# SACGASCO LIMITED
**ABN 83 114 061 433**

## ANNUAL FINANCIAL REPORT
## For the year ended 31 December 2016

## CONTENTS

## CORPORATE DIRECTORY

**Directors**
Mr Andrew Childs
Mr Gary Jeffery
Mr Philip Haydn-Slater

**Secretary**
Mr David McArthur

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**ASX Code**
Shares: SGC

**Country of Incorporation and Domicile**
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## CHAIRMAN'S REPORT

Dear Shareholder

The past twelve months has been a highly productive period for your Company, Sacgasco Limited, and I am pleased to be writing to you following the execution of a number of key corporate and operational objectives.

First and foremost, the Board has remained steadfast in its approach throughout the year towards consolidating the Company's position as one of the leading onshore natural gas development plays in the Sacramento Basin.

Through our strategic acquisition of private company Peregrine Limited in January 2017, Sacgasco increased its working interest in the Dempsey Prospect from 55% to 90%, and our working interest in the Alvares Prospect was increased from 40% to 75%. Significantly, the transaction provided Sacgasco with operatorship at both of these compelling assets.

Importantly, we also retained the experienced Sacramento based operating capability provided by Dero Parker's Integrity Management Solutions, Inc.

The Peregrine acquisition, along with a number of other positive initiatives undertaken by your Board, has added significant tangible value to Sacgasco and provided majority working interest and operatorship of two very compelling, drill ready natural gas assets.

The Board believes the next 12 months will be a transformational period for the business as we fast-track the development of our world-class natural gas assets in the Sacramento Basin.

Throughout the past year, the Company has consolidated its development strategy in the Sacramento Basin, targeting near-term gas supply to a Top-10 World Economy with a commensurate high-demand gas market with a significant energy supply deficit. This approach delivers to Sacgasco additional critical and hard-to-replace infrastructure and access to further exploration prospects.

Further highlighting this deficit is the fact that California's average gas demand is approximately 7 billion cubic feet per day (2.5 Tcf per year), with local Californian gas production amounting to less than 10% of that demand.

*"California imports about 90 percent of its natural gas demand, and Californian utilities expect natural gas imports to be about 98 percent in 2025." Natural Gas Outlook for California*

Sacgasco is operating in a region that has produced over 11 Tcf of gas to date and has immediate access to critical infrastructure which provides the foundation for the company's 'discovery thinking' approach to unlocking shareholder value.

A high percentage of operators in the Sacramento Basin are focussed on production from shallower Petroleum Systems which has created significant opportunities for Sacgasco that has the foresight and flexibility to pursue previously under-explored parts of the Basin with under-recognised and unexploited, but proven petroleum systems.

Importantly, operatorship, access to existing infrastructure and the capacity to supply directly into a growing local market has Sacgasco positioned well ahead of the curve in terms of making the transition from explorer to significant producer in the near-term.

*"After recent strategic acquisitions the Sacgasco Joint Venture's production in 2017 is poised to rank in the Top 5 in the Sacramento Basin, but it would only take a flow rate of just 2.5 million cubic feet of gas per day from a combination of existing wells and a well on the Dempsey Prospect to move the JV ranking to 2nd."*

Despite trying industry conditions at times during the past 12 months Sacgasco has remained proactive in its approach to growing the business by executing acquisitions and attracting capital. The Board continues to advance positive discussions with respected industry participants regarding the development of our Sacramento Basin assets with a view to delivering significant value to our shareholders in the coming 12 months.

Post year end, the Company was also very pleased to welcome Mr. Philip Haydn-Slater to the Sacgasco Board as a Non-Executive Director. Philip brings to the Company a wealth of corporate experience and provides access to a number of strategic contacts both in London and globally that will potentially generate significant value for shareholders.

The near-term focus for the Board is firmly on the commencement of drilling at our Dempsey natural gas prospect in the first half of 2017 using a low-cost vertical well development program.

We are also committed to expanding our production operations and expect to progress evaluation of the overlooked Alvares gas discovery in the coming months.

**Positive Future Outlook for Natural Gas Markets**

To further validate Sacgasco's near –term development strategy in the Sacramento Basin, ASX-listed Magnum Gas and Power recently announced its intention to drill an appraisal well at the on-trend Tulainyo gas discovery by September 2017. The proposed drilling will be undertaken on a high-multiple promoted basis, which independently demonstrates the highly-regarded potential of the natural gas plays in the Sacramento Basin.

We continue to be buoyed by the positive market outlook for natural gas, with many experts continuing to predict that global energy demand will grow significantly over the next two decades.

> *According to the BP Energy Outlook published in February 2017, "the gradual transition in the fuel mix is set to continue with renewables, together with nuclear and hydroelectric power, expected to account for half of the growth in energy supplies over the next 20 years.*
>
> *Even so, oil, gas and coal remain the dominant sources of energy powering the world economy, accounting for more than three-quarters of total energy supplies in 2035 (down from 85% in 2015). Natural gas is projected to grow at more than twice the rate of either oil or coal, with its share within primary energy increasing throughout the period from 2016 to 2035.*
>
> *Out of these, gas is the fastest growing fuel (1.6% p.a.), with its share in primary energy increasing as it overtakes coal to be the second-largest fuel source by 2035."*

These views testify to a positive future for natural gas producers, and further reinforces Sacgasco's view that our natural gas assets located onshore California have a high level of intrinsic value ready to be realised by smart production acquisitions and the drill bit.

Finally, the Company is very encouraged by increased capital market and investor interest in the interpreted leverage demonstrated by Sacgasco's natural gas assets and we look forward to a successful 2017.

Concurrently with the publishing of our 2016 Annual Report Sacgasco has adopted a new logo, a stylised Peregrine. We will also be launching our new website at www.sacgasco.com and we will follow with an updated corporate presentation.

Yours faithfully,

**Andrew Childs**
**Chairman**

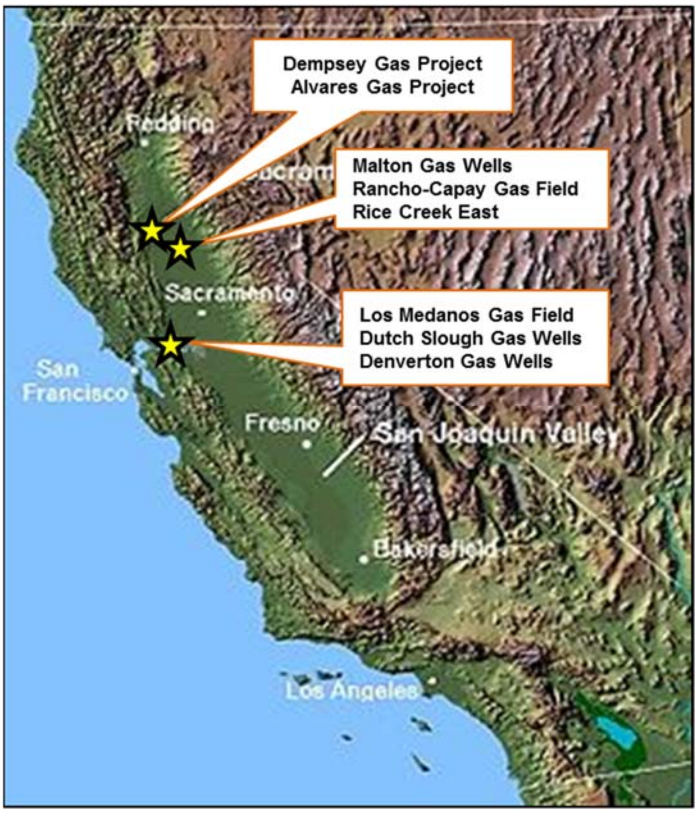
## REVIEW OF OPERATIONS

### Overview

Sacgasco Limited is listed on the Australian Securities Exchange (ASX: SGC). Sacgasco has one operational segment, being the exploration and development of oil and gas interests, onshore California.

### HIGHLIGHTS

- **Sacgasco's growth strategy is aimed at increasing Natural Gas production to underpin its revenue profile as a means to accelerate company growth through the drilling of its world-class exploration and appraisal propects.**
- **Targeting gas supply to 2.5 Tcf per year Californian domestic gas market and growing North American export LNG markets.**
- **Sacgasco increased equity in Dempsey Prospect from 55% to 90% and Alvares Appraisal Prospect from 40% to 75% through the acquisition of Peregrine for issue of 32 million fully paid SGC shares and $3 million of future revenue from gas sales from Dempsey.**
- **Importantly, Sacgasco became operator of all its Sacramento Basin Assets.**
- **Sacgasco has signed a farm-out agreement for 20% Working Interest with Bombora Natural Energy Pty Ltd ("BNE") for its large, natural Dempsey Gas Prospect to provide funding for 32.5% of Dempsey well costs.**
- **Discussions are also progressing with additional potential funding partners for the drilling of the Dempsey Prospect by mid-2017.**
- **Farmout of 6% working interest in Alvares prospect for funding of 8% in initial Alvares well.**
- **Farmout of up to 14% WI in prospects within Area of Mutual Interest ("AMI") for up to $280,000, AMI covers some 250,000 acres in the Sacramento Basin – potentially holding multiple world-class natural gas fields.**
- **In the first quarter of 2017, the Company significantly strengthened its asset base in the Sacramento Basin, California, through Purchase and Sales Agreements ('PSA') to acquire 18 additional operated natural gas wells in the Sacramento Basin of California.**
- **Acquisition of new leases and producing assets in Sacramento Basin are well advanced.**
- **Sacgasco's development plans for large-scale natural gas projects in Sacramento Basin are supported by:**
    - **Geological and Geophysical information that reinforces interpreted multi-Tcf natural gas production potential under SGC Sacramento Basin leases;**
    - **An industry switch to areas with lower cost of operations that are close to infrastructure which enables earlier monetisation of discoveries.**




**SGC's Sacramento gas assets, onshore California**

**Sacgasco's Strategy for Delivering Growth:**

Californian-focused Natural Gas developer Sacgasco Limited (ASX: SGC) ("SGC or the Company") has established a robust portfolio of large-scale natural gas prospects in the Sacramento Basin, located in a community that understands and welcomes the benefits of the Natural Gas industry, close to under-filled gas trunklines connecting to the attractive Californian gas market. California's tech industry dominated economy is expected to continue to grow along with commensurate increased energy consumption.

SGC's development strategy based on funding drilling though a farmout process, represents an opportunity to achieve massively increased near-term gas supply to a domestic market with a major energy supply deficit. California's average gas demand is approximately 7 billion cubic feet per day or 2.5 Trillion cubic feet of gas per year, with Californian gas production only amounting to less than 10% and declining.

SGC's management team remains firmly committed to progressing a number of corporate and operational objectives in order to expand the company's gas business in California, and to commence drilling of the Company's flagship Dempsey natural gas prospect in the first half of 2017.

*Foundation: "The history of oil and gas exploration demonstrates that some of the best places to explore are in and around existing production areas."*

*Revisiting mature areas and applying a truly investigative approach to geology has resulted in huge discoveries of oil and gas over time.*

*Buzzard Oil (North Sea), Zohr Gas (Egypt), Gunslinger Oil (California) Edvard Grieg and Johan Sverdrup Oil (Norway) and Alaska are but a few examples of Major to Super-Giant discoveries in industry-labelled "mature" areas since 2000.*

*Strategy: SGC is targeting substantial gas production to initially supply the 2.5 Tcf per year demand of the local Californian gas market, and subsequent supply to the growing LNG export market in North America. The Company has an extensive portfolio of appraisal and exploration stage gas prospects, including a number of multi-Tcf opportunities in the proven Sacramento Basin.*

*The Sacramento Basin has significant development upside because underlying gas potential has been overlooked by operating companies which produce from the widely recognised existing shallow petroleum systems that have produced over 11 Trillion cubic feet (11 Tcf) gas.*

The Company's key assets are the Dempsey and Alvares natural gas prospects, which have gross unrisked best estimate recoverable prospective resources of 1+TCF* and 2.4 TCF*.

> * Further details were included in the Company's ASX release dated 4 September 2014:
> *"The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially movable hydrocarbons."*

On 3 January 2017, Sacgasco concluded the acquisition of an additional 35% equity in, and operatorship of its flagship Dempsey and Alvares Prospects through the acquisition of private company Peregrine Limited ('Peregrine').

Following this key milestone, the Company plans to undertake a 3,200 metre (~10,500 feet) combined appraisal and exploration well in April-May 2017.

Subsequent to the end of the year, Sacgasco issued 32 million fully paid shares to Peregrine owners. Upon success at Dempsey, Sacgasco will pay the same owners a bonus payment of $3 million derived from future revenue from gas sales from reservoirs beneath the producing Forbes Formation. Such cash flow will be net of royalties and lease level costs attributable to 17.5% working interest (50% of acquired WI) in the first Dempsey Prospect well.

Furthermore, Sacgasco has farmed out a working interest in its operated onshore California Area of Mutual Interest (the "AMI") to private company Bombora Natural Energy Pty Ltd ("BNE"). BNE will fund additional oil and gas leases over highly prospective structures in the Northern Sacramento Basin.

Funding will be provided in two stages to reflect acreage acquisition. Initial funding of $200,000 will focus on 3 Prospects in which Bombora will earn 20%. Bombora will have the options to fund a further $200,000 of leasing to earn a 20% interest in an additional 6 prospects.

