut in for the entire Review Period, awaiting further remedial work before potentially coming back onto production. This work will be carried out when the appropriate funding and approvals are in place.

**Status of Licences:**

As was outlined in the Chairman's Letter and in the Operations Review contained within the 2019 Annual Report released on 30 September 2019, the Company continues to face a range of operational issues in Kazakhstan.

The Trial Production licences that enable wells on the Akkar North (East Block), Akkar East and West Zhetybai oilfields to operate, all expired on 29 December 2019. The Company was in detailed discussions with the Kazakh Ministry of Energy during the months leading up to this expiry date regarding an extension to these Trial Production licences, however the approvals required for such extensions were not obtained by the end of December 2019 and as a result all of the Company's wells were shut in from 29 December 2019.

The Company announced on 10 March 2020 that the Company had received signed Addendums from the Kazakh Ministry of Energy that approved applications to have the Trial Production period for the Akkar North (East Block) and West Zhetybai oilfields extended. This means that the Akkar North (East Block) oilfield (J-50 well) will be able to produce under Trial Production until the end of December 2020 and the West Zhetybai oilfield (J-58 well) will be able to produce under Trial Production until the beginning of September 2021.

During these respective periods, the Company must prepare both oilfields so that their Final Reserve Reports can be completed, which is a critical step for both the oilfields to make the transition from the Exploration phase to Commercial Production.

With regards the Akkar East oilfield, this oilfield is currently moving from the Trial Production phase to Commercial Production. This reflects the fact that five new wells have already been drilled on this field (J-51, J-52, J-53, J-57 and Well 19) and the area has had its Final Reserves Report approved, confirming C<sup>1</sup> classified reserves now account for ~60% of the approved reserves on this oilfield.

Under the new Sub Surface Code, there is a provision for a field to transition from the Exploration phase to Commercial Production under the so called "Preparatory Period", during which time the operator may produce whilst not having the requisite infrastructure in place to achieve 100% gas utilisation.

The Company does not currently have such infrastructure in place and therefore has applied to produce during this transition period. Discussions to date, with the Kazakh Ministry of Energy have indicated that the level of gas emissions that may be approved for the Akkar East field could mean that production is constrained. The Company will keep shareholders updated on this issue and until this matter is finalised, the producing wells on the Akkar East oilfield (currently J-51, J-52 and well 19) remain shut in.

Staffing in Aktau has been reduced to reflect the delays in returning to production as well as the ongoing production profile, with production forecasts taking into account the potential for constrained production from the Akkar East oilfield.

#### Oil Sales:

The Company is in frequent dialogue with various local oil marketing groups and is currently selling its oil into the domestic market through one trader. The trader is based in Aktau and pays for Jupiter's oil on a prepaid basis and is responsible for collection of the oil from the well head. The Company is currently negotiating the signing of a new contract for oil deliveries in 2020.

#### Drilling Report:

There was no drilling activity during the Review period.

#### 2019 Annual General Meeting:

The 2019 Annual General Meeting was held in Perth on Wednesday 27 November 2019 and all Resolutions were passed.

#### Funding and Capital Management:

As at 31 December 2019, the Company had 153,377,693 listed shares trading under the ASX ticker "JPR".

The Company has no options or Performance Shares, listed or unlisted, on issue.

As at 31 December 2019, total Company debt outstanding stood at approximately \$US56.34m (AU\$ 80.42m) through the following funding agreements:

	US\$
2017 Funding Agreement (max \$US5m)	3.92 m
2016 Funding Agreement (max \$US5m)	5.12 m
Refinanced Series B Promissory Note	15.24 m
Refinanced convertible notes	32.06 m
	<b>\$US56.34 m</b>

Subsequent to period end, Promissory Notes with outstanding amounts of US\$41.94m (A\$59.84m), had their repayment dates extended to 1 July 2021. The group is in the process of extending the repayment dates for the remaining promissory notes of US\$14.42m (A\$20.58m) to 1 July 2021.

In terms of available short term funding: As at 31 December 2019, the Company had drawn down \$US3.92m<sup>1</sup> under the \$US5.0m 2017 Funding Agreement meaning \$US1.08m is still available under this funding agreement.

