



# **XSTATE RESOURCES LIMITED**

**ABN 96 009 217 154**

## **ANNUAL FINANCIAL REPORT**

**For the year ended 31 December 2018**

**XSTATE RESOURCES LIMITED**  
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## **CORPORATE DIRECTORY**

### **Directors**

Mr Cosimo Damiano  
Mr Chris Hodge  
Mr Ian Tchacos  
Mr David McArthur

### **Company Secretaries**

Mr David McArthur  
Mr Jordan McArthur

### **Registered and Principal Office**

Level 1, 31 Cliff Street  
Fremantle WA 6160

Website: [www.xstate.com.au](http://www.xstate.com.au)

Telephone: +61 8 9435 3200  
Facsimile: +61 8 6444 7408

### **Postal Address**

PO Box 584  
Fremantle WA 6959

### **Auditors**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6000

### **Bankers**

ANZ Banking Group Limited  
Level 6, 77 St Georges Terrace  
Perth WA 6000

### **Share Registry**

Advanced Share Registry Services  
110 Stirling Highway  
Nedlands WA 6009

### **ASX Code**

Shares: XST

### **Legal Form of Entity**

Public Company

### **Country of Incorporation and Domicile**

Australia

# XSTATE RESOURCES LIMITED

## REVIEW OF OPERATIONS

For the year ended 31 December 2018

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## REVIEW OF OPERATIONS

### Overview

Xstate Resources Limited (“Xstate” or “the Company”) is listed on the Australian Stock Exchange (**ASX:XST**). The Group is primarily involved in oil and natural gas exploration.

The 2018 year proved to be a challenging year for Xstate; the litigation case against the three Singapore defaulting investors consumed a significant amount of management’s time, whilst our long-awaited exploration and appraisal activities in the Sacramento Basin did not deliver on expectations.

Unfortunately, for the second consecutive year, a significant amount of management’s time was absorbed by litigation activities in Singapore without a clear conclusion. During 2018, the Company settled with one defendant and post year-end we settled with the second named defendant in Singapore. Moving forward, the Company continues to pursue Contempt Proceedings against Tanzil Hidayat, which are progressing. The Company fully intends to enforce its rights against Mr Hidayat for recovery of its debt and to take out the necessary applications against him.

In spite of these difficult times, the Xstate Board is committed to rebuilding the Company. Legal activities in Singapore are progressing well, with the Company coming to a financial agreement with Hong Hung Thiam; appraisal and exploration activities in the Sacramento Basin are anticipated to re-commence mid-2019 and the Company is confident its acquisition strategy is back on track in 2019.

Operational and financial highlights for the period:

- Production from operations in the Sacramento Basin, California for the 12 months ending 31 December 2018 was 288,564 cubic feet gross (36,845 cubic feet net to Xstate). Production during 2018 benefited from prior wells having been brought online as part of the well work program focused on increasing production from the idle well portfolio.
- During 2018, drilling activities at the Dempsey-1 appraisal and exploration well concluded. Unfortunately, despite initial encouraging production testing, the Dempsey-1 well was shut-in due to water accumulated in the well bore and has not since come back onto production.
- Xstate sought a sale of its Dempsey Project interests during 2018, however the transaction failed to close and the Company retained the non-refundable cash component of approximately US\$90,000 and share component that comprised approximately 139m shares in Raven (at an issue price of \$0.0018 per share).
- In January 2018, Xstate announced that the High Court of The Republic of Singapore granted Xstate’s application and registered the Western Australian Judgment (“**Australian Judgment**”) against the three Singapore based defendants. The Singapore registration granted Xstate leave to enforce the Australian judgment as if it were a Singapore judgment.
- During 2018, Xstate progressed its legal claim against the three Singapore based defendants through the Singapore Courts. The Company reached a confidential agreement with Chloe Kwok Yun Qing and she had agreed to withdraw her challenges to the Australian and Singapore judgments. The Company also initiated Contempt of Court proceedings against Hong Hung Thiam in September 2018 and the Singapore Court found Mr Thiam in Contempt.
- Xstate is pursuing a range of growth opportunities focused on expanding the Company’s asset base in its core Sacramento Basin region and acquiring conventional oil production onshore North America. The Board remains confident of closing a favourable transaction, although timing is uncertain as commercial-in-confidence negotiations continue.
- As at 31 December 2018 the Company held cash and cash equivalents of \$994,442.
- At 31 December 2018, Xstate had 1,140,490,898 shares on issue and 1,583 shareholders. Its Top 20 holders held 540,656,685 shares or 47.5% of the Company’s issued capital.

## **XSTATE RESOURCES LIMITED REVIEW OF OPERATIONS**

**For the year ended 31 December 2018**

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### **The Financial Year**

On 17 October 2018, the Company issued 116,666,667 fully paid shares at 0.3 cents per share via a private placement to raise \$350,000 before costs.

On 6 December 2018, the Company issued 207,000,000 fully paid shares at 0.3 cents per share via a private placement to raise \$621,000 before costs. The Company also issued 33,333,334 fully paid shares on this date to Directors in partial settlement of outstanding Director fees.

### Sacramento Basin Activities

On 17 January 2018, the operator of the Dempsey-1 appraisal and exploration ("**Dempsey-1**") well advised the market that production and sale of natural gas from the Dempsey 1-15 well has commenced. According to the operator, the well flowed high-quality dry gas (997 Btu/scf) at a rate of approximately 140 million cubic feet of gas ("**Mcf/d**") with a flowing tubing pressure of 670 pounds per square inch ("**psi**").

On 16 April 2018, the operator advised that the testing of Zone 3 in the Dempsey 1-15 well had resulted in a further flow of clean natural gas with the quality of the gas samples consistent with other zones. Zone 3 perforations flowed gas at 195 Mcf/d on 16/64" choke with 118 psi and no water.

On 7 May 2018, the operator advised the market that flow-testing of the Dempsey 1-15 well from the field level Kione Zone had produced a commercial gas flow rate of 1 Mcf/day.

Additionally on 7 May 2018, Xstate advised the market it had entered into a Binding Letter of Intent ("**LOI**") with Gasfields Limited ("**ASX:GFS**") [formerly Raven Energy Limited ("**Raven**"; "**ASX:REL**")] an ASX listed company. Raven had agreed to acquire Xstate's wholly-owned subsidiary XGas LLC ("**XGas**"), that holds interests in leases, land, mineral ownership, wells and related production and infrastructure in the Dempsey Project in the Sacramento Basin, California. Under the terms of the LOI Xstate had agreed to divest its interests in the Dempsey project for upfront cash consideration of US\$500,000 plus a deferred payment of A\$500,000 in cash or Raven shares within 90 days of closing.

On 23 May 2018, the operator of the Dempsey-1 well advised the market that the well "will very shortly produce into the sales gas pipeline at an anticipated rate of 1,200 Mcf/d from Field Level Kione Sandstone and the combined Zones 2, 3 and 4.

On 18 July 2018, the operator of the Dempsey-1 well advised the market that the well was flowing natural gas to sales pipelines at a combined rate of 1,300 Mcf/d from Ranch Capay Field Level Kione Sandstone and the combined older Zones 2, 3 and 4.

On 17 August 2018, Xstate advised the market it had agreed to amended terms of the sale of XGas LLC to Raven. Raven agreed to pay a further non-refundable deposit of US\$20,000 (total paid US\$90,000) and issued Xstate with 50% of the share consideration, being approximately 139m Raven shares at 0.18 cents per share, equivalent to AUD\$250,000. Under the revised sales terms the remaining cash component of US\$410,000 and share consideration of AUD\$250,000 (approximately 139m shares) would be payable by Raven to Xstate no later than October 31, 2018.

On 29 August 2018, the operator of the Dempsey-1 well advised the market that following the previously announced recommencement of gas production from the Dempsey 1-15 well, some water accumulated in the well bore and reduced gas production, as a result production of gas from the Dempsey well had been shut-in.

On 1 November 2018, Xstate advised the market that it terminated the transaction of the sale of its Dempsey Project Interests to Raven for non-performance by Raven. Xstate retained approximately US\$88,500 that had been paid by Raven and the A\$250,000 of shares issued by Raven, as these had been paid and issued on a non-refundable basis.

**XSTATE RESOURCES LIMITED**  
**REVIEW OF OPERATIONS**  
**For the year ended 31 December 2018**

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Singapore Legal Proceedings

By way of background, on 19 December 2016, the company advised that it had agreed to enter into a series of subscription agreements to raise A\$25,000,000 before costs at 3.8 cents per share. The Company entered into binding letters of offer with four sophisticated Asian investors who subscribed for shares. The purpose of the capital raise was to fund the acquisition of a working interest in the Sansinena oil field located onshore in the Los Angeles Basin.

On 22 January 2018 the Company announced that the High Court of The Republic of Singapore has granted Xstate's application and registered the Western Australian Summary Judgment ("**Australian Judgment**") against the three defendants - Tanzil Hidayat, Chloe Kwok Yun Qing and Hong Hung Thiam ("**Singapore Order**").

On 17 September 2018, Xstate advised the market that the Singapore High Court Judge found that Mr Thiam was liable for contempt and sentenced him to a fine of SGD15,000, and in default of payment, 10 days imprisonment. The Judge determined that the evidence presented by Xstate demonstrated that Mr Thiam intentionally and deliberately failed to comply with the Court Orders for Examination of Judgment Debtor ("**EJD**").

On the 31 October 2018, Xstate advised the market it had reached a confidential agreement with Ms Qing and she agreed to withdraw her challenges to the Australian and Singaporean judgments.

On 20 November 2018, Xstate advised the market that the Company had successfully applied and registered a Writ of Seizure and Sale ("**WSS**") with the Land Titles Registry against Hong's share of his residential property in Singapore.

Company Strategy and New Ventures

The Board and Management have continued to actively seek to identify and evaluate further asset opportunities that meet Xstate's investment criteria and are capable of being delivered in a timely manner.

The Board have reviewed many opportunities which have varied in size and location that fit the Company's criteria; namely existing oil and gas production operations and material proven reserves with associated proven undeveloped development drilling locations. Very few have met the Company's rigorous technical and commercial requirements.

The identified projects under review are typically production opportunities onshore California that have the potential to add significant value to the Company via production and reserves enhancement, cost control, and the drilling of new development and appraisal wells.