## SACRAMENTO BASIN - Onshore Northern California

### Exploratıon, appraısal and new ventures

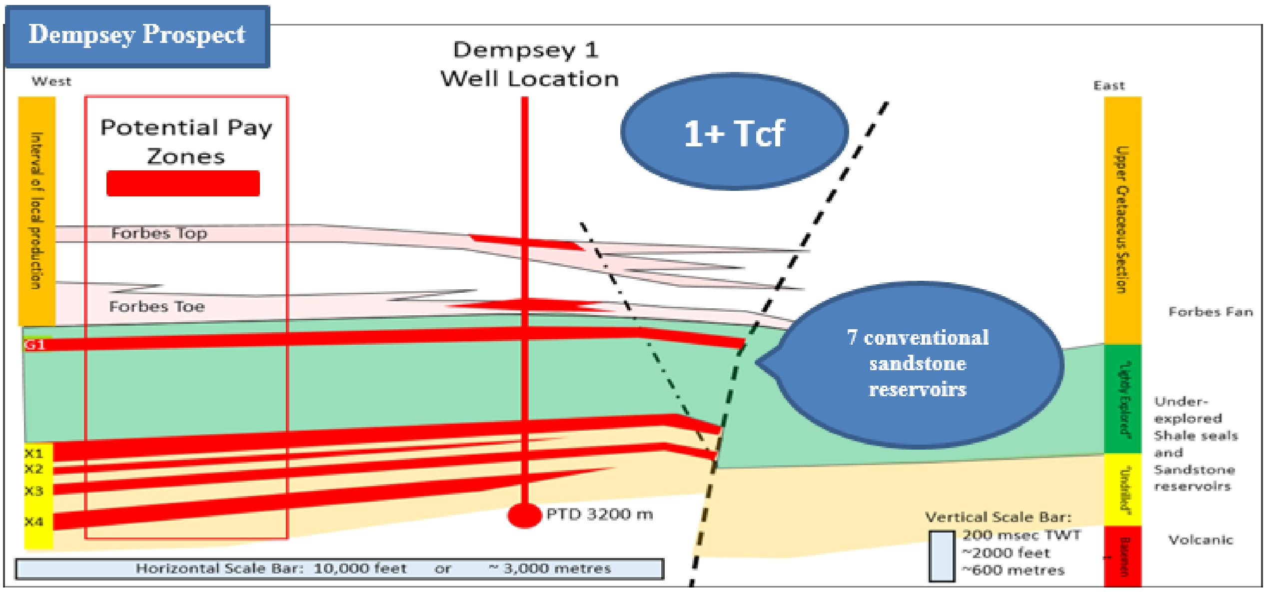
Exploration leases have continued to be maintained within the Sacramento Basin during the year. SGC has a working interest (WI) of between 56% and 90% in these leased lands which cover natural Natural Gas prospects.

During 2016 interpretation of reprocessed seismic and additional geologic information reinforced SGC's belief that both Dempsey and Alvares are world-class, multi-Tcf prospects. Improved technical data and "Discovery Thinking" processes have also been used to identify additional prospects for exploration drilling.

Mapping completed to date has resulted in the identification of a portfolio of additional gas prospects and leads, with best estimate recoverable Prospective Resources of gas ranging from 500 Bcf to over 2 Tcf.

### Dempsey Natural Gas Prospect – Appraisal / Exploration stage (SGC 90% WI)

The Dempsey natural gas prospect is SGC's flagship prospect and remains the focus of the Company's near-term development plans. The Dempsey prospect has the potential for near-term, natural gas production because it is located below existing SGC production facilities.




**Dempsey Prospect Schematic Cross-section**

The Dempsey prospect has a Proposed Total Depth ('PTD') of 3,200 metres and is anticipated to take around 45 days to drill with costs estimated to be between US$3 and US$5.3 million. This range of costs covers the costs of just drilling an exploration well, up to the costs of also completing the well ready for productiion through Company owned existing pipeline access facilities.

The total (100%) unrisked recoverable Prospective Resource, from seven interpreted reservoir zones, on a best estimate deterministic basis in the Dempsey prospect is over 1 Tcf (i.e. over 167 million barrels of oil equivalent (boe) – using an industry standard energy based conversion factor of 6 mcf per boe).

The Dempsey #1 well will be located within a proven gas field area with existing joint venture owned pipeline and meter station infrastructure easily accessible. Should commercial quantities of gas be found, these existing production facilities with capacity of up to 20 mmcfgpd, and which are connected to the interstate pipeline networks, would be used to sell the gas with minimum delay. Such potential flows, if achieved could result in up to US$60,000 per day of gross well production revenue if gas prices were similar to today's prices.

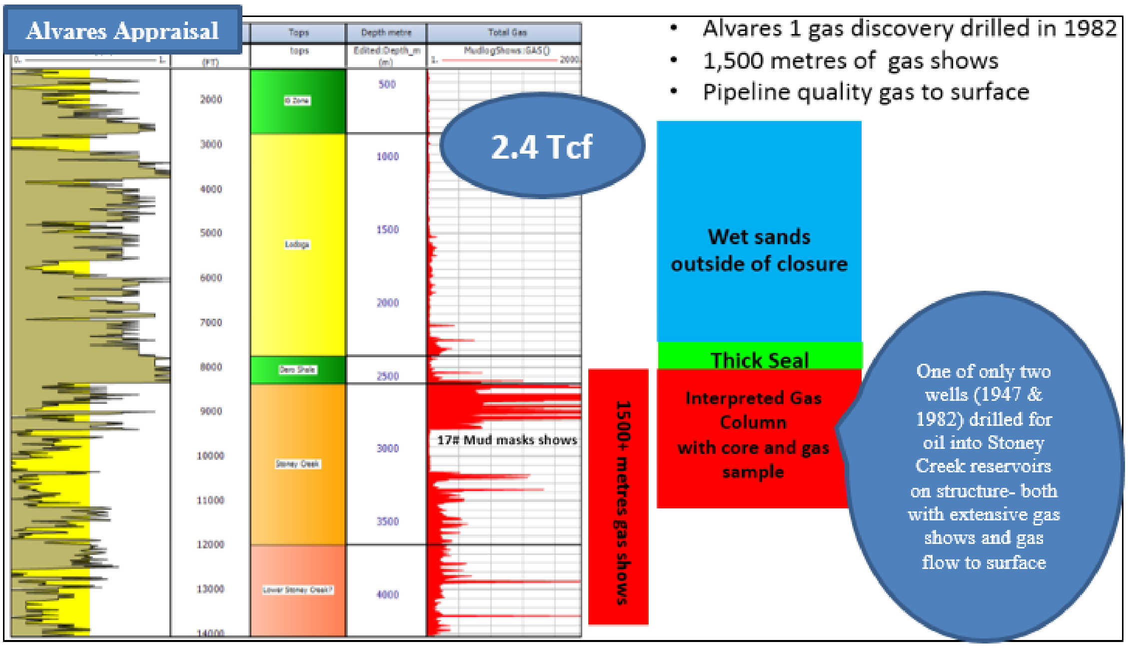
**Alvares Natural Gas Prospect – Appraisal stage (SGC 69% WI)**
The Alvares natural gas prospect is located close to large Natural Gas pipelines and on trend 35 miles from the similarly structured multi-Tcf Tulainyo Project (based on the Shell James 1 well drilled in 1947), mapped by Cirque Resources and involving California Resources Corporation (NYSE: CRC).

The Tulainyo Prospect contains Boxer / Ladoga (Dempsey Target) and Stoney Creek (Alvares Gas Sands) targets. Reportedly the well was terminated before 1,800 metres for mechanical reasons, but nevertheless found multiple stacked gas bearing natural reservoirs on a 50 square mile four-way closure on 2D sesimic.

İn February 2017 Bombora Natural Energy announced (via ASX-listed Magnum Gas and Power) it was negotiating an excluive farm-in to redrill the Tulainyo well on a pay 100% of well costs to earn 10% working interest (10 for 1) basis.

The Alvares prospect contains a total (100%) unrisked recoverable prospective natural gas resource on a best estimate deterministic basis of approximately 2.4 Tcf (400 million boe).

Alternative methods of evaluating the gas flow potential using the existing Alvares well bore are being investigated further.




**Alvares Appraisal Project Summary**

Additional prospects and leads have been mapped and leasing activity is underway as part of the Company's growth strategy.

## PRODUCTION UPDATE

**Rancho - Capay Gas Field (SGC 90% WI in 4 wells) & Los Medanos Gas Field (SGC 90% WI in 3 wells)**

SGC acquired a 40% working interest in gas production rights in the above fields in the Sacramento Basin onshore California in late 2012 primarily as a means to acquire leases for further exploration and access an extensive 3D seismic database to generate new exploration opportunities. SGC acquired an additional 15% WI in these wells effective 1 January 2014.

Following the end of the reporting year SGC acquired additional production in four fields in order to have access to additional production and exploration prospects. No production is attributable to 2016 from the acquisitions.

SGC continues to evaluate production acquisition opportunities that could provide short term cash flow and strategic longer term access to exploration leases, and production facilities and pipelines connected to the premium California gas market.

| *Production* | *Full Year 2016* | *Full Year 2015* |
|---|---|---|
| ***Gross mcf * (100%)*** | *57,143* | *155,483* |
| ***SGC WI mcf*** | *31,429* | *85,515* |
| ****mcf – Thousand Cubic feet gas*** | | |

Production was reduced during 2016 due to reduced availability of pipelines while maintenance was performed and also natural production decline.

## PROSPECT PORTFOLIO

As outlined above, SGC's current focus is unlocking the underlying value from its natural gas prospects in the Sacramento Basin. At this point, the Company believes shareholders' interests are best suited to a singular focus on the largest value adding projects in the Sacramento Basin, in particular the early monetisation of the Dempsey prospect.

| ***SACGASCO LIMITED - Tenement / Project List ( at 30 March 2017)*** | | | |
|---|---|---|---|
| **Project name** | **Location** | **Working Interest (WI)** | **WI after Farmout** |
| | | | |
| ***Dempsey Prospect*** | *Sacramento Basin Onshore Northern California* | 90% | 70% |
| ***Alvares Prospect*** | *Sacramento Basin Onshore Northern California* | 75% | 69% |
| ***California AMI Prospects*** | *Sacramento Basin Onshore Northern California* | 70% | 56% |
| ***Rancho-Capay Gas Field*** | *Sacramento Basin Onshore Northern California* | 90% | 70% |
| ***Los Medanos Gas Field*** | *Sacramento Basin Onshore Northern California* | 90% | 70% |
| **Tenements acquired after the period** | | | |
| ***Malton Field*** | *Sacramento Basin Onshore Northern California* | 70%* | NA |
| ***Dutch Slough Field*** | *Sacramento Basin Onshore Northern California* | 70%* | NA |
| ***Denverton Field*** | *Sacramento Basin Onshore Northern California* | 70%* | NA |
| ***Rancho-Capay & East Rice Creek Fields*** | *Sacramento Basin Onshore Northern California* | 90%* | NA |

**PROSPECT PORTFOLIO (continued)**

**Notes to Tenement / Project List:**

NA: Not applicable- not affected by farmout; * Preliminary-represents Sacgasco working interest in the related acquisition transactions-detailed working interests are under review for these post–reporting period transactions.

**Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions:**

The company also acquired 100% of the Arnaudo Prospect as part of the Peregrine acquisition. It is currently not considered material relative to the other company prospects.

Working interest may vary across individual Prospects and WI above reflects the WI in the majority of leased lands.

**Leases:**
US exploration is conducted on leases grant by Mineral Right owners, in SGC's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties are paid to mineral right owners in lieu of rentals. SGC has not listed all it leases as it is impractical and not meaningful for potential project value assessment in a natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to SGC shareholders.

**Competent Persons Statement**

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Gary Jeffery, Managing Director of Sacgasco Limited. He is a qualified geophysicist with over 43 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. Mr Jeffery consents to the inclusion of the information in the form and context in which it appears.

### The Financial Year

On 5 January 2016, an unsecured loan totalling $100,000 was advanced to the Company by a director. The initial term of the loan was for six months with interest payable at 10% per annum. On 5 July 2016, the loan was extended for a further six months.

On 22 January 2016, Alamo Creek Oil LLC, and on 30 September 2016, Excelaron LLC, associated companies based in California, USA were dissolved.

Placement of Shares

On 13 January 2016, the Company issued 1,503,871 fully paid shares [(1)] – 1,084,246 shares at 6 cents each with a value of $65,055 in satisfaction of directors' fees as approved by shareholders on 27 May 2015; and 419,625 shares at 4 cents each with a value of $16,785 in satisfaction of services provided by a vendor.

On 7 April 2016, the Company issued 1,481,251 fully paid shares [(1)] – 1,171,876 shares at 6 cents each with a value of $70,313 in satisfaction of directors' fees as approved by shareholders on 27 May 2015; and 309,375 shares at 3.2 cents each with a value of $9,900 in satisfaction of services provided by a vendor.

On 5 July 2016, the Company issued 1,481,251 fully paid shares [(1)] – 1,171,876 shares at 3.6 cents each with a value of $37,500 in satisfaction of directors' fees as approved by shareholders on 20 May 2016; and 309,375 shares at 3.2 cents each with a value of $9,900 in satisfaction of services provided by a vendor.

On 20 September 2016, the Company completed the placement of 17,397,547 fully paid ordinary shares at 2.5 cents each to raise $434,938 (before costs) in working capital. The Company also issued 8,698,772 free-attaching options, exercisable at 3 cents each, on or before 30 September 2017.

On 10 October 2016, the Company issued 1,151,422 fully paid shares [(1)] – 897,436 shares at 3.6 cents each with a value of $35,005 in satisfaction of directors' fees as approved by shareholders on 20 May 2016, and 253,846 shares at 3.9 cents each with a value of $9,900 in satisfaction of services provided by a vendor.

On 10 January 2017, the Company issued 720,259 fully paid shares [(1)] – 549,569 shares at 3.6 cents each with a value of $19,784 in satisfaction of directors' fees as approved by shareholders on 20 May 2016, and 170,690 shares at 5.8 cents each with a value of $9,900 in satisfaction of services provided by a vendor.

On 31 January 2017, the Company issued 7,598,773 fully paid shares on conversion of options exercisable at 3 cents each.

On 31 January 2017, the Company issued 32,000,000 fully paid shares pursuant to the acquisition of Peregrine Limited, as approved by shareholders on 9 January 2017.

On 31 January 2017, the Company issued 22,000,000 options to directors, employees and consultants for nil value. Options are exercisable at 15 cents each on or before 31 December 2019.

On 28 March 2017, the Company announced that it had placed 26,453,846 fully paid ordinary shares at 6.5 cents each to raise $1,719,500 (before costs).

