



SAGGASCO LIMITED

ABN 83 114 061 433

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2017

SACGASCO LIMITED
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CORPORATE DIRECTORY

Directors

Mr Andrew Childs
Mr Gary Jeffery
Mr Philip Haydn-Slater

Secretary

Mr David McArthur

Registered Office

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Fremantle WA 6160

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Subiaco WA 6008

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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

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CHAIRMAN'S REPORT

Dear Shareholder

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

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

Through our strategic acquisition of private company Peregrine Limited effective 1 January 2017, Sacgasco increased its working interest in the Dempsey Prospect from 55% to 90%, and then was able to farm down for a carry through most of the Dempsey exploration well costs while retaining almost its original Working Interest (WI) 50%. Similarly, our working interest in the Alvares Prospect was increased from 40% to 75% then farmed out for various carries while still retaining 39% WI. Significantly, the transaction provided Sacgasco with operatorship of both of these compelling assets, so we can lead operational activity.

The retention of the experienced Sacramento based operating capability provided by Dero Parker's Integrity Management Solutions, Inc proved to be extremely valuable in the drilling and subsequent testing of the Dempsey well, and various production improvement initiatives.

The Peregrine acquisition, along with the acquisition of additional producing and idle wells, has added significant tangible value to Sacgasco. This approach delivers to Sacgasco critical and hard-to-replace infrastructure and access to further gas exploration prospects ranging from single digit Bcf-to Tcf-scale.

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

Throughout the past year, the Company has consolidated its development strategy in the Sacramento Basin, targeting near-term gas supply to a Top-10 World Economy with its commensurate high-demand gas market with a significant energy supply deficit.

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

Natural gas is an important component of California's energy system, supplying about one-third of the state's primary energy demand. In 2016, natural gas deliveries to California end users averaged about 5.8 billion cubic feet per day, of which 32 percent flowed to power plants for electricity generation. 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.

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

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

SACGASCO LIMITED CHAIRMAN'S REPORT

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

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

Improving resource industry conditions worldwide encourage Sacgasco to remain proactive in its approach to growing the business by executing acquisitions and attracting capital.

The Company was very pleased to welcome Mr Philip Haydn-Slater to the Sacgasco Board as a Non-Executive Director. Philip has already proved valuable by bringing to the Company a wealth of corporate experience and providing access to a number of strategic contacts both in London and globally that will potentially generate significant value for shareholders.

The near-term focus for the Board is firmly on the testing of our historic Dempsey natural gas discovery. We are also committed to expanding our production operations and expect to progress evaluation of the overlooked Alvares gas discovery in the coming months.

California is one of the most prolific oil and natural gas producing regions in the world and is currently the fifth largest oil producing state in the nation. According to DOGGR information through 2016, cumulative California production from all four California basins is 36 billion barrels of oil equivalent (BBoe), including approximately 20 BBoe in the San Joaquin basin, 11 BBoe in the Los Angeles basin, 3 BBoe in the Ventura basin and 2 BBoe in the Sacramento basin. (CRC 2018)

Positive Future Outlook for Natural Gas Markets

We continue to be buoyed 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.