The Company's production acquisition strategy was delayed by the uncertainty related to the ongoing litigation case and ongoing capital commitments in the Sacramento Basin.

Despite not concluding a new business opportunity to date, the work done places the Company in a good position to pursue new opportunities in the near future.

Production

Xstate acquired a working interest in minor gas production rights in the Sacramento Basin onshore California in 2013 and 2017. The purpose was to acquire the leases for further exploration, acquire associated infrastructure to fast track any exploration success and to access an extensive 3D seismic database from which to generate new exploration opportunities. Production for the year was as follows:

**XSTATE RESOURCES LIMITED – SACRAMENTO BASIN PRODUCTION 2018**

<b>Production</b>	<b>2018</b>	<b>2017</b>
<b>Gross mcf (Thousand Cubic Feet of Gas)</b>	288,564	245,996
<b>Net XST mcf (after royalty)</b>	36,845	29,906

**XSTATE RESOURCES LIMITED  
REVIEW OF OPERATIONS**

**For the year ended 31 December 2018**

Production during 2018 reflects prior wells having been brought online as part of the well work program focused on increasing production from the idle well portfolio.

**XSTATE RESOURCES LIMITED – SACRAMENTO BASIN TENEMENT LIST NORTHERN CALIFORNIA**

<b>Project name</b>	<b>Category</b>	<b>Working Interest (WI)</b>
<b>Alvares Appraisal Well</b>	Appraisal	25%
<b>Alvares Project</b>	Exploration & Appraisal	30%
<b>Dempsey 1-15 Well</b>	Exploration & Appraisal	10%
<b>Dempsey AMI</b>	Active leasing 3 large prospects	24%
<b>Rancho Capay Field</b>	Production	10%
<b>Malton field</b>	Production	30%
<b>East Rice East Creek Field</b>	Production	10%
<b>Los Medanos Gas Field</b>	Production	10%
<b>Dutch Slough Field</b>	Production	30%
<b>Denverton Field</b>	Production	30%
<b>Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.</b>		

**Financial results and condition**

The net loss for the financial year ended 31 December 2018 after income tax was \$1,280,675 (2017: loss of \$3,316,524).

The Group has a working capital surplus of \$110,674 (2017: \$380,894) and net cash inflows of \$319,002 (2017: outflow \$789,617).

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

**Summary of results**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities	-	3,751
Other income	528,380	89,770
Loss before income tax	(1,276,149)	(3,314,437)
Income tax expense	(4,526)	(2,087)
<b>Net Loss for the year</b>	<b>(1,280,675)</b>	<b>(3,316,524)</b>
Other comprehensive (loss) / income	(3,865)	45,977
<b>Total comprehensive loss for the year</b>	<b>(1,284,540)</b>	<b>(3,270,547)</b>
Underlying loss per share (cents)	(0.16)	(0.49)
Shares in issue at reporting date	1,140,490,898	783,490,897
Weighted average number of shares	824,902,769	680,514,571

**XSTATE RESOURCES LIMITED**  
**REVIEW OF OPERATIONS**  
**For the year ended 31 December 2018**

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**Planned Activity - 2019**

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

**Competent person statement**

The technical information provided has been compiled by Mr Chris Hodge, non-executive Director of Xstate Resources Limited. Mr Hodge is a qualified petroleum geologist with over 35 years technical, commercial and management experience in exploration, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Hodge has reviewed the results, procedures and data contained in this report and has consented to the inclusion of the above information in the form and context in which it appears.

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

**DIRECTORS' REPORT**

The Directors present their report together with the financial statements of Xstate Resources Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 31 December 2018 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 independence status	Experience, qualifications, special responsibilities and other directorships
<p><b>Cosimo Damiano</b> Managing Director</p> <p>Appointed: 27 October 2015</p> <p><u>Appointed positions:</u> Executive Director on 27 October 2015 Managing Director on 31 May 2016</p> <p><u>Interest in shares and options:</u> Shares: 20,900,000 Options: 13,000,000</p>	<p>Cosimo Damiano brings to Xstate extensive commercial and finance experience and asset familiarity on the ground in Xstate's core areas of interest in the USA.</p> <p>Mr. Damiano's experience involves the strategic analysis and financial modelling of oil &amp; gas companies for global investment banks and energy commodity trading companies in a principal investment role. This experience has provided Mr. Damiano with a strong commercial understanding and analytical analysis of financing oil and gas assets across various geographic and fiscal regimes.</p> <p>Mr Damiano has extensive experience in North America, representing the Mercuria Group as a Director of Upstream Investments and represented Mercuria's Board interests in the company's oil and gas investments throughout North America located in California and North Dakota.</p>
<p><b>Chris Hodge</b> Non-executive Director</p> <p>Appointed: 12 November 2013</p> <p><u>Appointed positions:</u> Non-executive Director on 12 November 2013;</p> <p><u>Interest in shares and options:</u> Shares: 12,617,339 Options: 9,000,000</p>	<p>Chris Hodge is a qualified geologist and petroleum geophysicist with extensive technical experience both in Australia and overseas. He has held managerial positions in major petroleum exploration and production companies and played a significant part in the growth of these companies via a mix of successful exploration and acquisition.</p> <p>Mr Hodge is a member of the Petroleum Exploration Society of Australia ("PESA") and the American Association of Petroleum Geologists ("AAPG"). He is also a Member of the Australian Institute of Company Directors ("MAICD") and holds a Graduate Diploma in Applied Finance and Investment.</p> <p>Mr Hodge was Managing Director of ASX-listed Adelphi Energy until 2010 and is currently the Exploration and Production Advisor to Mitsubishi in Australia.</p> <p>Mr Hodge was a Non-executive Director of Roc Oil Company Limited from 7 September 2010 until 31 December 2016.</p> <p>Mr Hodge is a member of the Audit and Risk Management Committee and the Nominations and Remuneration Committee.</p>

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

**1. DIRECTORS (continued)**

<b>Name and independence status</b>	<b>Experience, qualifications, special responsibilities and other directorships</b>
<p><b>David McArthur</b> Non-executive Director</p> <p>Appointed: 3 September 2013</p> <p><u>Interest in shares and options:</u> Shares: 24,993,699 Options: 9,000,000</p>	<p>David McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, and has over 35 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 31 years.</p> <p>Mr McArthur has a Bachelor of Commerce Degree from the University of Western Australia.</p> <p>Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies.</p> <p>Mr McArthur is an Executive Director of Lodestar Minerals Limited and a Non-executive Director of Smart Marine Systems Limited. Mr McArthur was a Director of Sacgasco Limited until 1 February 2017.</p> <p>Mr McArthur is Chair of the Audit and Risk Management Committee and is a member of the Nominations and Remuneration Committee.</p>
<p><b>Ian Tchacos</b> Non-executive Director</p> <p>Appointed: 12 August 2014</p> <p><u>Interest in shares and options:</u> Shares: 9,532,019 Options: 9,000,000</p>	<p>Mr Tchacos is a mechanical engineer with over 25 years international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production, operations, marketing and finance. He has a proven management track record in a range of international company environments.</p> <p>In his last appointment as Managing Director of Nexus Energy, he was responsible for the company's development from an onshore micro-cap explorer to an ASX top 200 onshore producer and operator.</p> <p>Mr Tchacos is Executive Chairman of ADX Energy Limited. Mr Tchacos was a Non-Executive Director of Riedel Resources Limited until 18 January 2016.</p> <p>Mr Tchacos is a member of the Audit and Risk Management Committee and is Chair of the Nominations and Remuneration Committee.</p>

**2. COMPANY SECRETARIES**

Mr David McArthur is a Chartered Accountant and was appointed to the position of Company Secretary on 29 October 1999. Mr McArthur has over 31 years' experience in the corporate management of publicly listed companies.

Jordan McArthur is a Chartered Accountant and was appointed to the position of joint company secretary on 17 April 2018. Mr McArthur has 9 years corporate and financial experience in Australian and the United Kingdom.

**XSTATE RESOURCES LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2018

**3. DIRECTORS' MEETINGS**

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2018, and the number of meetings attended by each director was:

Director	Full meetings of directors		Meeting of Audit and Risk Management Committee	
	No. of meetings attended	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Director
Cosimo Damiano	5	5	2*	2
Chris Hodge	5	5	1	2
David McArthur	5	5	2	2
Ian Tchacos	5	5	-	2

\* Attended as invitee

**4. PRINCIPAL ACTIVITIES**

The principal activity of the Group during the course of the financial year was oil and natural 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 2018 (2017: Nil).

**7. LIKELY DEVELOPMENTS**

The Group will continue to pursue its strategy to further develop its exploration portfolio in California, USA.

**8. EVENTS SUBSEQUENT TO REPORTING DATE**

On 21 January 2019, the operator advised that Alvares-1 re-entry and testing program is now planned for the early North American summer. Furthermore, the previous farm out of a 4% working interest by Xstate to Bombora Natural Energy Pty Ltd has been terminated and Xstate has reverted back to a 25% working interest in the Alvares Appraisal Project.

On 29 January 2019, it was advised that the Company had entered into a strategic alliance with TSX listed entity, Hillcrest Petroleum Limited, to jointly pursue oil and gas acquisition on onshore Canada and USA.

On 11 March 2019, Xstate entered into a Forbearance to Sue Agreement with Hong Hung Thiam ("Hong"), one of the three defendants in the Company's Singaporean legal action. The forbearance sum to be paid to the Company is A\$500,000 to be paid in five instalments between February and mid-May 2019.

If Hong fails to pay or remedy any instalment payment in full by their respective due dates, Xstate is entitled to execute in full against Hong the judgment sums awarded by the Australian and Singapore courts. As at the date of this report, A\$250,000 has been received from Hong with the residual A\$250,000 expected in two final instalment payments.

Other than the events noted above, there have been no other subsequent events of a material nature occurring.

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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**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**

**Unissued shares under options**

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

<b>Expiry date</b>	<b>Exercise price cents</b>	<b>Number of shares</b>
31-Dec-20	5	42,000,000
30-Dec-20	0.5	<u>5,000,000</u>

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, no shares were issued as a result of the exercise of options.

**Options expired**

No options expired during the reporting period (31 December 2017: nil options expired).

**11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

During the financial year, the Company paid an insurance premium of \$34,424 (2017: \$31,922) 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.