[(1)] The issue price of the shares is the mathematical average of the VWAP for the first and the last 5 trading days in the calendar quarter. However, the fair value of the shares issued to directors is the share price at the date the share plan was approved by shareholders (6 cents each at AGM held on 27 May 2015 and 3.6 cents each at AGM held on 27 May 2016).

Board Changes

Effective 31 July 2016, Mr Aqeel Virk resigned as a Director of the Company due to an increased work load associated with his appointment to a Business Development role with a North American Listed E&P company. In line with the Company's strategy to minimise ongoing operating costs, the Company did not fill the vacancy created by this resignation.

On 15 November 2016, Mr Keith Martens resigned as a Director of the Company and Mr David McArthur was appointed as a non-executive Director. Mr McArthur is currently the Company's Company Secretary and has significant corporate experience as a director and company secretary of a number of listed entities.

On 1 February 2017, Mr Philip Haydn-Slater was appointed a non-executive Director and David McArthur resigned as non-executive Director of the Company.

Corporate Activity

SGC Managing Director Gary Jeffery presented to shareholders and investors at the annual Good Oil Conference held in Perth, Western Australia (Refer ASX release dated 14 September 2016).

## Financial results and condition

The loss for the year ended 31 December 2016 attributable to members of Sacgasco Limited after income tax was $1,137,120 (2015 restated: $1,193,888). This was following the board's decision to change its accounting policy for exploration to be expensed as incurred.

The Group has a working capital deficit of $692,188 (2015: deficit $128,570) and net cash inflows of $58,344 (2015: outflow of $53,911).

The Company remains acutely aware of the current economic climate and continues to implement cost reduction measures across the business.

***Summary of results***

| | 2016<br>$ | 2015<br>(Restated)<br>$ |
|---|---|---|
| Other income | 185,089 | 372,137 |
| Loss before income tax | (1,134,923) | (1,192,671) |
| Income tax expense | (2,197) | (1,217) |
| Loss attributable to owners of Sacgasco | (1,137,120) | (1,193,888) |
| Other comprehensive loss | (9,351) | (34,965) |
| Underlying loss per share (cents) | (0.98) | (1.19) |
| Shares in issue at reporting date | 130,110,984 | 107,095,783 |
| Weighted average number of shares | 115,477,089 | 100,080,631 |

## Planned Activity - 2017

The Company will seek to implement the growth strategies as outlined in the review of operations above.

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of Sacgasco Limited (the Company) and of the Group, being the Company and its subsidiaries, for the financial year ended 31 December 2016 and the auditor's report thereon.

### 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

| Name and status | Experience, qualifications, special responsibilities and other directorships |
|---|---|
| **Andrew Childs**<br>Non-executive Chairman<br><br>Appointed: 25 November 2008<br><br>Interest in shares and options:<br>Shares: 5,195,764<br>Options: 8,000,000 | Mr Childs graduated from the University of Otago, New Zealand in 1980 with a Bachelor of Science in Geology and Zoology. Having started his professional career as an Exploration Geologist in the Eastern Goldfields of Western Australia, Mr Childs moved to petroleum geology and geophysics with Perth-based Ranger Oil Australia (later renamed Petroz NL). He gained technical experience with Petroz as a Geoscientist and later commercial experience as the Commercial Assistant to the Managing Director.<br><br>Mr Childs is also Principal of Resource Recruitment and Managing Director of International Recruitment Services Pty Ltd. |
| **Gary Jeffery**<br>Managing Director<br><br>Appointed: 24 October 2013<br><br>Interest in shares and options:<br>Shares: 6,551,444<br>Options: 8,000,000 | Mr Jeffery has over forty years of project development, operations and exploration experience in the oil, gas and mining and energy utilities industries, having worked for both large and small organisations in over thirty countries worldwide.<br><br>He is an experienced director of public companies in Australia, Uganda and Canada, and has broad international experience in resources, and provides consulting services on energy and resource related matters.<br><br>Mr Jeffery graduated with a BSc in Geology and Geophysics from the University of New England. He is a member of the Australian Institute of Energy, Fellow of Australian Institute of Company Directors, and a WA Energy Research Alliance (WAERA) Industry Advisory Group participant. |
| **Philip Haydn-Slater**<br>Non-executive Director<br><br>Appointed: 1 February 2017<br><br>Interest in shares and options:<br>Shares: 2,320,000 | Mr Haydn-Slater has worked throughout his 36 years career within institutional sales in both London and Sydney for a number of well-known financial institutions, including ABN Amro, Bankers Trust, James Capel & Co and Bain Securities (Deutsche Bank) Sydney.<br><br>Mr Haydn-Slater was co-founder and director of HD Capital in London prior to which he spent eight years as Head of Corporate Broking at WH Ireland Ltd in their London office where he was responsible for originating and managing the sales process for a significant number of transactions, including flotations and secondary placings for corporate clients on AIM and other international exchanges. |

Mr Aqeel Virk was a Non-executive Director of the Company from 8 July 2015 until 29 July 2016.

Mr Keith Martens was a Non-executive Director of the Company from 14 June 2011 until 15 November 2016.

Mr David McArthur was a Non-executive Director of the Company from 15 November 2016 until 1 February 2017.

## 2. COMPANY SECRETARY

Mr David McArthur was appointed to the position of Company Secretary on 24 October 2013.

Mr McArthur is a Chartered Accountant with a Bachelor of Commerce Degree from the University of Western Australia, and has over 30 years' experience in the accounting profession. Mr McArthur has been actively involved in the financial and corporate management of a number of public listed companies over the past 28 years. Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.

## 3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2016, and the number of meetings attended by each director was:

| Director | Full meetings of directors | | Meetings of audit and risk Management committee | |
|---|---|---|---|---|
| | Number of meetings attended | Number of meetings held whilst a director | Number of meetings attended | Number of meetings held whilst a director |
| Andrew Childs | 1 | 1 | 2 | 2 |
| Gary Jeffery | 1 | 1 | - | - |
| Philip Haydn-Slater | - | - | - | - |
| David McArthur | - | - | - | - |
| Keith Martens | - | - | 2 | 2 |
| Aqeel Virk | - | - | - | 1 |

The audit, finance, remuneration and nomination, risk management and environmental functions are handled by the full board of the Company.

The small size of the Board means that Members of the Board meet informally on a very regular basis to discuss company operations, risks and strategies, and as required, formalise key actions through circular resolutions.

## 4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was oil and gas exploration.

## 5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

**Significant changes in the state of affairs**
In the opinion of the directors there were no matters that significantly affected the state of affairs of the Group during the financial year, other than those matters referred to in the overview above.

## 6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2016 (2015: Nil).

## 7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration and development portfolio in California.

## 8. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 6.7 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

## 9. ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

## 10. SHARE OPTIONS

### Options granted to directors of the Group

During, or since the end of the reporting period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and senior executives as part of their remuneration:

| | Number of options granted | Exercise price per option cents | Expiry date |
|---|---|---|---|
| **Executive director** | | | |
| Gary Jeffery | 5,000,000 | 15 | 31 December 2019 |
| **Non-executive directors** | | | |
| Andrew Childs | 5,000,000 | 15 | 31 December 2019 |
| David McArthur | 3,000,000 | 15 | 31 December 2019 |

Issue of these options was approved by shareholders at a General Meeting on 11 January 2017.

### Unissued shares under options

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

| Expiry date | Exercise price cents | Number of shares |
|---|---|---|
| 30-Sep-17 | 3 | 1,100,000 |
| 30-Sep-19 | 10 | 11,000,000 |
| 31-Dec-19 | 15 | 22,000,000 |
| | | 34,100,000 |

## 10. SHARE OPTIONS (continued)

### Unissued shares under options (continued)

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

### Shares issued on exercise of options

During or since the end of the financial year, 7,598,773 shares were issued as a result of the exercise of 3 cent options.

### Options expired

500,000 options expired during the reporting period (2015: 11,500,000 options expired).

## 11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of $17,594 (2015: $16,309) to insure the directors and key management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

To the extent permitted by law, the Company has agreed to indemnify its auditors, HLB Mann Judd, as part of the terms of its engagement agreement against claims by third parties arising from the audit (for an unspecified amount).

## 12. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

No non-audit services were provided during the year by the auditor.

## 13. PROCEEEDINGS ON BEHALF OF THE GROUP

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

## 14. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2016 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Non-executive Directors, Executive directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

(a) Remuneration governance
(b) Executive remuneration strategy and framework
(c) Board and management changes
(d) Service contracts
(e) Executive and non-executive director remuneration
(f) Key management personnel remuneration
(g) Other KMP disclosures
(h) Voting and comments made at the Company's 2016 Annual General Meeting

### (a) Remuneration governance

The remuneration of directors and key management is the responsibility of the Remuneration and Nomination Committee.

### (b) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report.

Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives. As the Group's principal activities during the year involved identifying new potential ventures and exploration / evaluation of existing leases, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

***Executive remuneration mix***
The remuneration of the Managing Director and other KMP can be structured as a mix of fixed remuneration and variable "at risk" remuneration through short-term and long-term incentive components.

***Fixed compensation***
Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group, and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not "at risk" but is appropriately benchmarked and set with reference to roles, responsibilities, skills and experience.

## 14. REMUNERATION REPORT – AUDITED (continued)

### (b) Executive remuneration strategy and framework (continued)

***Performance-linked compensation***

Performance-linked compensation can consist of both short-term and long-term remuneration. Performance-linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group is at the exploration and development stage. Vesting of long term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan. Currently, the Company does not award performance-linked compensation.

***Short-term incentive***

Short term incentives (STI) reward employees for their individual achievements and contributions to business success and organisation outcomes during the financial year. STIs are a variable reward and are not guaranteed.

If STIs are to be awarded in any year, the Board considers the appropriate targets and Key Performance Indicators (KPIs) to link the STI and the level of payout if targets are met. This includes capping the maximum payout under the STI scheme and determining the minimum levels of performance to trigger payment of the STIs. Depending upon the level of management, KPIs include the following:

- satisfactory completion of development programs, on time and on budget;
- securing funding to support planned work programs;
- investor relations; and
- consideration of safety performance, corporate governance, external relations and general management.

At this stage, the Company does not award any STIs.

***Long-term incentive***

Long-term incentives (LTI) can comprise share options and/or performance rights (PR), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

The Company adopted an Employee Incentive Option Plan (EIOP) effective 11 January 2017. Under the EIOP, the Company may grant options to Company eligible employees and consultants to motivate and reward their performance in their respective roles up to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes simulation model.

Options with an exercise price well above the current market price, and with vesting conditions dependent on a market capitalisation significantly higher than the market capitalisation at the time of issue, are chosen as they provide an incentive to grow the overall value of the Company.

<u>Options over equity instruments granted as compensation</u>

No options over unissued shares in the Company were granted as compensation to key management personnel under the EIOP during the reporting period.

## 14. REMUNERATION REPORT - AUDITED (continued)

### (b) Executive remuneration strategy and framework (continued)

***Consequences of performance on shareholder wealth***
The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

| **Shareholder returns** | **2016** | **2015 Restated** |
|---|---|---|
| Net (loss) / profit attributable to equity holders ($) | (1,146,471) | (1,228,853) |
| Basic (loss) / earnings per share EPS (cents) | (0.98) | (1.19) |
| Share price at year end (cents) | 6.50 | 3.90 |
| Market capitalisation ($) | 8,457,214 | 1,821,292 |
| Net tangible (liabilities) / assets (NTA) ($) | (1,007,577) | (471,472) |
| NTA Backing (cents) | (0.77) | (0.44) |

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to shareholders.

### (c) Board and management changes

On 29 July 2016 Mr Aqeel Virk resigned as a Non-executive Director of the Company.

On 15 November 2016 Mr Keith Martens resigned as a Non-executive Director of the Company and Mr David McArthur was appointed Non-executive Director.

### (d) Service contracts

On appointment to the Board, all non-executive directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

Executive and Key Management Personnel (KMP) remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to the Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account any change in the scope of the role performed by KMP and any changes required to meet the principles of the compensation policy. The major provisions of the agreement relating to remuneration are set out below. Remuneration packages are inclusive of superannuation.

## 14. REMUNERATION REPORT - AUDITED (continued)

### (d) Service contracts (continued)

| Name | Term of agreement | Employee notice period | Employer notice period | Base salary ** | Termination Benefit *** |
|---|---|---|---|---|---|
| Gary Jeffery * | Ongoing from 1 November 2013 | three months | six months | $200,000 | six months base salary |

* On 6 November 2013, a Deed of Executive Services Agreement was entered into with Dungay Resources Pty Ltd, a company associated with Gary Jeffery (effective 1 November 2013);

** Base salary is inclusive of superannuation and comprises $100,000 cash and $100,000 in shares for 50% of Mr Jeffery's time. Shares are issued on a calendar quarterly basis with shareholder approval. The issue price of the shares is the mathematical average of the VWAP for the first and the last 5 trading days in the calendar quarter;

*** Termination benefits are payable upon early termination by the Company, other than for gross misconduct. They are equal to base salary for the notice period.

### (e) Executive and non-executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee.

The current base fees were last reviewed with effect from 25 July 2014. The fees approved by the Board are inclusive of the statutory superannuation amount.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $150,000 per annum and was approved by shareholders at a General Meeting in 2005.

Non-executive directors' base fees are currently $30,000 (including superannuation) per annum and they do not receive cash performance related compensation. Directors' fees cover all main board activities and memberships of sub-committees.

The Non-executive Chairman's fees are determined independently to the fees paid to the non-executive directors, based on comparative roles in the external market. Having regard to the current economic climate, non-executive Chairman's fees are $40,000 (including superannuation) per annum.

