



# **SAGGASCO LIMITED**

**ABN 83 114 061 433**

## **ANNUAL REPORT**

**For the year ended 31 December 2018**

**SACGASCO LIMITED**  
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## **CORPORATE DIRECTORY**

### **Directors**

Mr Andrew Childs

Mr Gary Jeffery

Mr Greg Channon

### **Secretary**

Mr David McArthur

### **Registered Office**

Level 1, 31 Cliff Street

Fremantle WA 6160

Telephone: +61 8 9435 3200

Facsimile: +61 8 6444 8407

### **Principal Office**

Level 2, 210 Bagot Road

Subiaco WA 6008

Telephone: +61 8 9388 2654

### **Postal Address**

PO Box 584

Fremantle WA 6959

### **Auditors**

HLB Mann Judd (WA Partnership)

Level 4, 130 Stirling Street

Perth WA 6000

### **Bankers**

ANZ Banking Group Limited

Level 6, 77 St Georges Terrace

Perth WA 6000

### **Share Registry**

Advanced Share Registry Services Limited

110 Stirling Highway

Nedlands WA 6009

### **ASX Code**

Shares: SGC

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

Australia

### **Website and Email**

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

Email: [info@sacgasco.com](mailto:info@sacgasco.com)

Twitter: @SacGasCo

## **CHAIRMAN'S REPORT**

Dear valued Shareholder,

I am pleased to be writing to you following an important twelve months in which Saggasco cemented its position as a Top 2 operator in California's world-class Sacramento Basin. With several key objectives delivered, we believe the foundations are now set for Saggasco to unlock the significant underlying value from within the Company's diverse asset base over the next 12 months.

Following an extensive testing campaign, we were very pleased to report the commencement of gas flows from our Dempsey 1-15 well - the first time in 80 years that gas has flowed from the older geological formations in the Sacramento Basin. We expect the contribution of other wells we are working over or connecting to add further gas flows this year.

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*"Much of the last 12 months has been focused on extensive technical evaluation on the Sacramento Basin to provide a solid foundation to underpin future growth. We believe much of this work is now done and looking ahead we believe the next 12 months will be a period of growth for the business as we accelerate the scale up of our natural gas activities in the Sacramento Basin."*

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A priority for the business during FY2018 was to underpin gas flows and further diversify our revenue base, which was achieved in part through the strategic acquisition of a 100% interest in three wells in the Rio Vista Gas Field - the largest gas field in California, having produced over 3.8 Tcf of natural gas. The property included two long-term gas-flowing wells.

First revenues from the Rio Vista wells were received shortly after the completion of the acquisition.

We remain committed to increasing gas flows from our 31 well portfolio this year, and I am pleased to report that several workover opportunities have been identified and we expect to see considerable organic growth in our gas flow profile this financial year.

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*"Saggasco is leading the way in the evaluation of the under-explored, under-evaluated and overlooked opportunities connected to materially under-supplied oil and gas markets. The sediments of interest are a series of Cretaceous sandstones that have flowed clean natural gas to surface from multiple zones in Saggasco's Dempsey well and two other wells in the Sacramento Basin in 100 years of exploration. These sediments are materially under-explored by industry standards and exhibit 'world-class natural gas potential' attributes."*

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Our strategy to transition to significant gas producer in the short-term remains unchanged and with our increased operatorship, immediate access to critical infrastructure and the ability to supply directly into a high-demand local market we enter this year with a great deal of optimism.

We were very pleased to welcome Mr Greg Channon to the Board at the end of 2018 as a Non-Executive Director. Greg is a geologist with 34 years of global oil and gas experience in a great variety of technical, commercial and leadership roles. Greg brings extensive California and other US Basin experience that strongly complements the board's capability. Philip Hayden Slater and Graeme Clatworthy both resigned from their respective positions as Non-Executive Directors during the year to pursue their increasing involvement in other projects and we thank them sincerely for their valuable contributions.

**Positive Future Outlook for Natural Gas Markets**

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

The US Energy Information Administration (EIA) forecasts natural gas consumption in the U.S. to continue increasing by another 40% between now and 2050 (Figure 1).

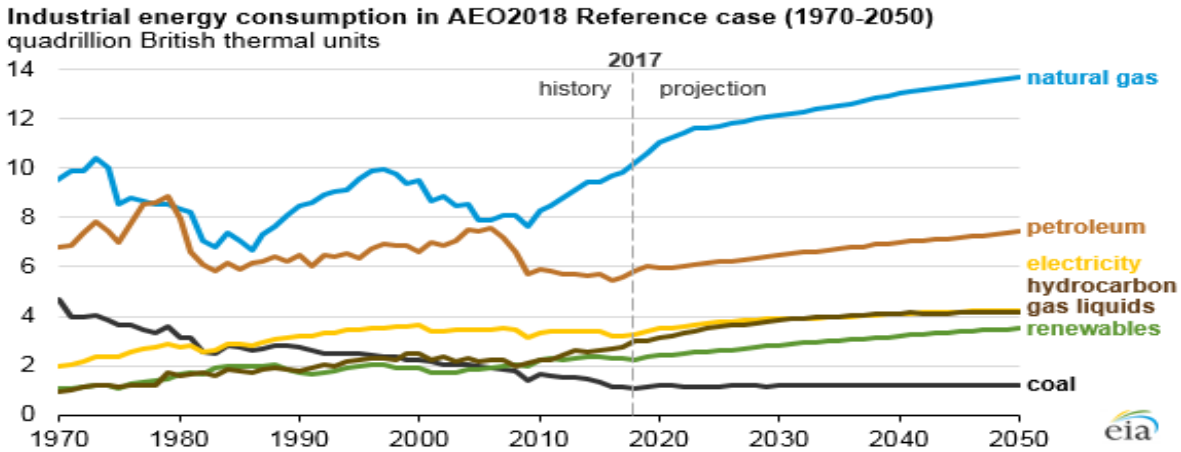


Figure 1 EIA Natural Gas Consumption Forecast

Natural gas is an important component of California's energy system, supplying about one-third of the state's primary energy demand. Even as California moves away from fossil fuels to meet its climate goals, natural gas-fired electricity is playing an important role in integrating increasing amounts of renewables into the electricity grid.

California receives about 90 percent of its natural gas from supply basins outside the state, through the integrated North American natural gas market. A local source of natural gas has many benefits.

California natural gas prices are almost always higher than benchmark Henry Hub prices. Gas prices in California recently spiked as high as US\$17 (A\$24) / mcf demonstrating the potential for enhanced returns from increasing gas flows.

Yours faithfully,

**Andrew Childs  
Chairman**



**Sacgasco Drilling in the Sacramento Basin**

## **REVIEW OF OPERATIONS**

### **OVERVIEW**

Sacgasco Limited is listed on the Australian Securities Exchange (ASX: SGC). Sacgasco has one operational segment, being the exploration of its oil and gas interests. Sacgasco's strategy is to find and explore oil and gas opportunities in recently overlooked, but prospective sedimentary basins close to under supplied oil and gas markets. As an explorer Sacgasco uses its assets to facilitate exploration activities to grow the company. Currently, the Company has wells flowing gas that provide revenues that partly offset its gas activities. Sacgasco's goal is to become a production company that has sufficient gas sales revenue to fund its exploration activities.

### **OPERATIONS HIGHLIGHTS**

- Preferred location to drill Anzus (Borba) Prospect has been selected and will be permitted with the California regulator;
- Sacgasco increased gas flows and diversified its gas portfolio via acquisition of a 100% interest in 3 wells in the largest gas field in California;
- Acquired additional interests in Sacgasco Operated Projects in Sacramento Basin - JV structure simplified ready for accelerated activity;
- Planned re-entry and test of Alvares ready to implement as conditions allow;
- Sacgasco portfolio now stands at 31 wells – 12 currently flowing - provides platform to scale up gas flows in near term;
- Leases over mapped high potential prospects continue to be held for rework, appraisal and exploration opportunities consistent with the Company's strategy;
- Sacgasco has identified additional workover and equipment relocation and refurbishment activities in its portfolio that provide opportunities for increased gas flows in the future;
- Production facilities also provide ready access points for future exploration success from Sacgasco's appraisal and exploration activities;
- Other opportunities that are consistent with the Company's strategy are reviewed for growth opportunities.

#### **Growth Strategy:**

- **Initial Growth Leverage:**
  - ✓ **Sacgasco Limited (ASX: SGC) has implemented a strategy to acquire and operate assets, including oil and gas wells and associated leases and pipeline infrastructure as a flexible and low-cost platform for exploring for increased volumes of Natural Gas in the premium California market.**
- **Leverage Enhancers:**
  - ✓ **Sacgasco is leading the drilling and proving-up of the under-explored, multi-Tcf potential of over-looked Natural Gas plays in the North Sacramento Basin.**
  - ✓ **Re-entry of Alvares gas discovery well to assess gas potential.**
  - ✓ **Further leasing, acquisitions, workovers and appraisal drilling under active planning to reinforce the Company's strategy.**

SGC has established a portfolio of large-scale natural gas prospects in the Sacramento Basin, close to under-filled gas trunklines connecting to the attractive Californian gas market.

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

SGC's management team is committed to progressing corporate and operational objectives in order to expand the Company's gas business in California and elsewhere as opportunities present.

**SACRAMENTO BASIN - Onshore Northern California**

**Exploration, appraisal and new ventures**

Opportunities have been identified in the Sargasco portfolio of wells for multiples of current gas flow levels.

Sargasco has identified additional workover and equipment relocation and refurbishment activities in its portfolio that provide opportunities for increases in gas flows in the future. Scaling up gas flow from the Company’s portfolio of 31 wells is a key focus, while Sargasco also works on pursuing larger potential projects across its multiple gas field exploration acreage. The Dempsey 1-15 well was flowed on an intermittent basis to assess reservoir conditions. Work is planned to change the completion configuration in the well bore to assess the best way to resume gas flows from the well.

Production facilities provide ready access points for future exploration success from Sargasco’s appraisal and exploration activities.

**Alvares Natural Gas Prospect – Appraisal stage (SGC 49% WI)**

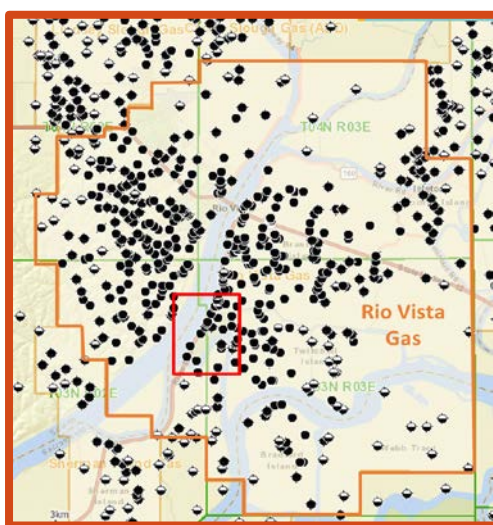
The Alvares natural gas project is located only 9 miles from large natural gas pipelines and on trend 35 miles from the similarly structured Sites Anticline on which the 1948 Shell James 1 well flowed gas to surface from reservoirs of similar age to those of interest at Alvares.

The planned Alvares 1 well re-entry and related testing was delayed, initially due to joint venture changes, and the increased operational and financial risks related to the rainy season in the Sacramento Valley. Work is expected to resume once conditions allow.

**Rio Vista Gas Fields (SGC 100% WI)**

During the December quarter Sargasco acquired 100% of a strategic portfolio of natural gas assets in the Rio Vista Gas Field in the Sacramento Basin, California for no cost. The Rio Vista field has produced over 3.8 Tcf of natural gas and is the largest natural gas field in the Sacramento Basin.

The acquired wells are located within a 467-acre oil and gas lease, with gas flows from depths between 5,000 and 7,000 feet. The property included two long-term flowing wells. Each of these wells has produced around 4 Bcf of gas to date. The property, including an oil and gas lease, wells and associated facilities has been acquired for no cost. The vendor paid approximately US\$100,000 cash to Sargasco as a contribution to future abandonment costs for the acquired wells. These were the vendor’s only gas flowing assets in the Sacramento Basin. The effective acquisition date was 1 December 2018. The acquisition was completed in early January 2019.



**Location of Sargasco Wells (Inset Red Box)**

**SACGASCO LIMITED  
REVIEW OF OPERATIONS**

**Additional Interests in Sacgasco Operated Projects**

Sacgasco executed an Agreement to acquire additional working interests in the Alvares, Dempsey and Dempsey Trend Projects in the Sacramento Basin. Sacgasco received A\$79,000 from the vendor to settle JV invoices. The effective date of the agreement was 31 December 2018. The increased interests are reflected in the Working Interest tables that follow in this report.