The Group has agreed to indemnify each of the directors and the company secretary of the Company and its controlled entity, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

# XSTATE RESOURCES LIMITED DIRECTORS' REPORT

For the year ended 31 December 2018

## 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.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, BDO Audit (WA) Pty Ltd, and its related practices for non-audit services provided during the year are set out below:

	2018 \$	2017 \$
<b>Taxation services</b>		
<b><i>BDO Audit (WA) Pty Ltd</i></b>		
Tax compliance services	9,430	19,840
<b>Total remuneration for non-audit services</b>	<b>9,430</b>	<b>19,840</b>

## 13. PROCEEDINGS 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 2018 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:

- Remuneration governance
- Executive remuneration strategy and framework
- Board and management changes
- Service contracts
- Non-executive director remuneration
- Key management personnel remuneration
- Analysis of bonuses included in remuneration
- Other KMP disclosures
- Voting and comments made at the Company's 2018 Annual General Meeting

### (a) Remuneration governance

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

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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**14. REMUNERATION REPORT – AUDITED (continued)**

**(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 were new ventures and exploration / evaluation, 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 role, responsibilities, skills and experience.

***Performance-linked compensation***

Performance-linked compensation can consist of both short-term and longer-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.

***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 Share Options Scheme (ESOS) effective 31 January 2017. Under the ESOS, the Company may grant options to Company eligible employees 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.

The Company has awarded options to directors and consultants.

***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.

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

**14. REMUNERATION REPORT – AUDITED (continued)**

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

<b>Shareholder returns</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total Comprehensive Loss for year (\$)	(1,284,540)	(3,270,547)	(1,036,166)	(1,530,025)	(1,485,283)
Basic EPS (cents)	(0.16)	(0.49)	(0.23)	(0.77)	(0.88)
Share price at year end (cents)	0.2	1.20	2.40	0.5	1.0
Market capitalisation (\$)	2,280,981	9,401,891	14,923,025	1,190,308	1,821,292
Net tangible (liabilities) / assets (NTA) (\$)	55,925	340,138	1,295,307	(79,484)	387,186
NTA Backing (cents)	0.01	0.04	0.21	(0.03)	0.21

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

The Group's financial performance is impacted by a number of factors. As the Group is still in the exploration phase of its operations, and as such does not generate revenue, the share price and thus the Company's market capitalisation is the only indicator of the Group's overall performance.

**(c) Board and management changes**

There have been no changes to the Board or management during the year ended 31 December 2018.

**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 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 cost of living changes, any change in the scope of the role performance by KMPs 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.

<b>Name</b>	<b>Term of agreement</b>	<b>Employee notice period</b>	<b>Employer notice period</b>	<b>Base salary</b>	<b>Termination Benefit <sup>(iii)</sup></b>
Cosimo Damiano	Ongoing from 1 January 2017	3 months	12 months	\$150,000 <sup>(i)</sup>	12 months' base
David McArthur	Ongoing from 1 January 2017	12 months	12 months	\$50,000 <sup>(ii)</sup>	12 months' base

<sup>(i)</sup> Base salary is paid in respect of Mr Damiano working 50% of his time for Xstate and is inclusive of superannuation and quoted as at the year ended 31 December 2018. Mr Damiano can be remunerated for time worked in excess of 50% of his time with the specific approval of the Board;

<sup>(ii)</sup> Base salary is exclusive of superannuation and quoted as at the year ended 31 December 2018;

<sup>(iii)</sup> 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;

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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**14. REMUNERATION REPORT – AUDITED (continued)**

**(e) Non-Executive Directors**

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 19 May 2011, is not to exceed \$400,000 per annum and is based on comparative roles in the external market. The base fee for all Non-Executive Directors, including the Chairman, for the year ended 31 December 2018 was \$36,000 per annum. 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 and they do not receive cash performance related compensation.

In addition to their base fees, Non-Executive Directors may also receive payment for consultancy services at \$1,500 per day plus reimbursable expenses for days worked over and above those expected to be worked in consideration of Non-Executive Directors fees. The contracts have a 12 months' termination clause.

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

For the year ended 31 December 2018

**14. REMUNERATION REPORT – AUDITED (continued)**

**(f) Key management personnel remuneration**

Name		Short-term employee benefits			Post-employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Super-annuation \$	Shares \$	Options (C) \$	
<b>Executive Directors</b>								
Cosimo Damiano	<b>2018</b>	<b>159,817</b>	<b>8,606</b>	<b>168,423</b>	<b>13,014</b>	-	-	<b>181,437</b>
	2017	148,402	7,981	156,383	14,098	-	137,800	308,281
<b>Non-Executive Directors</b>								
Chris Hodge	<b>2018</b>	<b>36,000</b>	<b>8,606</b>	<b>44,606</b>	-	-	-	<b>44,606</b>
	2017	36,000	7,981	43,981	-	-	95,400	139,381
David McArthur	<b>2018</b>	<b>86,000</b>	<b>8,606</b>	<b>94,606</b>	<b>4,750</b>	-	-	<b>99,356</b>
	2017	86,000	7,981	93,981	4,750	-	95,400	194,131
Ian Tchacos	<b>2018</b>	<b>36,000</b>	<b>8,606</b>	<b>44,606</b>	-	-	-	<b>44,606</b>
	2017	36,000	7,981	43,981	-	-	95,400	139,381
Sub-total Non-Executive Directors' remuneration	<b>2018</b>	<b>158,000</b>	<b>25,818</b>	<b>183,818</b>	<b>4,750</b>	-	-	<b>188,568</b>
	2017	158,000	23,943	181,943	4,750	-	286,200	472,893
<b>Total key management personnel remuneration</b>	<b>2018</b>	<b>317,817</b>	<b>34,424</b>	<b>352,241</b>	<b>17,764</b>	-	-	<b>370,005</b>
	2017	306,402	31,924	338,326	18,848	-	424,000	781,174

**XSTATE RESOURCES LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

**14. REMUNERATION REPORT – AUDITED (continued)**

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

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

(A) Includes movements in annual leave accrual for Executive Director.

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

- Chris Hodge                      \$9,750 (2017: \$17,625)
- David McArthur                \$88,000 (2017: \$87,000)
- Ian Tchacos                     \$nil (2017: \$nil)

(B) Comprises Directors and Officers insurance premiums;

(C) The fair value of options granted was determined using the Black-Scholes method at grant date.

**(g) Analysis of bonuses included in remuneration**

No short-term incentive cash bonuses have been awarded as remuneration to directors of the Company.

**(h) Other KMP disclosures**

All options refer to options over ordinary shares of Xstate Resources Limited, which are exercisable on a one-for-one basis under the Employer Share Option Scheme.

**Options over equity instruments granted as compensation**

During the reporting period, no options were issued to Directors of the Company (2017: 40 million).

**Exercise of options granted as compensation**

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

**Options over equity instruments**

The movement during the reporting period, by number of options over ordinary shares of Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2018	Granted	Held at 31 December 2018	Vested and exercisable at 31 December 2018
<b>Executive Directors</b>				
Cosimo Damiano	13,000,000	-	13,000,000	13,000,000
<b>Non-executive Directors</b>				
Chris Hodge	9,000,000	-	9,000,000	9,000,000
David McArthur	9,000,000	-	9,000,000	9,000,000
Ian Tchacos	9,000,000	-	9,000,000	9,000,000

**XSTATE RESOURCES LIMITED**  
**DIRECTORS' REPORT**  
**For the year ended 31 December 2018**

**14. REMUNERATION REPORT – AUDITED (continued)**

**(h) Other KMP disclosures (continued)**

***Movements in shares***

The movement during the reporting period in the number of ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	<b>Held at 1 January 2018</b>	<b>Purchases / Issue in lieu of fees*</b>	<b>Sales</b>	<b>Held at 31 December 2018</b>
<b>Executive directors</b>				
Cosimo Damiano	9,233,333	11,666,667	-	<b>20,900,000</b>
<b>Non-executive directors</b>				
Chris Hodge	7,617,339	5,000,000	-	<b>12,617,339</b>
David McArthur	14,993,699	11,666,667	(1,666,667)	<b>24,993,699</b>
Ian Tchacos	4,532,019	5,000,000	-	<b>9,532,019</b>

\* Issue of 33,333,334 fully paid ordinary shares at \$0.003 in partial satisfaction of Director Fee Liability of \$100,000.

**(i) Voting and comments at the Company's 2018 Annual General Meeting**

The Company received 96.94% of "yes" votes on its remuneration report for the 31 December 2017 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 2018.

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



**COSIMO DAMIANO**

Managing Director

Dated at Perth, Western Australia this 28<sup>th</sup> day of March 2019.

## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF XSTATE RESOURCES LIMITED

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

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

This declaration is in respect of Xstate Resources Limited and the entities it controlled during the period.



Dean Just  
Director

BDO Audit (WA) Pty Ltd  
Perth, 28 March 2019

## **CORPORATE GOVERNANCE STATEMENT**

The 2018 Corporate Governance Statement is dated as at 31 December 2018 and reflects the corporate governance practices in place throughout the 2018 financial year.

Xstate Resources Limited (“**the Company**”) 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. Additionally, they comply with the 3<sup>rd</sup> edition of the ASX Corporate Governance Principles and Recommendations. A copy of the Corporate Governance policies is contained on the Company’s website.

### **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 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 Executive 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.

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

- Industry experience / technical qualification;
- Commercial experience;

## **XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT**

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### **Board composition (continued)**

- Public company experience;
- Analytical expertise;
- Financial expertise;
- Risk management experience;
- Strategic planning experience;
- Strategic leadership experience;
- Corporate Governance expertise;
- Communications experience; and
- Inter personal experience.

The Board comprises an Executive Director, one Non-Executive Director and two Non-Executive Independent directors. 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.

Directors' details are set out in the Directors' Report.

The Board, through the Remuneration and Nomination Committee, 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.

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 (other than the Managing Director) shall hold office for a period of three years without seeking re-election.

Directors who have been appointed by the Board are required to retire from office at the Annual General Meeting following their appointment and are not taken in to account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

### **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

## **XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT**

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### **Independence of Directors (continued)**

of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate. The Board considers that Messrs Chris Hodge and Ian Tchacos meet the criteria in Principle 2. They have no material business or contractual relationship with the Group, 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 advisers were not used.