Pursuant to a share plan approved by shareholders at a general meeting on 20 May 2016, 50% of non-executive director fees are satisfied through the issue of shares on a quarterly basis on the same basis as the Executive Director, and were issued as follows:

## 14. REMUNERATION REPORT - AUDITED (continued)

### (e) Executive and non-executive director remuneration (continued)

| | Tranche | Value of services rendered (A) $ | Fair value of shares on grant date (B) $ | No. of Plan Shares issued | Date of Issue |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Gary Jeffery | 1 | 25,000 | 46,875 | 781,250 | 7-Apr-16 |
| | 2 | 25,000 | 28,125 | 781,250 | 4-Jul-16 |
| | 3 | 25,000 | 23,077 | 641,026 | 10-Oct-16 |
| **Non-executive directors** | | | | | |
| Andrew Childs | 1 | 5,000 | 9,375 | 156,250 | 7-Apr-16 |
| | 2 | 5,000 | 5,625 | 156,250 | 4-Jul-16 |
| | 3 | 5,000 | 4,615 | 128,205 | 10-Oct-16 |
| Keith Martens* | 1 | 3,750 | 7,031 | 117,188 | 7-Apr-16 |
| | 2 | 3,750 | 4,219 | 117,188 | 4-Jul-16 |
| | 3 | 3,750 | 3,461 | 96,224 | 10-Oct-16 |
| Aqeel Virk** | 1 | 3,750 | 7,031 | 117,188 | 7-Apr-16 |
| | 2 | 3,750 | 4,219 | 117,188 | 4-Jul-16 |
| | 3 | 1,250 | 1,154 | 32,121 | 10-Oct-16 |

* Keith Martens resigned as a Director on 15 November 2016

** Aqeel Virk resigned as a Director on 29 July 2016

(A) Reflects the contractual salary amounts that have been settled by the company in shares; and

(B) Reflects the fair value of shares at the date the share plan was approved by shareholders on 27 May 2015 (6 cents each) and 20 May 2016 (3.6 cents each).

Shares to be issued in lieu of accrued director fees as at 31 December 2016

| | Value of services rendered (A) $ | Fair value of shares on grant date (B) $ | No. of plan shares to be issued (C) |
|---|---|---|---|
| **Executive directors** | | | |
| Gary Jeffery | 25,000 | 15,517 | 431,034 |
| **Non-executive directors** | | | |
| Andrew Childs | 5,000 | 3,104 | 86,207 |
| Keith Martens | 1,875 | 1,164 | 32,328 |

(A) Reflects the contractual salary amounts that have been settled by the company in shares;

(B) Reflects the fair value of shares at the date the share plan was approved by shareholders on 20 May 2016 (3.6 cents each); and

(C) Shares were issued on 10 January 2017.

In addition to their base fees, non-executive directors may also receive payment for consultancy services at the lesser of $200 per hour or $1,500 per day plus any reimbursable expenses.

## 14. REMUNERATION REPORT - AUDITED (continued)

### (f) Key management personnel remuneration

| Name | | Short-term employee benefits | | | Share based payments | | |
|---|---|---|---|---|---|---|---|
| | | Salary and fees (A) $ | Non-monetary benefits (B) $ | Total $ | Shares $ | Options (C) $ | Total $ |
| **Executive directors** | | | | | | | |
| Gary Jeffery | 2016 | 100,000 | 4,919 | 104,919 | 113,594 | - | 218,513 |
| | 2015 | 100,000 | 4,683 | 104,683 | 154,279 | 47,700 | 306,662 |
| **Non-executive directors** | | | | | | | |
| Andrew Childs | 2016 | 20,000 | 4,919 | 24,919 | 22,719 | - | 47,638 |
| | 2015 | 25,000 | 4,684 | 29,684 | 19,891 | 47,700 | 97,275 |
| David McArthur | 2016 | 3,750 | 619 | 4,369 | - | - | 4,369 |
| | 2015 | - | - | - | - | - | - |
| Sub-total non-executive | 2016 | 23,750 | 5,538 | 29,288 | 22,719 | - | 52,007 |
| directors' remuneration | 2015 | 25,000 | 4,684 | 29,684 | 19,891 | 47,700 | 97,275 |
| Total current directors' | 2016 | 123,750 | 10,457 | 134,207 | 136,313 | - | 270,520 |
| remuneration | 2015 | 125,000 | 9,367 | 134,367 | 174,170 | 95,400 | 403,937 |

## 14. REMUNERATION REPORT - AUDITED (continued)

### (f) Key management personnel remuneration

| Name | | Short-term employee benefits | | | Share based payments | | |
|---|---|---|---|---|---|---|---|
| | | Salary and fees (A) $ | Non-monetary benefits (B) $ | Total $ | Shares $ | Options (C) $ | Total $ |
| **Former directors** | | | | | | | |
| Keith Martens [2] | 2016 | 13,125 | 4,301 | 17,426 | 15,875 | - | 33,301 |
| | 2015 | 15,000 | 4,684 | 19,684 | 23,142 | 47,700 | 90,526 |
| Aqeel Virk [1] | 2016 | 8,750 | 2,836 | 11,586 | 12,404 | - | 23,990 |
| | 2015 | 7,216 | 2,258 | 9,474 | 10,325 | 15,900 | 35,699 |
| Sub-total former directors' | 2016 | 21,875 | 7,137 | 29,012 | 28,279 | - | 57,291 |
| remuneration | 2015 | 22,216 | 6,942 | 29,158 | 33,467 | 63,600 | 126,225 |
| Total key management | 2016 | 145,625 | 17,594 | 163,219 | 164,592 | - | 327,811 |
| personnel remuneration | 2015 | 147,216 | 16,309 | 163,525 | 207,637 | 159,000 | 530,162 |

(1) Appointed 8 July 2015. Resigned 29 July 2016.

(2) Appointed 14 June 2011. Resigned 15 November 2016.

## 14. REMUNERATION REPORT - AUDITED (continued)

### (f) Key management personnel remuneration (continued)

***Notes in relation to the table of directors' remuneration***

(A) During the reporting period certain key management persons were paid for commercial, arms-length consulting services. The total quantum of these transactions as disclosed in note 6.3 of the notes to the consolidated financial statements was:

- Andrew Childs $22,000 (2015: $22,775)
- Keith Martens $10,418 (2015: $15,750)
- Aqeel Virk $nil (2015: $5,012)
- David McArthur $9,000 (2015: $nil)

(B) Comprises Directors and Officers insurance premiums;

(C) The fair value of options granted was determined using the Black-Scholes simulation pricing model

### (g) Other KMP disclosures

***KMP option holdings***

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

| | Held at 1 January 2016 | Granted as compensation | Expired | Held on appointment or resignation | Held at 31 December 2016 | Vested during the year | Vested and exercisable at 31 December 2016 |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| Gary Jeffery | 3,000,000 | - | - | - | 3,000,000 | - | 3,000,000 |
| **Non-executive directors** | | | | | | | |
| Andrew Childs | 3,000,000 | - | - | - | 3,000,000 | - | 3,000,000 |
| David McArthur | - | - | - | 1,000,000 | 1,000,000 | - | 1,000,000 |
| Keith Martens | 3,500,000 | - | (500,000) | (3,000,000) | - | - | - |
| Aqeel Virk | 1,000,000 | - | - | (1,000,000) | - | - | - |

## 14. REMUNERATION REPORT - AUDITED (continued)

### (g) Other KMP disclosures (continued)

***KMP shareholdings***

| | Held at 1 January 2016 | Issued in lieu of Director fees | Purchases | Held on appointment or (resignation) | Held at 31 December 2016 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Gary Jeffery | 3,241,208 | 2,879,202 | - | - | 6,120,410 |
| **Non-executive directors** | | | | | |
| Andrew Childs | 4,453,717 | 575,840 | 80,000 | - | 5,109,557 |
| Keith Martens | 2,628,390 | 431,881 | - | (3,060,271) | - |
| Aqeel Virk | - | 406,460 | - | (406,460) | - |
| David McArthur | - | - | - | | |

### (h) Voting and comments at the Company's 2016 Annual General Meeting

The Company received 98.18% of "yes" votes on its remuneration report for the 31 December 2015 financial year. The Company did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

## THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

## 15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Directors' Report for the financial year ended 31 December 2016.

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

**GARY JEFFERY**

Director

Dated at Perth, Western Australia this 31st day of March 2017.

HLB Mann Judd

Accountants | Business and Financial Advisers

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of Sacgasco Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

| | |
|---|---|
| **Perth, Western Australia** | **N G Neill** |
| **31 March 2017** | **Partner** |

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
**Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.**
**Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au**

# CORPORATE GOVERNANCE STATEMENT

The 2016 Corporate Governance Statement is dated as at 31 December 2016 and reflects the corporate governance practices in place throughout the 2016 financial year.

The Board is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board continues to review the framework and practices to ensure that they meet the best interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year and they comply with the 3rd edition of the ASX Corporate Governance Principles and Recommendations.

## Board of Directors

### Role of the Board

The primary responsibilities of the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals;
- Monitoring the achievement of these goals;
- Review of the management accounts and reports to monitor the progress of the Group;
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- Review and approval of the annual and interim financial reports;
- Nominating and monitoring the external auditor;
- Approving all significant business transactions;
- Appointing and monitoring senior management;
- All remuneration, development and succession issues;
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board; and
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity.

The Board delegates day to day operational matters to the management of the Company.

The Board evaluates this policy on an ongoing basis.

### Board composition

The Directors' Report contains details of the Directors' skills, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

**Board composition (continued)**

The specific skills that the Board collectively bring to the Company include:

- Industry experience / technical qualification
- Commercial experience
- Public company experience
- Analytical expertise
- Financial expertise
- Risk management experience
- Strategic planning experience
- Strategic leadership experience
- Corporate Governance expertise
- Communications experience
- Inter personal experience

The Board comprises a Non-Executive Chairman, one Executive Director, and one Non-Executive Director. A written agreement is entered into with each Director and Senior Executive of the Company setting out the terms of their employment.

The chair of each of the sub committees formed by the Board has specific skills in the area for which they are responsible.

The Board does not have a Director with legal experience, as any legal work required is out sourced to external lawyers.

Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent Director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

**Retirement and re-election of directors**

The Constitution of the Company requires one third of Directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders. No Director shall hold office for a period of three years without seeking re-election.

### Independence of directors

The Board has reviewed the position and association of each of the Directors in the office at the date of this report and considers that two Directors are independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The Board considers that Mr Andrew Childs and Mr Philip Haydn-Slater meet the criteria in Principle 2. They have no material business or contractual relationship with the Company, other than as directors, and no conflicts which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

### Director education

All new Directors complete an induction process. The non-executive directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge. The Board are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

### Independent professional advice

With prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

### Board performance review

The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at and involvement in Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Directors conducted an internal performance evaluation of the Members of the Board during the reporting period. External advisors were not used.

### Director remuneration

Details of the Group's remuneration policies are included in the "Remuneration Report" section of the Directors Report.

(a) Non-Executive Directors are remunerated by cash payments (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director. Non-executive directors may be offered performance based remuneration by way of options or Incentive share rights. The Board acknowledges the grant of options or incentive share rights to non- executive directors is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations, however the Board considers the grant of such options and share rights is reasonable in the circumstances for the following reasons:

   (i) the grant of options or incentive shares to non- executive directors will align the interests of the non-executive directors with those of Shareholders;

   (ii) the grant of the options or incentive shares is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the non-executive directors; and

   (iii) it is not considered that there are any significant opportunity costs to the Company or opportunities foregone by the Company in granting the non-executive directors options or incentive shares.

(b) The Executive Director is remunerated by both fixed remuneration and equity performance based remuneration, subject to obtaining all regulatory approvals from shareholders. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

### Managing Business Risk

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans;
- insurance and risk management programs which are reviewed by the Board; and
- establish and assess a Group Risk profile which identifies all significant risks to the group and controls in place to minimise or mitigate risk.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Board may consult with the Group's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. The Managing Director (or in his absence the Chairman) and Chief Financial Officer (or someone who fulfils the role that would otherwise be performed by a CFO) annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company assesses its exposure to economic, environmental and social sustainability risks as part of the Group Risk Profile. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks.

Due to its size and activities the Company does not have an internal audit function.

### Internal Controls

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

### Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit and Risk Management Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in overviewing financial reporting;
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established;
- Monitor, review and recommend the adoption of the financial statements of the Company;
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;

**Audit and Risk Management Committee (continued)**

- Review the financial report and other financial information distributed externally;
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Improve the quality of the accounting function;
- Review audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;
- Monitor the procedures in place to ensure compliance with the *Corporations Act 2001,* Australian Accounting Standards and Australian Securities Exchange Listing Rules and all other regulatory requirements;
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Securities Exchange and financial institutions; and
- Improve the quality of the accounting function.

The Committee consists of the following Non-Executive Directors, both of whom are independent:

- Mr P Haydn-Smith – independent non-executive director (Chair)
- Mr A Childs – independent non-executive chairman

The auditors and the Managing Director are invited to attend Audit and Risk Management Committee meetings at the discretion of the Committee. The Committee met two times during the year.

**Remuneration and Nomination Committee**

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the Remuneration and Nomination Committee are:

- Determine remuneration policies and remuneration of Directors;
- Determine remuneration and incentive policies of Key Executives;
- Determine the Group recruitment, retention and termination policies and procedures for senior management;
- Determine and review incentive schemes;
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment;
- Evaluate senior executive performance on an annual basis. This occurred during the 2016 financial year;
- Determine and review superannuation arrangements of the Group;
- Determine and review professional indemnity and liability insurance for Directors and senior management;
- Review the Board composition to ensure the Board has the correct balance of skills and expertise;
- Appointment of the Managing Director and the Company Secretary;
- Approve the recommendation for the appointment of key management personnel presented to the Committee by the Managing Director;
- Performance appraise the Board members and the Managing Director;
- Succession planning for Board members and the Managing Director;
- Approve the recommended succession planning for key management personnel presented to the Committee by the Managing Director; and
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary.

### Remuneration and Nomination Committee (continued)

If required, the Committee can seek independent external advice from consultants with specific industry experience relevant to the Company's remuneration assessment. External advice was not obtained during the 2016 year.

Specific policies and procedures regarding remuneration determination are contained within the Directors Report.

The Committee consists of the following Non-Executive Directors, both of whom are independent:

- Mr A Childs – independent non-executive chairman (Chair)
- Mr P Haydn-Smith – independent non-executive director

The Committee did not meet formerly during the year.