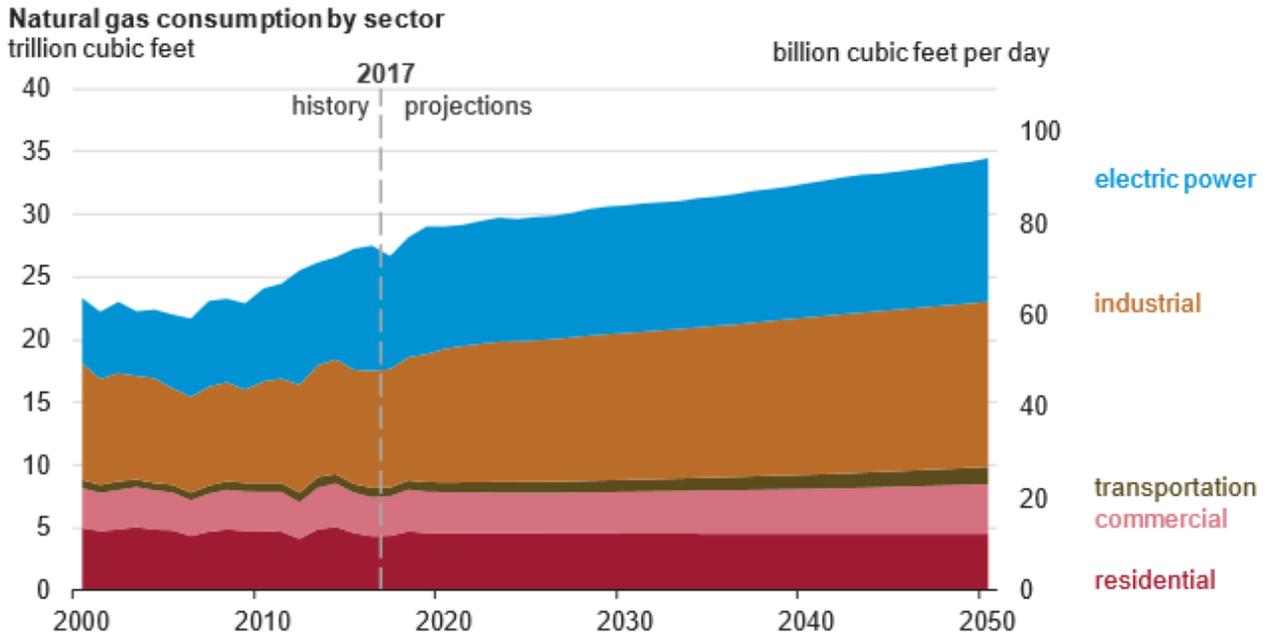
Natural gas is an important component of California’s energy system, supplying about one-third of the state’s primary energy demand. Even as California moves away from fossil fuels to meet its climate goals, natural gas-fired electricity is playing an important role in integrating increasing amounts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

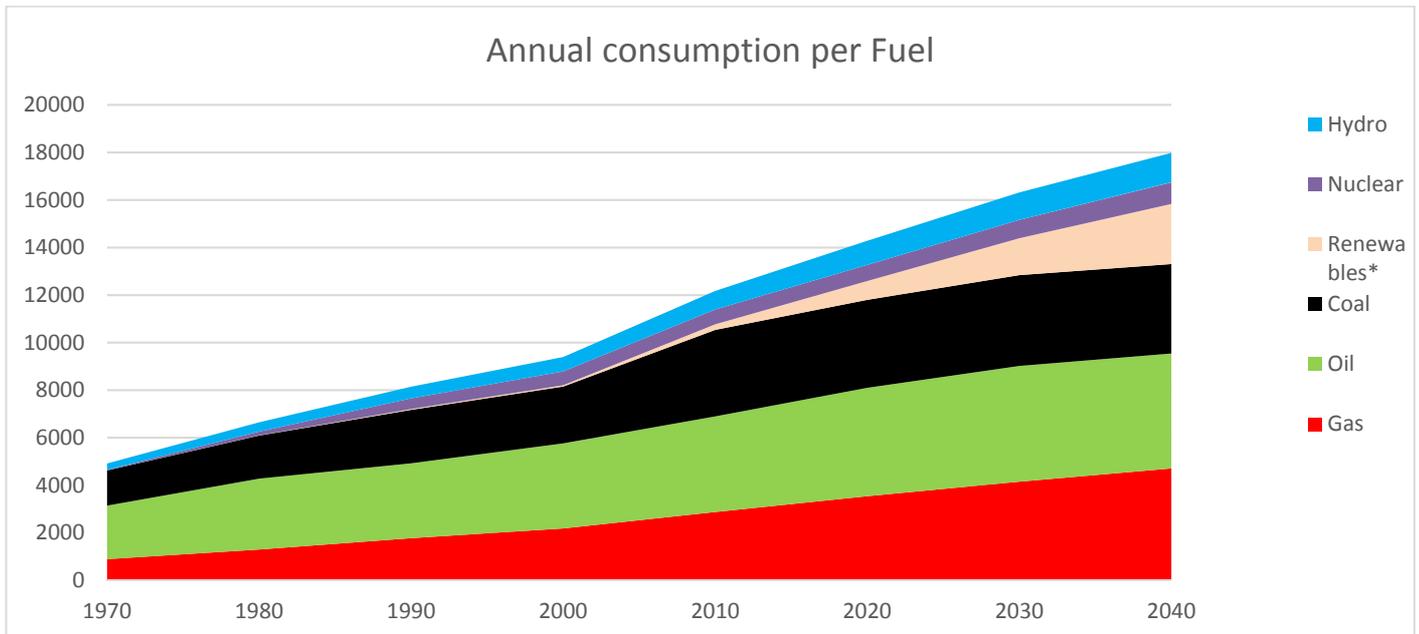
Shell has published its LNG Outlook 2018 and states, “Based on current demand projections, Shell sees potential for a supply shortage developing in mid-2020s, unless new LNG production project commitments are made soon”.