**GAS FLOW UPDATE**

Sacgasco’s 31 well portfolio including 30 Operated wells, with 12 currently flowing, provides multiple opportunities to add gas flows from additional wells. Leases continue to be maintained and acquired over prospects for follow up to success at the Dempsey 1-15 well.

The Company has working interests in 8 gas fields in the Northern Sacramento Basin and is the operator of wells in 7 of these fields. The fields are Rancho-Capay, Rice Creek East, Malton, Dutch Slough, Denverton Creek, Los Medanos, Rio Vista and Willows. 12 wells are active and 19 are currently idle (Refer to Table of Sacgasco Wells). In addition, Sacgasco can access a number of plugged wells on its leases (for example Alvares-1) should they be conveniently placed to provide access to opportunities identified by technical review.

| Gas Flows                             | Full Year 2018 | Full Year 2017 |
|---------------------------------------|----------------|----------------|
| <b>Gross mcf * (100%)</b>             | 316,663        | 245,996        |
| <b>SGC WI mcf</b>                     | 115,818        | 104,017        |
| <b>*mcf – Thousand Cubic feet gas</b> |                |                |



**Sacgasco Wells (in Colour) – Low Impact, Easy Access**



**SACGASCO LIMITED  
REVIEW OF OPERATIONS**

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**NEW VENTURES AND ACQUISITIONS**

Sacgasco reviews opportunities that fit with the strategy to find and explore oil and gas opportunities in recently overlooked, but prospective sedimentary basins close to under supplied oil and gas markets. A number of these opportunities are currently under review.



**Sacgasco Well**



**Sacgasco Well**

**SACGASCO LIMITED  
REVIEW OF OPERATIONS**

**SAGASCO WELLS – WORKING INTEREST AND STATUS**

| Field and Well Name                                       | Working Interest (WI)*<br>(Approx.) | Well Status |
|---|-------------------------------------|-------------|
| <b>Rancho Capay Gas Field: (Operated)</b>                 |                                     |             |
| Rancho Unit 1   | 41%                                 | Active      |
| Rancho Unit 2   | 57%                                 | Active      |
| Rio Grande  | 60%                                 | Active      |
| Big Jake  | 60%                                 | Idle        |
| Stoney Creek 3  | 60%                                 | Idle        |
| Stoney Creek 2  | 60%                                 | Idle        |
| Dempsey 1-15  | 60%                                 | Active      |
| <b>Rice Creek East Gas Field: (Operated)</b>              |                                     |             |
| OPI Bettencourt Unit                                      | 60%                                 | Idle        |
| Bettencourt Unit B  | 60%                                 | Idle        |
| Nareco Slade #1B  | 60%                                 | Idle        |
| <b>Malton Gas Field: (Operated)</b>                       |                                     |             |
| Canfield 2  | 61%                                 | Idle        |
| MU #1   | 44%                                 | Idle        |
| Santa Clara #1  | 41%                                 | Idle        |
| Unit #7   | 35%                                 | Idle        |
| VBC #1  | 47%                                 | Active      |
| VBC #2  | 47%                                 | Active      |
| VBC #3  | 47%                                 | Active      |
| <b>Dutch Slough Gas Field: (Operated)</b>                 |                                     |             |
| SCOPESEI #3   | 69%                                 | Idle        |
| Reedy #1  | 69%                                 | Idle        |
| Reedy #2  | 69%                                 | Idle        |
| Reedy #3  | 69%                                 | Idle        |
| Reedy #4  | 69%                                 | Idle        |
| <b>Denverton Creek Gas Field: (Operated)</b>              |                                     |             |
| Lambie Felenco 3-4  | 70%                                 | Active      |
| <b>Los Medanos Gas Field: (Operated)</b>                  |                                     |             |
| Neely 1   | 90%                                 | Idle        |
| Neely 2   | 90%                                 | Active      |
| <b>Willows Gas Field: (Non-Operated)</b>                  |                                     |             |
| MJ Line   | 10%                                 | Active      |
| <b>Rio Vista Gas Field (Operated)</b>                     |                                     |             |
| Rec Board #5  | 100%                                | Idle        |
| Rec Board #7  | 100%                                | Active      |
| Rec Board #8  | 100%                                | Active      |
| <b>Example Key Plugged Wells (available for re-entry)</b> |                                     |             |
| Alvares   | 49%                                 | Plugged     |
| Reedy #5  | 69%                                 | Plugged     |

Note: WI\* – Approximate numbers represent post farmout working interests

**SACGASCO LIMITED**  
**REVIEW OF OPERATIONS**

**PROJECT SUMMARY**

SGC's current focus is unlocking the underlying value from its natural gas prospects in the Sacramento Basin. At this point, the Company believes shareholders' interests are best suited to a singular operational focus on the largest value adding projects in the Sacramento Basin.

| <b>PROJECT NAMES</b><br>All located in the Sacramento Basin<br>Onshore northern California | <b>LEASES; RELATED GAS FIELD (HBP LEASES); OR KEY WELL</b>                         | <b>PROJECT TYPE</b>             | <b>TOTAL WELLS</b> | <b>ACTIVE GAS WELLS</b> | <b>WORKING INTEREST (WI)*</b> |
|--|--|---------------------------------|--------------------|-------------------------|-------------------------------|
| <b>Dempsey Project</b>   | Rancho Capay, Rice Creek, East Gas Fields - HBP Leases; Oil and Gas Mineral Leases | Exploration, Appraisal & Rework | 10                 | 4                       | 41-60%                        |
| <b>Alvares Project</b>   | Oil and Gas Mineral Leases; Alvares 1 well (P&A Re-entry)                          | Exploration & Appraisal         | 1                  | -                       | 49%                           |
| <b>Dempsey Trend Projects</b>  | Oil and Gas Mineral Leases   | Exploration                     | -                  | -                       | 46%                           |
| <b>Los Medanos Project</b>   | Los Medanos Gas Field<br>HBP Leases  | Appraisal & Rework              | 2                  | 1                       | 90%                           |
| <b>Malton Project</b>  | Malton Gas Field HBP Leases and Oil and Gas Mineral Leases                         | Exploration, Appraisal & Rework | 7                  | 3                       | 35-61%                        |
| <b>Dutch Slough Gas Project</b>  | Dutch Slough Gas Field<br>HBP Leases   | Exploration, Appraisal & Rework | 6                  | -                       | 69%                           |
| <b>Denverton Creek Gas Project</b>   | Denverton Creek Gas Field<br>HBP Leases  | Gas flow & Rework               | 1                  | 1                       | 70%                           |
| <b>Rio Vista Gas Project</b>   | Rio Vista Field Wells<br>HBP Leases  | Gas flow, appraisal & Rework    | 3                  | 2                       | 100%                          |
| <b>Willows Gas Field (Non-operated)</b>  | Willows Gas Fields<br>HBP Leases   | Gas flow & Rework               | 1                  | 1                       | 10%                           |

Note: WI\* – Approximate numbers represent post farmout working interests

**Changes in Tenement / Project List Reporting Period:**

Significant Working Interest changes have been reported above.

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

Working interests may vary across individual projects and leases and WI above reflects the WI in the majority of leased lands.

## **SACGASCO LIMITED**

### **REVIEW OF OPERATIONS**

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#### **Leases**

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

#### **Competent Persons Statement**

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Gary Jeffery, Managing Director of Sacgasco Limited. He is a qualified geophysicist with over 46 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. Mr Jeffery consents to the inclusion of the information in the form and context in which it appears.

#### **The Financial Year**

##### Placement of Shares

In April 2018, the Company completed a share placement of 10,000,000 shares to sophisticated and institutional investors raising \$500,000.

##### Corporate Activity

###### *Board of Directors*

Greg Channon was appointed to the Board as a Non-Executive Director on 3 December 2018. Mr Graeme Clatworthy resigned from his position due to his increased work commitments. Mr Clatworthy was appointed on 2 August 2018 upon the resignation of Philip Haydn-Slater due to increased UK based work commitments.

###### *Public Presentations*

SGC Managing Director Gary Jeffery presented to shareholders and investors at the annual Good Oil Conference held in Perth, Western Australia (Refer ASX release dated 13 September 2018).

## SACGASCO LIMITED REVIEW OF OPERATIONS

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### Financial results and condition

The loss for the year ended 31 December 2018 attributable to members of Sacgasco Limited after income tax was \$1,974,367 (2017: \$6,720,095).

The Group has a working capital surplus of \$458,256 (2017: surplus \$1,451,531) and net cash outflows of \$929,479 (2017: inflow of \$1,891,620).

The Company continues to implement cost efficiency measures across the business.

### Summary of results

|   | 2018<br>\$  | 2017<br>\$  |
|---|-------------|-------------|
| Other income                            | 1,250,989   | 404,632     |
| Loss before income tax                  | (1,972,174) | (6,714,764) |
| Income tax expense                      | (2,193)     | (5,331)     |
| Loss attributable to owners of Sacgasco | (1,974,367) | (6,720,095) |
| Other comprehensive income              | 106,689     | 42,783      |
| Underlying loss per share (cents)       | (0.78)      | (3.29)      |
| Shares on issue at reporting date       | 261,780,949 | 243,899,884 |
| Weighted average number of shares       | 253,787,759 | 204,386,845 |

### Planned Activity - 2019

The Company will seek to implement well workover, well connection and development, appraisal and exploration drilling activities aligned with the growth strategies outlined in the review of operations above.

**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

For the year ended 31 December 2018

**DIRECTORS' REPORT**

Your Directors present their report together with the financial statements of the Group consisting of Saccgasco Limited and the entities it controlled for the financial year ended 31 December 2018. To comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

**1. DIRECTORS**

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

| Name and status   | Experience, qualifications, special responsibilities and other directorships   |
|---|--|
| <p><b>Andrew Childs</b><br/> Non-executive Chairman</p> <p>Appointed: 25 November 2008</p> <p><u>Interest in shares and options:</u><br/> Shares: 5,881,378<br/> Options: 8,000,000</p> | <p>Mr Childs graduated from the University of Otago, New Zealand in 1980 with a Bachelor of Science in Geology and Zoology. Having started his professional career as an Exploration Geologist in the Eastern Goldfields of Western Australia, Mr Childs moved to petroleum geology and geophysics with Perth-based Ranger Oil Australia (later renamed Petroz NL). He gained technical experience with Petroz as a Geoscientist and later commercial experience as the Commercial Assistant to the Managing Director.</p> <p>Mr Childs is also Principal of Resource Recruitment and Non-Executive Director of ADX Energy.</p>                                      |
| <p><b>Gary Jeffery</b><br/> Managing Director</p> <p>Appointed: 24 October 2013</p> <p><u>Interest in shares and options:</u><br/> Shares: 13,706,180<br/> Options: 8,000,000</p>       | <p>Mr Jeffery has over 45 years of project development, operations and exploration experience in the oil, gas and mining and energy utilities industries, having worked for both large and small organisations in over thirty countries worldwide.</p> <p>He is an experienced director of public companies in Australia, Uganda and Canada, and has broad international experience in resources, and provides consulting services on energy and resource related matters.</p> <p>Mr Jeffery graduated with a BSc in Geology and Geophysics from the University of New England. He is a WA Energy Research Alliance (WAERA) Industry Advisory Group participant.</p> |
| <p><b>Greg Channon</b><br/> Non-executive Director</p> <p>Appointed: 3 December 2018</p> <p><u>Interest in shares and options:</u><br/> Shares: 2,051,977<br/> Options: Nil</p>         | <p>Mr Channon is a geologist with over 34 years of international experience in the oil and gas industry. He commenced his career in 1984 as a Wellsite and Operations Geologist at Delhi Petroleum before joining Santos as an Explorationist in 1987.</p> <p>Mr Channon was a co-founder of RL Energy and has held numerous management positions on oil and gas exploration entities. He has sat on the Board of Directors of several companies listed on the ASX, TSX and HKSE in previous years. He is currently a Non-Executive Director of Samson Oil and Gas Ltd (ASX: SSN).</p>   |
| <p><b>Philip Haydn-Slater</b></p>   | <p>Appointed 1 February 2017, Resigned 2 August 2018</p>   |
| <p><b>Graeme Clatworthy</b></p>   | <p>Appointed 2 August 2018, Resigned 3 December 2018</p>   |

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

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**2. COMPANY SECRETARY**

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

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

**3. DIRECTORS' MEETINGS**

The number of Directors' Meetings (including meetings of Committees of Directors) held during the year, and the number of meetings attended by each Director is as follows:

| Director            | Full meetings of Directors  |   | Meetings of audit and risk management committee |   |
|---------------------|-----------------------------|---|---|---|
|                     | Number of meetings attended | Number of meetings held whilst a director | Number of meetings attended                     | Number of meetings held whilst a director |
| Andrew Childs       | -                           | -   | 2   | 2   |
| Gary Jeffery        | -                           | -   | 2   | 2   |
| Philip Haydn-Slater | -                           | -   | 1   | 1   |
| Graeme Clatworthy   | -                           | -   | 1   | 1   |
| Greg Channon        | -                           | -   | -   | -   |

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

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

**4. PRINCIPAL ACTIVITIES**

The principal activity of the Group during the financial year was oil and gas exploration with associated natural gas flows as a by-product.