### **Director remuneration**

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

Non-Executive Directors will be remunerated by cash payments (including statutory superannuation) and may receive equity performance incentives, but they will not be provided with any benefits for ceasing to be a Director.

Executive Directors are 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; and
- establish and continuously assess a Group Risk profile which identifies all significant risks to the group and controls in place to minimise or mitigate risk; and
- insurance and risk management programs which are reviewed by the board.

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 entity's risk management framework was reviewed by the Board during the financial year.

The Board's review of business risk is also based on reports from the Audit and Risk Management Committee.

## **XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT**

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### **Managing Business Risk (continued)**

The Managing Director and Chief Financial Officer 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. The Board does not believe it has any material exposure to economic, environment and social sustainability risks.

Due to its size and activities the Company does not have an internal audit function. The Board has determined that the established internal controls for the Company, combined with the work of the Audit and Risk Management Committee, at this stage satisfactorily address the function that would otherwise be dealt with by 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.

### **Board Committees**

#### **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 Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in overseeing 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;
- 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 if major deficiencies or breakdowns in controls or procedures are 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;

## **XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT**

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

- 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 members of the Audit and Risk Management Committee for the Company at the date of this report were:

- Mr David McArthur – Non-Executive Director (Chair)
- Mr Ian Tchacos – Independent Non-Executive Director
- Mr Chris Hodge – Independent Non-Executive Director

The auditors and the Managing Director are invited to attend Audit 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 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 2018 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.

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 2017 year.

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

The members of the Remuneration and Nomination Committee for the Company at the date of this report were:

- Mr Ian Tchacos – Independent Non-Executive Director (Chair)
- Mr David McArthur – Non-Executive Director
- Mr Chris Hodge – Independent Non-Executive Director

The Committee did not have a specific need to meet during the year.

# **XSTATE RESOURCES LIMITED**

## **CORPORATE GOVERNANCE STATEMENT**

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### **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 Group has in place a continuous disclosure policy, a copy of which is provided to all Group officers 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 Group'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 Group understand these obligations.

The procedure adopted by the Group 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.

#### **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;

## XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

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### Shareholders (continued)

- 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 with the Group.

The Board is committed to workplace diversity and has an objective of providing a balanced representation of employees from a diversity stance across the Group. The Board is also has implemented strategies to support the framework and objectives of the Diversity Policy and is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2017 financial year the Boards' objectives were met by the Group. The Board assesses annually the progress and achievement of the objectives.

<b>Percentage details</b>	<b>Women</b>	<b>Men</b>
Women and Men employed within the Group	-	100%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and Men employed by Corporate services provider	60%	40%

## **XSTATE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT**

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

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

#### **Recommendation 2.4**

*A majority of the Board should be Independent Directors*

#### **Recommendation 2.5**

*The chair of the board of a listed entity should be an Independent Director*

#### **Recommendation 4.1**

*The Audit Committee should be structured so that it:*

- *consists only of Non-Executive Directors*
- *consists of a majority of Independent Directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

#### **Recommendation 7.1**

*The Risk Management Committee should be structured so that it:*

- *consists only of Non-Executive Directors*
- *consists of a majority of Independent Directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

#### **Recommendation 8.1**

*The Remuneration Committee should be structured so that it:*

- *consists of a majority of Independent Directors*
- *is chaired by an independent chair*
- *has at least three members*

Only two of the four directors are considered independent. In view of the size of the Company and the nature of its activities, the Board considers that the current Board structure is a cost effective and practical means of directing and managing the Company.

While the ASX principles recommend that the chair of a Board should be an Independent Director, given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with this ASX principle to be materially detrimental to the Company. There is no formal Chairman of the Board currently allocated.

While the ASX Principles recommend an ideal structure for the Audit and Risk Management and remuneration and nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

This statement is current as at 31 December 2018 and has been approved by the Board.



Director - David McArthur



Director - Cosimo Damiano

**XSTATE RESOURCES LIMITED  
FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

	Note	2018 \$	2017 \$
<b>Assets</b>			
Cash and cash equivalents	4.1	994,442	656,180
Trade and other receivables	4.2	39,599	17,162
Prepayments		19,662	16,659
Financial Assets held at FVTPL	4.3	138,889	-
Deposits and bonds		823	2,200
<b>Total current assets</b>		<b>1,193,415</b>	<b>692,201</b>
Property, plant and equipment		223	632
Trade and other receivables	4.2	-	10,811
<b>Total non-current assets</b>		<b>223</b>	<b>11,443</b>
<b>Total assets</b>		<b>1,193,638</b>	<b>703,644</b>
<b>Liabilities</b>			
Trade and other payables	4.4	(767,104)	(190,932)
Employee benefits		(315,637)	(120,375)
<b>Total current liabilities</b>		<b>(1,082,741)</b>	<b>(311,307)</b>
Site restoration provision	3.2	(54,972)	(52,199)
<b>Total non-current liabilities</b>		<b>(54,972)</b>	<b>(52,199)</b>
<b>Total liabilities</b>		<b>(1,137,713)</b>	<b>(363,506)</b>
<b>Net assets</b>		<b>55,925</b>	<b>340,138</b>
<b>Equity</b>			
Share capital	5.1	49,006,771	48,018,660
Reserves		499,697	491,346
Accumulated losses		(49,450,543)	(48,169,868)
<b>Total equity / (deficiency) attributable to equity holders of the Company</b>		<b>55,925</b>	<b>340,138</b>

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

**XSTATE RESOURCES LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 \$	2017 \$
<b>Revenue from operating activities</b>			
Other income	2.2	528,380	93,521
<b>Expenses</b>			
Other operating expenses		(217,647)	(172,454)
Exploration expenditure		(437,521)	(918,955)
Write off investment in oil & gas properties	3.1	-	(936,921)
Revaluation of Financial Assets held at FVTPL	4.3	(111,111)	-
Personnel expenses	2.3	(370,005)	(781,174)
Administrative expenses		(68,687)	(83,550)
Professional fees		(582,822)	(446,666)
Other expenses		(24,976)	(26,087)
Foreign exchange gain / (loss)		16,689	(42,320)
Other gains / (losses)		(8,449)	169
<b>Loss before income tax expense</b>		<b>(1,276,149)</b>	<b>(3,314,437)</b>
Income tax expense	2.4	(4,526)	(2,087)
<b>Loss for the year</b>		<b>(1,280,675)</b>	<b>(3,316,524)</b>
<b>Other Comprehensive Income</b>			
Exchange differences on translation of foreign operations		(3,865)	45,977
<b>Total Comprehensive Loss for the year</b>		<b>(1,284,540)</b>	<b>(3,270,547)</b>
<b>Loss per share (cents per share)</b>			
Basic and diluted (cents per share)	2.5	(0.16)	(0.49)

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

**XSTATE RESOURCES LIMITED  
FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital	Translation reserve	Options Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	
Balance at 1 January 2018	48,018,660	46,146	445,200	(48,169,868)	340,138
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(1,280,675)	(1,280,675)
<b>Other comprehensive income for the year</b>					
Foreign exchange translation difference on foreign operations	-	(3,865)	-	-	(3,865)
Total other comprehensive loss for the year	-	(3,865)	-	-	(3,865)
<b>Total comprehensive loss for the year</b>	-	(3,865)	-	(1,280,675)	(1,284,540)
<b>Transactions with owners, recorded directly in equity:</b>					
<b>Contributions by and distributions to owners</b>					
Issue of ordinary shares	1,071,000	-	-	-	1,071,000
Share-based payment transactions	-	-	12,216	-	12,216
Capital raising costs	(82,889)	-	-	-	(82,890)
<b>Total contributions by and distributions to owners</b>	988,111	-	12,216	-	1,000,326
<b>Balance at 31 December 2018</b>	<b>49,006,771</b>	<b>42,281</b>	<b>457,416</b>	<b>(49,450,543)</b>	<b>55,925</b>

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

**XSTATE RESOURCES LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital	Translation reserve	Options Reserve	Performance Shares	Accumulated Losses	Total
	\$	\$	\$		\$	
Balance at 1 January 2017	46,825,108	169	-	65,000	(44,853,344)	2,036,933
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(3,316,524)	(3,316,524)
<b>Other comprehensive income for the year</b>						
Foreign exchange translation difference on foreign operations	-	45,977	-	-	-	45,977
Total other comprehensive loss for the year	-	45,977	-	-	-	45,977
<b>Total comprehensive loss for the year</b>	-	45,977	-	-	(3,316,524)	(3,270,547)
<b>Transactions with owners, recorded directly in equity:</b>						
<b>Contributions by and distributions to owners</b>						
Issue of ordinary shares	1,222,378	-	-	-	-	1,222,378
Conversion of performance shares	65,000	-	-	(65,000)	-	-
Share-based payment transactions	-	-	445,200	-	-	445,200
Capital raising costs	(93,826)	-	-	-	-	(93,826)
<b>Total contributions by and distributions to owners</b>	<b>1,193,552</b>	<b>-</b>	<b>445,200</b>	<b>(65,000)</b>	<b>-</b>	<b>1,573,752</b>
<b>Total transactions with owners</b>	<b>1,193,552</b>	<b>-</b>	<b>445,200</b>	<b>(65,000)</b>	<b>-</b>	<b>1,573,752</b>
<b>Balance at 31 December 2017</b>	<b>48,018,660</b>	<b>46,146</b>	<b>445,200</b>	<b>-</b>	<b>(48,169,868)</b>	<b>340,138</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		28,050	-
Cash paid to suppliers and employees		(452,982)	(794,462)
Payments for exploration, evaluation and development		(264,799)	(931,855)
Interest paid		-	-
Interest received		116	3,751
Income taxes paid		(4,526)	(2,087)
<b>Net cash used in operating activities</b>	4.1b	<b>(694,141)</b>	<b>(1,724,653)</b>
<b>Cash flows from investing activities</b>			
Payment of deposit for oil and gas properties		-	(195,295)
Proceeds from sale of subsidiary*	2.2	115,817	-
<b>Net cash used in investing activities</b>		<b>115,817</b>	<b>(195,295)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares and options	5.1	971,000	1,222,378
Payment of capital raising costs		(73,674)	(92,047)
<b>Net cash from financing activities</b>		<b>897,326</b>	<b>1,130,331</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>319,002</b>	<b>(789,617)</b>
Cash and cash equivalents at 1 January		656,180	1,457,298
Effect of exchange rate fluctuations on cash held		19,260	(11,501)
<b>Cash and cash equivalents at 31 December</b>	4.1a	<b>994,442</b>	<b>656,180</b>

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

\* Non-refundable proceeds from terminated sale agreement for 100% of share capital of XGas LLC. As this transaction was terminated, XGas remained a subsidiary of Xstate Resources Limited as at 31 December 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**SECTION 1 BASIS OF PREPARATION**

Xstate Resources Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2018 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 relating to 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**

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 1, 31 Cliff Street, Fremantle, WA, 6160.