Over the last few decades, LNG has played an increasing role in the global energy system, Shell noted. “Since 2000, the number of countries importing LNG has quadrupled and the number of countries supplying it has almost doubled. LNG trade increased from 100 million tonnes in 2000 to nearly 300 million tonnes in 2017,” the outlook said.

US Energy Information Administration has published the information in the table below which projects significant growth in Natural Gas usage as a Fuel.



This positive outlook for natural gas consumption is reinforced by the graph below derived from the BP Energy Outlook 2018.



It is worthwhile noting that higher demand for natural gas in Eastern Australia, interacting with LNG exports, resulted in much higher gas prices. It would not be surprising to see this pricing phenomena spread in the USA as LNG exports grow.

The above independent projections testify to a positive future for natural gas producers, and further reinforce Sacgasco's view that our natural gas assets located onshore California have a high level of intrinsic value ready to

SACGASCO LIMITED
CHAIRMAN'S REPORT

be realised by smart production acquisitions and the drill bit.

Finally, the Company is very encouraged by increased capital market and investor interest in the leverage demonstrated by Sactasco's natural gas assets and we look forward to a successful FY2018.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'A Childs', with a long horizontal flourish extending to the right.

Andrew Childs
Chairman

REVIEW OF OPERATIONS

Overview

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

OPERATIONS HIGHLIGHTS

- **Agreement finalised with private company Peregrine Limited to acquire 35% of Dempsey and Alvares Prospects**
- **The Company significantly strengthened its asset base in the Sacramento Basin, California, through agreements to acquire 18 additional operated natural gas wells in the Sacramento Basin of California**
- **Sacgasco signed farm-out agreements for the Dempsey Prospect with Bombora Natural Energy Pty and Empyrean Energy PLC on a promoted basis**
- **Sacgasco signed farm-out agreements for the Alvares Prospect on a promoted basis**
- **Sacgasco signed farm-out agreements for the Dempsey Trend Area of Mutual Intent on a promoted basis**
- **Drilling on Dempsey 1-15 Natural Gas Well to test the Dempsey Prospect commenced early August**

The Dempsey well intersected stacked porous gas filled reservoir zones. The lowermost two zones were tested and flowed natural gas. This is the first time these older rocks have flowed gas on a continuous basis, thus proving up the highly prospective play. Sacgasco is leading the way in opening up this play in the under-explored, older parts of the Sacramento Basin

- **Multiple gas saturated reservoir zones remain to be evaluated in Dempsey 1-15 well in a testing program that commences in late March 2018**
- **Planning and permitting for reservoir stimulation to enhance gas flow rates in the Dempsey well progressing to be used if required after testing for unstimulated flow**



Dempsey Natural Gas Flare after initial perforations



Sacgasco's Sacramento natural gas assets, onshore California

Strategy:

- **Initial Growth Leverage:**
 - ✓ Sacgasco 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 producing and developing 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 overlooked Natural Gas plays in the North Sacramento Basin.
 - ✓ Extended Production Test in progress at the historic Dempsey gas discovery to be followed by more testing.
 - ✓ Re-entry of Alvares gas discovery well to assess gas potential.
 - ✓ Further leasing acquisitions, workovers and appraisal drilling under active planning to prosecute the Company's strategy.

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

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

Sacgasco's management team are committed to progressing corporate and operational objectives in order to expand the company's natural gas business in California.

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

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

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

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

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

The Company's key assets are the Dempsey and Alvares natural gas prospects, producing and idle gas wells and associated equipment.