**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 affairs of the Group during the financial year, other than those matters referred to in the overview above.

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

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**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 and to increase gas flows associated with its wells in California.

**8. EVENTS SUBSEQUENT TO REPORTING DATE**

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

**9. ENVIRONMENTAL REGULATION**

The Group is subject to significant environmental regulation in relation to its 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. INDEMNIFICATION AND INSURANCE OF DIRECTORS**

The Company has agreed to indemnify all Directors and Company Secretary against any liability arising from a claim brought by a third party against the Company. The Company has paid premiums to insure each Director and Company Secretary against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct whilst acting in the capacity of Director of the Company, other than conduct involving wilful breach of duty in relation to the Company. The current premium is \$50,634 (2017: \$26,879) to insure the Directors and Company Secretary of the Company.

**11. NON-AUDIT SERVICES**

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

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

**12. 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.



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

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### **13. SHARE OPTIONS**

#### **Options granted to Directors of the Company**

During, or since the end of the reporting period, no options were granted by the Company.

For the year ended 31 December 2017, the following options were granted by the Company:

| <b>Exercise price</b>   | <b>Expiry date</b> | <b>Number of shares</b> |
|-------------------------|--------------------|-------------------------|
| <u>Unlisted Options</u> |                    |                         |
| 15 cents                | 31 December 2019   | 18,000,000              |

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#### **Unissued shares under options**

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

| <b>Exercise price</b>         | <b>Expiry date</b> | <b>Number of shares</b> |
|-------------------------------|--------------------|-------------------------|
| 10 cents                      | 30 September 2019  | 10,000,000              |
| 5 cents                       | 30 December 2019   | 6,000,000               |
| 15 cents                      | 31 December 2019   | 27,000,000              |
| <b>Total Unlisted Options</b> |                    | <b>43,000,000</b>       |

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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 the financial year, 500,000 (2017: 10,198,773) ordinary shares were issued by the Company as a result of the exercise of options.

#### **Options expired**

No options expired during the reporting period (2017: no options expired).

**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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**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:

- (a) Remuneration governance
- (b) Executive remuneration strategy and framework
- (c) Board and management changes
- (d) Service contracts
- (e) Executive and non-executive director remuneration
- (f) Key management personnel remuneration
- (g) Other KMP disclosures
- (h) Voting and comments made at the Company's 2018 Annual General Meeting

**(a) Remuneration governance**

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

**(b) Executive remuneration strategy and framework**

Remuneration is referred to as compensation throughout this report.

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

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

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

***Executive remuneration mix***

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

***Fixed compensation***

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

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

**SACGASCO 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 (continued)**

***Performance-linked compensation***

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

***Short-term incentive***

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

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

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

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

***Long-term incentive***

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

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

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

**Options over equity instruments granted as compensation**

No options over unissued shares in the Company were granted as compensation to key management personnel during the year.

***Exercise of options granted as compensation***

During the reporting period, no shares were issued on the exercise of options previously granted as compensation (2017: 1,000,000 shares issued on exercise).

***Options expired***

During the reporting period, no options expired (31 December 2017: no options expired).

**SACGASCO 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 (continued)**

***Consequences of performance on shareholder wealth***

In considering the Group's performance and benefits for shareholder wealth, the Board considers financial performance in the current financial year and prior years as per the table below.

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

| <b>Shareholder returns</b>                                   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Net comprehensive (loss) attributable to equity holders (\$) | (1,867,678) | (6,677,312) | (1,146,471) |
| Basic (loss) / earnings per share EPS (cents)                | (0.78)      | (3.29)      | (0.98)      |
| Share price at year end (cents)                              | 2.90        | 7.80        | 6.50        |
| Market capitalisation (\$)                                   | 7,591,648   | 19,024,191  | 8,457,214   |
| Net tangible (liabilities) / assets (NTA) (\$)               | 561,307     | 1,517,627   | (1,007,577) |
| NTA Backing (cents)  | 0.21        | 0.62        | (0.77)      |

Currently, the remuneration of the Group's key management personnel, including any component of the remuneration that consists of securities in the Company, is not formally linked to the prior performance of the Company. The rationale for this approach is that the Company is in the exploration phase, and it is currently not appropriate to link remuneration to factors such as profitability or share price.

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

**(c) Board and management changes**

Philip Haydn-Slater resigned as a Director effective 2 August 2018.

Graeme Clatworthy was appointed as a Director on 2 August 2018 and resigned effective 3 December 2018.

Greg Channon was appointed a Director following the resignation of Graeme Clatworthy on 3 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 and Key Management Personnel (KMP) remuneration and other terms of employment are formalised in service agreements. The service agreements outline the components of compensation paid to the Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account any change in the scope of the role performed by KMP and any changes required to meet the principles of the compensation policy. The major provisions of the agreement relating to remuneration are set out below. Remuneration packages are inclusive of superannuation.

**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

For the year ended 31 December 2018

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

**(d) Service contracts (continued)**

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

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

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

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

**(e) Executive and Non-Executive Director remuneration**

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

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

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

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

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

Pursuant to a share plan approved by shareholders at a general meeting on 31 May 2018, 100% of Philip Haydn-Slater's non-executive director fees and 50% of Non-Executive Chairman's fees are satisfied through the issue of shares on a quarterly basis. This is on the same basis as the Executive Director, and were issued as follows:

**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

For the year ended 31 December 2018

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

**(e) Executive and Non-Executive Director remuneration (continued)**

|                                | Tranche | Notional value of services rendered (A)<br>\$ | Fair value of shares on grant date (B)<br>\$ | No. of Plan Shares issued | Date of Issue |
|--------------------------------|---------|---|--|---------------------------|---------------|
| <b>Executive directors</b>     |         |   |  |                           |               |
| Gary Jeffery                   | 1       | 25,000  | 20,833                                       | 297,619                   | 13-Apr-18     |
|                                | 2       | 25,000  | 23,750                                       | 625,000                   | 11-Jul-18     |
|                                | 3       | 25,000  | 23,750                                       | 625,000                   | 9-Oct-18      |
| <b>Non-executive directors</b> |         |   |  |                           |               |
| Andrew Childs                  | 1       | 5,000   | 4,167  | 59,524                    | 13-Apr-18     |
|                                | 2       | 5,000   | 4,750  | 125,000                   | 11-Jul-18     |
|                                | 3       | 5,000   | 4,750  | 125,000                   | 9-Oct-18      |
| Philip Haydn-Slater            | 1       | 7,500   | 6,250  | 89,286                    | 13-Apr-18     |
|                                | 2       | 7,500   | 7,125  | 187,500                   | 11-Jul-18     |
|                                | 3 (C)   | 2,500   | 2,375  | 62,500                    | 9-Oct-18      |

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

(B) Reflects the fair value of shares at the date the share plan was approved by shareholders on 31 May 2017 (7 cents each) and 31 May 2018 (3.8 cents each); and

(C) Philip Haydn-Slater resigned on 2 August 2018.

Shares to be issued in lieu of accrued director fees as at 31 December 2018

|                                | Value of services rendered (A)<br>\$ | Fair value of shares on grant date (B)<br>\$ | No. of plan shares to be issued (C) |
|--------------------------------|--------------------------------------|--|-------------------------------------|
| <b>Executive directors</b>     |                                      |  |                                     |
| Gary Jeffery                   | 25,000                               | 23,750                                       | 625,000                             |
| <b>Non-executive directors</b> |                                      |  |                                     |
| Andrew Childs                  | 5,000                                | 4,750  | 125,000                             |

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

(B) Reflects the fair value of shares at the date the share plan was approved by shareholders on 31 May 2018 (3.8 cents each); and

(C) Shares were issued on 10 January 2019.

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

**SACGASCO 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 |                                    |             | Share based payments |                      | Total<br>\$ |
|---|------|------------------------------|------------------------------------|-------------|----------------------|----------------------|-------------|
|   |      | Salary and fees<br>\$        | Non-monetary benefits<br>(A)<br>\$ | Total<br>\$ | Shares<br>\$         | Options<br>(B)<br>\$ |             |
|   |      |                              |                                    |             |                      |                      |             |
| <b>Executive Directors</b>                      |      |                              |                                    |             |                      |                      |             |
| Gary Jeffery                                    | 2018 | 100,000                      | 16,877                             | 116,877     | 92,083               | -                    | 208,960     |
|   | 2017 | 100,000                      | 8,959                              | 108,959     | 56,776               | 286,000              | 451,735     |
| <b>Non-Executive Directors</b>                  |      |                              |                                    |             |                      |                      |             |
| Andrew Childs                                   | 2018 | 20,000                       | 16,878                             | 36,878      | 18,417               | -                    | 55,295      |
|   | 2017 | 20,000                       | 8,960                              | 28,960      | 11,356               | 286,000              | 326,316     |
| Greg Channon                                    | 2018 | 2,500                        | 1,295                              | 3,795       | -                    | -                    | 3,795       |
|   | 2017 | -                            | -                                  | -           | -                    | -                    | -           |
| Sub-total Non-Executive Directors' remuneration | 2018 | 22,500                       | 18,173                             | 40,763      | 18,417               | -                    | 59,090      |
|   | 2017 | 20,000                       | 17,159                             | 37,159      | 27,121               | 427,500              | 491,780     |
| Total current Directors' remuneration           | 2018 | 122,500                      | 35,050                             | 157,550     | 110,500              | -                    | 268,050     |
|   | 2017 | 120,000                      | 26,118                             | 146,118     | 83,897               | 713,500              | 943,515     |

(A) Comprises Directors and Officers insurance premiums;

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

**SACGASCO 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              | Non-monetary benefits (A) | Total   | Super-annuation          | Shares               | Options (B) |           |
|   |      | \$                           | \$                        | \$      |                          | \$                   | \$          |           |
| <b>Former Directors</b>                     |      |                              |                           |         |                          |                      |             |           |
| Graeme Clatworthy <sup>(1)</sup>            | 2018 | 9,132                        | 5,688                     | 14,820  | 868                      | -                    | -           | 15,688    |
|   | 2017 | -                            | -                         | -       | -                        | -                    | -           | -         |
| Philip Haydn-Slater <sup>(2)</sup>          | 2018 | -                            | 9,896                     | 9,896   | -                        | 15,750               | -           | 25,646    |
|   | 2017 | -                            | 8,199                     | 8,199   | -                        | 15,765               | 141,500     | 165,464   |
| David McArthur                              | 2018 | -                            | -                         | -       | -                        | -                    | -           | -         |
|   | 2017 | 10,719                       | 761                       | 11,480  | 781                      | -                    | 171,600     | 183,861   |
| Sub-total former Directors' remuneration    | 2018 | 9,132                        | 15,584                    | 24,716  | 868                      | 15,750               | -           | 41,334    |
|   | 2017 | 10,719                       | 761                       | 11,480  | 781                      | -                    | 171,600     | 183,861   |
| Total key management personnel remuneration | 2018 | 131,632                      | 50,634                    | 182,266 | 868                      | 126,250              | -           | 309,384   |
|   | 2017 | 130,719                      | 26,879                    | 157,598 | 781                      | 83,897               | 885,100     | 1,127,376 |

(1) Appointed 2 August 2018. Resigned 3 December 2018;

(2) Appointed 1 February 2017. Resigned 2 August 2018;

(C) Comprises Directors and Officers insurance premiums;

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



**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

For the year ended 31 December 2018

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

**(g) Shares held by Directors**

|                                | Held at<br>1 January<br>2018 | Purchases | Sales | Held at<br>date of<br>appointment | Issued<br>in lieu of<br>director fees | Held at<br>date of<br>resignation | Held at<br>31 December<br>2018 |
|--------------------------------|------------------------------|-----------|-------|-----------------------------------|---------------------------------------|-----------------------------------|--------------------------------|
| <b>Executive Directors</b>     |                              |           |       |                                   |                                       |                                   |                                |
| Gary Jeffery                   | 11,382,046                   | -         | -     | -                                 | 1,699,134                             | -                                 | 13,081,180                     |
| <b>Non-Executive Directors</b> |                              |           |       |                                   |                                       |                                   |                                |
| Andrew Childs                  | 5,416,551                    | -         | -     | -                                 | 339,827                               | -                                 | 5,756,378                      |
| Greg Channon                   | -                            | -         | -     | 2,051,977                         | -                                     | -                                 | 2,051,977                      |
| Graeme Clatworthy              | -                            | -         | -     | -                                 | -                                     | -                                 | -                              |
| Philip Haydn-Slater            | 3,533,969                    | -         | -     | -                                 | 384,741                               | (3,918,710)                       | -                              |

**(h) Director Remuneration Movements in Options**

The movement during the reporting period in the number of options in Sacgasco Limited held, directly, indirectly or beneficially, by each Director, including their related parties, is as follows:

|                                | Held at<br>1 January<br>2018 | Granted as<br>compensation | Expired | Held on<br>appointment<br>or<br>resignation | Held at<br>31 December<br>2018 | Vested<br>during<br>the year | Vested and<br>exercisable at<br>31 December<br>2018 |
|--------------------------------|------------------------------|----------------------------|---------|---|--------------------------------|------------------------------|---|
| <b>Executive directors</b>     |                              |                            |         |   |                                |                              |   |
| Gary Jeffery                   | 8,000,000                    | -                          | -       | -   | 8,000,000                      | -                            | 8,000,000   |
| <b>Non-executive directors</b> |                              |                            |         |   |                                |                              |   |
| Andrew Childs                  | 8,000,000                    | -                          | -       | -   | 8,000,000                      | -                            | 8,000,000   |
| Greg Channon                   | -                            | -                          | -       | -   | -                              | -                            | -   |
| Graeme Clatworthy              | -                            | -                          | -       | -   | -                              | -                            | -   |
| Philip Haydn-Slater            | 5,000,000                    | -                          | -       | (5,000,000)                                 | -                              | -                            | -   |

**SACGASCO LIMITED  
DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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

**(i) Other transactions with key management personnel**

The following is based on standard commercial terms and conditions.