The Company has no further drawdown available under the 2016 Funding Agreement.

The Company has agreed with its major debt provider Waterford Finance and Investment Limited to increase the funding available to it under the 2017 Funding Agreement by a further \$US5.0m.

The Company continues to operate under an agreed Operations Budget. Based on this Operations Budget, using the combined net revenues from oil sales and the remaining debt facility available under the 2017 Funding Agreement (total funds available as at 31 December 2019 being \$US3.36m plus an additional commitment of \$US5.0m), the Company will remain funded for the foreseeable future.

Any drilling of new wells will require access to additional working capital and/or agreement to deferred payment terms with the turnkey drilling operator.

The Company is still reviewing its ongoing funding requirements for 2020 and the directors are exploring a range of options for financing the further development of the Akkar North (East Block), Akkar East and West Zhetybai oilfields during the remainder of 2020 and beyond, to the stage where export oil sales are being achieved and further development of the field is self-funding; these options may include the further issue of new equity, reserve based debt, convertible debt or a combination of these and other funding instruments.

Once the appropriate funding has been secured, the further development of the Akkar North (East Block), Akkar East and West Zhetybai fields, and in particular building of the topside infrastructure on Akkar East including a processing facility and gas separation plant, will be accelerated.

Based on current management forecasts, the Company has sufficient working capital, including its access to the remaining additional funding under the 2017 Funding Agreement, for the foreseeable future.

#### **Subsequent Events:**

There have been no Subsequent Events to report between 1 January 2020 and the date of this Report, other than those matters detailed below:

- Operations Update confirming that the Akkar North (East Block) and West Zhetybai oilfields have had their respective Trial Production Licences extended
- Access to an additional \$5.0 million funding from Waterford Finance and Investment Limited
- In March 2020 Promissory Notes, that had a carrying value of US\$41.94m (A\$59.84m) as at 31 December 2019, had their repayment dates extended to 1 July 2021.

#### **Summary:**

The Company had a productive 6 month period from 1 July to 31 December 2019, notwithstanding the frustrations on not being able to get the necessary extensions to Trial Production Licences before 29 December 2019.

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<sup>1</sup> Including accrued interest

Robust Kazakh domestic oil prices allowed for production of approximately 134,000 barrels of oil, deriving revenues of \$A4,835,623 (\$US3,381,970).

Since acquiring an exploration permit in 2008, independent reserve reports continue to confirm that that Jupiter has now discovered three sizeable oilfields with significant reserves and resources. The goal of developing Jupiter Energy into a full cycle E&P company with a meaningful production profile and sizeable 2P reserves base remains the key objective for the Board and Management and the Company remains confident of continuing to make progress towards achieving this goal during the remainder of 2020.

### **Competent Persons Statement:**

#### **General**

Alexey Glebov, PhD, with over 33 years' oil & gas industry experience, is the qualified person who has reviewed and approved the technical information contained in this report. Alexey PhD's in technical science (1992) and geology science (2006), an Honors Degree in Geology and Geophysics (1984) from Novosibirsk State University and a Gold Medal (1985) from USSR Academy of Sciences. He is a member since 2001 of the European Association of Geoscientists & Engineers (EAGE #M2001-097) and was made an Honorary Oilman in 2011 by the Ministry of Energy of the Russian Federation. Alexey Glebov is qualified in accordance with ASX Listing Rule 5.41.

#### **Kazakh State Approved Reserves**

The information in this report which relates to the C1 and C2 Block 31 reserve estimations is based on information compiled by Reservoir Evaluation Services LLP ("RES"), a Kazakh based oil & gas consulting Group that specialises in oil & gas reserve estimations. RES has used the Kazakh Reserve classification system in determining their estimations. RES has sufficient experience which is relevant to oil & gas reserve estimation and to the specific permit in Kazakhstan to qualify as competent to verify the information pertaining to the C1 and C2 reserve estimations. RES has given and not withdrawn its written consent to the inclusion of the C1 and C2 reserve estimations in the form and context in which they appear in this report. RES has no financial interest in the Group.

#### **Auditor's Independence Declaration**

In accordance with section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from Ernst & Young, the consolidated entity's auditors. The independence declaration is included at page 8 of the financial report.

Dated at Perth on 13 March 2020.