On 1 January 2017, Sacgasco concluded the acquisition of an additional 35% equity in, and operatorship of its flagship Dempsey and Alvares Prospects through the acquisition of private company Peregrine Limited ('Peregrine').

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

Sacgasco subsequently farmed out working interests in its operated Dempsey and Alvares Projects and Dempsey Trend Prospects in return for various levels of financial carries which have been detailed in various previous releases.

SACRAMENTO BASIN - Onshore Northern California

Exploration, appraisal and new ventures

Exploration leases have continued to be maintained and acquired within the Sacramento Basin during the year. Sacgasco has a net working interest (WI) of between 33% and 100% in oil and gas leases which cover natural gas prospects ranging in size from 5-20 Bcf to over 2 Tcf of recoverable prospective resources of natural gas.

Review of Sacramento Basin activity including drilling on the Dempsey and Tulainyo Projects has reinforced the belief that Sacgasco has significant exposure to world-class, multi-Tcf natural gas projects. Technical data and ongoing analysis continues to be used to identify and upgrade additional prospects for leasing and future exploration drilling.

SACGASCO LIMITED
REVIEW OF OPERATIONS

Dempsey Natural Gas Prospect – Appraisal / Exploration stage (Sacgasco 50% WI)

The Dempsey 1-15 well was safely drilled and cased to its prognosed target. A workover rig and high pressure rated equipment was mobilised to complete and test the well.

The two intervals tested to date are in Cretaceous sediments beneath the known producing sandstones in the basin.

The zones have been sequentially tested from the bottom of the well up to gather the most information from this important well in a functional way, rather than prioritising the best zones first. The zones tested span some 700 feet (~15%) of some 4,000 feet of interest in the Dempsey 1-15 wellbore.

Zone 1 Test	Thin natural gas show on mud logs and poor reservoir from petrophysical logs.	Flowed clean, sweet, dry natural gas with no associated water, at sub-commercial rate; similar gas energy content to Zone 2 gas, which is slightly better than overlying field level gas.
Zone 2 Test	Thicker natural gas show and better reservoirs on logs.	Flowed water free, clean, sweet dry natural gas (997 Btu / scf) at a stabilised rate of ~140 mcf/gpd at ~150 psi flowing tubing pressure; shut-in tubing pressure in excess of 6000 psi; currently on Extended Production Test while connected to the California Natural Gas Sales System.
Zone 3 Test	Thicker natural gas shows and better reservoir porosity on logs	Testing in progress

The natural gas saturated zones tested in the well are interpreted in the well bore area to be a combination of relatively thin permeable sandstones, shales, and possibly fractures filled with highly-pressured, clean dry natural gas and no water. The permeable zones may be connected to thicker gas saturated zones in and away from the well bore. Effective access to such gas reservoirs is not always practicable with normal spatially oriented horizontal perforations at the rate of up to 4 to 6 shots per foot.

If flow rates are required to be increased after normal perforating and testing processes are complete then well stimulation is being designed to increase the permeability for natural gas to flow by creating interconnecting fractures up and down to connect a much greater volume of permeable and porous gas-filled reservoirs in the proximity of the horizontal perforations.

Stimulation would be done in expectation of a very significant improvement in flow. Simultaneously with the application for stimulation permits shallower saturated gas reservoir zones will be tested to add to production.

Moreover, Sacgasco interprets that there was sufficient recoverable gas from field level reservoirs to pay out (at current gas prices in the area) the cost of the Dempsey 1-15 well.

While the well stimulation process was being planned and permitted the Dempsey well was connected to the sales pipeline to gather additional reservoir information, demonstrating the benefits of Sacgasco's infrastructure..

Alvares Natural Gas Prospect – Appraisal stage (Sacgasco 39% WI)

Sacgasco's Alvares project contains a total (100%) recoverable unrisks prospective gas resource on a best estimate deterministic basis of approximately 2.4 Tcf (400 million boe)*.

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

SACGASCO LIMITED REVIEW OF OPERATIONS

Planning is proceeding for the Alvares well bore to be assessed for its suitability as the basis for drilling a side-track as a cost effective way of evaluating the prospectively of extensive high pressure gas shows discovered while drilling for oil in 1982. The upper 500 metre thick interval of the best gas shows were not previously evaluated due to logging difficulties related to high pressure natural gas influx.