### Ethical Standards Code of Conduct

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. Unethical behaviour is to be reported to the Group's Managing Director (or in his absence, the Chairman) as soon as possible.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

### Trading in the Company's Securities by Directors and Employees

The Board has adopted a policy in relation to dealings in the securities of the Group which applies to all Directors and employees. Under the policy, Directors are prohibited from short-term or "active" trading in the Group's securities and Directors and employees are prohibited from dealing in the Group's securities whilst in the possession of price sensitive information. The Company's Managing Director (or in his place the Chairman) must be notified of any proposed transactions in the Company's shares.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an on-going basis in accordance with the Company's risk management systems.

### Continuous Disclosure

The Company has in place a continuous disclosure policy, a copy of which is provided to all Directors and employees who may from time to time be in possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and to ensure officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who, in consultation with the Board (where practicable) and any other appropriate personnel including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once every 12 months period, the Board will review the company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

### Communication with Shareholders

The Board aims to ensure that Shareholders are kept fully informed of all major developments affecting the Group. Information is communicated to Shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report;
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website;
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry;
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the Australian Securities Exchange Listing Rules;
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group;
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report; and
- The Board seeks feedback from proxy advisers to assess the appropriateness and adequacy of its reporting to shareholders.

The Board reviews this policy and compliance with it on an ongoing basis.

### Diversity Policy

The Group is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance;
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- Appreciate and respect the unique aspects that an individual brings to the workplace;
- Where possible and practicable, increase participation and employment opportunities for indigenous people;
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace;
- Take action to prevent discrimination, harassment, vilification or victimisation;
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and to offer employees opportunities to reach management levels within the Group.

### Diversity Policy (continued)

The Board is committed to workplace diversity and has developed measurable objectives and strategies to support the framework and objectives of the Diversity Policy, and the Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2016 financial year, the Boards' objectives were met by the Group. The Board assesses annually the progress and achievement of the objectives.

Pursuant to Recommendation 1.5, the Group policy discloses the following information as at the date of this report:

| **Percentage details** | **Women** | **Men** |
|---|---|---|
| Women and Men employed within the Group | 20% | 80% |
| Women and Men at senior management level | - | 100% |
| Women and Men employed at Board level | - | 100% |
| Women and Men employed by Corporate services provider | 75% | 25% |

### ASX Corporate Governance principles and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rule 4.10.3, the Company advises that it does not follow recommendation 8.3 of the ASX *"Corporate Governance Principles and Recommendations (Third Edition)"* for reasons stated above.

This statement is current as at the date of signing and has been approved by the Board.

Director - Andrew Childs

Managing Director - Gary Jeffery

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### AS AT 31 DECEMBER 2016

| | Note | 31 December 2016 $ | 31 December 2015 Restated $ | 1 January 2015 Restated [1] $ |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 4.1 | 118,215 | 70,972 | 118,644 |
| Trade and other receivables | 4.2 | 65,161 | 214,549 | 223,185 |
| Prepayments | | 69,318 | 27,018 | 27,236 |
| Available for sale financial assets | | - | - | 173 |
| Interest bearing assets | 5.2 | - | 45,123 | - |
| **Total current assets** | | 252,694 | 357,662 | 369,238 |
| Trade debtors and other receivables | 4.2 | 7,642 | 7,536 | 3,678 |
| **Total non-current assets** | | 7,642 | 7,536 | 3,678 |
| **Total assets** | | 260,336 | 365,198 | 372,916 |
| **Liabilities** | | | | |
| Trade and other payables | 4.3 | (611,633) | (402,911) | (143,570) |
| Employee entitlements | | (53,385) | (23,401) | (68,750) |
| Loans and borrowings | 5.2 | (125,901) | (59,920) | - |
| Deferred income | 4.4 | (153,963) | - | - |
| Liability to carry joint venture | | - | - | (78,546) |
| **Total current liabilities** | | (944,882) | (486,232) | (290,866) |
| Site restoration | 3.1 | (323,031) | (350,438) | (329,664) |
| **Total non-current liabilities** | | (323,031) | (350,438) | (329,664) |
| **Total liabilities** | | (1,267,913) | (836,670) | (620,530) |
| **Net liabilities** | | (1,007,577) | (471,472) | (247,614) |
| **Equity** | | | | |
| Issued capital | 5.1 | 12,133,480 | 11,477,843 | 10,689,003 |
| Reserves | | 207,971 | 287,593 | 484,638 |
| Accumulated losses | | (13,349,028) | (12,236,908) | (11,421,255) |
| **Total equity attributable to equity holders of the Company** | | (1,007,577) | (471,472) | (247,614) |

[1] With effect from 1 January 2016, the directors of Sacgasco Limited made a voluntary change in accounting for exploration and evaluation expenditure from capitalisation to expense when incurred. As such, in accordance with AASB 101.40A, a third Consolidated Statement of Financial Position and notes to the restated amounts have been presented. The standard requires that the change in accounting policy is shown from the first day of the prior year to which the change is made, being 1 January 2015 (refer note 1.7).

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS
### FOR THE YEAR ENDED 31 DECEMBER 2016

| | Note | 2016<br>$ | 2015<br>Restated<br>$ |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Other income | 2.2 | 185,089 | 372,137 |
| Foreign exchange gain | | 4,603 | 9,654 |
| Gain on disposal of an associate | | 5,665 | - |
| **Expenses** | | | |
| Other operating expenses | | (322,912) | (242,961) |
| Exploration expenditure expensed through profit or loss | | (356,128) | (455,335) |
| Site restoration | | - | (5,232) |
| Personnel expenses | 2.3 | (348,507) | (541,605) |
| Administrative expenses | | (75,828) | (93,845) |
| Professional fees | | (176,520) | (189,556) |
| Other expenses | | (31,172) | (29,098) |
| Finance expenses | 2.4 | (18,029) | (8,506) |
| Loss on disposal of subsidiary | | - | (3,706) |
| Impairment of investment in associate | | (117) | (4,618) |
| Share of loss of an associate | | (1,067) | - |
| **Results from operating activities** | | (1,134,923) | (1,192,671) |
| **Loss before income tax** | | (1,134,923) | (1,192,671) |
| Income tax expense | 2.5 | (2,197) | (1,217) |
| **Loss for the year** | | (1,137,120) | (1,193,888) |
| **(Loss) per share (cents per share)** | | | |
| Basic and diluted | 2.6 | (0.98) | (1.19) |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016<br>$ | 2015<br>Restated<br>$ |
|---|---|---|
| **Other comprehensive income** | | |
| *Items that may be classified subsequently to profit or loss* | | |
| Foreign currency translation difference of foreign operations | (9,351) | (34,857) |
| Changes in fair value on equity instruments measured at fair value | - | (108) |
| Total items that may be classified subsequently to profit or loss | (9,351) | (34,965) |
| **Total comprehensive loss for the year** | (1,146,471) | (1,228,853) |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2016

| | Share capital | Translation reserve | Options reserve | Share-based Payments reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Balance at 1 January 2016 (restated) | 11,477,843 | 22,638 | 199,900 | 65,055 | (12,236,908) | (471,472) |
| **Total comprehensive income for the year** | | | | | | |
| Loss for the year | - | - | - | - | (1,137,120) | (1,137,120) |
| **Other comprehensive income for the year** | | | | | | |
| Foreign exchange translation difference on foreign operations | - | (9,351) | - | - | - | (9,351) |
| Total other comprehensive loss for the year | - | (9,351) | - | - | - | (9,351) |
| **Total comprehensive loss for the year** | - | (9,351) | - | - | (1,137,120) | (1,146,471) |
| **Transactions with owners, recorded directly in equity:** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of ordinary shares | 691,286 | - | - | (65,055) | - | 626,231 |
| Share-based payment transactions | - | - | - | 19,784 | - | 19,784 |
| Transfer to accumulated losses on lapse of options | - | - | (25,000) | - | 25,000 | - |
| Capital raising costs | (35,649) | - | - | - | - | (35,649) |
| **Total contributions by and distributions to owners** | 655,637 | - | (25,000) | (45,271) | 25,000 | 610,366 |
| **Total transactions with owners** | 655,637 | - | (25,000) | (45,271) | 25,000 | 610,366 |
| **Balance at 31 December 2016** | 12,133,480 | 13,287 | 174,900 | 19,784 | (13,349,028) | (1,007,577) |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2015

| | Share capital | Investment revaluation reserve | Translation reserve | Options reserve | Share-based Payments reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | $ | | $ | $ | $ | $ | $ |
| Balance at 1 January 2015 (Restated) | 10,689,003 | 108 | 57,495 | 403,235 | 23,800 | (11,421,255) | (247,614) |
| **Total comprehensive income for the year** | | | | | | | |
| Loss for the year | - | - | - | - | - | (1,193,888) | (1,193,888) |
| **Other comprehensive income for the year** | | | | | | | |
| Revaluation of available for sale financial Assets | - | (108) | - | - | - | - | (108) |
| Foreign exchange translation difference on foreign operations | - | - | (34,857) | - | - | - | (34,857) |
| Total other comprehensive loss for the year | - | (108) | (34,857) | - | - | - | (34,965) |
| **Total comprehensive loss for the year** | - | (108) | (34,857) | - | - | (1,193,888) | (1,228,853) |
| **Transactions with owners, recorded directly in equity:** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Issue of ordinary shares | 804,591 | - | - | - | (23,800) | - | 780,791 |
| Share-based payment transactions | - | - | - | 174,900 | 65,055 | - | 239,955 |
| Transfer to accumulated losses on lapse of options | - | - | - | (378,235) | - | 378,235 | - |
| Capital raising costs | (15,751) | - | - | - | - | - | (15,751) |
| **Total contributions by and distributions to owners** | 788,840 | - | - | (203,335) | 41,255 | 378,235 | 1,004,995 |
| **Total transactions with owners** | 788,840 | - | - | (203,335) | 41,255 | 378,235 | 1,004,995 |
| **Balance at 31 December 2015 (Restated)** | 11,477,843 | - | 22,638 | 199,900 | 65,055 | (12,236,908) | (471,472) |

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED 31 DECEMBER 2016

| | Note | 2016<br>$ | 2015<br>Restated<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 81,904 | - |
| Cash paid to suppliers and employees | | (248,481) | (292,476) |
| Payments for exploration and evaluation | | (299,830) | (329,515) |
| Interest received | | 2,965 | 27 |
| Interest paid | | (8,411) | (5,011) |
| Income taxes paid | | (2,197) | (1,217) |
| **Net cash used in operating activities** | 4.1b | (474,050) | (628,192) |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from dissolution of a subsidiary | | 1,163 | - |
| Payments to associates | | (1,217) | (4,576) |
| **Net cash used in investing activities** | | (54) | (4,576) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares and options | 5.1 | 434,939 | 638,209 |
| Proceeds from other borrowings | | 57,500 | - |
| Proceeds from exercise of options | | 53,963 | - |
| Proceeds from related party loans | 5.2 | 100,000 | 155,000 |
| Proceeds from settlement of loans to joint venture partner | | 43,601 | - |
| Payment of capital raising costs | | (34,143) | (15,751) |
| Payment of transaction costs related to loans | | (3,007) | - |
| Repayment of related party loans | | - | (155,000) |
| Settlement of loans from joint venture partner | | (56,424) | - |
| Loans to joint venture partner | 5.2 | - | (43,601) |
| Repayment of premium funding facility | | (6,481) | - |
| Repayment of other borrowings | | (57,500) | - |
| **Net cash from financing activities** | | 532,448 | 578,857 |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | 58,344 | (53,911) |
| Cash and cash equivalents at beginning of year | | 70,972 | 118,644 |
| Effect of exchange rate fluctuations on cash held | | (11,101) | 6,239 |
| **Cash and cash equivalents at 31 December** | 4.1a | 118,215 | 70,972 |

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

## SECTION 1 BASIS OF PREPARATION

Sacgasco Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2016 financial statements, we have grouped notes into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities supporting exploration and evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

### 1.1 GENERAL INFORMATION

Sacgasco Limited (the "Company") is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 2, 55 Carrington Street, Nedlands, WA, 6009.

The Group is primarily involved in the evaluation, acquisition, exploration and development of natural gas and petroleum projects.

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") were authorised for issue by the Board of Directors on 31 March 2017. The financial statements are general purpose financial statements which:

- have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency. Sacgasco LLC's functional currency is United States dollars;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2016. Refer to note 6.9 for further details; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

## 1.2 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business. The Directors are satisfied the Company is a going concern, notwithstanding it incurred a total comprehensive loss of $1,146,471 for the period and has a net liability position of $1,007,577. The Directors were aware that additional funds would need to be sourced to continue its business as budgeted, including meeting its exploration and development activities for a period beyond 12 months from the signing of this report. As part of a post year end placement, the Company raised $1.72 million for future activities (refer note 6.7).

## 1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associated is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition charges in the Group's share of net assets of the associates.

When the Group's share of losses in an associate, equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

## 1.4 FOREIGN CURRENCIES

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss may arise. Any such differences are recognised in the statement of profit or loss. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

## 1.5 IMPAIRMENT

**Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### 1.5 IMPAIRMENT (continued)

**Non-financial assets**

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets (DTAs), to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cost generating unit (CGU).

An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount. Impairment losses are recognised in profit or loss.

### 1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

- *Note 1.2 - Going concern*
- *Note 2.5 - Income tax expense*
- *Note 6.1 - Share-based payments plans*

### 1.7 VOLUNTARY CHANGE OF ACCOUNTING POLICY

The consolidated financial statements have been prepared incorporating retrospective application of a voluntary change in accounting policy relating to exploration and evaluation expenditure.

The new exploration and evaluation expenditure accounting policy is to expense all exploration and evaluation expenditure as incurred. Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure prior to securing legal rights to explore an area, is expensed to profit or loss as incurred.

The previous accounting policy was that expenditure on exploration and evaluation activities in relation to areas of interest which had not reached a stage which permitted reasonable assessment of the existence or otherwise of economically recoverable reserves were capitalised as incurred.