**Andrew Childs**

Resource Recruitment Pty Ltd, a company for which Mr Childs is a Director, received \$31,200 (2017: \$27,600) in repayment for office rent and outgoings.

**(j) Loans from key management personnel**

The following is based on standard commercial terms and conditions.

**Gary Jeffery**

Dungay Resources Pty Ltd, a company for which Mr Jeffery is a Director and shareholder, provided cash loans totalling \$220,000 (2017: \$170,000) to the Company, accruing interest at 10% per annum, pro rata, repayable within six months if, and when, the company was in a financial position to do so. \$50,000 plus accrued interest was repaid in January 2019.

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

The Company received 91.85% 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.**

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**SACGASCO LIMITED**  
**DIRECTORS' REPORT**

**For the year ended 31 December 2018**

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



**GARY JEFFERY**

Director

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

**SACGASCO LIMITED  
LEAD AUDITOR'S INDEPENDENCE DECLARATION**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of Sacgasco Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'Norman Neill'.

**Perth, Western Australia  
28 March 2019**

**N G Neill  
Partner**

**[hlb.com.au](http://hlb.com.au)**

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**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

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

|   | Note | 31 December<br>2018<br>\$ | 31 December<br>2017<br>\$ |
|---|------|---------------------------|---------------------------|
| <b>Assets</b>   |      |                           |                           |
| Cash and cash equivalents   | 4.1  | 956,365                   | 2,006,364                 |
| Trade and other receivables                                       | 4.2  | 661,147                   | 119,513                   |
| Prepayments   |      | 69,587                    | 60,554                    |
| <b>Total current assets</b>                                       |      | <b>1,687,099</b>          | <b>2,186,431</b>          |
| Trade debtors and other receivables                               | 4.2  | 283,478                   | 256,246                   |
| Property, plant and equipment                                     |      | 12,338                    | 10,088                    |
| <b>Total non-current assets</b>                                   |      | <b>295,816</b>            | <b>266,334</b>            |
| <b>Total assets</b>   |      | <b>1,982,915</b>          | <b>2,452,765</b>          |
| <b>Liabilities</b>  |      |                           |                           |
| Trade and other payables  | 4.3  | (943,649)                 | (486,441)                 |
| Employee entitlements   |      | (7,344)                   | (70,379)                  |
| Loans and borrowings  | 5.2  | (277,850)                 | (2,055)                   |
| Deferred income   | 4.4  | -                         | (175,000)                 |
| Current tax liabilities   |      | -                         | (1,025)                   |
| <b>Total current liabilities</b>                                  |      | <b>(1,228,843)</b>        | <b>(734,900)</b>          |
| Site restoration  | 3.1  | (192,765)                 | (200,238)                 |
| <b>Total non-current liabilities</b>                              |      | <b>(192,765)</b>          | <b>(200,238)</b>          |
| <b>Total liabilities</b>  |      | <b>(1,421,608)</b>        | <b>(935,138)</b>          |
| <b>Net assets</b>   |      | <b>561,307</b>            | <b>1,517,627</b>          |
| <b>Equity</b>   |      |                           |                           |
| Issued capital  | 5.1  | 20,785,593                | 19,899,304                |
| Reserves  |      | 1,774,704                 | 1,671,546                 |
| Accumulated losses  |      | (21,998,990)              | (20,053,223)              |
| <b>Total equity attributable to equity holders of the Company</b> |      | <b>561,307</b>            | <b>1,517,627</b>          |

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

**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | Note | 2018<br>\$         | 2017<br>\$         |
|---|------|--------------------|--------------------|
| <b>Continuing operations</b>                            |      |                    |                    |
| Other income  | 2.2  | 1,250,989          | 404,632            |
| Gain on sale of subsidiaries                            |      | 26,873             | -                  |
| Foreign exchange gain                                   |      | 38,055             | 9,270              |
| Gain on sale of available for sale asset                |      | -                  | 344,390            |
| Site restoration reduction                              | 3.1  | 27,666             | 99,399             |
| <b>Expenses</b>   |      |                    |                    |
| Other operating expenses                                | 2.2  | (1,253,564)        | (996,815)          |
| Exploration expenditure expensed through profit or loss |      | (1,161,373)        | (2,179,860)        |
| Exploration expenditure expensed on asset acquisition   |      | -                  | (1,890,102)        |
| Exploration expenditure written off                     |      | -                  | (336,340)          |
| Marketing and business development                      |      | (6,309)            | (49,553)           |
| Personnel expenses                                      | 2.3  | (360,549)          | (1,223,154)        |
| General and administration                              |      | (134,028)          | (144,591)          |
| Professional fees                                       |      | (377,875)          | (736,654)          |
| Depreciation  |      | (5,894)            | (5,853)            |
| Finance expenses  | 2.4  | (14,892)           | (9,533)            |
| Impairment of other receivables                         |      | (1,273)            | -                  |
| <b>Results from operating activities</b>                |      | <b>(1,972,174)</b> | <b>(6,714,764)</b> |
| <b>Loss before income tax</b>                           |      | <b>(1,972,174)</b> | <b>(6,714,764)</b> |
| Income tax expense                                      | 2.5  | (2,193)            | (5,331)            |
| <b>Loss for the year</b>                                |      | <b>(1,974,367)</b> | <b>(6,720,095)</b> |
| <b>Loss per share (cents per share)</b>                 |      |                    |                    |
| Basic and diluted                                       | 2.7  | (0.78)             | (3.29)             |

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

**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

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**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

|  | <b>2018</b>        | <b>2017</b>        |
|--|--------------------|--------------------|
|  | <b>\$</b>          | <b>\$</b>          |
| Loss for the year  | (1,974,367)        | (6,720,095)        |
| <b>Other comprehensive income</b>                                  |                    |                    |
| <i>Items that may be classified subsequently to profit or loss</i> |                    |                    |
| Foreign currency translation difference of foreign operations      | 106,689            | 42,783             |
| Total items that may be classified subsequently to profit or loss  | <b>106,689</b>     | <b>42,783</b>      |
| <b>Total comprehensive loss for the year</b>                       | <b>(1,867,678)</b> | <b>(6,677,312)</b> |

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

**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

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

|   | Share<br>capital  | Translation<br>reserve | Options<br>reserve | Share-based<br>Payments<br>reserve | Accumulated<br>losses | Total          |
|---|-------------------|------------------------|--------------------|------------------------------------|-----------------------|----------------|
|   | \$                | \$                     | \$                 | \$                                 | \$                    | \$             |
| Balance at 1 January 2018                                     | 19,899,304        | 56,070                 | 1,573,150          | 42,326                             | (20,053,223)          | 1,517,627      |
| <b>Total comprehensive income for the year</b>                |                   |                        |                    |                                    |                       |                |
| Loss for the year   | -                 | -                      | -                  | -                                  | (1,974,367)           | (1,974,367)    |
| <b>Other comprehensive income for the year</b>                |                   |                        |                    |                                    |                       |                |
| Foreign exchange translation difference on foreign operations | -                 | 106,689                | -                  | -                                  | -                     | 106,689        |
| Total other comprehensive income for the year                 | -                 | 106,689                | -                  | -                                  | -                     | 106,689        |
| <b>Total comprehensive loss for the year</b>                  | -                 | 106,689                | -                  | -                                  | (1,974,367)           | (1,867,678)    |
| <b>Transactions with owners, recorded directly in equity:</b> |                   |                        |                    |                                    |                       |                |
| <b>Contributions by and distributions to owners</b>           |                   |                        |                    |                                    |                       |                |
| Issue of ordinary shares                                      | 830,909           | -                      | -                  | -                                  | -                     | 830,909        |
| Issue of ordinary shares on conversion of options             | 75,000            | -                      | (28,600)           | -                                  | 28,600                | 75,000         |
| Share-based payment transactions                              | -                 | -                      | 38,895             | (13,826)                           | -                     | 25,069         |
| Capital raising costs   | (19,620)          | -                      | -                  | -                                  | -                     | (19,620)       |
| <b>Total contributions by and distributions to owners</b>     | 886,289           | -                      | 10,295             | (13,826)                           | 28,600                | 911,358        |
| <b>Total transactions with owners</b>                         | 886,289           | -                      | 10,295             | (13,826)                           | 28,600                | 911,358        |
| <b>Balance at 31 December 2018</b>                            | <b>20,785,593</b> | <b>162,759</b>         | <b>1,583,445</b>   | <b>28,500</b>                      | <b>(21,998,990)</b>   | <b>561,307</b> |

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



**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

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

|   | Share capital     | Translation reserve | Options reserve  | Share-based Payments reserve | Accumulated losses  | Total            |
|---|-------------------|---------------------|------------------|------------------------------|---------------------|------------------|
|   | \$                | \$                  | \$               | \$                           | \$                  | \$               |
| Balance at 1 January 2017                                     | 12,133,480        | 13,287              | 174,900          | 19,784                       | (13,349,028)        | (1,007,577)      |
| <b>Total comprehensive income for the year</b>                |                   |                     |                  |                              |                     |                  |
| Loss for the year   | -                 | -                   | -                | -                            | (6,720,095)         | (6,720,095)      |
| <b>Other comprehensive income for the year</b>                |                   |                     |                  |                              |                     |                  |
| Foreign exchange translation difference on foreign operations | -                 | 42,783              | -                | -                            | -                   | 42,783           |
| Total other comprehensive income for the year                 | -                 | 42,783              | -                | -                            | -                   | 42,783           |
| <b>Total comprehensive loss for the year</b>                  | -                 | 42,783              | -                | -                            | (6,720,095)         | (6,677,312)      |
| <b>Transactions with owners, recorded directly in equity:</b> |                   |                     |                  |                              |                     |                  |
| <b>Contributions by and distributions to owners</b>           |                   |                     |                  |                              |                     |                  |
| Issue of ordinary shares                                      | 7,612,152         | -                   | -                | -                            | -                   | 7,612,152        |
| Issue of ordinary shares on conversion of options             | 360,964           | -                   | (15,900)         | -                            | 15,900              | 360,964          |
| Share-based payment transactions                              | -                 | -                   | 1,414,150        | 22,542                       | -                   | 1,436,692        |
| Capital raising costs   | (207,292)         | -                   | -                | -                            | -                   | (207,292)        |
| <b>Total contributions by and distributions to owners</b>     | <b>7,765,824</b>  | <b>-</b>            | <b>1,398,250</b> | <b>22,542</b>                | <b>15,900</b>       | <b>9,202,516</b> |
| <b>Total transactions with owners</b>                         | <b>7,765,824</b>  | <b>-</b>            | <b>1,398,250</b> | <b>22,542</b>                | <b>15,900</b>       | <b>9,202,516</b> |
| <b>Balance at 31 December 2017</b>                            | <b>19,899,304</b> | <b>56,070</b>       | <b>1,573,150</b> | <b>42,326</b>                | <b>(20,053,223)</b> | <b>1,517,627</b> |