The Alvares natural gas project is located close to large natural gas pipelines and on trend 35 miles from the similarly structured, and currently testing Tulainyo Project.

The Tulainyo Prospect contains Boxer / Ladoga (age equivalent to some of the lower Dempsey Targets) and Stoney Creek (Alvares Gas Sands) targets. The Tulainyo-2 well was drilled to 1,800 metres and found multiple stacked natural gas bearing reservoirs on 2D seismic and reportedly recovered pipeline quality gas.

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

PRODUCTION UPDATE

Sacgasco's 26 well portfolio with 12 currently in production provides multiple opportunities to bring additional wells back into production. Leases continue to be maintained and acquired over prospects for follow up to success at Dempsey 1-15 well.

The Company has working interests in seven gas fields in the Northern Sacramento Basin and is the operator of wells in six of these fields. The fields are Rancho-Capay, Rice Creek East, Malton, Dutch Slough, Denverton Creek, Los Medanos and Willows. 12 wells are in production and 14 are currently idle (See Table 1 below). In addition Sacgasco can access a number of plugged wells on its leases (for example Alvares-1) should they be well placed to provide access to opportunities identified by technical review.

Subsequent to the end of the year, gross production has increased to over 1,000 Mcf/day, which in dollar terms equates to gross revenue of ~US\$3,000 per day (production net to Sacgasco is ~570 Mcf/day).

<i>Production</i>	<i>Full Year 2017</i>	<i>Full Year 2016</i>
<i>Gross mcf * (100%)</i>	<i>219,515</i>	<i>57,143</i>
<i>Sacgasco WI mcf</i>	<i>122,295</i>	<i>31,429</i>
<i>*mcf – Thousand Cubic feet gas</i>		

The increase in 2017 over 2016 was due to the increased working interest following the Peregrine acquisition and the acquisition of additional wells early in 2017 in two transactions. Sacgasco is working on low cost re-activation of 2 previously idle wells and continues to evaluate production acquisition opportunities that could provide short term cash flow and strategic longer term access to exploration leases, and production facilities and pipelines connected to the premium California gas market.

SACGASCO LIMITED
REVIEW OF OPERATIONS



Sacgasco Producing Well Sites illustrating relatively simple production operations

Field and Well Name	Working Interest (WI)* (Approx.)	Well Status
Rancho Capay Gas Field: (Operated)		
Rancho Unit 1	34%	Producing
Rancho Unit 2	47%	Producing
Rio Grande	50%	Producing
Big Jake	50%	Idle
Stoney Creek 3	50%	Producing
Stoney Creek 2	50%	Idle
Dempsey 1-15	50%	Producing
Rice Creek East Gas Field: (Operated)		
OPI Bettencourt Unit	50%	Idle
Bettencourt Unit B	50%	Idle
Nareco Slade #1B	50%	Idle
Malton Gas Field: (Operated)		
Canfield 2	61%	Idle
MU #1	44%	Producing
Santa Clara #1	41%	Idle
Unit #7	35%	Idle
VBC #1	47%	Producing
VBC #2	47%	Producing
VBC #3	47%	Producing
Dutch Slough Gas Field: (Operated)		
SCOPESE #3	69%	Idle
Reedy #1	69%	Idle
Reedy #2	69%	Idle
Reedy #3	69%	Idle
Reedy #4	69%	Idle
Denverton Creek Gas Field: (Operated)		
Lambie Felenco 3-4	70%	Producing
Los Medanos Gas Field: (Operated)		
Neely 1	90%	Idle
Neely 2	90%	Producing
Willows Gas Field: (Non-operated)		
MJ Line	10%	Producing
Example Key Plugged Wells (available for re-entry)		
Alvares	39%	Plugged
Reedy #5	69%	Plugged

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

SACGASCO LIMITED REVIEW OF OPERATIONS

PROSPECT PORTFOLIO

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

Project name	Location	Working Interest (WI)*
<i>Dempsey Project</i>	Sacramento Basin Onshore Northern California	50%
<i>Alvares Project</i>	Sacramento Basin Onshore Northern California	39%
<i>Dempsey Trend Prospects</i>	Sacramento Basin Onshore Northern California	36%

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

Changes in Tenement / Project List Reporting Period:

Working Interest changes have been reported in the text above.