The new accounting policy was adopted on 31 December 2016 and has been applied retrospectively. The Directors believe that the change in accounting policy will provide more relevant information and no less reliable information to users of the consolidated financial statements. Both the previous and the new accounting policy are compliant with AASB 6 Exploration for Evaluation of Minerals Resources, which permits a choice of accounting policy.

The impact of the change in accounting policy on the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flow, is included in the tables on the following page.

### 1.7 VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

| | 31 December 2015 Previous Policy $ | Increase/ (Decrease) $ | 31 December 2015 Restated $ | 1 January 2015 Previous Policy $ | Increase/ (Decrease) $ | 1 January 2015 Restated $ |
|---|---|---|---|---|---|---|
| Capitalised tenement acquisition costs | 1,624,913 | (1,624,913) | - | 2,509,826 | (2,509,826) | - |
| | | | | | | |
| Foreign currency translation reserve | 518,955 | (496,318) | 22,637 | 295,383 | (237,888) | 57,495 |
| Accumulated losses | (11,093,674) | (1,143,233) | (12,236,907) | (9,134,679) | (2,271,938) | (11,406,617) |
| **Total equity** | 1,153,441 | (1,624,913) | (471,472) | 2,262,212 | (2,509,826) | (247,614) |
| Exploration expenditure impaired | (1,584,040) | 1,584,040 | - | | | |
| Exploration expensed | - | (455,335) | (455,335) | | | |
| Foreign exchange loss | (4,983) | 14,637 | 9,654 | | | |
| **Loss before income tax** | (2,336,013) | 1,143,342 | (1,192,671) | | | |
| Income tax expense | (1,217) | - | (1,217) | | | |
| **Loss for the year** | (2,337,230) | 1,143,342 | (1,193,888) | | | |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation difference of foreign operations | 223,572 | (243,792) | (20,220) | | | |
| Changes in fair value of equity instruments measured at fair value | (108) | - | (108) | | | |
| **Total comprehensive loss for the year** | (2,099,020) | 884,913 | (1,214,107) | | | |
| **Loss per share** | | | | | | |
| Basic and diluted (cents per share) | (2.34) | 1.15 | (1.19) | | | |

Basic and diluted loss per share for the prior year has also been restated.

### 1.7 VOLUNTARY CHANGE OF ACCOUNTING POLICY (continued)

This voluntary change involves restating the following balances:

| | 31 December 2015 Previous Policy $ | Increase/ (Decrease) $ | 31 December 2015 Restated $ |
|---|---|---|---|
| ***Consolidated Statement of Cash Flows (extract)*** | | | |
| Payments for exploration and evaluation expenditure | - | (329,515) | (329,515) |
| **Net cash used in operating activities** | **(298,677)** | **(329,515)** | **(628,192)** |
| Payments for exploration and evaluation expenditure capitalised | (329,515) | 329,515 | - |
| **Net cash used in investing activities** | **(334,091)** | **329,515** | **(4,576)** |

## SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating profit, taxation and earnings per share.

**Key estimates and assumptions in this section**
***Deferred taxation***
The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, the tax asset has not yet been recognised.

### 2.1 OPERATING SEGMENTS

**Information about reportable segments**

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group currently operates in one operating segment being oil and gas exploration and appraisal.

Reportable segments disclosed are based on aggregating tenements where the evaluation and exploration interests are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same petroleum resource or type of petroleum resource; and
- exploration programs targeting the tenements as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the tenements.

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating tenements, are determined in accordance with *AASB 8 Operating Segments*.

**Reconciliation of reportable segment loss, assets and liabilities and other material items**

| | 2016<br>$ | 2015<br>Restated<br>$ |
|---|---|---|
| **Loss before income tax** | | |
| Total loss for reportable segments | (496,578) | (419,810) |
| Central administration and directors' remuneration | (621,759) | (765,904) |
| Finance expense | (18,029) | (8,506) |
| Finance income | 1,443 | 1,549 |
| Consolidated loss before income tax | (1,134,923) | (1,192,671) |
| **Assets** | | |
| Total assets for reportable segments | 45,268 | 176,212 |
| Cash and cash equivalents | 118,215 | 70,972 |
| Other assets | 96,853 | 118,014 |
| Consolidated total assets | 260,336 | 365,198 |

## 2.1 OPERATING SEGMENTS (continued)

**Reconciliation of reportable segment loss, assets and liabilities and other material items (continued)**

| | 2016 $ | 2015 $ |
|---|---|---|
| **Liabilities** | | |
| Total liabilities for reportable segments | (503,814) | (375,688) |
| Employee benefits | (53,385) | (23,401) |
| Other liabilities | (710,714) | (437,581) |
| Consolidated total liabilities | (1,267,913) | (836,670) |

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2015.

## 2.2 OTHER INCOME

**Accounting Policy**

Other income is recognised when the amount can be reliably measured and control of the right to receive the income be passed to the Group.

***Finance income***
Interest is recognised using the effective interest method.

| | Note | 2016 | 2015 $ |
|---|---|---|---|
| Other operating income | (i) | 101,742 | 292,042 |
| Consultancy fees | | 81,904 | - |
| Finance income | | 1,443 | 1,549 |
| Reversal of liability to carry joint venture | | - | 78,546 |
| | | 185,089 | 372,137 |

(i) A by-product of exploration leases acquired in the Capay and Los Medanos gas fields is a working interest in minor gas production rights in the Sacramento Basin onshore California.

## 2.3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

### Accounting Policy

***Short-term employee benefits***

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***Other long-term employee benefits***

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

***Share-based payments***

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

| | Note | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Directors' remuneration | 6.3 | 327,811 | 530,162 |
| Other wages and salaries | | 16,800 | 6,425 |
| Contributions to defined contribution plans | | 1,596 | 610 |
| Other associated personnel expenses | | 2,300 | 4,408 |
| Total Directors' remuneration | | 348,507 | 541,605 |

## 2.4 FINANCE COSTS

### Accounting Policy

Finance costs comprise interest expense on borrowings. Interest expense on short term borrowings is recognised as it accrues in profit or loss, using the effective interest method.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Interest expense on financial liabilities measured at amortised cost** | | |
| Loans from JV partner | 1,867 | 3,495 |
| Related party loans | 10,107 | 5,011 |
| Premium funding facility | 519 | - |
| Other borrowings | 2,529 | - |
| Other finance charges | 3,007 | - |
| Net finance (expense) / income recognised in profit or loss | 18,029 | 8,506 |

## 2.5 INCOME TAX EXPENSE

### Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at balance date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss.

### (a) Amounts recognised in profit or loss

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Current tax expense / (benefit)** | | |
| Adjustment for prior periods | 2,197 | 1,217 |
| Total income tax expense | 2,197 | 1,217 |

### (b) Reconciliation of effective tax rate

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Loss for the period | (1,137,120) | (1,193,888) |
| Total income tax expense | 2,197 | 1,217 |
| Profit / (Loss) excluding income tax | (1,134,923) | (1,192,671) |
| Income tax using the Group's domestic tax rate of 28.5% (2015: 30%) | (323,453) | (357,801) |
| Non-deductible expense | 245,842 | (16,673) |
| Adjustment for prior periods | 2,197 | 1,217 |
| Timing differences not brought to account | (5,575) | 78,656 |
| Tax losses not brought to account | 83,186 | 295,818 |
| | 2,197 | 1,217 |

### 2.5 INCOME TAX EXPENSE (continued)

#### (b) Reconciliation of effective tax rate (continued)

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to $1,618,133 (2015: $1,596,749) attributed to tax losses have not been brought to account.

The benefit of these tax losses will only be obtained if:

i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;

iii) no changes in tax legislation adversely affect the Group in realising the benefit; and

iv) satisfaction of either the continuity of ownership or the same business test.

#### (c) Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Deferred tax assets (DTAs)** | | |
| Black hole deductible costs | 17,534 | 18,557 |
| Trade and other payables | 5,700 | 6,300 |
| Employee benefits | 15,215 | 7,020 |
| Carry forward tax losses | 1,618,133 | 1,596,749 |
| DTAs not brought to account | 1,656,582 | 1,628,626 |

There were no unrecorded deferred tax liabilities.

## 2.6 LOSS PER SHARE

### (a) Basic loss per share

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 31 December 2016 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

***Loss per share attributable to ordinary shareholders***

| | **2016** | **2015 restated** |
|---|---|---|
| Net loss attributable to ordinary shareholders - **$** | (1,137,120) | (1,193,888) |
| Issued ordinary shares at 1 January - number | 107,095,783 | 92,311,257 |
| Effect of shares issued - number | 8,381,306 | 7,769,374 |
| Weighted average number of ordinary shares at 31 December | 115,477,089 | 100,080,631 |
| Basic loss per share (cents) | (0.98) | (1.19) |
| Diluted loss per share (cents) * | (0.98) | (1.19) |

* At 31 December 2016, 11,000,000 options (31 December 2015: 11,500,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## 2.7 COMMITMENTS

| | **2016** | **2015** |
|---|---|---|
| | **$** | **$** |
| ***Office rent*** | | |
| Not less than one year | 24,000 | 6,000 |
| Between one and five years | 12,000 | - |
| | 36,000 | 6,000 |

## SECTION 3 ASSETS AND LIABILITIES SUPPORTING EXPLORATION AND EVALUATION

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital and other commitments existing at the year end.

**Key estimates and assumptions in this section**

***Site restoration***
Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

### 3.1 PROVISIONS

**Accounting Policy**

***Provisions***
Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

***Site restoration***
In accordance with the Group's published environment policy and applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed.

At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re-added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

The non-current site restoration provision of $323,031 (2015: $350,438) is in respect of the Group's on-going obligation for the environmental rehabilitation of the Sacramento Basin onshore California area of interest. The timing of rehabilitation expenditure is dependent on the life of the gas field which may vary in the future. The nature of restoration activities includes plugging gas wells, restoration, reclamation and revegetation of affected areas. The Company continues to work with the Californian authorities with regards to the planning and timing of the rehabilitation.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Site restoration provision | (323,031) | (350,438) |
| **Movement in carrying amounts** | | |
| Opening balance | (350,438) | (329,664) |
| Additional provisions recognised | - | (5,232) |
| Provision extinguished | 31,708 | 22,673 |
| Effects of foreign exchange | (4,301) | (38,215) |
| Closing balance | (323,031) | (350,438) |

## SECTION 4 WORKING CAPITAL DISCLOSURES

This section focuses on the cash funding available to the Group and working capital position at year end.

### 4.1 CASH AND CASH EQUIVALENTS

**Accounting Policy**

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

**(a) Reconciliation of cash and cash equivalents**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash and cash equivalents in the statement of cash flows | 118,215 | 70,972 |

**(b) Reconciliation of cash flows from operating activities**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the period | (1,137,120) | (1,193,888) |
| Adjustments for: | | |
| Bad debts | - | 2,500 |
| Equity-settled share-based payment transactions | 211,077 | 382,537 |
| Finance expense | 13,113 | 1,973 |
| Net (profit) / loss on foreign exchange translation | 7,517 | (21,829) |
| Impairment of investment in subsidiary | - | (74,840) |
| Impairment of investment in associate | 117 | 4,618 |
| Gain on disposal of an associate | (5,665) | - |
| Share of losses of an associate | 1,067 | - |
| Change in other receivables | 150,621 | 17,393 |
| Change in prepayments | (40,990) | 218 |
| Change in interest bearing assets | 1,522 | - |
| Change in trade and other payables | 207,214 | 259,491 |
| Change in interest bearing liabilities | 18,780 | 56,424 |
| Change in employee benefits | 29,984 | (45,349) |
| Change in site restoration provision | (31,287) | (17,440) |
| Change in deferred income | 100,000 | - |
| **Net Cash used in operating activities** | (474,050) | (628,192) |

## 4.2 OTHER RECEIVABLES

**Accounting Policy**

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the consolidated statement of profit or loss.

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| **Continuing operations** | | |
| GST and PAYG receivable | 60,659 | 37,173 |
| Net production receivable | 4,502 | 176,212 |
| Deposits and bonds | 7,642 | 7,536 |
| Other receivables | - | 1,164 |
| | 72,803 | 222,085 |
| Current | 65,161 | 214,549 |
| Non-current | 7,642 | 7,536 |
| | 72,803 | 222,085 |

Information about the Group's exposure to credit and market risks is included in note 6.2.

## 4.3 TRADE AND OTHER PAYABLES

**Accounting Policy**

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Trade payables | (583,133) | (381,911) |
| Non-trade payables and accrued expenses | (28,500) | (21,000) |
| | (611,633) | (402,911) |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 6.2.

## 4.4 DEFERRED INCOME

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| Joint venture receipt | (i) | (100,000) | - |
| Conversion of options | (ii) | (53,963) | - |
| | | (153,963) | - |

(i) advance received from Bombora Natural Energy Pty Ltd as per farm-out agreement for a 20% working interest in the Sacramento AMI;

(ii) funds received in advance for options exercised at 3 cents each on 27 January 2017.

## SECTION 5 EQUITY AND FUNDING

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital and loans and borrowings.

### 5.1 CAPITAL AND RESERVES

**Accounting Policy**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**Share capital**

| | Ordinary shares | | | |
|---|---|---|---|---|
| | Number of shares | | Amount in $ | |
| | **2016** | **2015** | **2016** | **2015** |
| **On issue at 1 January** | **107,095,783** | **92,311,257** | **11,477,843** | **10,689,003** |
| ***Shares issued and expensed during the period:*** | | | | |
| Issue of shares at 12.5 cents each in lieu of directors' fees | - | 694,782 | | 86,848 |
| Issue of shares at 6 cents each in lieu of diirectors' fees | 2,256,122 | 1,325,569 | 135,367 | 79,534 |
| Placement of shares at 5 cents each | - | 12,764,175 | - | 638,209 |
| Issue of shares in satisfaction of service provider fees | 1,292,221 | - | 46,485 | - |
| Issue of shares at 3.6 cents each in lieu of directors' fees | 2,069,312 | - | 74,495 | - |
| Issue of shares at 2.5 cents each to raise working capital | 17,397,546 | - | 434,939 | - |
| Capital raising costs | - | - | (35,649) | (15,751) |
| **On issue at 31 December** | **130,110,984** | **107,095,783** | **12,133,480** | **11,477,843** |

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Group. Option holders cannot participate in any new share issues by the Group without exercising their options.