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

**SACGASCO LIMITED**  
**FINANCIAL STATEMENTS**

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

|   | Note | 2018<br>\$         | 2017<br>\$         |
|---|------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>                   |      |                    |                    |
| Cash paid to suppliers and employees                          |      | (530,969)          | (523,764)          |
| Payments for exploration and evaluation                       |      | (1,207,128)        | (3,099,455)        |
| Interest paid   |      | (6,398)            | (17,184)           |
| Income taxes paid   |      | (2,193)            | (4,287)            |
| <b>Net cash used in operating activities</b>                  | 4.1b | <b>(1,746,688)</b> | <b>(3,644,690)</b> |
| <b>Cash flows from investing activities</b>                   |      |                    |                    |
| Proceeds from sale of available for sale assets               |      | -                  | 533,828            |
| Proceeds from investment in oil and gas lease                 |      | 136,383            | -                  |
| Proceeds on dissolution of an associate                       |      | -                  | 4,502              |
| Payments for available for sale assets                        |      | -                  | (190,840)          |
| Payments for property, plant and equipment                    |      | (7,945)            | (15,941)           |
| <b>Net cash from investing activities</b>                     |      | <b>128,438</b>     | <b>331,549</b>     |
| <b>Cash flows from financing activities</b>                   |      |                    |                    |
| Proceeds from issue of shares and options                     | 5.1  | 500,000            | 5,046,248          |
| Proceeds from exercise of options                             |      | -                  | 382,000            |
| Proceeds from related party loans                             | 5.2  | 220,000            | 270,000            |
| Payment of capital raising costs                              |      | (19,620)           | (207,292)          |
| Payment of transaction costs related to loans                 |      | (165)              | (400)              |
| Repayment of related party loans                              |      | -                  | (270,000)          |
| Repayment of premium funding facility                         |      | (11,444)           | (15,795)           |
| <b>Net cash from financing activities</b>                     |      | <b>688,771</b>     | <b>5,204,761</b>   |
| <b>Net (decrease) / increase in cash and cash equivalents</b> |      | <b>(929,479)</b>   | <b>1,891,620</b>   |
| Cash and cash equivalents at beginning of year                |      | 2,006,364          | 118,215            |
| Effect of exchange rate fluctuations on cash held             |      | (120,520)          | (3,471)            |
| <b>Cash and cash equivalents at 31 December</b>               | 4.1a | <b>956,365</b>     | <b>2,006,364</b>   |

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

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

**SECTION 1 BASIS OF PREPARATION**

Sacgasco Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 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 supporting exploration and evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

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

**1.1 GENERAL INFORMATION**

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

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

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

- have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
  - have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
  - are presented in Australian Dollars, being the Company's functional currency. The functional currency of three of its subsidiaries is United States dollars;
  - adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2018. Refer to note 6.8 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 6.9 for further details.
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# SACGASCO LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1.2 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business. The Directors are satisfied the Company is a going concern, notwithstanding it has a working capital surplus of \$458,256 (2017: 1,451,531) and a net cash outflow of \$929,479 (2017: inflow of \$1,891,620). The Group recorded a loss for the period of \$1,974,367 (2017: \$6,720,095). The Group had cash and cash equivalents at 31 December 2018 of \$956,365.

The Group is focused on securing further land leases in California and pursuing and assessing new venture opportunities which are complementary with its existing asset position. The Group's cash flow forecast for the period to 31 March 2020, reflects the Group's ability to meet its working capital requirements and its committed and planned expenditure relating to its exploration and evaluation assets. The directors are aware that the Group's ability to continue as a going concern, and thereby pay its debts as and when they fall due, is contingent on the Group securing further working capital from one or more of the following alternatives:

- Capital raising such as:
  - Private placement
  - Entitlements issue
  - Share purchase plan
- Borrowings from related or third parties
- Farming out assets to reduce exploration expenditures

Given the financial position of the Group and its demonstrated ability to raise funds, the Directors have reviewed the Groups' financial position and forecast cash flows and reasonably expect that the Group will be able to raise additional funds to meet future costs and satisfy its business plans for at least the next 12 months. If necessary, the Group will delay discretionary expenditure including administration costs and exploration expenditure that are not contractually committed. The timing of raising additional capital will depend on the investment markets and current and future planned exploration activities.

The directors are therefore of the opinion that the use of the going concern basis is appropriate in the circumstances. Notwithstanding this assessment there is material uncertainty regarding the outcomes of the future funding alternatives.

In the event the Group is unable to raise additional funds to meet the Group's planned exploration expenditure when required, there is a material uncertainty that may cast significant doubt as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

### 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. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

# SACGASCO LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 1.4 FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

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

### 1.5 IMPAIRMENT

#### Financial assets

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

To assess the impairment of financial assets the Group considered the credit rating of these investments. Due to that rating, the loss allowance is measured at an amount equal to 12-month expected credit losses.

In determining the expected credit losses of financial assets, the directors of the Group have taken into account the historical default experience, the financial position of the counter parties, the future prospects of the industries, financial analyst reports and various external sources of actual and forecast economic information as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss of upon default in each case.

#### Non-financial assets

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

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

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

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

**SACGASCO 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 flowing gas at profitable levels, the tax asset has not yet been recognised.

**2.1 OPERATING SEGMENTS**

**Information about reportable segments**

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

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

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

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

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

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)  | 1,250,989      | 404,632          |
| Other operating expense      |      | (1,253,564)    | (996,815)        |
| <b>Net operating expense</b> |      | <b>(2,575)</b> | <b>(592,183)</b> |

- (i) A by-product of exploration leases acquired in the Rancho Capay, Denverton Creek, East Rice Creek, Malton – Black Butte, Dutch Slough, Los Medanos and Rio Vista gas fields is a working interest in relatively minor natural gas production rights in the Sacramento Basin onshore California.

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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<br>\$     | 2017<br>\$       |
|--|------|----------------|------------------|
| Directors' remuneration                          | 6.3  | 309,384        | 1,127,376        |
| Other wages and salaries                         |      | 46,521         | 36,500           |
| Contributions to defined contribution plans      |      | 4,379          | 3,468            |
| Equity-settled share-based payments to employees | 6.1  | -              | 56,300           |
| Other associated personnel expenses              |      | 265            | (490)            |
| <b>Total Directors' remuneration</b>             |      | <b>360,549</b> | <b>1,223,154</b> |

**2.4 FINANCE COSTS**

**Accounting Policy**

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

|   | 2018<br>\$    | 2017<br>\$   |
|---|---------------|--------------|
| <b>Interest expense on financial liabilities measured at amortised cost</b> |               |              |
| Related party loans   | 10,384        | 8,594        |
| Premium funding facility  | 4,343         | 539          |
| Other finance charges   | 165           | 400          |
| <b>Net finance (expense) / income recognised in profit or loss</b>          | <b>14,892</b> | <b>9,533</b> |



**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.5 INCOME TAX EXPENSE**

**Accounting Policy**

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

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

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

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

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

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

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>\$</b>    | <b>\$</b>    |
| <b>Current tax expense / (benefit)</b> |              |              |
| Adjustment for prior periods           | 2,193        | 5,331        |
| <b>Total income tax expense</b>        | <b>2,193</b> | <b>5,331</b> |

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

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <b>\$</b>          | <b>\$</b>          |
| Loss for the period   | (1,974,367)        | (6,720,095)        |
| Total income tax expense  | 2,193              | 5,331              |
| <b>Loss excluding income tax</b>                                      | <b>(1,972,174)</b> | <b>(6,714,764)</b> |
| Income tax using the Group's domestic tax rate of 27.5% (2017: 27.5%) | (542,348)          | (1,846,560)        |
| Non-deductible expense  | 621,312            | 1,164,587          |
| Adjustment for prior periods  | 2,193              | 5,331              |
| Timing differences not brought to account                             | (18,971)           | (29,717)           |
| Tax losses foregone on dissolution of group entities                  | (445,959)          | -                  |
| Tax losses not brought to account                                     | 385,966            | 711,690            |
|   | <b>2,193</b>       | <b>5,331</b>       |

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**2.5 INCOME TAX EXPENSE (continued)**

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

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$1,273,287 (2017: \$1,777,195) attributed to tax losses have not been brought to account.

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

- i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;
- iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

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

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

|                                   | <b>2018</b>      | <b>2017</b>      |
|-----------------------------------|------------------|------------------|
|                                   | <b>\$</b>        | <b>\$</b>        |
| <b>Deferred tax assets (DTAs)</b> |                  |                  |
| Capital raising costs             | 43,055           | 51,713           |
| Trade and other payables          | 5,500            | 5,500            |
| Employee benefits                 | 514              | 437              |
| Carry forward tax losses          | 1,224,218        | 1,719,545        |
| DTAs not brought to account       | <b>1,273,287</b> | <b>1,777,195</b> |

There were no unrecorded deferred tax liabilities.

**2.6 EXPLORATION AND EVALUATION EXPENDITURE**

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

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.7 LOSS PER SHARE**

**Accounting Policy**

Basic earnings per share is the amount of a company's profit or loss for a reporting period that is available to the shares of its common stock that are outstanding during the reporting period.

**(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 - \$       | (1,974,367) | (6,720,095) |
| Issued ordinary shares at 1 January - number              | 243,899,884 | 130,110,984 |
| Effect of shares issued - number                          | 9,887,875   | 74,275,861  |
| Weighted average number of ordinary shares at 31 December | 253,787,759 | 204,386,845 |
| Basic and diluted loss per share (cents)                  | (0.78)      | (3.29)      |

\* At 31 December 2018, 43,000,000 options (31 December 2017: 37,500,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

**2.8 COMMITMENTS AND CONTINGENCIES**

**Commitments**

|                            | <b>2018</b>   | <b>2017</b>   |
|----------------------------|---------------|---------------|
|                            | <b>\$</b>     | <b>\$</b>     |
| <b>Office rent</b>         |               |               |
| Not less than one year     | 15,600        | 31,200        |
| Between one and five years | -             | -             |
|                            | <b>15,600</b> | <b>31,200</b> |

**Contingent liabilities**

Pursuant to the acquisition of Peregrine Limited, a cash bonus totalling in aggregate \$3,000,000 may be payable out of the net proceeds of sales of gas (after deducting operating costs) from any reservoir below the Forbes Zone and attributable to the 17.5% working interest in the Dempsey 1-15 well.

At the reporting date the group has not achieved the conditions which will crystallise this payment requirement.

**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 oil and gas exploration and development activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied.

**3.1 PROVISIONS**

**Accounting Policy**

**Provisions**

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

**Site restoration**

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

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

The non-current site restoration provision of \$192,765 (2017: \$200,238) is in respect of the Group's on-going obligation for the environmental rehabilitation of the Sacramento Basin onshore California area of interest. The timing of rehabilitation expenditure is dependent on the life of the gas field which may vary in the future. The nature of restoration activities includes plugging gas wells, restoration, reclamation and revegetation of affected areas. The Company continues to work within the regulations of the Californian authorities with regards to the planning and timing of the rehabilitation, such rehabilitation subject to the Company's share of the DoGGR bond of US\$200,000 for up to fifty wells.

|  | <b>2018</b>      | <b>2017</b>      |
|--|------------------|------------------|
|  | <b>\$</b>        | <b>\$</b>        |
| Site restoration provision                           | (192,765)        | (200,238)        |
| <b>Movement in carrying amounts</b>                  |                  |                  |
| Opening balance                                      | (200,238)        | (323,031)        |
| Adjustment to provision recognised as per DoGGR bond | 27,666           | 99,399           |
| Effects of foreign exchange                          | (20,193)         | 23,394           |
| Closing balance                                      | <b>(192,765)</b> | <b>(200,238)</b> |

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SECTION 4 WORKING CAPITAL DISCLOSURES**

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

**4.1 CASH AND CASH EQUIVALENTS**

**Accounting Policy**

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

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

|  | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Cash and cash equivalents in the statement of cash flows | 956,365     | 2,006,364   |

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

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
|   | <b>\$</b>          | <b>\$</b>          |
| <b>Cash flows from operating activities</b>           |                    |                    |
| Loss for the period                                   | (1,974,367)        | (6,720,095)        |
| Adjustments for:                                      |                    |                    |
| Depreciation  | 5,894              | 5,853              |
| Equity-settled share-based payment transactions       | 355,979            | 1,662,596          |
| Finance expense                                       | 165                | 400                |
| Net loss on foreign exchange translation              | 357,125            | 83,675             |
| Exploration expenditure expensed on asset acquisition | -                  | 1,890,102          |
| Capitalised exploration expenditure impaired          | 1,515,404          | 336,340            |
| Proceeds from investment in oil and gas lease         | (136,383)          | -                  |
| (Profit) / loss on disposal of subsidiaries           | (25,242)           | 2,498              |
| Profit on sale of available for sale assets           | -                  | (344,390)          |
| Change in other receivables                           | (2,253,970)        | (58,854)           |
| Change in prepayments                                 | (20,487)           | (26,645)           |
| Change in other operating assets                      | -                  | (253,717)          |
| Change in trade and other payables                    | 552,656            | (133,041)          |
| Change in current tax liabilities                     | -                  | 1,044              |
| Change in interest bearing liabilities                | 67,239             | (8,051)            |
| Change in employee benefits                           | (63,035)           | 16,994             |
| Change in site restoration provision                  | (27,666)           | (99,399)           |
| Change in deferred income                             | (100,000)          | -                  |
| <b>Net Cash used in operating activities</b>          | <b>(1,746,688)</b> | <b>(3,644,690)</b> |