This report is signed in accordance with a resolution of the Board of Directors.



**G A Gander**  
Executive Chairman/CEO





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## Auditor's Independence Declaration to the Directors of Jupiter Energy Limited

As lead auditor for the review of Jupiter Energy Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Jupiter Energy Limited and the entities it controlled during the financial period.

Ernst & Young

Darryn Hall  
Partner  
13 March 2020

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## Independent Auditor's Review Report to the Members of Jupiter Energy Limited

### Report on the half-year financial report

#### Conclusion

We have reviewed the accompanying half-year financial report of Jupiter Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Emphasis of Matter - Material uncertainty related to going concern

We draw attention to Note 1(c) Going concern basis in the financial report. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

#### Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Darryn Hall'.

Darryn Hall  
Partner  
Perth  
13 March 2020

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**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Jupiter Energy Limited, I state that:

In the opinion of the Directors:

- a. The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2019 and the performance for the half-year ended on that date, and
  - ii. complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b. Subject to the matters disclosed at note 1(c), there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



**G A Gander**  
Executive Chairman/CEO

Signed at Perth 13 March 2020

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

		Consolidated	
		31 Dec 2019 \$	31 Dec 2018 \$
Revenue	3	4,835,623	4,128,833
Cost of sales		(1,853,202)	(1,243,446)
<b>Gross profit</b>		<b>2,982,421</b>	<b>2,885,387</b>
Foreign currency gain/(loss)		62,819	(3,069,513)
General and administrative costs		(1,781,642)	(2,499,853)
Impairment expense	5, 6	(32,592,342)	-
<b>Operating gain/(loss)</b>		<b>(31,328,744)</b>	<b>(2,683,979)</b>
Interest income		11,284	9,508
Finance costs	9	(4,068,928)	(3,736,299)
<b>Profit/(Loss) before tax</b>		<b>(35,386,388)</b>	<b>(6,410,770)</b>
Income tax expense		-	-
<b>Profit/(Loss) after income tax</b>		<b>(35,386,388)</b>	<b>(6,410,770)</b>
<b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods net of tax</b>			
Foreign currency translation		(134,117)	(2,084,541)
<b>Total comprehensive loss for the period</b>		<b>(35,520,505)</b>	<b>(8,495,311)</b>
<b>Loss per share attributable to ordinary equity holders of the parent (cents per share)</b>			
Basic loss per share		(23.07)	(4.18)
Diluted loss per share		(23.07)	(4.18)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

	Note	Consolidated	
		31 December 2019 \$	30 June 2019 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	686,537	534,690
Trade and other receivables	5	75,359	79,950
Other current assets		260,716	166,184
Inventories		30,204	27,474
<b>Total Current Assets</b>		<b>1,052,816</b>	<b>808,298</b>
<b>Non-Current Assets</b>			
Trade and other receivables	5	-	2,277,059
Oil and gas properties	7	20,108,796	20,427,153
Plant and equipment		1,078,511	1,169,768
Exploration and evaluation expenditure	6	-	29,336,875
Other financial assets		493,243	459,565
<b>Total Non-Current Assets</b>		<b>21,680,550</b>	<b>53,670,420</b>
<b>Total Assets</b>		<b>22,733,366</b>	<b>54,478,718</b>
<b>Current Liabilities</b>			
Trade and other payables	8	1,802,047	3,347,098
Other financial liabilities	9	80,419,829	183,319
Contract Liability	10	373,342	696,102
<b>Total Current Liabilities</b>		<b>82,595,218</b>	<b>4,226,519</b>
<b>Non-current Liabilities</b>			
Provisions		372,440	347,411
Other financial liabilities	9	-	74,618,575
<b>Total Non-Current Liabilities</b>		<b>372,440</b>	<b>74,965,986</b>
<b>Total Liabilities</b>		<b>82,967,658</b>	<b>79,192,505</b>
<b>Net Deficit</b>		<b>(60,234,292)</b>	<b>(24,713,787)</b>
<b>Equity</b>			
Contributed equity		85,633,935	85,633,935
Share based payment reserve		5,764,014	5,764,014
Foreign currency translation reserve		(27,834,444)	(27,700,327)
Accumulated losses		(123,797,797)	(88,411,409)
<b>Total Deficit</b>		<b>(60,234,292)</b>	<b>(24,713,787)</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