In the event of a winding up of the Group, ordinary shareholders rank after all other shareholders (if any) and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

The Company has also share options on issue (see note 6.1).

## 5.1 CAPITAL AND RESERVES (continued)

### Nature and purpose of reserves

***Share-based payments reserve***
The share-based payments reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued.

***Options reserve***
The options reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued or reversed through retained earnings if the options expire or are cancelled.

***Translation reserve***
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

## 5.2 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 6.2.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Current** | | |
| Loan to joint venture partner for cash calls | - | 45,123 |
| Loan from joint venture partner for cash calls | - | (59,920) |
| Loans received from a director | (110,107) | - |
| Premium funding facility | (15,794) | - |
| | (125,901) | (14,797) |

| | Loans to JV partner | Loans from JV partner | Loans from a director [(2)] | Premium funding | Other borrowings |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | - | - | - | - | - |
| Loans advanced | 43,601 | - | - | - | - |
| Loans & borrowings received | - | (56,425) | (155,000) | - | - |
| Interest charged | 1,522 | (3,495) | (5,011) | - | - |
| Less repaid | - | - | 160,011 | - | - |
| Balance at 31 December 2015 | 45,123 | (59,920) | - | - | - |
| Loans & borrowings received | - | - | (100,000) | (22,275) | (57,500) |
| Interest & establishment costs charged | 1,443 | (1,867) | (10,107) | (579) | (5,476) |
| Less repaid [(1)] | (46,566) | 61,787 | - | 7,060 | 62,976 |
| Balance at 31 December 2016 | - | - | (110,107) | (15,794) | - |

(1) Amounts repaid include interest and loan establishment costs;
(2) Refer to note 6.3 for further details.

## SECTION 6 OTHER DISCLOSURES

The disclosures in this section focuses on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

**Key estimates and assumptions in this section**
***Share-based payments***
The fair value of share options is measured using the binomial options pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends (if any) and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

### 6.1 SHARE-BASED PAYMENT PLANS

**Accounting Policy**

The share option programme allows Group employees to receive rights to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses on expiry, the total amount of the share-based payment expense is transferred from the share-based payment reserve to accumulated losses.

The share-based payment expense included within the consolidated statement of comprehensive profit or loss can be broken down as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Expensed in personnel expenses (director remuneration)** | | |
| Options issued to directors | - | 159,000 |
| Shares issued to directors | 144,808 | 142,582 |
| Shares to be issued to directors | 19,784 | 65,055 |
| **Expensed in professional fees** | | |
| Options issued to Company Secretary | - | 15,900 |

***Equity-settled share option programme***

The Company adopted an Employee Share Options Scheme (ESOS) effective 25 July 2014. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

The options and rights vest on a time scale as specified in the ESOS and is granted for no consideration. Options and rights granted under the plan carry no dividend or voting rights. When exercisable, each option is converted into one ordinary share. The maximum term of an option is 5 years from grant date and are settled in cash.

Options may not be transferred other than to an associate of the holder.

### 6.1 SHARE-BASED PAYMENT PLANS (continued)

***Options***

At 31 December 2016, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

| Grant date | Vesting date | Expiry date | Exercise Price (cents) | Balance at the start of the year | Granted during the year | Exercised during the year | Expired / forfeited during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 31-Jul-14 | 31-Jul-14 | 31-Dec-16 | 25 | 500,000 | - | - | (500,000) | - | - |
| 26-Oct-15 | 26-Oct-15 | 30-Sep-19 | 10 | 11,000,000 | - | - | - | 11,000,000 | 11,000,000 |
| **Total** | | | | **11,500,000** | **-** | **-** | **(500,000)** | **19,698,773** | **11,000,000** |
| Weighted Average Exercise Price (cents) | | | | 10.65 | - | - | 25.00 | 10.00 | |

During the year ended 31 December 2016, 500,000 (2015: 11,500,000) options were forfeited or expired.

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 2.75 years (2015: 3.63 years).

The weighted average exercise price of outstanding shares at the end of the reporting period was 10.00 cents (2015: 10.65 cents).

At 31 December 2015, a summary of the Group options issued and not exercised were as follows:

| Grant date | Vesting date | Expiry date | Exercise Price (cents) | Balance at the start of the year | Granted during the year | Exercised during the year | Expired / forfeited during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 29-Nov-13 | 29-Nov-13 | 31-Dec-15 | 25 | 11,500,000 | - | - | (11,500,000) | - | - |
| 31-Jul-14 | 31-Jul-14 | 31-Dec-16 | 25 | 500,000 | - | - | - | 500,000 | 500,000 |
| 26-Oct-15 | 26-Oct-15 | 30-Sep-19 | 10 | - | 11,000,000 | - | - | 11,000,000 | 11,000,000 |
| **Total** | | | | **12,000,000** | **11,000,000** | **-** | **(11,500,000)** | **11,500,000** | **11,500,000** |
| Weighted Average Exercise Price (cents) | | | | 25.0 | 10.0 | - | 25.0 | 10.65 | |

## 6.2 FINANCIAL RISK MANAGEMENT

### Accounting Policy

**Classification of financial instruments**

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 139 *Financial Instruments:*

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

**Recognition and de-recognition of financial assets and liabilities**
The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

### Overview

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

The carrying amounts of financial assets represents the maximum credit exposure.

***Cash and cash equivalents***
The Group held cash and cash equivalents of $118,215 at 31 December 2016 (2015: $70.972). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

### 6.2. FINANCIAL RISK MANAGEMENT (continued)

**Credit risk**

***Other receivables***

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

At 31 December 2016, the maximum exposure to credit risk for other receivables by geographic region was as follows:

| | Carrying amount | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| Australia | 60,659 | 38,337 |
| USA | 12,144 | 183,748 |
| | 72,803 | 222,085 |

Currently, the Group undertakes exploration and evaluation activities exclusively in California, USA. As the Group is not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis; therefore, an aging analysis has not been disclosed.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities excluding the impact of netting arrangements:

| | Carrying amount | Contractual cash flows | 12 months or less |
|---|---|---|---|
| | **$** | **$** | **$** |
| **31 December 2016** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | (611,633) | (611,633) | (611,633) |
| Employee entitlements | (53,385) | (53,385) | (53,385) |
| Interest bearing liabilities | (125,901) | (131,371) | (131,371) |
| Deferred income | (153,963) | (153,963) | (153,963) |
| | (944,882) | (950,352) | (950,352) |
| **31 December 2015** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | (402,911) | (402,911) | (402,911) |
| Employee entitlements | (23,401) | (23,401) | (23,401) |
| Interest bearing liabilities | (59,920) | (59,920) | (59,920) |
| | (486,232) | (486,232) | (486,232) |

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

### 6.2. FINANCIAL RISK MANAGEMENT (continued)

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

***Currency risk***

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| US dollar | 65,402 | 197,334 | (178,536) | (108,099) |

<u>Foreign currency sensitivity analysis</u>

The Group is mainly exposed to US dollars (USD). The following table details the Group's sensitivity to a 2% (31 December 2015: 10%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 2% (31 December 2015: 10%) change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

| | Impact on profit or loss | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| **If AUD strengthens by 2% (31 December 2015: 10%)** | | |
| USD | 2,218 | (8,112) |
| **If AUD weakens by 2% (31 December 2015: 10%)** | | |
| USD | (2,309) | 9,915 |

There would be no impact on other equity of the company and the Group.

### 6.2. FINANCIAL RISK MANAGEMENT (continued)

**Market risk (continued)**

***Interest rate risk***
The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments as reported to management of the Group is as follows:

| | Carrying amount | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| **Variable rate instruments** | | |
| Cash and cash equivalents | 118,215 | 70,972 |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 31 December 2015.

| | Profit or loss | |
|---|---|---|
| | **100 bp increase** | **100 bp decrease** |
| | **$** | **$** |
| **31 December 2016** | | |
| Variable rate instruments | 1,182 | - |
| Cash flow sensitivity | 1,182 | - |
| **31 December 2015** | | |
| Variable rate instruments | 708 | - |
| Cash flow sensitivity | 708 | - |

At the reporting date the Group did not hold any variable rate financial liabilities.

### 6.2. FINANCIAL RISK MANAGEMENT (continued)

**Fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

### 6.3 RELATED PARTIES

Key management personnel compensation included in 'personnel expenses' (note 2.3) and 'share-based payments' (note 6.1), comprises the following:

| | Note | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Short term employee benefits | | 163,219 | 163,525 |
| Share-based payments – shares issued | 6.1 | 144,808 | 142,582 |
| Share-based payments – shares to be issued | 6.1 | 19,784 | 65,055 |
| Share-based payments – options | 6.1 | - | 159,000 |
| | 2.3 | 327,811 | 530,162 |

**Individual directors and executive's compensation disclosures**

Information regarding individual directors and executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 14.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

## 6.3 RELATED PARTIES (continued)

### Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 14.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

### Other key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

| | | | Transactions value year ended 31 December | | Balance outstanding as at 31 December | |
|---|---|---|---|---|---|---|
| | | | **2016** | **2015** | **2016** | **2015** |
| | | **Note** | **$** | **$** | **$** | **$** |
| ***Key management*** | ***Transaction*** | | | | | |
| Andrew Childs | Consulting fees | (i) | 22,000 | 22,775 | 42,167 | 42,167 |
| Keith Martens | Consulting fees | (ii) | 10,418 | 15,750 | 58,118 | 30,525 |
| Aqeel Virk | Consulting fees | | - | 5,012 | 8,647 | 2,917 |
| David McArthur | Management fees | (iii) | 9,000 | - | 19,800 | - |
| Gary Jeffery | Interest on loan | (iv) | 10,107 | 4,142 | 110,107 | - |
| Keith Martens | Interest on loan | | - | 869 | - | - |
| | | | | | 238,839 | 75,609 |

***Key to table***

(i) The Group used the offices of Resource Recruitment, a company associated with Andrew Childs, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;

(ii) The Group used the consulting services of Martens Petroleum Pty Ltd, a company associated with Keith Martens, in relation to advice on certain management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;

(iii) The Group used the consulting services of Broadway Management (WA) Pty Ltd, a company associated with David McArthur, for the provision of accounting and corporate compliance services to the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;

(iv) Gary Jeffery provided cash loans to the Company, repayable within 6 months if, and when, the company is in a financial position to do so, accruing interest at 10% per annum, pro rata.

### 6.4 SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Principal activity | Place of incorporation and operation | Financial year end | Proportion of ownership interest and voting power held by the Group 2016 % | 2015 % |
|---|---|---|---|---|---|
| AOC No. 2 Pty Ltd | Corporate | Australia | 31 December | 100 | 100 |
| AOC No. 3 Pty Ltd | Corporate | Australia | 31 December | 100 | 100 |
| AOC Investments Pty Ltd | Corporate | Australia | 31 December | 100 | 100 |
| Sacgasco LLC | Oil and gas exploration | USA | 31 December | 100 | 100 |

### 6.5 JOINT ARRANGEMENTS

Details of the Group's material associates at the end of the reporting period are as follows:

| Name of associate | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group 2016 % | 2015 % |
|---|---|---|---|---|
| Alamo Creek Oil LLC | Oil and gas exploration | California, USA | - | 50 |
| Excelaron LLC | Oil and gas exploration | California, USA | - | 35 |
| Cal LNG LLC | Oil and gas exploration | California, USA | 42 | 42 |

The above associates are accounted for using the equity method in these consolidated financial statements.

On 22 January 2016, Alamo Creek Oil LLC and on 30 September 2016, Excelaron LLC were dissolved.

### 6.6 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2016, the parent entity of the Group was Sacgasco Limited.

| | 2016<br>$ | 2015<br>Restated<br>$ |
|---|---|---|
| **Result of the parent entity** | | |
| Loss for the year | (1,692,642) | (2,605,080) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | (1,692,642) | (2,605,080) |
| **Financial position of parent entity at year end** | | |
| Current assets | 211,928 | 181,321 |
| Total assets | 211,931 | 835,557 |
| Current liabilities | (944,882) | (486,232) |
| Total liabilities | (944,882) | (486,232) |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 12,133,480 | 11,477,843 |
| Reserves | 194,684 | 264,955 |
| Accumulated losses | (13,061,115) | (11,393,473) |
| **Total equity** | (732,951) | 349,325 |
| **Commitments** | | |
| ***Office rent*** | | |
| Less than one year | 24,000 | 6,000 |
| Between one and five years | 12,000 | - |
| | 36,000 | 6,000 |

### 6.7 SUBSEQUENT EVENTS

On 3 January 2017, the Company completed acquisition of private company Peregrine Limited to secure additional equity and operatorship of the Dempsey and Alvares Prospects in the Sacramento Basin Onshore Northern California.

As part of the transaction, the Company issued 32 million fully paid shares to the owners of Peregrine.

On 11 January 2017, shareholders approved the issue of 13 million options to the directors of the Company. The options are exercisable at 15 cents each and expire on 31 December 2019.

On 17 January 2017, the Company signed a farm-out agreement with Bombora Natural Energy Pty Ltd (BNE) for BNE to earn 10% working interest in the Dempsey prospect by funding 20% of the Dempsey-1 well program to a gross well cost cap of approximately $5.2 million (US$3.8 million). On 10 February 2017 BNE exercised an option to increase the interest to 20% by funding 32.5% of gross well costs (capped as above).

On 27 January 2017, 7,598,773 options were converted to fully paid shares raising $227,963. The options had an expiry date of 30 September 2017 and an exercise price of 3 cents each.

On 1 February 2017, Mr Philip Haydn-Slater was appointed as a non-executive director of the Company. Mr Haydn-Slater is co-founder and director of HD Capital Partners Ltd a London-based specialist corporate finance advisory company. The offices of HD Capital will be Sacgasco's representative office in London. Upon the appointment of Mr Haydn-Slater, Mr David McArthur resigned as a director, although he remains as Company Secretary.