The Group is primarily involved in oil and natural gas exploration in the United States of America.

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 28 March 2019. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). 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 and financial assets 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;
- 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 2018. Refer to note 6.11 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 6.12 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.

At balance date, the Group had net assets of \$55,925 (2017: \$340,138), and a working capital surplus of \$110,674 (2017: \$380,894). During the year ended 31 December 2018, the Group recorded cash outflows from Operating Activities of \$694,141 (2017: \$1,724,653), cash inflows from Investing Activities of \$115,817 (2017 outflow: \$195,295) and inflows from Financing Activities of \$897,326 (2017: \$1,130,331). The ability for the entity to continue as a going concern is dependent on securing additional funding through raising additional capital to continue to fund its operational and exploration activities.

## **XSTATE RESOURCES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1.2 GOING CONCERN (continued)**

Since year-end, the Company has additionally received A\$250,000 in funds as part of its forbearance to sue agreement entered into with one of the defendants in the Singaporean Legal Case.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company acknowledges the need to raise additional funds in the coming year to meet its anticipated operating expenditures and planned exploration commitments for working interests in the Sacramento Basin. The Directors are confident that this is achievable through a combination of the following:

- a) Via successful capital raising with either existing shareholders or a placement to sophisticated investors;
- b) Via successful sale of rights to exploration assets held by the Group; or
- c) Through successful receipt of payment of damages owing to the Company as identified in court rulings against Singaporean investors noted in December 2017 as referred to in further detail in the Operations Report.

Should the Group be unsuccessful in raising funds, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### **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.

#### **1.4 FOREIGN CURRENCY TRANSLATION**

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 income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

# XSTATE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1.5 IMPAIRMENT

#### Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than DTA's, 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 CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds its 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:

#### Judgements

- *Note 1.2*            *Going concern*

#### Estimates and assumptions

- *Note 2.4*            *Income tax expense*
- *Note 4.2*            *Trade and Other Receivables*
- *Note 4.3*            *Financial Assets held at Fair Value through Profit or Loss*
- *Note 6.1*            *Share-based payments*

#### Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- **Level 1:** Quoted prices in active markets for identical items (unadjusted)
- **Level 2:** Observable direct or indirect inputs other than Level 1 inputs
- **Level 3:** Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of inputs used that has a significant effect on the fair value measurement of the item. Transfer of items between levels are recognised in the period they occur.

The Group currently only measures Financial Assets held at Fair Value through Profit or Loss at fair value. For more detailed information in relation to the fair value measurement, please refer to note 4.3.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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 evaluation.

Reportable segments disclosed are based on aggregating leases 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 leases as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the leases.

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2017.

**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	2018 \$	2017 \$
Other operating income	(i)	131,173	89,770
Finance income		117	3,751
Other income	(ii)	397,090	-
		<b>528,380</b>	<b>93,521</b>

- (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.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.2 OTHER INCOME (continued)**

- (ii) Xstate received several non-refundable deposits totalling US\$89,150 (A\$115,817) from Gasfields Limited (**ASX:GFS**) (formerly Raven Energy Limited [**ASX:REL**]) during the year for the right to purchase Xstate's rights to XGas LLC, the ultimate holder of rights to a 10% working interest in the Dempsey 1-15 well and related production and infrastructure in the Dempsey gas project.

In addition to cash consideration, the Company received 138,888,889 fully paid ordinary shares in GFS at a value of \$0.0018 per share for a total consideration of A\$250,000 to extend settlement of sale of assets on 31 August 2018.

The XGas LLC sale transaction was terminated by Xstate on 1 November 2018 due to Gasfields being in default of the Deed of Variation executed by both parties on 17 August 2018. The amounts received had been deemed under the transaction agreement as non-refundable deposits and were therefore retained by the Company despite the termination of the transaction.

In addition to the funds received from the XGas transaction, Xstate received A\$30,000 in retainer fees from Gasfields in relation to provision of services by MD Cosimo Damiano for gas exploration advisory. The agreement for provision of services had a retainer value of \$10,000 per month for a minimum of 3 months. After the initial 3-month period, this service was also terminated in conjunction with the XGas sale.

**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	2018 \$	2017 \$
Directors remuneration	6.3	370,005	781,174
Other wages and salaries		-	-
Other associated personnel expenses		-	-
		<b>370,005</b>	<b>781,174</b>

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.4 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 the reporting 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 reporting 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 reporting date.

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

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Current tax expense / (benefit)</b>		
Current period	(85,427)	(190,999)
Adjustment for prior periods	4,526	2,087
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	85,427	190,999
Total income tax expense	<b>4,526</b>	<b>2,087</b>

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.4 INCOME TAX EXPENSE (continued)**

**(b) Reconciliation of effective tax rate**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Loss for the period	(1,280,675)	(3,316,524)
Total income tax expense	4,526	2,087
Loss excluding income tax	<b>(1,276,149)</b>	<b>(3,314,437)</b>
Income tax using the Group's domestic tax rate of 27.5% (2017: 27.5%)	(350,941)	(911,470)
Non-deductible expenses	212,576	672,364
Adjustment for prior periods	4,526	2,087
Timing differences not brought to account	52,939	49,044
Tax losses not brought to account	85,426	190,062
	<b>4,526</b>	<b>2,087</b>
<b>Tax Losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	<b>3,368,520</b>	<b>3,057,880</b>
Potential tax benefit at 27.5% (2017: 27.5%)	<b>926,343</b>	<b>840,917</b>

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$926,343 (2017: \$840,917) attributed to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

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.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.4 INCOME TAX EXPENSE (continued)**

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

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Trade and other payables	-	-
Employee benefits	86,800	33,103
Carry forward tax losses	926,344	840,917
Other	1,048	1,048
DTAs not brought to account	<b>1,014,192</b>	<b>875,068</b>

There were no unregistered deferred tax liabilities.

**2.5 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 2018 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***

	<b>2018</b>	<b>2017</b>
Net loss attributable to ordinary shareholders - \$	(1,280,675)	(3,316,524)
Issued ordinary shares at 1 January	783,490,897	621,792,718
Effect of shares issued	41,411,872	58,721,853
Weighted average number of ordinary shares at 31 December	<b>824,902,769</b>	<b>680,514,571</b>
Basic loss per share (cents)	(0.16)	(0.49)
Diluted loss per share (cents) *	(0.16)	(0.49)

\* At 31 December 2018, 47,000 000 options (2017: 42,000,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

### **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 PREPAYMENT – OIL AND GAS PROPERTIES**

##### **Accounting Policy**

Oil and gas properties are stated at cost less accumulated depreciation and impairment charges. Oil and gas properties include construction, installation or completion of production and infrastructure facilities such as pipelines and platforms, development wells and the cost of dismantling and restoration. Subsequent capital costs, including major maintenance, are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Otherwise, costs are charged to the statement of profit or loss during the financial year in which they are incurred.

When production commences, the accumulated costs for the relevant area of interest are amortised on a unit of production method based on the ratio of actual production to remaining proved reserves (P1) as estimated by independent petroleum engineers over the life of the area according to the rate of depletion of the economically recoverable reserves.

The carrying amount of producing assets is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. For producing assets, the estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are 2P hydrocarbon reserves. Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

An asset's carrying amount is written down to the recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

On 16 December 2016, the Company entered into a binding letter of offer with three investors to raise A\$25 million. Formal subscription agreements were entered into with the three investors on 23 December 2016.

On 1 November 2016, the Company executed a letter of intent, subject to raising necessary funds, with Sunny Frog Oil to acquire a 24.5% interest in the Sansinena and East Los Angeles oil and gas fields in California, USA. Upon execution of the binding subscription agreements with the three investors, the Company entered into a formal acquisition agreement with Sunny Frog, and paid a \$670,980 (US\$500,000) non-refundable deposit pursuant to the terms of the Sunny Frog agreement. Due to delays in receipt of funds from the investors, on 3 January 2017 a further US\$125,000 was paid by way of a non-refundable extension payment to extend the settlement date.

The three investors failed to meet the obligations of their subscription agreements, and on 17 April 2017 Sunny Frog terminated the sale agreement and retained the non-refundable payments. On this basis, the Company has

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written off all carry forward costs in relation to the acquisition transaction as it was no longer entitled to assets from the sale.

On 6 December 2017, it was announced that the Supreme Court of Western Australia awarded summary judgement in favour of the Company against three of the four investors of which legal action was taken against. The Court ordered that those defendants pay the Company a total of US\$33,187,960 plus interest of US\$1,612,935.

On 22 January 2018, it was announced that the High Court of the Republic of Singapore had registered the Western Australian Summary Judgement against the three defendants, thereby allowing the Company to enforce the Supreme Court judgement as if it were a Singaporean court judgement.

The Company is continuing its efforts to reach a satisfactory and swift resolution of the claim for damages against these defendants and is prepared to pursue the claim further through the Singaporean courts.

	2018 \$	2017 \$
Non-refundable deposit payment for 24.5% WI in Sansinena & East LA Basin oil and gas fields	-	-
<b>Movement in carrying amounts</b>		
Opening balance	-	741,626
Non-refundable deposit	-	-
Establishment costs	-	-
Extension costs	-	195,295
Write-off	-	(936,921)
Closing balance	-	-

### 3.2 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 joint-venture operator, Saccgasco Limited (ASX: SGC), has lodged a blanket bond to the total of USD\$200,000 with the Californian Department of Conservation and Division of Oil, Gas and Geothermal Resources (DoGGR) in respect of the well licenses held in the Sacramento Basin onshore California area of interest. The blanket bond is

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for coverage of up to 50 idle wells, a number significantly higher than the amount of idle wells held by the joint-venture at current.