	Issued capital	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Total Equity
	\$	\$	\$	\$	\$
<b>As at 1 July 2019</b>	<b>85,633,935</b>	<b>5,764,014</b>	<b>(27,700,327)</b>	<b>(88,411,409)</b>	<b>(24,713,787)</b>
Loss for the period	-	-	-	(35,386,388)	(35,386,388)
Other comprehensive income	-	-	(134,117)	-	(134,117)
Total comprehensive income/(loss)	-	-	(134,117)	(35,386,388)	(35,520,505)
<b>As at 31 December 2019</b>	<b>85,633,935</b>	<b>5,764,014</b>	<b>(27,834,444)</b>	<b>(123,797,797)</b>	<b>(60,234,292)</b>
<b>As at 1 July 2018</b>	<b>85,633,935</b>	<b>5,764,014</b>	<b>(26,262,620)</b>	<b>(79,483,634)</b>	<b>(14,348,305)</b>
Loss for the period	-	-	-	(6,410,770)	(6,410,770)
Other comprehensive income	-	-	(2,084,542)	-	(2,084,542)
Total comprehensive income/(loss)	-	-	(2,084,542)	(6,410,770)	(8,495,311)
<b>As at 31 December 2018</b>	<b>85,633,935</b>	<b>5,764,014</b>	<b>(28,347,162)</b>	<b>(85,894,404)</b>	<b>(22,843,617)</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

	Consolidated	
	31 December 2019 \$	31 December 2018 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	5,040,187	4,988,062
Payments to suppliers and employees	(3,567,966)	(1,443,139)
Interest received	11,284	9,508
<b>Net cash from operating activities</b>	<u>1,483,505</u>	<u>3,554,431</u>
<b>Cash flows from investing activities</b>		
Payments for exploration and development expenditure	(2,844,638)	(2,748,063)
Payments for plant and equipment	(101,809)	(158,922)
<b>Net cash used in investing activities</b>	<u>(2,946,447)</u>	<u>(2,906,985)</u>
<b>Cash flows from financing activities</b>		
Proceeds from unsecured loan	1,615,018	575,325
<b>Net cash provided by financing activities</b>	<u>1,615,018</u>	<u>575,325</u>
<b>Net increase in cash held</b>	152,076	1,222,771
Cash at the beginning of the financial period	534,690	408,241
Foreign exchange gain/(loss)	(229)	(1,857)
<b>Cash at the end of the financial period</b>	<u>686,537</u>	<u>1,629,156</u>

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Basis of Preparation

The half year financial report of Jupiter Energy Limited for the period 31 December 2019 was authorised for issue in accordance with a resolution of the Directors on 13 March 2019.

Jupiter Energy Limited is a company limited by shares that is incorporated and domiciled in Australia and whose shares are publicly listed and traded on Australian Securities Exchange. Jupiter Energy Limited is a for profit entity.

#### a) Basis of preparation

This financial report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

All monetary values are reported in Australian Dollar unless otherwise stated.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2019 and considered together with any public announcements made by Jupiter Energy Limited during the half-year ended 31 December 2019 and in the subsequent period to the date of this report in accordance with the continuous disclosure obligations of the ASX listing rules.

#### b) Rounding of amounts

The Group has applied the relief available to it under ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191. Accordingly, amounts in the financial statements have been rounded off to the nearest dollar.

#### c) Going Concern

The consolidated financial statements have been prepared on a going concern basis with the Directors of the opinion that the Group can meet its obligations as and when they fall due.

As at 31 December 2019, the Group had a net current liability position of \$81,542,402. This includes promissory notes of \$80,419,829 of which subsequent to period end the repayment dates of \$59,840,187 promissory notes have been extended to 1 July 2021 (refer to Note 12 Subsequent Events for further detail). The Group has available funding of \$US1,077,938 (\$A1,458,447) as at 31 December 2019 under its two existing framework funding agreements (refer to note 9 for additional detail) and subsequent to year end, an additional US\$5,000,000 was made available for the Group to draw down on. The group is able to settle its remaining short term obligations from available funding as, included in the net current liability position balance, are accrued director fees of \$618,077 for which settlement has been deferred and contract liabilities of \$373,342 that will be settled through the physical delivery of oil.