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**4.2 OTHER RECEIVABLES**

**Accounting Policy**

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

|                                  | <b>2018</b>    | <b>2017</b>    |
|----------------------------------|----------------|----------------|
|                                  | <b>\$</b>      | <b>\$</b>      |
| <b>Continuing operations</b>     |                |                |
| Trade debtors                    | 445,896        | -              |
| GST and PAYG receivable          | 132,997        | 54,627         |
| Deposits and bonds (US\$200,000) | 283,478        | 256,246        |
| Other receivables                | 82,254         | 64,886         |
|                                  | <b>944,625</b> | <b>375,759</b> |
| Current                          | 661,147        | 119,513        |
| Non-current                      | 283,478        | 256,246        |
|                                  | <b>944,625</b> | <b>375,759</b> |

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

**4.3 TRADE AND OTHER PAYABLES**

**Accounting Policy**

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

|   | <b>2018</b>      | <b>2017</b>      |
|---|------------------|------------------|
|   | <b>\$</b>        | <b>\$</b>        |
| <b>Current</b>                          |                  |                  |
| Trade payables                          | (821,696)        | (447,223)        |
| Non-trade payables and accrued expenses | (121,953)        | (39,218)         |
|   | <b>(943,649)</b> | <b>(486,441)</b> |

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

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4.4 DEFERRED INCOME**

|                       | <b>Note</b> | <b>2018</b> | <b>2017</b>      |
|-----------------------|-------------|-------------|------------------|
|                       |             | <b>\$</b>   | <b>\$</b>        |
| Joint venture receipt | (i)         | -           | (100,000)        |
| Conversion of options | (ii)        | -           | (75,000)         |
|                       |             | <b>-</b>    | <b>(175,000)</b> |

- (i) advance received from Bombora Natural Energy Pty Ltd as per farm-out agreement for a working interest in the Dempsey Trend prospects, utilised during 2018;
- (ii) funds received in advance for 500,000 options exercised at 15 cents each on 10 January 2018.

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**SECTION 5 EQUITY AND FUNDING**

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

**5.1 CAPITAL AND RESERVES**

**Accounting Policy**

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

**Share capital**

|  | Ordinary shares    |                    |                   |                   |
|--|--------------------|--------------------|-------------------|-------------------|
|  | Number of shares   |                    | Amount in \$      |                   |
|  | 2018               | 2017               | 2018              | 2017              |
| <b>On issue at 1 January</b>                                       | <b>243,899,884</b> | <b>130,110,984</b> | <b>19,899,304</b> | <b>12,133,480</b> |
| <b>Shares issued and expensed during the period:</b>               |                    |                    |                   |                   |
| Issue of fully paid shares for cash                                | 10,000,000         | 65,197,935         | 500,000           | 5,046,248         |
| Issue of fully paid shares on conversion of options                | 500,000            | 9,698,773          | 75,000            | 360,964           |
| Issue of shares in lieu of directors' fees                         | 2,423,702          | 1,760,261          | 113,659           | 87,772            |
| Issue of shares in satisfaction of service provider fees           | 2,957,363          | 631,931            | 161,250           | 63,132            |
| Issue of shares pursuant to an option to acquire RL Energy Pty Ltd | 2,000,000          | -                  | 56,000            | -                 |
| Issue of shares pursuant to acquisition of Peregrine Limited       | -                  | 32,000,000         | -                 | 2,240,000         |
| Issue of shares in satisfaction of a director loan                 | -                  | 4,000,000          | -                 | 100,000           |
| Issue of shares pursuant to agreement to use Seismic data          | -                  | 500,000            | -                 | 75,000            |
| Capital raising costs  | -                  | -                  | (19,620)          | (207,292)         |
| <b>On issue at 31 December</b>                                     | <b>261,780,949</b> | <b>243,899,884</b> | <b>20,785,593</b> | <b>19,899,304</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 Group. Option holders cannot participate in any new share issues by the Group without exercising their options.

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

All issued shares are fully paid.

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



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**5.1 CAPITAL AND RESERVES (continued)**

**Nature and purpose of reserves**

**Share-based payments reserve**

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

**Options reserve**

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

**Translation reserve**

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

**5.2 LOANS AND BORROWINGS**

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

|                                | Book value<br>2018<br>\$ | Fair value<br>2018<br>\$ | Book value<br>2017<br>\$ | Fair value<br>2017<br>\$ |
|--------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Current</b>                 |                          |                          |                          |                          |
| Loans received from a director | (230,384)                | (238,884)                | (2,055)                  | (2,055)                  |
| Premium funding facility       | (47,466)                 | (48,989)                 | -                        | -                        |
| <b>On issue at 31 December</b> | <b>(277,850)</b>         | <b>(287,873)</b>         | <b>(2,055)</b>           | <b>(2,055)</b>           |

|  | Loans from<br>a director <sup>(2)</sup> | Premium<br>funding |
|--|---|--------------------|
| Balance at 1 January 2017                      | (110,107)                               | (15,794)           |
| Loans & borrowings received                    | (270,000)                               | -                  |
| Interest charged                               | (8,594)                                 | (539)              |
| Less loan extinguished through issue of shares | 100,000                                 | -                  |
| Less repaid <sup>(1)</sup>                     | 286,646                                 | 16,333             |
| <b>Balance at 31 December 2017</b>             | <b>(2,055)</b>                          | <b>-</b>           |
| Loans & borrowings received                    | (220,000)                               | -                  |
| Financing of premium funding facility          | -                                       | (58,910)           |
| Interest charged                               | (10,384)                                | (4,343)            |
| Less repaid <sup>(1)</sup>                     | 2,055                                   | 15,787             |
| <b>Balance at 31 December 2018</b>             | <b>(230,384)</b>                        | <b>(47,466)</b>    |

<sup>(1)</sup> Amounts repaid include interest and loan establishment costs;

<sup>(2)</sup> Refer to note 6.3 for further details.

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**SECTION 6 OTHER DISCLOSURES**

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

**Key estimates and assumptions in this section**

**Share-based payments**

The fair value of share options is measured using the 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 PAYMENT PLANS**

**Accounting Policy**

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

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

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

|  | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| <b>Expensed in personnel expenses</b>        |             |             |
| Options issued to directors                  | -           | 885,100     |
| Options issued to employees                  | -           | 56,300      |
| Shares issued to directors                   | 97,750      | 67,988      |
| Shares to be issued to directors             | 28,500      | 15,909      |
| <b>Expensed in professional fees</b>         |             |             |
| Options issued to consultants of the company | 38,895      | 472,750     |
| Shares issued to consultants of the company  | 56,000      | -           |

**Equity-settled share option programme**

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

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

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

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

**Options**

At 31 December 2018, a summary of the Group options issued and not exercised are as follows. Options are settled by the physical delivery of shares:

| Grant date                              | Vesting date | Expiry date | Exercise Price (cents) | Balance at the start of the year | Granted during the year | Exercised during the year | Expired / forfeited during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|--------------|-------------|------------------------|----------------------------------|-------------------------|---------------------------|-------------------------------------|--------------------------------|---|
| 26-Oct-15                               | 26-Oct-15    | 30-Sep-19   | 10                     | 10,000,000                       | -                       | -                         | -                                   | 10,000,000                     | 10,000,000                                    |
| 11-Jan-17                               | 27-Jan-17    | 31-Dec-19   | 15                     | 18,000,000                       | -                       | (500,000)                 | -                                   | 17,500,000                     | 17,500,000                                    |
| 19-Jan-17                               | 27-Jan-17    | 31-Dec-19   | 15                     | 4,000,000                        | -                       | -                         | -                                   | 4,000,000                      | 4,000,000                                     |
| 07-Apr-17                               | 13-Apr-17    | 31-Dec-19   | 15                     | 500,000                          | -                       | -                         | -                                   | 500,000                        | 500,000                                       |
| 31-May-17                               | 14-Jun-17    | 31-Dec-19   | 15                     | 5,000,000                        | -                       | -                         | -                                   | 5,000,000                      | 5,000,000                                     |
| 21-Aug-18                               | 21-Aug-18    | 30-Dec-19   | 5                      | -                                | 6,000,000               | -                         | -                                   | 6,000,000                      | 6,000,000                                     |
| <b>Total</b>                            |              |             |                        | <b>37,500,000</b>                | <b>6,000,000</b>        | <b>(500,000)</b>          | <b>-</b>                            | <b>43,000,000</b>              | <b>43,000,000</b>                             |
| Weighted Average Exercise Price (cents) |              |             |                        | 13.67                            | 5.00                    | 15.00                     | -                                   | 12.44                          |   |

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 0.94 years.

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

| Grant date                              | Vesting date | Expiry date | Exercise Price (cents) | Balance at the start of the year | Granted during the year | Exercised during the year | Expired / forfeited during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|--------------|-------------|------------------------|----------------------------------|-------------------------|---------------------------|-------------------------------------|--------------------------------|---|
| 26-Oct-15                               | 26-Oct-15    | 30-Sep-19   | 10                     | 11,000,000                       | -                       | (1,000,000)               | -                                   | 10,000,000                     | 10,000,000                                    |
| 11-Jan-17                               | 27-Jan-17    | 31-Dec-19   | 15                     | -                                | 18,000,000              | -                         | -                                   | 18,000,000                     | 18,000,000                                    |
| 19-Jan-17                               | 27-Jan-17    | 31-Dec-19   | 15                     | -                                | 4,000,000               | -                         | -                                   | 4,000,000                      | 4,000,000                                     |
| 07-Apr-17                               | 13-Apr-17    | 31-Dec-19   | 15                     | -                                | 500,000                 | -                         | -                                   | 500,000                        | 500,000                                       |
| 31-May-17                               | 14-Jun-17    | 31-Dec-19   | 15                     | -                                | 5,000,000               | -                         | -                                   | 5,000,000                      | 5,000,000                                     |
| <b>Total</b>                            |              |             |                        | <b>11,000,000</b>                | <b>27,500,000</b>       | <b>(1,000,000)</b>        | <b>-</b>                            | <b>37,500,000</b>              | <b>37,500,000</b>                             |
| Weighted Average Exercise Price (cents) |              |             |                        | 10.00                            | 15.00                   | 10.00                     | -                                   | 13.67                          |   |

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was 1.93 years.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

***Options (continued)***

Key valuation assumptions made at valuation date are summarised below:

|                             | <b>Tranche 1</b> | <b>Tranche 2</b> | <b>Tranche 3</b> | <b>Tranche 4</b> | <b>Tranche 5</b> | <b>Tranche 6</b> | <b>Tranche 7</b> | <b>Tranche 8</b> | <b>Tranche 9</b> |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Number of options           | 10,000,000       | 13,000,000       | 5,000,000        | 1,000,000        | 1,000,000        | 2,000,000        | 500,000          | 5,000,000        | 6,000,000        |
| Exercise price (cents)      | 10               | 15               | 15               | 15               | 15               | 15               | 15               | 15               | 5                |
| Grant date                  | 26-Oct-15        | 11-Jan-17        | 11-Jan-17        | 19-Jan-17        | 19-Jan-17        | 19-Jan-17        | 07-Apr-17        | 31-May-17        | 21-Aug-18        |
| Expiry date                 | 30-Sep-19        | 31-Dec-19        | 31-Dec-19        | 31-Dec-19        | 31-Dec-19        | 31-Dec-19        | 31-Dec-19        | 31-Dec-19        | 30-Dec-19        |
| Life of the options (years) | 3.93             | 2.97             | 2.97             | 2.95             | 2.95             | 2.95             | 2.73             | 2.59             | 1.36             |
| Volatility                  | 90%              | 140.84%          | 140.84%          | 138.64%          | 138.64%          | 138.64%          | 121.42%          | 91.41%           | 95.35%           |
| Risk free rate              | 1.80%            | 1.83%            | 1.83%            | 1.83%            | 1.83%            | 1.83%            | 1.67%            | 1.66%            | 2.29%            |
| Fair value at grant date    | 1.59             | 5.72             | 5.72             | 5.63             | 5.63             | 5.63             | 3.57             | 2.83             | 0.65             |
| Share price at grant date   | 3.9              | 8.1              | 8.1              | 8.1              | 8.1              | 8.1              | 6.5              | 7.4              | 3.0              |

## **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 captions in the statement of financial position in accordance with AASB 9 *Financial Instruments*:

- Amortised cost;
- Fair value through Profit or Loss; or
- Fair value through Other Comprehensive Income.