Xstate has taken up a provision balance in respect of its working interest percentage for each of the wells held by the JV, representing the maximum exposure to the Company for restoration and rehabilitation in respect of the well interests held.

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Movement in carrying amounts</b>		
Opening balance	(52,199)	(58,653)
Amounts utilised	-	-
Effects of foreign exchange	(2,773)	-
Reduction in provision required	-	6,454
Closing balance	<b>(54,972)</b>	<b>(52,199)</b>

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**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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

	Note	2018 \$	2017 \$
Cash and cash equivalents in the statement of cash flows	6.2	994,442	656,180

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

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

	2018 \$	2017 \$
<b>Cash flows from operating activities</b>		
Loss for the period	(1,280,675)	(3,316,524)
Adjustments for:		
Depreciation	409	409
Equity-settled share-based payment transactions	-	445,200
Write-off of oil & gas deposit	-	936,921
Provision for restoration	-	(5,509)
Impairment of investments	111,111	-
Sale of tenements	(367,090)	-
Net (loss) / profit on foreign exchange translation	(30,706)	56,530
Change in other receivables	(9,426)	(12,187)
Change in prepayments	(2,998)	3,906
Change in other operating assets	(818)	15,856
Change in trade and other payables	590,790	55,370
Change in employee benefits	295,262	95,375
<b>Net Cash used in operating activities</b>	<b>(694,141)</b>	<b>(1,724,653)</b>

**(c) Non-cash investing activities**

Refer to note 2.2 for detail of non-cash investing activities occurring during the year.

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**4.2 TRADE AND 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).

The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. To measure expected credit losses on a collective basis, trade and other receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's debtors.

As at 31 December 2018, there had been no credit losses in the previous three years from debtors in other receivables nor were any credit losses recognised from authorised government agencies, therefore, no provision for impairment has been recognised.

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Net production revenue receivable	-	10,811
Other receivables	4,842	485
Authorised government agencies	34,757	16,677
	<b>39,599</b>	<b>27,973</b>
Current	39,599	17,162
Non-current	-	10,811
	<b>39,599</b>	<b>27,973</b>

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

**4.3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**

**Accounting Policy**

Financial assets are recognised when the Group becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs.

For subsequent measurement, financial assets, other than those designated as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

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**4.3 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

The Group has elected to carry investments in equity securities of listed entities as Fair Value through Profit or Loss as the financial asset is not considered to be held within a business model whose objective is satisfied under the amortised cost or fair value through other comprehensive income models. Therefore, all income and expenses relating to fair value movements are recognised in profit or loss.

The fair value measurement of financial assets held at FVTPL is determined with reference to the requirements of AASB 13 *Fair Value Measurement*. Financial assets held at FVTPL are valued using market observable inputs and data as far as is possible. The fair value hierarchy is disclosed in note 1.6.

**(a) Fair Value of Investments at period end**

	Note	2018 \$	2017 \$
Shares held in publicly listed Company	(i)	138,889	-

**(b) Reconciliation of movements in fair value**

	Note	2018 \$	2017 \$
Opening balance		-	-
Proceeds from sale of subsidiary	2.2	250,000	-
Revaluation of investment	(ii)	(111,111)	-
Closing balance		<b>138,889</b>	-

- (i) Xstate received 138,888,889 fully paid ordinary shares in Gasfields Limited (**ASX:GFS**) (formerly Raven Energy Limited [**ASX:REL**]) on 17 August 2018 at a value of \$0.0018 per share for a total consideration of A\$250,000 as a part payment in regard to its acquisition agreement of the ownership rights of XGas LLC.
- (ii) As at 31 December 2018, the shares in Gasfields Limited continued to be suspended from trading. This suspension was put in place on 7 March 2018. Additionally, a placement update by Gasfields on 25 January 2019 noted a proposed placement of shares to sophisticated investors up to a value of \$1,000,000 to be issued at a price of \$0.001 per share. The Directors assessed the above factors and acknowledged that in the absence of trading capability for an extended time period, and the pending capital raise, that revaluation of the shareholding to \$0.001 was appropriate.

The fair value measurement of Gasfields shares would ordinarily be a measurement under Level 1 of the Fair Value Hierarchy – utilising quoted prices in active markets. However, as the shares are not actively traded at year end, the Company cannot consider a quoted price in an active market. Therefore, the shares have been valued utilised Level 2 inputs above – observable direct or indirect inputs other than Level 1 inputs.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4.4 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.

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	(730,388)	(158,633)
Other payables and accrued expenses	(36,716)	(32,299)
	<b>(767,104)</b>	<b>(190,932)</b>

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

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SECTION 5 EQUITY AND FUNDING**

This section focuses on the share capital, options and debt funding available to the Group at year end.

**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 \$	
	2018	2017	2018	2017
<b>Movements in ordinary shares on issue:</b>				
<b>On issue at 1 January</b>	<b>783,490,897</b>	<b>621,792,718</b>	<b>48,018,660</b>	<b>46,825,108</b>
Private placement of shares at 0.3 cents each to raise working capital	116,666,667	-	350,000	-
Private placement of shares at 0.3 cents each to raise working capital	207,000,000	-	621,000	-
Private placement of shares at 0.3 cents each in partial satisfaction of director fee liability	33,333,334	-	100,000	-
Issue of shares at 1.3 cents each converted from performance shares	-	5,000,000	-	65,000
Private placement of shares at 0.5 cents each to raise working capital	-	94,000,000	-	470,000
Private placement of shares at 1.2 cents each to raise working capital	-	62,698,179	-	752,378
Capital raising costs	-	-	(82,889)	(93,826)
<b>On issue at 31 December</b>	<b>1,140,490,898</b>	<b>783,490,897</b>	<b>49,006,771</b>	<b>48,018,660</b>

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 Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

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

All issued shares are fully paid.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**5.1 CAPITAL AND RESERVES (continued)**

**Options**

	Options under issue			
	Number of options		Amount in \$	
	2018	2017	2018	2017
<b>Movements in options on issue:</b>				
<b>On issue at 1 January</b>	<b>42,000,000</b>	-	<b>445,200</b>	-
Issue of options to consultants on 6-Dec-18, exercisable at 0.5 cents each	5,000,000	-	12,216	-
Issue of options to Directors on 3-Feb-17, exercisable at 5 cents each	-	40,000,000	-	424,000
Issue of options to consultants on 3-Feb-17, exercisable at 5 cents each	-	2,000,000	-	21,200
<b>On issue at 31 December</b>	<b>47,000,000</b>	<b>42,000,000</b>	<b>457,416</b>	<b>445,200</b>

At the date of this report, the Company has a total of 42,000,000 unissued ordinary shares under option with an exercise price of 5 cents and an expiry date of 31 December 2020, and 5,000,000 unissued ordinary shares under option with an exercise price of 0.5 cents and an expiry date of 30 December 2020. The key valuation assumptions made at valuation date are summarised below:

	Number of options	Exercise price	Grant date	Expiry date	Life of options	Volatility	Risk free rate
Directors	40,000,000	5 cents	31-Jan-17	31-Dec-20	2.92	100%	1.83%
Consultants	2,000,000	5 cents	03-Feb-17	31-Dec-20	2.91	100%	1.83%
Consultants	5,000,000	0.5 cents	06-Dec-18	30-Dec-20	2.91	128%	2.04%

As detailed in the Notice of General Meeting released to the ASX 21 December 2016, the primary purpose of the grant of the options to the Directors was to provide a performance linked incentive component in the remuneration package for the Directors to motivate and reward the performance in their respective roles. As such, these options did not have vesting conditions attached to them.

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

During or since the end of the reporting period, no shares were issued as a result of the exercise of options.

During the reporting period, no options expired (2017: no options expired).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**5.1 CAPITAL AND RESERVES (continued)**

**Performance shares**

	Performance shares			
	Number of shares		Amount in \$	
	2018	2017	2018	2017
<b>Movements in performance shares:</b>				
<b>On issue at 1 January</b>	-	5,000,000	-	65,000
Conversion of performance shares	-	(5,000,000)	-	(65,000)
<b>On issue at 31 December</b>	-	-	-	-

**Nature and purpose of reserves**

***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.

***Performance shares reserve***

The performance shares 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.

***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.

# XSTATE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6 OTHER DISCLOSURES

The disclosures in this section focus 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 Black-Scholes option 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 PAYMENTS

##### 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 profit or loss can be broken down as follows:

	2018	2017
	\$	\$
<b>Expensed in personnel expenses (Director remuneration)</b>		
Options issued to Directors	-	424,000
<b>Expensed in professional fees</b>		
Options issued in part consideration for consultancy fees	12,216	21,200

##### Options

On 6 December 2018, the Company issued 5,000,000 options to Patersons Securities Limited as partial payment of placement fee in conjunction with the capital raising completed across 17<sup>th</sup> October 2018 and 6<sup>th</sup> December 2018.

Under AASB 2, this transaction is deemed a share-based payment and the fair value of the options has been calculated using the Black-Scholes option pricing model, utilising the valuation metrics as disclosed in note 5.1.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.1 SHARE-BASED PAYMENTS (continued)**

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

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 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.

There are no vesting conditions attached to the options as the issue of the options is deemed to form part of the Directors remuneration in lieu of increased Directors fees. 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.

***Options***

At 31 December 2018, a summary of the Group options issued and not exercised was 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	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-Jan-17	03-Feb-17	31-Dec-20	5.0	42,000,000	-	-	42,000,000	42,000,000
06-Dec-18	06-Dec-18	30-Dec-20	0.5	-	5,000,000	-	5,000,000	5,000,000
<b>Total</b>				<b>42,000,000</b>	<b>5,000,000</b>	<b>-</b>	<b>47,000,000</b>	<b>47,000,000</b>
<b>Weighted Average Exercise Price (cents)</b>				<b>5.0</b>	<b>0.5</b>	<b>-</b>	<b>4.5</b>	<b>4.5</b>

5,000,000 options were granted during the year (2017: 42,000,000 options granted).

During the year ended 31 December 2018, no options expired (2017: no options expired).

The weighted average exercise price of outstanding shares at the end of the reporting period was 4.5 cents (2017: 5 cents).

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 2 years (2017: 3 years).