For the Group to be able to continue to carry out intended drilling and evaluation of Block 31 and to have sufficient working capital the group is required within the next 12 months to:

- secure additional funding;
- extend the repayment terms of the remaining promissory notes;

- obtain the necessary approvals to transition the Akkar East oilfield from exploration to commercial production which will result in the re-opening of Wells J-51, J-52 and 19; and
- obtain approval to continue to flare gas in the transition period from exploration to production and search for a viable option to utilize 100% subsequent to the transition period.

Under the Sub Surface Code, once an oil field is in commercial production it must utilize 100% of the gas it emits via means other than flaring. In order to do this, the oil field requires onsite infrastructure to be in place to utilise gas from oil production. Once the requisite infrastructure is in place and approved, the Company will be able to extract and sell oil under the commercial production license that forms part of the Block 31, 2275 contract. Due to the significant infrastructure required, which is not currently in place, should the Group not receive approvals to produce from the field without the infrastructure or find a suitable alternative:

- the value of Block 31 may not be fully realised as intended and it could have implications on asset values currently recognised in the financial statements;
- the promissory and convertible note facility holders may have right to demand repayment prior to their revised maturity date.

The Directors, after consultation with the major shareholders, debt providers, oil traders and the Kazakhstan ministry of oil and gas are confident of being able to secure additional funding, obtain approvals to both transition the Akkar East oilfield from exploration to commercial production and be able to produce and flare gas from the Akkar East oilfield; however there remains uncertainty as to whether all of these matters will be achieved.

In the event that the above does not eventuate, there is a material uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the half-year financial report. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

#### **d) Adoption of new and revised accounting standards**

These consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2019, except for the impact of the new and amended standards and interpretations issued by the Australian Accounting Standards Board ('AASB'). The adoption of the new and amended standards and interpretations, did not result in any significant changes to the Group's accounting policies.

#### ***AASB 16 Leases***

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 Leases. AASB 16 replaces AASB 117 Leases and introduces a single lessee accounting model that requires 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 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 on a cost basis.

Lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of lease payments made.

In accordance with the transition requirements of AASB 16, the Group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening

retained earnings at the date of initial application (i.e. at 1 July 2019). Accordingly, comparative information has not been restated.

The Group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to recognise each right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;
- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value, that is, less than US\$5,000 (AU\$ 7,137);
- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 has not had a material impact on the Group and as such, no adjustment has been made to the accounts.

#### **AASB Interpretation 23 Uncertainty over Income Tax Treatments**

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under AASB 112.

The Group has assessed the impact of AASB Interpretation 23 on the financial statements and concluded that it is immaterial.

#### **e) Changes to critical accounting estimates and judgements**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liabilities affected in future periods.

Refer to the Group's 30 June 2019 financial statements for information on the Group's judgements, estimates and assumptions.

#### **Impairment of Exploration Assets**

During the period the Group applied to transfer the Akkar East oilfield from an exploration phase to Commercial Production under the Block 31 contract. The Group also applied for extensions to trial production licenses for the Akkar North (East Block) and West Zhetybai oilfields. The trial production licences were extended by the Kazakh authorities with the requirement to transition these fields to Commercial production within defined periods. For Akkar North (East Block) this period runs until the end of December 2020 and for West Zhetybai the period ends at the beginning of September 2021. As part of transitioning to Commercial Production a final reserves for each oilfield needs to be submitted and approved by the Kazakh Ministry of Energy. This report defines the approved reserves for production during the Commercial Production period. Any acreage within the oilfield that has no defined reserves will be relinquished as part of this process. Based on the various approvals received or likely to be received from the Kazakh Ministry of Energy and the resulting expected future oil production from the Akkar East, Akkar North (East Block) and West Zhetybai oilfields, the Group assessed whether it was appropriate to continue carry forward capitalised exploration and evaluation costs for the Akkar East, Akkar North (East Block) and West Zhetybai fields. Based on the current budget for the future development of these fields, there is limited expenditure towards identifying and developing new reserves with the focus being on developing existing reserves and therefore capitalised exploration and evaluation costs of \$30,619,326 (2018: nil) were impaired down to nil during the period.