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 is exposed through its operations to the following financial risks:

- credit risk
- interest rate risk
- foreign exchange risk
- liquidity risk

The Group is exposed to risk that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect to these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from prior periods unless otherwise stated in this note.

### **Principal financial instruments**

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

- trade receivables
- cash and cash equivalents
- trade and other payables
- loans and borrowings

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Financial instruments by category**

**Financial assets**

|                               | <b>Amortised cost<br/>(loans and receivables 2017)</b> |                  |
|-------------------------------|--|------------------|
|                               | <b>2018</b>  | <b>2017</b>      |
|                               | <b>\$</b>  | <b>\$</b>        |
| Cash and cash equivalents     | 956,365  | 2,006,364        |
| Trade and other receivables   | 944,625  | 375,759          |
| <b>Total financial assets</b> | <b>1,900,990</b>                                       | <b>2,382,123</b> |

**Financial liabilities**

|                                    | <b>Amortised cost</b> |                  |
|------------------------------------|-----------------------|------------------|
|                                    | <b>2018</b>           | <b>2017</b>      |
|                                    | <b>\$</b>             | <b>\$</b>        |
| Trade and other payables           | (943,649)             | (486,441)        |
| Employee entitlements              | (7,344)               | (70,379)         |
| Loans and borrowings               | (277,850)             | (2,055)          |
| Deferred income                    | -                     | (175,000)        |
| <b>Total financial liabilities</b> | <b>(1,228,843)</b>    | <b>(733,875)</b> |

**Financial instruments not measured at fair value**

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

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

For details of the fair value hierarchy, valuation techniques, and significant observable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy, refer to note 5.2.

**General objectives, policies and processes**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. 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.

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. Further details regarding these policies are set out below:

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**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. The Group is mainly exposed to credit risk from credit sales and other receivables.

Currently, the Group undertakes exploration and evaluation activities, the Group is not trading, and income generated from its joint venture partners is governed by a joint operating agreement. The Risk Management Committee has therefore determined it not necessary to establish a credit policy to assess the credit worthiness of customers at this stage.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 4.2.

**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 how the Group manages market risk from the previous year.

**Interest rate risk**

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

Exposure to interest rate risk

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

|                                  | Carrying amount |         |
|----------------------------------|-----------------|---------|
|                                  | 2018            | 2017    |
|                                  | \$              | \$      |
| <b>Variable rate instruments</b> |                 |         |
| Cash and cash equivalents        | 39,661          | 521,393 |

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 an immaterial effect on the profit and loss for the year ending 31 December 2018 (2017: \$2,607) and has therefore not been disclosed. The analysis assumes that all other variables remain constant and was performed on the same basis as for the twelve months ended 31 December 2017.

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



**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Market risk**

**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's policy is to allow group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency, cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

The Group is predominantly exposed to US Dollars (USD).

As at 31 December 2018. The Group's net exposure to foreign exchange risk was as follows:

|           | Assets    |         | Liabilities |          |
|-----------|-----------|---------|-------------|----------|
|           | 2018      | 2017    | 2018        | 2017     |
|           | \$        | \$      | \$          | \$       |
| US Dollar | 1,547,609 | 271,530 | (377,469)   | (50,380) |

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD). The following table details the Group's sensitivity to a 10% (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 10% (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 10% (31 December 2017: 2%)</b> |                          |         |
| USD   | (106,376)                | (5,304) |
| <b>If AUD weakens by 10% (31 December 2017: 2%)</b>     |                          |         |
| USD   | 130,016                  | 5,520   |

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

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have enough cash to allow it to meet its liabilities when due.

To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected operational expenses. The Board receives rolling 15-month cash flow projections on a quarterly basis as well as information regarding current cash balances as noted above. At the end of the financial year, these projections indicated that the Group expected to have enough liquid resources to meet its obligations under all reasonably expected circumstances as referred to in note 1.2. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Liquidity risk (continued)**

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

|                              | Carrying<br>amount<br>\$ | Contractual<br>cash flows<br>\$ | 12 months<br>or less<br>\$ |
|------------------------------|--------------------------|---------------------------------|----------------------------|
| <b>31 December 2018</b>      |                          |                                 |                            |
| Trade and other payables     | (943,649)                | (943,649)                       | (943,649)                  |
| Employee entitlements        | (7,344)                  | (7,344)                         | (7,344)                    |
| Interest bearing liabilities | (277,850)                | (287,873)                       | (287,873)                  |
|                              | <b>(1,228,843)</b>       | <b>(1,238,866)</b>              | <b>(1,238,866)</b>         |
| <b>31 December 2017</b>      |                          |                                 |                            |
| Trade and other payables     | (486,441)                | (486,441)                       | (486,441)                  |
| Employee entitlements        | (70,379)                 | (70,379)                        | (70,379)                   |
| Current tax liabilities      | (1,025)                  | (1,025)                         | (1,025)                    |
| Interest bearing liabilities | (2,055)                  | (2,055)                         | (2,055)                    |
| Deferred income              | (175,000)                | (175,000)                       | (175,000)                  |
|                              | <b>(734,900)</b>         | <b>(734,900)</b>                | <b>(734,900)</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.

**6.3 RELATED PARTIES**

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

|  | Note | 2018<br>\$     | 2017<br>\$       |
|--|------|----------------|------------------|
| Short term employee benefits               |      | 182,266        | 157,598          |
| Post-employment benefits                   |      | 868            | 781              |
| Share-based payments – shares issued       | 6.1  | 97,750         | 67,988           |
| Share-based payments – shares to be issued | 6.1  | 28,500         | 15,909           |
| Share-based payments – options             | 6.1  | -              | 885,100          |
|  | 2.3  | <b>309,384</b> | <b>1,127,376</b> |

### **6.3 RELATED PARTIES (continued)**

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

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

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

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

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

#### **Other key management personnel transactions**

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

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

#### **Andrew Childs**

Resource Recruitment Pty Ltd, a company for which Mr Childs is a Director, received \$31,200 (2017: \$27,600) in repayment for office rent and outgoings. The balance outstanding at 31 December 2018 was nil (2017: \$2,167).

#### **Gary Jeffery**

Dungay Resources Pty Ltd, a company for which Mr Jeffery is a Director and shareholder, provided cash loans to the Company, accruing interest at 10% per annum, pro rata, repayable within six months if, and when, the company was in a financial position to do so. Interest expense at 31 December 2018 was \$10,384 (2017: \$7,016) and the balance outstanding was \$230,384 (2017: \$2,055).

**SACGASCO 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 Entity                         | Country of Incorporation | Ownership Interest |           |
|--|--------------------------|--------------------|-----------|
|  |                          | 2018<br>%          | 2017<br>% |
| Parker Companies Inc.                  | United States of America | 100                | 100       |
| PEOCO LLC                              | United States of America | 100                | 100       |
| Peregrine Limited                      | Belize                   | 100                | 100       |
| AOC Investments Pty Ltd <sup>(1)</sup> | Australia                | 100                | 100       |
| Sacgasco LLC <sup>(2)</sup>            | United States of America | -                  | 100       |
| AOC No. 2 Pty Ltd                      | Australia                | -                  | 100       |
| AOC No. 3 Pty Ltd                      | Australia                | -                  | 100       |

(1) On 16 January 2019, AOC Investments Pty Ltd was dissolved.

(2) On 11 December 2018, Sacgasco LLC was dissolved.

**6.5 PARENT COMPANY DISCLOSURES**

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

|   | 2018<br>\$       | 2017<br>\$         |
|---|------------------|--------------------|
| <b>Result of the parent entity</b>                      |                  |                    |
| Profit / (loss) for the year                            | 39,752           | (8,478,093)        |
| Other comprehensive income                              | -                | -                  |
| <b>Total comprehensive loss for the year</b>            | <b>39,752</b>    | <b>(8,478,093)</b> |
| <b>Financial position of parent entity at year end</b>  |                  |                    |
| Current assets  | 995,435          | 715,259            |
| <b>Total assets</b>                                     | <b>1,002,489</b> | <b>725,347</b>     |
| Current liabilities                                     | (59,907)         | (733,875)          |
| <b>Total liabilities</b>                                | <b>(59,907)</b>  | <b>(733,875)</b>   |
| <b>Total equity of the parent entity comprising of:</b> |                  |                    |
| Share capital   | 20,785,593       | 19,899,304         |
| Reserves  | 1,611,945        | 1,615,476          |
| Accumulated losses                                      | (21,454,956)     | (21,523,308)       |
| <b>Total equity / (deficiency)</b>                      | <b>942,582</b>   | <b>(8,528)</b>     |

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**6.6 AUDITORS' REMUNERATION**

|  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
|  | <b>\$</b>     | <b>\$</b>     |
| <b>HLB Mann Judd</b>                             |               |               |
| <b><i>Audit and other assurance services</i></b> |               |               |
| Audit and review of financial reports            | 35,750        | 32,500        |
| <b>TOTAL AUDITORS' REMUNERATION</b>              | <b>35,750</b> | <b>32,500</b> |

It is the Group's policy to employ HLB Mann Judd on assignments additional to their statutory audit duties where HLB Mann Judd's expertise and experience with the Group are important. These assignments are principally tax advice, or where HLB Mann Judd is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects. No non-audit services were provided during the period (2017: \$nil).

**6.7 SUBSEQUENT EVENTS**

There are currently no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the affairs of the Group in future financial years.

**6.8 ADOPTION OF NEW AND REVISED STANDARDS**

In the year ended 31 December 2018, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

**AASB 9 *Financial Instruments***

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and makes changes to some areas including classification of financial instruments, measurement, impairment of financial assets and hedge accounting models.

Financial instruments are classified as either held at amortised cost or fair value.

Financial instruments are carried at amortised cost if the business model concept can be satisfied.

All equity instruments are carried at fair value and the cost exemption under AASB 139 which was used where it was not possible to reliably measure the fair value of an unlisted entity has been removed. Equity instruments which are non-derivative and not held for trading may be designated as fair value through other comprehensive income (FVOCI). Previously classified available-for-sale investments now carried at fair value are exempt from impairment testing and gains or loss on sale are no longer recognised in profit or loss.

The AASB 9 impairment model is based on expected loss at day 1 rather than needing evidence of an incurred loss, this is likely to cause earlier recognition of bad debt expenses. Most financial instruments held at fair value are exempt from impairment testing.

The Group has applied AASB 9 at the date of initial application, being 1 January 2018 and has elected not to restate comparative information. Accordingly, the information presented for 31 December 2017 has not been restated.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years.

## SACGASCO LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 6.8 ADOPTION OF NEW AND REVISED STANDARDS (continued)

##### **AASB 15 Revenue from Contracts with Customers**

AASB 15 replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group has adopted AASB 15, using the modified retrospective method of adoption (without practical expedients), at the date of initial application, being 1 January 2018. Accordingly, the information presented for 31 December 2018 has not been restated.

The Company is ASX listed and classified as an oil and gas exploration entity and as such, has not entered into revenue contracts with customers.

As a result of the above review, the Directors have determined that there is no material impact to profit or loss or net assets on adoption of this standard in the current or comparative years.

#### 6.9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Directors have also reviewed all Standards and Interpretations in issue not yet adopted for the year ended 31 December 2018.

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

AASB 16 replaces AASB 117 *Leases* and related interpretations.

Adoption of AASB 16 will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The Board has decided it will apply the modified retrospective adoption method in AASB 16, and therefore, will only recognise leases on the Statement of Financial Position as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2018, operating lease commitments amounted to \$15,600 (see note 2.8), which is not expected to be materially different to the anticipated position on 31 December 2019.

Instead of recognising an operating expense for its operating lease payments, the group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. Subject to certain paragraphs in the standard, this may increase reported EBITDA by the amount of its current operating lease cost.

The Company is ASX listed and classified as an oil and gas exploration entity and as such, has entered into leasing arrangements for various oil and gas fields to explore these areas in an effort to discover and assess economically viable gas deposits. The leasing agreements for the exploration sites are with families who have divided the ownership down through generations, meaning that one field could potentially have in excess of thirty to forty lessors.

**SACGASCO LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6.9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (continued)**

**AASB 16 Leases (continued)**

Per paragraph 3(a) of AASB 16, it is noted that:

*“An entity shall apply this Standard to all leases, including lease of right-of-use assets in a sublease, except for leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources.”*

The Company has signed a 12-month lease with Resource Recruitment for a share of its office space.