Key inputs in the valuation model for the options issued are disclosed in note 5.1.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6.1 SHARE-BASED PAYMENTS (continued)**

**Options**

At 31 December 2017, a summary of the Group options issued and not exercised are as follows:

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-Jan-17	03-Feb-17	31-Dec-20	5.0	42,000,000	-	42,000,000	42,000,000
<b>Total</b>				<b>42,000,000</b>	<b>-</b>	<b>42,000,000</b>	<b>42,000,000</b>
Weighted Average Exercise Price (cents)				<b>5.0</b>	<b>-</b>	<b>5.0</b>	<b>5.0</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.2 FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

**Accounting Policy**

**Classification of financial instruments**

The financial assets and liabilities of the Group are classified into the following financial statement categories in the statement of financial position in accordance with AASB 9 *Financial Instruments*:

- Fair value through Profit or Loss (FVTPL)
- Amortised Cost
- Fair value through Other Comprehensive Income (FVTOCI)

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 through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange 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.

**Principal Financial Instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash and Cash Equivalents (note 4.1)
- Trade Receivables (note 4.2)
- Investments in quoted equity securities (note 4.3)
- Trade and other payables (note 4.4)

Financial Assets

	Fair value through Profit or Loss		Amortised cost (Loans and receivables 2017)	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash and cash equivalents	-	-	994,442	656,180
Trade and other receivables	-	-	40,422	30,173
Quoted equity securities	138,889	-	-	-
<b>Total Financial Assets</b>	<b>138,889</b>	-	<b>1,034,864</b>	<b>686,353</b>

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6.2 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

Financial Liabilities

	Amortised Cost	
	2018	2017
	\$	\$
Trade and other payables	767,104	190,932

Financial Instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables and trade and other payables.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their value.

**General objectives, processes and policies**

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 overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

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. Credit risk arises principally from the Group's receivables from customers.

As the Group currently has a minimal amount of transactions that result in receivables, due to the nature of the entity being an exploration entity, the Risk Management Committee has determined it not necessary to establish a credit policy for assessing creditworthiness of customers at this stage.

The carrying amount of financial assets represents the maximum credit exposure. Further disclosures regarding trade and other receivables, which are neither past due not impaired, are provided in note 4.2.

**Cash and cash equivalents**

The Group held cash and cash equivalents of \$994,442 at 31 December 2018 (2017: \$656,180). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.2 FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

**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 2018, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

	Carrying amount	
	2018	2017
	\$	\$
Australia	40,422	19,362
USA	-	10,811
	<b>40,422</b>	<b>30,173</b>

Currently, the Group undertakes exploration and evaluation activities exclusively in the 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 arises from the Group's management of working capital, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure, so far as is possible, that it will always have sufficient cash and cash equivalents to allow it to meet its liabilities when they become 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
	\$	\$	\$
<b>31 December 2018</b>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	(767,104)	(767,104)	(767,104)
Employee entitlements	(315,637)	(315,637)	(315,637)
	<b>(1,082,741)</b>	<b>(1,082,741)</b>	<b>(1,082,741)</b>
<b>31 December 2017</b>			
<b>Non-derivative financial liabilities</b>			
Trade and other payables	(190,932)	(190,932)	(190,932)
Employee entitlements	(120,375)	(120,375)	(120,375)
	<b>(311,307)</b>	<b>(311,307)</b>	<b>(311,307)</b>

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.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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.

**Foreign exchange risk**

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group is predominantly exposed to currency risk on expenditure incurred through exploration and evaluation activities in the USA.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows (denominated below in AUD equivalent as at respective period end exchange rates):

	Assets		Liabilities	
	2018	2017	2018	2017
	\$	\$	\$	\$
US dollar	125,662	70,625	(290,100)	(17,330)

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD) foreign exchange risk. The following table details the Group's sensitivity to a 2% (31 December 2017: 2%) 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 2017: 2%) 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	
	2018	2017
	\$	\$
<b>If AUD strengthens by 2% (31 December 2017: 2%)</b>		
USD	5,988	(1,045)
<b>If AUD weakens by 2% (31 December 2017: 2%)</b>		
USD	(5,988)	1,088

From the above analysis, there would be no material impact on other equity of the Company and the Group.

**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.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.2 FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

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**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	994,442	656,180
	<b>994,442</b>	<b>656,180</b>

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 2017.

	<b>Profit or loss</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
	<b>\$</b>	<b>\$</b>
<b>31 December 2018</b>		
Variable rate instruments	8,688	(4,344)
Cash flow sensitivity	<b>8,688</b>	<b>(4,344)</b>
<b>31 December 2017</b>		
Variable rate instruments	5,964	(2,982)
Cash flow sensitivity	<b>5,964</b>	<b>(2,982)</b>

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

**Other market risk**

The Group holds an equity investment in Gasfields Limited (ASX:GFS) [formerly Raven Energy Limited (ASX:REL)] that was obtained as a part payment in the sale transaction of XGas LLC that was terminated, detailed further in note 2.2.

The Directors believe that the exposure to market price risk for this investment is acceptable in the Group's circumstances, giving consideration to escrow requirements in the sale agreement.

The effect of a 10% increase in the value of this equity investment held at reporting date would, all other variables held constant, have resulted in an increase in the fair value through profit or loss and net assets of \$13,889 (2017: nil). A 10% decrease in their value would, on the same basis, have decreased the fair value through profit or loss and net assets by the same amount.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.3 RELATED PARTIES**

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

	Note	2018 \$	2017 \$
Short term employee benefits		352,241	338,326
Post-employment benefits		17,764	18,848
Share based payments – options	6.1	-	424,000
	2.3	<b>370,005</b>	<b>781,174</b>

**Individual Director's and Executives' compensation disclosures**

Information regarding individual Director's 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 Company 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 the financial or operating policies of those entities.

A number of these companies transacted with the Company 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:

Key management person	Transaction	Note	Transactions value		Balance outstanding	
			year ended 31 December 2018 \$	2017 \$	as at 31 December 2018 \$	2017 \$
Chris Hodge	Consultancy fees	(i)	9,750	17,625	58,012	32,587
David McArthur	Management fees	(ii)	88,000	87,000	35,200	8,800
					<b>93,212</b>	<b>41,387</b>

- (i) The Group used the consultancy services of CCH Resources Pty Ltd, a company associated with Chris Hodge, 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 management services of Broadway Management (WA) Pty Ltd, a company associated with David McArthur, in relation to the provision of book-keeping, accounting and financial control aspects of the Company's operations. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

As noted in section 14(h) of the Directors Report, the Directors were issued a total of 33,333,334 fully paid ordinary shares at \$0.003 per share in partial satisfaction of a Director Fee Liability of \$100,000.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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	
				2018 %	2017 %
CalX SELA LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate (USA) Corp	Oil and gas exploration	California, USA	31 December	100	100
XGas LLC	Oil and gas exploration	California, USA	31 December	100	100

**6.5 ASSOCIATES**

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

Name of associate	Place of incorporation / operation	Nature of relationship	Measurement method	% of ownership interest		Quoted fair value		Carrying amount	
				2018 %	2017 %	2018 \$	2017 \$	2018 \$	2017 \$
Cal LNG LLC	California, USA	Associate <sup>(1)</sup>	Equity method	18	18	-	-	-	-

<sup>(1)</sup> Cal LNG LLC is a dormant company with plans to pursue the development of an LNG export and domestic supply facility on the west coast of the United States.

**6.6 PARENT COMPANY DISCLOSURES**

As at, and throughout the financial year ended 31 December 2018, the parent entity of the Group was Xstate Resources Limited.

	2018 \$	2017 \$
<b>Results of the parent entity</b>		
Total comprehensive loss for the year	<b>(1,284,138)</b>	<b>(3,277,529)</b>
<b>Financial position of parent entity at year end</b>		
Current assets	1,110,482	643,639
Total assets	1,110,705	644,271
Current liabilities	(1,061,360)	(311,115)
Total liabilities	(1,061,360)	(311,115)
<b>Total equity of the parent entity comprising of:</b>		
Share capital	49,006,771	48,018,660
Reserves	457,416	445,200
Accumulated losses	(49,414,842)	(48,130,704)
<b>Total (deficiency) / equity</b>	<b>49,345</b>	<b>333,156</b>

Refer to note 6.7 for commitments of the parent entity and note 6.10 for contingent liabilities that impact the parent entity.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.7 COMMITMENTS**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Office rent</b>		
Less than one year	7,375	9,618

**6.8 SUBSEQUENT EVENTS**

On 21 January 2019, the operator advised that Alvares-1 re-entry and testing program is now planned for the early North American summer. Furthermore, the previous farm out of a 4% working interest by Xstate to Bombora Natural Energy Pty Ltd has been terminated and Xstate has reverted back to a 25% working interest in the Alvares Appraisal Project.

On 29 January 2019, it was advised that the Company had entered into a strategic alliance with TSX listed entity, Hillcrest Petroleum Limited, to jointly pursue oil and gas acquisition on onshore Canada and USA.

On 11 March 2019, Xstate entered into a Forbearance to Sue Agreement with Hong Hung Thiam ("Hong"), one of the three defendants in the Company's Singaporean legal action. The forbearance sum to be paid to the Company is A\$500,000 to be paid in five instalments between February and mid-May 2019.

If Hong fails to pay or remedy any instalment payment in full by their respective due dates, Xstate is entitled to execute in full against Hong the judgment sums awarded by the Australian and Singapore courts. As at the date of this report, A\$250,000 has been received from Hong with the residual A\$250,000 expected in two final instalment payments.

Other than the events noted above, there have been no other subsequent events of a material nature occurring.

**6.9 AUDITORS' REMUNERATION**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>BDO Audit (WA) Pty Ltd</b>		
<b>Audit and other assurance services</b>		
Audit and review of financial reports	35,413	32,010
Total remuneration for audit and other assurance services	<b>35,413</b>	<b>32,010</b>
<b>Taxation services</b>		
Tax compliance services	9,430	19,840
<b>Total remuneration of BDO Audit (WA) Pty Ltd and its related parties</b>	<b>44,843</b>	<b>51,850</b>

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

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.9 AUDITORS' REMUNERATION (continued)**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Non-BDO audit firms</b>		
<b><i>Audit and other assurance services</i></b>		
Audit and review of financial reports	-	-
Total remuneration for audit and other assurance services	-	-
<b><i>Taxation services</i></b>		
Tax compliance services	38,334	-
<b>Total remuneration of non-BDO audit firms</b>	<b>38,334</b>	<b>-</b>
<b>TOTAL AUDITORS' REMUNERATION</b>	<b>83,177</b>	<b>51,850</b>

**6.10 CONTINGENT LIABILITIES**

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability may also be a present obligation arising from past events but is not recognised on the basis that an outflow of economic resources to settle the obligation is not viewed as probable, or the amount of the obligation cannot be reliably measured.