### Cash Generating Unit - Impairment of Assets

The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves operating performance (which includes production and sales volumes).

In measuring the recoverable amount, future cashflows are sensitive to changes in the following key assumptions;

- Forecast commodity prices and exchange rates;
- Production volumes, reserves and timing;
- Recoverable reserves;
- Cost assumptions; and
- Discount rate

In accordance with the Group's accounting policy, the Group's CGU was tested for indicators of impairment as at 31 December 2019 and the recoverable amount was determined through a value in use model. This assessment supported the recoverability of the Block 31 CGU consisting of the Akkar East, Akkar North (East Block) and West Zhetybai oil fields.

### Note 2. Segment Reporting

The Consolidated Entity is exploring for oil and gas in Kazakhstan. Each activity has been aggregated as they have similar economic characteristics and are being conducted in one area of interest. The operations of the Consolidated Entity therefore represent one operating segment under AASB 8 Operating Segments.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the half year financial report.

### Note 3. Revenue

	Consolidated	
	31 December 2019 \$	31 December 2018 \$
Sales of oil	4,835,623	4,128,833
	<b>4,835,623</b>	<b>4,128,833</b>

Revenue pertains solely to the sale of oil. Revenue from the sale of oil is recognised at a point in time when the control of the product is transferred to the customer, which occurs at the well head.

**Note 4. Cash and Cash Equivalents**

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
For the purpose of the Consolidated Statement of Cash Flows for the half year ended 31 December 2019, cash and cash equivalents are comprised of the following:		
Cash at bank	686,537	534,690
	<u>686,537</u>	<u>534,690</u>

**Note 5. Trade and Other Receivables**

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
<b>Current</b>		
Trade debtors	11,009	10,335
Other receivables	64,350	69,615
<b>Total Current</b>	<u>75,359</u>	<u>79,950</u>
<b>Non-Current</b>		
Other receivables	-	2,277,059
<b>Total Non-Current</b>	<u>-</u>	<u>2,277,059</u>
<b>Total Trade and other receivables</b>	<u>75,359</u>	<u>2,357,009</u>

At 31 December 2019, the Group recognised an impairment charge in relation to its exploration and evaluation assets, as disclosed in Note 1 and 6. As a result of this, the Group has exercised judgement and written down the VAT receivable of \$1,973,016 to nil. This was recognised as an expense during the period and included within Impairment expense in the Statement of Profit or Loss and Other Comprehensive Income.

**Note 6. Exploration and Evaluation Expenditure**

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Exploration expenditure carried forward:		
Exploration and evaluation expenditure at cost	-	29,336,875
	<u>-</u>	<u>29,336,875</u>

**Movements during the half-year**

Balance at the beginning of the half-year	29,336,875	28,614,808
Expenditure incurred during the half-year	1,290,282	6,321,648
Transferred to Oil and Gas Properties	-	(4,311,210)
Transferred to Property Plant and Equipment	-	(605,938)
Foreign exchange translation	(7,831)	(682,433)
Impairment expense	<u>(30,619,326)</u>	<u>-</u>
Balance at the end of the half-year	<u>-</u>	<u>29,336,875</u>

Exploration and evaluation assets are capitalised on the basis that the Company continues to hold a current contract ("the Contract") for all areas of interests to which the capitalised costs relate. As at reporting date, based on current operating plans the Group concluded it was no longer appropriate to continue to carry forward the exploration and evaluation expenditure and as a result recognised an impairment charge of \$30,619,326 (2018: nil) during the period.

**Note 7. Oil and Gas Properties**

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
<b>Oil and Gas Properties carried forward:</b>		
Oil and gas properties at cost	22,699,091	22,665,211
Depletion and impairment	<u>(2,590,295)</u>	<u>(2,238,056)</u>
Net Carrying Value	<u>20,108,796</u>	<u>20,427,153</u>
<b>Movements during the half-year</b>	<b>31 December 2019</b>	<b>30 June 2019</b>
	\$	\$
Balance at the beginning of the half-year	20,427,153	17,228,238
Net exchange differences	(8,519)	(629,146)
Change in estimate	44,021	4,311,210
Depletion Charge for the half-year	<u>(353,859)</u>	<u>(483,149)</u>
Balance at the end of the half-year	<u>20,108,796</u>	<u>20,427,153</u>

**Note 8. Trade and Other Payables**

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Trade creditors	1,079,804	1,323,553
Accruals and Other Short Term Liabilities	<u>722,243</u>	<u>2,023,545</u>
	<u>1,802,047</u>	<u>3,347,098</u>

Trade payables are non-interest-bearing and are normally settled on 30-day terms.