Per paragraph 5(a) of AASB 16, it is noted that:

*“A lessee may elect not to apply the requirements in paragraphs 22-49 to short-term leases.”*

Based on the above, it is considered that the Group is outside the scope of the new Standard and no material change is necessary to the Group accounting policies.

**AASB 2018-1 Annual Improvements to Australian Accounting Standards 2015-2017 Cycle**

AASB 2018-1 makes relatively minor amendments to AASB 3 *Business Combinations*, AASB 111 *Joint Arrangements*, AASB 112 *Income Taxes* and AASB 123 *Borrowing Costs*.

**Interpretation 23 Uncertainty Over Income Tax Treatments**

Interpretation 23 clarifies how the recognition and measurement requirements of AASB 112 *Income Taxes* are applied where there is uncertainty over income tax treatments.

Based on the above, it is considered that when the above accounting standards are adopted for the year ending 31 December 2019, there will be no material impact on the financial statements.

**AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material**

AASB 2018-7 principally amends AASB 101 and AASB 108. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across the Australian Accounting Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

Based on the above, it is considered that when the above accounting standard is adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.

**AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

AASB 2014-10 addresses a conflict between the requirements of AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements* and clarifies that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

Based on the above, it is considered that when the above accounting standard is adopted for the year ending 31 December 2022, there will be no material impact on the financial statements.

**SACGASCO LIMITED**  
**DIRECTORS' DECLARATION**

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**DIRECTORS' DECLARATION**

The Directors of Sacgasco Limited declare that:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*, and:
  - (i) give a true and fair view of the Group's financial position as at 31 December 2018 and of the performance for the year then ended;
  - (ii) comply with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements; and
  - (iii) Sacgasco Limited complies with International Financial Reporting Standards issued by the International Accounting Standards Board as described in note 1.1.
- (b) The Chief Executive Officer and Chief Financial Officer have declared that:
  - (i) the financial records of the Company for the financial year have been properly maintained in accordance with s295A of the *Corporations Act 2001*;
  - (ii) the financial statements and notes for the financial year comply with the accounting standards; and
  - (iii) the financial statements and notes for the financial year give a true and fair view.
- (c) In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**GARY JEFFERY**

Managing Director

Dated this 28<sup>th</sup> day of March 2019.



**SACGASCO LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Sacgasco Limited

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

*Opinion*

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

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for opinion*

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

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

*Material uncertainty related to going concern*

We draw attention to Note 1.2 in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*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. Other than the matter described in the *Material uncertainty related to going concern* section, we have not identified any other key audit matters to be communicated in our report.

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**SACGASCO LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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

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

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

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

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

*Responsibilities of the directors for the financial report*

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to

**SACGASCO LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Sacgasco 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

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

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

**Perth, Western Australia**  
**28 March 2019**

A handwritten signature in blue ink that reads 'Norman G Neill'.

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

## **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.

Sacgasco Limited (the Company) and the Board are 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 interests of shareholders. The Company and its controlled entity 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 web site ([www.sacgasco.com](http://www.sacgasco.com)).

### **Board of Directors**

#### **Role of the Board**

The matters expressly reserved to 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
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity

The Board delegates day to day operational matters to the Managing Director of the Company.

The Board evaluates this policy on an ongoing basis.

## **Board of Directors (continued)**

### **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 three years. At the completion of the first three 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
- Public company experience
- Analytical expertise
- Financial expertise
- Risk Management experience
- Strategic planning experience
- Strategic leadership experience
- Corporate Governance expertise
- Communications experience
- Inter personal experience

The chair of any 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. Any legal work is out-sourced to external legal advisers.

The Board comprises two independent Non-Executive Directors and one Executive Director.

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

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with specific 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 a majority of the Shareholders at the first Annual General Meeting after the appointment.

## **SACGASCO LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **Board of Directors (continued)**

##### **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. No Director (other than the Managing Director) shall hold office for a period more than 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 office at the date of this report and considers that Mr Childs and Mr Channon can be deemed independent as they have no material business or contractual relationship with the Company.

In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

##### **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 Board, 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 to fulfil their duties and responsibilities as Directors.

##### **Board Performance Review**

The performance of all Directors is assessed through review by the whole Board 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), may receive equity performance incentives and will not be provided with any benefits for ceasing to be a Director. The Executive Directors can be 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.

## **SACGASCO LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **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
- Establish and continuously assess a Group Risk Profile which identifies all significant risk to the Group and controls that are in place to minimise or mitigate the risk.
- 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 their 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.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. 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. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks. Due to risk procedures adopted by the Company, it is not believed the Company has a material exposure to these 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.

# SACGASCO LIMITED

## CORPORATE GOVERNANCE STATEMENT

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### 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 function of the 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
- 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
- Monitor the procedures in place to ensure compliance with the Corporations Act 2001, Australian Accounting Standards, ASX 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 ASX and financial institutions; and
- Improve the quality of the accounting function

The primary role of the risk function of the committee is to assist the Board in its oversight of the Company's management of key risks, including strategic and operational risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

Risk assessment and risk management are the responsibility of the Company's management. The Committee has an oversight role and in fulfilling that role, it relies on the reviews and reports received from management.

The Committee shall have the following authority and responsibilities:

- Review and discuss with management the Company's risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes in place for risk management
- Review and discuss with management the Board's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, product risk and reputational risk, as well as the guidelines, policies and processes for monitoring and mitigating such risks
- Discuss with the Company's executive team the Company's risk assessment and risk management guidelines, policies and processes, as the case may be. The Risk Committee meets separately at least twice a year with the executive team



## **SACGASCO LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **Board Committees (continued)**

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

- Review disclosure regarding risk contained in the Company's Annual Report
- Review and assess the nature and level of insurance coverage
- Initiate and monitor special investigations into areas of corporate risk or breakdowns in internal controls
- Discharge any other duties or responsibilities delegated to the Committee by the Board
- Delegate any of its responsibilities to subcommittees as the Committee may deem appropriate
- Retain such outside counsel, experts and other advisors as the committee may deem appropriate in its sole discretion and approve related fees
- Report its actions and any recommendations to the Board
- Review at least annually the adequacy of this Charter and recommend any proposed changes to the board for approval

The Committee consists of the following Non-Executive Directors:

- Mr Greg Channon (Committee Chair – Non-Executive Director since 3 December 2018)
- Mr Andrew Childs (Committee member)

The auditors and the Managing Director are invited to attend Audit and Risk Management Committee meetings at the discretion of the Committee.

The Audit and Risk Management Committee met twice during the year.

##### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee operates in accordance with its Charter. The main responsibilities of the 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 2017 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
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary

## **SACGASCO LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **Board Committees (continued)**

##### **Remuneration and Nomination Committee (continued)**

The Remuneration and Nomination Committee can seek independent external advice from consultants with specific industry experience relevant to Sacgasco's remuneration assessment. External advice was not obtained during the 2018 financial year.

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

The Committee consists of the following Non-Executive Directors:

- Mr Andrew Childs (Committee Chair)
- Mr Greg Channon (Committee Member – Non-Executive Director since 3 December 2018)

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

#### **Ethical Standards**

##### **Code of Conduct**

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. The code stipulates that any unethical behaviour is to be reported to the Group's Managing Director as soon as possible.

The Code of Conduct is based on respect for the law and the rights of individuals, 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 must be notified of any proposed transactions in the Company's shares.

Any Director or employee receiving shares pursuant to the Company's equity-based remuneration scheme (refer to the remuneration report) is not permitted to enter into transactions which limit the economic risk of participating in the scheme.

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.

## **Ethical Standards (continued)**

### **Continuous Disclosure (continued)**

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 Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

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

## **Communication with Shareholders**

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

- As the Company is a disclosing entity, regular announcements are made to the ASX 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 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 ASX Listing Rules
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report
- The Board seek 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;

**SACGASCO LIMITED**  
**CORPORATE GOVERNANCE STATEMENT**

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**Diversity Policy (continued)**

- 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 has also 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 mechanism. For the 2018 financial year, the Boards' objectives were met by the Group. The Board assesses annually the progress and achievement of the objectives.

Pursuant to ASX Corporate Governance Recommendation 1.5, the Company discloses the following information as at the date of this report:

| <b>Percentage details</b>                             | <b>Women</b> | <b>Men</b> |
|---|--------------|------------|
| Women and Men employed within the Group               | 25%          | 75%        |
| 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%        |

**SACGASCO LIMITED**  
**CORPORATE GOVERNANCE STATEMENT**

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**ASX Corporate Governance principals 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.

**Recommendations 2.1 / 8.1**

*The Remuneration and Nomination 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*

**Recommendation 2.5**

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

**Recommendations 4.1 / 7.1**

*The Audit and 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*

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.

Two of the three 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.

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 the date of signing and has been approved by the Board.



Director - Andrew Childs



Managing Director - Gary Jeffery

**SACGASCO LIMITED**  
**STOCK EXCHANGE INFORMATION**

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**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        | 80            | 8,277              | -                   |
| 1,001 - 5,000    | 65            | 269,155            | 0.10                |
| 5,001 - 10,000   | 144           | 1,236,185          | 0.47                |
| 10,001 - 100,000 | 462           | 21,276,893         | 8.04                |
| 100,001 and over | 288           | 241,740,439        | 91.39               |
| <b>Total</b>     | <b>1,039</b>  | <b>264,530,949</b> | <b>100.00</b>       |

There were 360 holders of less than a marketable parcel of ordinary shares.

**2. Substantial shareholders**

The substantial shareholders are set out below:

| Shareholders                     | Number of Shares |
|----------------------------------|------------------|
| BNP Parabis Nominees Pty Limited | 27,153,345       |

**3. Voting rights**

**Ordinary shares**

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

**Options and rights**

No voting rights.

**4. Unlisted options**

| Grant date | Number     | Number of holders | Expiry date | Exercise price (cents) |
|------------|------------|-------------------|-------------|------------------------|
| 26-Oct-15  | 10,000,000 | 4                 | 30-Sep-19   | 10                     |
| 11-Jan-17  | 17,500,000 | 4                 | 31-Dec-19   | 15                     |
| 19-Jan-17  | 4,000,000  | 5                 | 31-Dec-19   | 15                     |
| 07-Apr-17  | 500,000    | 1                 | 31-Dec-19   | 15                     |
| 31-May-17  | 5,000,000  | 1                 | 31-Dec-19   | 15                     |
| 21-Aug-18  | 6,000,000  | 2                 | 30-Dec-19   | 5                      |

**SACGASCO LIMITED**  
**STOCK EXCHANGE INFORMATION**

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**5. Twenty largest shareholders**

| Shareholders  | Ordinary shares |                    |
|---|-----------------|--------------------|
|   | Number held     | % of issued shares |
| BNP Parabis Nominees Pty Ltd  | 27,153,345      | 10.26              |
| Citicorp Nominees Pty Limited   | 10,740,218      | 4.06               |
| Bond Street Custodians Limited <PNCORK – D00089 A/C>                          | 9,081,180       | 3.43               |
| Mr Brian Laurence Eibisch   | 7,036,559       | 2.66               |
| Talex Investments Pty Ltd   | 5,500,000       | 2.08               |
| HSBC Custody Nominees (Australia) Limited                                     | 5,329,515       | 2.01               |
| Mr Benjamin William Jarvis  | 5,000,000       | 1.89               |
| Mr Alan George Brooks & Mrs Philippa Clair Brooks <AG & PC Brooks S/Fund A/C> | 4,869,837       | 1.84               |
| Brazell Pty Ltd <A & M Super Fund A/C>  | 4,674,338       | 1.77               |
| JP Morgan Nominees Australia Limited  | 4,150,748       | 1.57               |
| Dungay Resources Pty Ltd <Dungay Consulting A/C>                              | 4,000,000       | 1.51               |
| Magaurite Pty Ltd <Peter Nelson Super Fund A/C>                               | 4,000,000       | 1.51               |
| Francis Holdings (WA) Pty Ltd   | 3,495,413       | 1.32               |
| Jetan Pty Ltd   | 3,421,204       | 1.29               |
| Mr Kim Steven Wilhelm   | 3,075,000       | 1.16               |
| Roderick Downs Pty Ltd >RD Super Fund A/C>                                    | 3,000,000       | 1.13               |
| Great Eastern Holdings Pty Ltd <Nambung Unit A/C>                             | 2,888,139       | 1.09               |
| Mr Russell Ian Thorley  | 2,700,000       | 1.02               |
| Mr Peter Michael Gillam   | 2,402,500       | 0.91               |
| Talex Investments Pty Ltd <A F Wylie Super Fund A/C>                          | 2,290,000       | 0.87               |