When the Group has a present obligation, an outflow of economic resources is assessed as probable and the Group can reliably measure the obligation, a provision is recognised.

As reimbursement for extensive additional time and travel required on Directors Damiano and McArthur in course of the legal proceedings from December 2017, the Company has determined that a proportional reimbursement will be made to the Directors. Mr Damiano will receive 10% of all funds recovered from the defendants to a cap of A\$150,000 and Mr McArthur will receive 5% of all funds recovered from the defendants to a cap of A\$75,000. As the legal proceedings are still ongoing as at year end, an accurate provision is not possible to be determined.

**6.11 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 2018.

**(a) AASB 9 Financial Instruments**

***Recognition and derecognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

## **XSTATE RESOURCES LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **6.11 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

##### **(a) AASB 9 Financial Instruments (continued)**

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or, when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### ***Cancellation and initial measurement of financial assets***

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

##### ***Subsequent measurement of financial assets***

For subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL);
- Debt instruments at fair value through other comprehensive income (FVTOCI); or
- Equity instruments at FVTOCI.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

##### ***Financial assets at amortised cost***

Financial assets with contractual cash flows representing solely payments for principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and other receivables fall into this category of financial instruments.

##### ***Financial assets at fair value through profit or loss (FVTPL)***

Financial assets are designated at FVTPL if they do not meet criteria for being held at amortised cost or at fair value through other comprehensive income. As the business model of Xstate is not one whose objective is achieved by collecting contractual cash flow from financial assets and selling financial assets, classification of particular financial assets as FVTOCI is not appropriate. The Group's quoted equity securities currently held fall into this category of financial instruments.

##### ***Classification and measurement of financial liabilities***

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or loss recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges reporting in profit or loss are included within finance costs or finance income.

Borrowings classified as amortised cost under AASB 139 continue to be accounted for at amortised cost under AASB 9.

The application of this standard has not had a material impact on the financial position or performance for the Group for the year ended 31 December 2018.

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.11 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**(b) AASB 15 Revenue from Contracts with Customers**

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and several revenue-related Interpretations. The new Standard has been applied as at 1 January 2018. There is no impact to the Group's historical financial results given the Company is currently not in production other than for a by-product of exploration leases the Group has working interests in in the Sacramento Basin onshore California.

**(c) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15**

**(d) AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9**

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

**6.12 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 2018.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 16	Leases	The new Standard introduces three main changes: - Enhanced guidance on identifying whether a contract contains a lease; - 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; - Enhanced disclosures. Lessor accounting will not significantly change.	1 January 2019	1 January 2019
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 <i>Investments in Associates and Joint Venture</i> to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 <i>Financial Instruments</i> before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019	1 January 2019
AASB 2018-1	Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: - AASB 3 <i>Business Combinations</i> and AASB 11 <i>Joint Arrangements</i> – previously held interest in a joint operation - AASB 112 <i>Income Taxes</i> – income tax consequences of payments on financial instruments classified as equity AASB 123 <i>Borrowing Costs</i> – borrowing costs eligible for capitalisation.	1 January 2019	1 January 2019

**XSTATE RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.12 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 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017- further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.	1 January 2022	1 January 2022
Not yet issued by the AASB	Conceptual Framework for Financial Report ****, and relevant amending standards	<p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> <li>- Chapter 1 –The objective of financial reporting</li> <li>- Chapter 2 –Qualitative characteristics of useful financial information</li> <li>- Chapter 3 – Financial statements and the reporting entity</li> <li>- Chapter 4 –The elements of financial statements</li> <li>- Chapter 5 –Recognition and derecognition</li> <li>- Chapter 6 –Measurement</li> <li>- Chapter 7 –Presentation and disclosure</li> <li>- Chapter 8 –Concepts of capital and capital maintenance</li> </ul> <p>Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework</p>	1 January 2020	1 January 2020

Management is still determining the financial impact of the above standards and a more detailed assessment will be made over the next 12 months.

**XSTATE RESOURCES LIMITED  
DIRECTORS' DECLARATION**

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**DIRECTORS' DECLARATION**

1. In the opinion of the Directors of Xstate Resources Limited (the "Company"):
  - (a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* including:
    - (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year then ended; and
    - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2018.

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



**COSIMO DAMIANO**

Managing Director

Dated at Perth, Western Australia this 28<sup>th</sup> day of March 2019.

## INDEPENDENT AUDITOR'S REPORT

To the members of Xstate Resources Limited

### Report on the Audit of the Financial Report

#### Opinion

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

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

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

#### Basis for opinion

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

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

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

#### Material uncertainty related to going concern

We draw attention to Note 1.2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Carrying Value of the Investment

Key audit matter	How the matter was addressed in our audit
<p>The Group holds investments in the form of shares in a publicly listed company. As disclosed in Note 4.3 of the financial report, the investment has been classified as Fair Value through Profit or Loss (FVTPL) in accordance with AASB 9 Financial Instruments (AASB 9).</p> <p>AASB 9 became effective for periods beginning on or after 1 January 2018. In accordance with AASB 9, the investment is required to be carried at fair value at reporting date, and any changes from its carrying value is reflected in profit and loss.</p> <p>We considered this to be a key audit matter because of the complexities of the new accounting standard and management judgements associated with determining the fair value of the investment.</p> <p>The Group's policy for accounting and significant estimates and judgements applied to these financial assets are disclosed in Note 4.3 of the financial report.</p>	<p>Our audit procedures in respect of this area included but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Obtaining and assessing management's position on the classification and measurement of the Investment in accordance with AASB 9;</li> <li>• Re-calculating the valuation of the investment held at reporting date based on management's assessment of the factors taken into consideration in determining the fair value of the investment;</li> <li>• Agreeing the balance of shares held to supporting documentation;</li> <li>• Re-calculating the unrealised loss on investment held at reporting date; and</li> <li>• Assessing the adequacy of the disclosure in Note 4.3 in the financial report.</li> </ul>



## Other information

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

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

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

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

## Responsibilities of the directors for the Financial Report

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

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

## Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.



## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

### Responsibilities

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Dean Just', written over the printed name below.

Dean Just

Director

Perth, 28 March 2019

**XSTATE RESOURCES LIMITED**  
**STOCK EXCHANGE INFORMATION**

**STOCK EXCHANGE INFORMATION**

The shareholder information set out below was applicable as at 28 February 2019:

**1. Distribution of ordinary shares**

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	710	79,971	0.01
1,001 - 5,000	105	282,900	0.02
5,001 - 10,000	67	547,815	0.05
10,001 - 100,000	258	12,337,506	1.08
100,001 and over	434	1,127,242,706	98.84
<b>Total</b>	<b>1,574</b>	<b>1,140,490,898</b>	<b>100.00</b>

There were 1,574 holders of less than a marketable parcel of ordinary shares.

**2. Substantial shareholders**

The substantial shareholders are set out below:

Shareholders	Number of Shares
Mr Teik Tatt Oh	83,731,023
Citicorp Nominees Pty Ltd	79,888,433

**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)
31-Jan-17	42,000,000	7	31-Dec-2020	5.0
03-Dec-18	5,000,000	1	30-Dec-2020	0.5

**XSTATE RESOURCES LIMITED  
STOCK EXCHANGE INFORMATION**

**5. Twenty largest shareholders**

Shareholders	Ordinary shares	
	Number held	% of issued shares
Mr Teik Tatt Oh	83,731,023	7.34
Citicorp Nominees Pty Limited	79,888,433	7.01
Mr William Henry Hernstadt	51,066,667	4.48
IBT Holdings Pty Ltd <IBT Holdings Pty Ltd Fam A/C>	40,000,000	3.51
Mr Peter Mark Lewis	30,000,000	2.63
Mr Salvatore Di Vincenzo	26,166,667	2.29
Suburban Holdings Pty Limited <Suburban Super Fund A/C>	22,746,282	1.99
Apnea Holdings Pty Ltd <Kelly Family A/C>	22,662,258	1.99
Bond Street Custodians Limited <PNCORK – D00089 A/C>	22,248,342	1.95
Mr Thomas Brian Cannon	22,000,000	1.93
Mr Cosimo Damiano	20,900,000	1.83
Talex Investments Pty Ltd <A F Wylie Super Fund A/C>	20,100,000	1.76
Mr Jouke Jan van der Baan	20,027,770	1.76
TEGIF Pty Ltd	17,000,000	1.49
Mr David Maxwell McArthur	16,188,133	1.42
MGL Corp Pty Ltd	14,133,334	1.24
Blu Bone Pty Ltd <The Share Trading A/C>	14,000,000	1.23
Upsky Equity Pty Ltd <Upsky Investment A/C>	12,044,443	1.06
Mr Thomas Brian Cannon + Mrs Amanda Lee Cannon <Cannon Family S/F A/C>	12,000,000	1.05
Mrs Josephine Kathleen Patoir	11,966,666	1.05

**XSTATE RESOURCES LIMITED  
STOCK EXCHANGE INFORMATION**

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**6. Petroleum lease interests at 28 February 2019**

<b>Project name</b>	<b>Location</b>	<b>Working interest</b>
Alvares Appraisal Well	Sacramento Basin Onshore Northern California	25%
Alvares Project	Sacramento Basin Onshore Northern California	30%
Dempsey 1-15 Well	Sacramento Basin Onshore Northern California	10%
Dempsey AMI	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Malton Field	Sacramento Basin Onshore Northern California	30%
East Rice East Creek Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Dutch Slough Field	Sacramento Basin Onshore Northern California	30%
Denverton Field	Sacramento Basin Onshore Northern California	30%

**7. Gold tenements listing at 28 February 2019**

<b>Tenement description</b>	<b>Tenement number</b>	<b>Status</b>	<b>Percentage interest</b>
King Brown	M24/705	Granted	12%

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