**Note 9. Other Financial Liabilities**

Other financial liabilities comprises the following promissory notes as at 31 December 2019:

	Accrued Principal and Interest	
	31 December 2019	30 June 2019
	\$	\$
2017 Funding Agreement (max \$US 5m)	5,598,147	3,746,743
2016 Funding Agreement (max \$US 5m)	7,304,819	6,921,764
Refinanced Series B Promissory Note	21,756,849	20,666,478
Refinanced Convertible Notes	45,760,014	43,466,910
<b>Total</b>	<b>80,419,829</b>	<b>74,801,894</b>

There has been no change to the terms and conditions of any of the promissory notes to that disclosed in the 30 June 2019 Annual Report, as at 31 December 2019, however, subsequent to period end an extension to the repayment date has been granted. Refer to Note 12 Subsequent Events for further details.

Movements in the balance and presentation of other financial liabilities during the half-year were as follows:

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
<b>Current</b>		
<b>Promissory notes (unsecured) - Opening Balance</b>	<b>183,318</b>	-
Change in current/non-current classification <sup>(1)</sup>	74,618,575	171,611
Drawdowns during the financial year	1,615,019	-
Interest accrued	4,065,965	10,534
Impact of foreign exchange	(63,048)	1,174
<b>Promissory Notes (Unsecured) - Closing balance</b>	<b>80,419,829</b>	<b>183,319</b>
<b>Non-Current</b>		
<b>Promissory notes (unsecured) - Opening Balance</b>	<b>74,618,575</b>	<b>62,510,430</b>
Change in current/non-current classification <sup>(1)</sup>	(74,618,575)	(171,611)
Drawdowns during the financial year	-	1,192,369
Interest accrued	-	7,541,612
Impact of foreign exchange	-	3,545,775
<b>Promissory Notes (Unsecured) - Closing balance</b>	<b>-</b>	<b>74,618,575</b>

(1) *The promissory notes issued under the 2016 Funding agreement and the 2017 Funding agreement are repayable on 1 July 2020 and 31 July 2020 respectively (or such later date as agreed by the parties in writing). They have therefore been reclassified as current. Subsequent to period end an extension to the repayment date was granted (Refer to Note 12 Subsequent Events for further detail).*

#### Note 10. Contract Liability

	Consolidated	
	31 December 2019 \$	30 June 2019 \$
Contract Liability	373,342	696,102
	<b>373,342</b>	<b>696,102</b>

The contract liability refers to amounts received in advance for oil sales. As at 31 December 2019, there is approximately 1,489 tonnes of oil to be delivered under the contract (30 June 2019: 2,522 tonnes). This obligation is expected to be fulfilled within the quarter ending 31 March 2019.

#### Note 11. Contingencies and Commitments

There has been no significant change in contingent liabilities or commitments since the last annual reporting date.

#### Note 12. Events Subsequent to Reporting Date

There have been no events subsequent to 31 December 2019, and up to the date of this report which would require disclosure, other than those matters detailed below:

In February 2020, the Company received signed Addendums from the Kazakh Ministry of Energy that approve applications to have the Trial Production period for the Akkar North (East Block) and West Zhetybai oilfields extended. The Akkar North (East Block) oilfield (J-50 well) will be able to produce under Trial Production until the end of December 2020. The West Zhetybai oilfield (J-58 well) will be able to produce under Trial Production until the beginning of September 2021.

On 9 March 2020, the Company received a commitment to increase the facility under the 2017 Framework Agreement by an additional US\$5.0 million, with a repayment date of 1 July 2021.

In March 2020 Promissory Notes, that had a carrying value of US\$41.94m (A\$59.84m) at 31 December 2019, had their repayment dates extended to 1 July 2021.