On 7 February 2017, the Company entered into an agreement to acquire 13 wells and associated equipment in 3 gas fields in the Sacramento Basin.

On 10 February 2017, the Company increased a farm-out on the Dempsey Prospect to 20% working interest in return for payment of 32.5% of total well costs.

On 20 February 2017, the Company entered into loan agreements with two directors totalling $270,000. The unsecured loans are for 6 months with interest payable at 12% p.a. and extendable, by mutual agreement in writing, at least 20 days prior to expiry of the loan term.

On 1 March 2017, the Company signed an agreement to farm-out 6% of their working interest in the Alvares Gas Discovery to Bombora Natural Energy Pty Ltd.

On 20 March 2017, the Company acquired 5 gas wells and associated facilities and leases over the Dempsey Prospect.

On 28 March 2017, the Company completed a $1.72 million placement at 6.5 cents each.

Other than as disclosed above, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

### 6.8 AUDITORS' REMUNERATION

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **HLB Mann Judd** | | |
| ***Audit and other assurance services*** | | |
| Audit and review of financial reports | 20,000 | - |
| Total remuneration for audit and other assurance services | 20,000 | - |
| **Total Remuneration of HLB Mann Judd** | **20,000** | **-** |
| **Non-HLB Mann Judd audit firms** | | |
| ***Audit and other assurance services*** | | |
| Audit and review of financial reports | 15,055 | 30,900 |
| Total remuneration for audit and other assurance services | 15,055 | 30,900 |
| ***Taxation services*** | | |
| Tax compliance services | 8.067 | 5,811 |
| Tax advice on ACA and group tax reporting | 3,612 | - |
| Tax advice on USA tax filing and reporting | 5,014 | |
| Total remuneration for taxation services | 16,693 | 5,811 |
| Total remuneration of non-HLB Mann Judd audit firms | 31,748 | 36,711 |
| **TOTAL AUDITORS' REMUNERATION** | **51,748** | **36,711** |

It is the Group's policy to employ HLB Mann Judd on assignments additional to their statutory audit duties where HLB Mann Judd's expertise and experience with the Group are important. These assignments are principally tax advice, or where HLB Mann Judd is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

## 6.9 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

(a) *AASB 14 Regulatory Deferral Accounts (for first time adopters)*

(b) AASB 2014-1 A*mendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts*)

(c) AASB 2014-3 *Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations*

(d) AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*

(e) AASB 2014-9 *Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements*

(f) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

(g) *AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*

(h) AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

(i) *AASB 2015-9 Amendments to Australian Accounting Standards - Scope and Application Paragraphs*

(j) AASB 2015-10 *Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128*

(k) AASB 1057 *Application of Australian Accounting Standards*

The adoption of these standards and interpretations did not have a material impact on the Group.

## 6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2016.

| Reference | Title | Summary | Application date of standard | Application date for the Group |
|---|---|---|---|---|
| | | | Periods beginning on or after | |
| AASB 9 | Financial Instruments (2014) | The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised. AASB 9 introduces new requirements for classifying and measuring financial assets, | 1 January 2018 | 1 January 2018 |
| AASB 15 * | Revenue from Contracts with Customers | AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue*, Interpretation 13 *Customer Loyalty Programmes*, and Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, and Interpretation 131 *Revenue-Barter Transactions Involving Advertising Services*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services. | 1 January 2018 | 1 January 2018 |
| AASB 2014-5 | Amendments to Australian Accounting Standards arising from AASB 15 *(not yet fully compiled)* | This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. | 1 January 2018 | 1 January 2018 |
| AASB 2014-7 | Amendments to Australian Accounting Standards arising from AASB 9 *(December 2014)* | Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9. | 1 January 2018 | 1 January 2018 |
| AASB 2014-10 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Addresses a conflict between the requirements of AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements* and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. | 1 January 2018 | 1 January 2018 |

* Assumes that the AASB will also agree to defer the effective date of AASB 15

## 6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)

| Reference | Title | Summary | Application date of standard | Application date for the Group |
|---|---|---|---|---|
| | | | Periods beginning on or after | |
| AASB 2016-1 | Recognition of Deferred Tax Assets for Unrealised Losses | Amends AASB 112 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. | 1 January 2017 | 1 January 2017 |
| AASB 2016-2 | Disclosure Initiative: Amendments to AASB 107 | Amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | 1 January 2017 |
| AASB 16 | Leases | The new Standard introduces three main changes:<br>- Enhanced guidance on identifying whether a contract contains a lease;<br>- A completely new leases accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets;<br>Enhanced disclosures.<br>Lessor accounting will not significantly change. | 1 January 2019 | 1 January 2019 |

## DIRECTORS' DECLARATION

The Directors of the Group declare that:

1 The financial statements and notes are in accordance with the Corporations Act 2001, and:

(a) comply with Accounting Standards, which as stated in accounting policy note 1.1 to the financial statements, constitutes explicit and unreserved compliance with International Reporting Standards (IFRS), the Corporations Regulations 2001, and other mandatory reporting requirements; and

(b) give a true and fair view of the financial position as at 31 December 2016 and of the performance for the year ended on that date of the Group;

2 The Chief Executive Officer and Chief Financial Officer have each declared that:

(a) the financial records of the Group for the financial year have been properly maintained in accordance with section 266 of the Corporations Act 2001;

(b) the financial statements and notes for the financial year comply with the Accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view.

3 In the Directors' opinion, as set out in note 1.2, 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 is made in accordance with a resolution of the Board of Directors.

**GARY JEFFERY**

Managing Director

Dated at Perth, Western Australia this 31st day of March 2017.

HLB Mann Judd

**INDEPENDENT AUDITOR'S REPORT**
To the members of Sacgasco Limited

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of Sacgasco Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, 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 31 December 2016 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

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| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Going concern**<br>*Note 1.2 of the financial report* | |
| At 31 December 2016 the Group had a net asset deficiency and working capital deficiency of $1,007,577 and $692,188 respectively.<br><br>If the going concern determination was inappropriate for the financial statements to be prepared on the going concern basis, the values of certain assets and liabilities as set out in the financial statements may have significantly differed.<br><br>The going concern basis of accounting was a key audit matter due to the potential for a material uncertainty relating to this matter. | We considered the appropriateness of the going concern basis of accounting by evaluating and testing the cash flow projections prepared by the Group.<br><br>We vouched subsequent cash receipts and placement funds to be received of $2.1 million to supporting documentation, assessed the reasonableness of forecast expenditure and obtained representations from the directors as to the adequacy of cash resources and the completeness of financial statement disclosures in respect of going concern.<br><br>Our responsibilities in respect of the going concern basis of accounting are included below under *Auditor's responsibilities for the audit of the financial report*. In the directors' opinion the receipt of funds post balance date removed any uncertainty relating to this matter. |
| **Provision for site restoration obligations**<br>*Note 3.1 of the financial report* | |
| The Group has a site restoration provision of $323,031 as at 31 December 2016.<br><br>The Group has obligations to restore the land on which it has conducted drilling activities. The provision is for the expected future costs associated with the rehabilitation activities.<br><br>The site restoration provision was a key audit matter due to the significant judgement involved in estimating costs which are planned to be incurred in future years and the related timing of incurring those costs. | We considered the procedures employed by the Group for the calculation of the 31 December 2016 site restoration provision for each of the wells.<br><br>We considered provision movements during the year to ensure that they were consistent with our understanding of the Group's activities during that period.<br><br>As part of our detailed testing we reviewed the cost elements used in the estimated rehabilitation for each well. We assessed whether sufficient supporting evidence was available to support the cost estimates. We also vouched significant expenditure made to rehabilitate the sites during the year to supporting documentation. |

| Change in accounting policy<br>*Note 1.7 of the financial report* | |
|---|---|
| During the year, the Group changed its accounting policy regarding its treatment of exploration and evaluation expenditure. In previous financial years, exploration and evaluation expenditure in relation to areas of interest which had not reached a stage which permitted reasonable assessment of the existence or otherwise of economically recoverable reserves, was capitalised. The Group then assessed whether any indicators of impairment existed which would require the Group to assess capitalised exploration and evaluation expenditure for impairment. The new accounting policy is to expense exploration and evaluation expenditure as incurred.<br><br>The change in accounting policy resulted in the restatement of affected 2015 balances and the disclosure of the restatement of balances reported in the 2015 financial report.<br><br>The change in accounting policy was a key audit matter due to the size and scope of the change and impact on the presentation of the financial statements. | We considered the appropriateness of the change in accounting policy ensuring that the disclosure requirements set out in AASB 108 were complied with, including that the change provided more relevant financial information to the users of the financial report.<br><br>We reconciled the restated balances to the prior year audited balances ensuring that the change was correctly calculated and disclosed. |

*Information other than the financial report and auditor's report thereon*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual financial report for the year ended 31 December 2016, 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 Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

*Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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.

- 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.

- 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.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most 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 17 to 25 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Sacgasco Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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

HLB Mann Judd

**HLB Mann Judd**
**Chartered Accountants**

Norman Glad

**N G Neill**
**Partner**

**Perth, Western Australia**
**31 March 2017**

## STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 28 February 2017:

### 1. Distribution of ordinary shares

| Range | Total holders | Ordinary shares | % of issued capital |
|---|---|---|---|
| 1 - 1,000 | 67 | 6,711 | 0.004 |
| 1,001 - 5,000 | 41 | 162,727 | 0.095 |
| 5,001 - 10,000 | 65 | 588,988 | 0.346 |
| 10,001 - 100,000 | 241 | 11,238,526 | 6.594 |
| 100,001 and over | 165 | 158,433,064 | 92.961 |
| **Total** | **579** | **170,430,016** | **100.000** |

There were 119 holders of less than a marketable parcel of ordinary shares.

### 2. Substantial shareholders

The substantial shareholders are set out below:

| Shareholders | Number of Shares |
|---|---|
| HSBC Custody Nominees (Australia) Limited | 38,263,788 |

### 3. Voting rights

***Ordinary shares***
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

***Options and rights***
No voting rights.

### 4. Unlisted options

| Grant date | Number | Number of holders | Expiry date | Exercise price (cents) |
|---|---|---|---|---|
| 26-Oct-15 | 11,000,000 | 5 | 30-Sep-19 | 10 |
| 20-Sep-16 | 1,100,000 | 1 | 30-Sep-17 | 3 |
| 27-Jan-17 | 22,000,000 | 9 | 31-Dec-19 | 15 |

### 5. Twenty largest shareholders

| | Ordinary shares | |
|---|---|---|
| **Shareholders** | **Number held** | **% of issued shares** |
| HSBC Custody Nominees (Australia) Limited | 38,263,788 | 22.451 |
| Bond Street Custodians Limited <PNCORK – D00089 A/C> | 6,551,444 | 3.844 |
| Mr Anthony De Nicola & Mrs Tanya Louise Nicole <De Nicola Family S/F A/C> | 5,925,000 | 3.477 |
| Mr Benjamin William Jarvis | 3,883,991 | 2.279 |
| Brazell Pty Ltd | 3,695,334 | 2.168 |
| Magaurite Pty Ltd | 3,500,000 | 2.054 |
| Talex Investments Pty Ltd | 3,480,000 | 2.042 |
| Mr Alan George Brooks & Mrs Philippa Clair Brooks <AG & PC Brooks S/Fund A/C> | 3,269,837 | 1.919 |
| Mr Paul Gregory Brown & Mrs Jessica Oriwia Brown <Brown Super Fund A/C> | 3,000,000 | 1.760 |
| Queensland M M Pty Ltd | 3,000,000 | 1.760 |
| Glennbrown Pty Ltd | 2,610,065 | 1.531 |
| Mrs Kerry Margaret Martens & Mr Keith Neil Martens <Onslow Super Fund A/C> | 2,421,859 | 1.21 |
| NEFCO Nominees Pty Ltd | 2,289,000 | 1.343 |
| Great Eastern Holdings Pty Ltd | 2,200,000 | 1.291 |
| Blue Sky International Holdings Inc | 1,914,175 | 1.123 |
| Hennessy Pacific Investments Limited | 1,906,666 | 1.119 |
| Citicorp Nominees Pty Ltd | 1,902,545 | 1.116 |
| Warrangi Nominees Pty Ltd | 1,700,000 | 0.997 |
| Mr Andrew John Pearson | 1,700,000 | 0.997 |
| Pemberley Group Pty Ltd | 1,512,616 | 0.888 |

## 6. Petroleum lease interests

| Project name | Location | Working interest |
|---|---|---|
| Dempsey Prospect | Sacramento Basin Onshore Northern California | 70% |
| Alvares Prospect | Sacramento Basin Onshore Northern California | 69% |
| California AMI Prospects | Sacramento Basin Onshore Northern California | 56% |
| Rancho-Capay Gas Field | Sacramento Basin Onshore Northern California | 70% |
| Los Medanos Gas Field | Sacramento Basin Onshore Northern California | 70% |
| Malton Field | Sacramento Basin Onshore Northern California | 70% |
| Dutch Slough Field | Sacramento Basin Onshore Northern California | 70% |
| Denverton Field | Sacramento Basin Onshore Northern California | 70% |
| Rancho-Capay & East Rice Creek Fields (New) | Sacramento Basin Onshore Northern California | 90% |

**Notes to Tenement / Project List:**

NA: Not applicable- not affected by farmout; * Preliminary-represents Sacgasco working interest in the related acquisition transactions-detailed working interests are under review for these post–reporting period transactions.

**Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions:**

The company also acquired 100% of the Arnaudo Prospect as part of the Peregrine acquisition. It is currently not considered material relative to the other company prospects.

Working interest may vary across individual Prospects and WI above reflects the WI in the majority of leased lands.

**Leases:**
US exploration is conducted on leases grant by Mineral Right owners, in SGC's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties are paid to mineral right owners in lieu of rentals. SGC has not listed all it leases as it is impractical and not meaningful for potential project value assessment in a natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to SGC shareholders.