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

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

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

Leases:

US exploration is conducted on leases granted by Mineral Right owners, in Saccgasco'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 binding work commitments associated with the leases. Some leases are 'Held By Production' and royalties are paid to mineral right owners in lieu of rentals. Saccgasco has not listed all its leases as it is impractical and not meaningful for potential project value assessment in a natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to Saccgasco 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 Saccgasco Limited. He is a qualified geophysicist with over 45 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.

SACGASCO LIMITED

REVIEW OF OPERATIONS

The Financial Year

Placement of Shares

In January 2017, Peregrine Limited acquired working interests in key Dempsey and Alvares projects and associated wells and infrastructure, through the issue of 32 million fully paid Sacgasco shares.

\$1.7 Million was raised in March 2017 by a Share placement 26,453,846 shares to London institutions, international and Australian sophisticated investors.

\$900,000 was raised in July 2017 by a Share placement of 10,000,000 shares at 9 cents each.

In September a Share placement of 28,744,080 shares to sophisticated investors raised a further \$2.4 Million.

Corporate Activity

Philip Haydn-Slater was appointed a director of the Company on 1

February 2017 upon the resignation of David McArthur who continues to be Company Secretary. Philip was co-founder and director of HD Capital for over five years and has worked throughout his 36-years career within institutional sales for a number of well-known financial institutions.

Sacgasco 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 2017).

Financial results and condition

The loss for the year ended 31 December 2017 attributable to members of Sacgasco Limited after income tax was \$6,720,095 (2016: \$1,137,120).

The Group has a working capital surplus of \$1,451,531 (2016: deficit \$692,188) and net cash inflows of \$1,891,620 (2016: inflow of \$58,344).

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

Summary of results

	2017	2016
	\$	\$
Other income	404,632	185,089
Loss before income tax	(6,714,764)	(1,134,923)
Income tax expense	(5,331)	(2,197)
Loss attributable to owners of Sacgasco	(6,720,095)	(1,137,120)
Other comprehensive income / (loss)	42,783	(9,351)
Underlying loss per share (cents)	(3.29)	(0.98)
Shares on issue at reporting date	243,899,884	130,110,984
Weighted average number of shares	204,386,845	115,477,089

Planned Activity - 2018

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 2017

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 2017. 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>Andrew Childs Non-executive Chairman</p> <p>Appointed: 25 November 2008</p> <p><u>Interest in shares and options:</u> Shares: 5,446,854 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 Managing Director of International Recruitment Services Pty Ltd.</p>
<p>Gary Jeffery Managing Director</p> <p>Appointed: 24 October 2013</p> <p><u>Interest in shares and options:</u> Shares: 11,533,561 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>Philip Haydn-Slater Non-executive Director</p> <p>Appointed: 1 February 2017</p> <p><u>Interest in shares and options:</u> Shares: 3,579,424 Options: 5,000,000</p>	<p>Mr Haydn-Slater has worked throughout his 36 years career within institutional sales in both London and Sydney for a number of well-known financial institutions, including ABN Amro, Bankers Trust, James Capel & Co and Bain Securities (Deutsche Bank) Sydney.</p> <p>Mr Haydn-Slater was co-founder and director of HD Capital in London prior to which he spent eight years as Head of Corporate Broking at WH Ireland Ltd in their London office where he was responsible for originating and managing the sales process for a significant number of transactions, including flotations and secondary placings for corporate clients on AIM and other international exchanges.</p>

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

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

2. COMPANY SECRETARY

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

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

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2017, and the number of meetings attended by each director was:

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

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

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

4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was oil and gas exploration with associated natural gas production.

5. OPERATING AND FINANCIAL REVIEW

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

Significant changes in the state of affairs

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

6. DIVIDENDS

The directors recommend that no dividend be provided for the year ended 31 December 2017 (2016: Nil).

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration and development portfolio and to increase production activities associated with its wells in California.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters disclosed in note 6.8 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

9. ENVIRONMENTAL REGULATION

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

10. SHARE OPTIONS

Options granted to directors of the Group

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

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

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

Unissued shares under options

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

Expiry date	Exercise price cents	Number of shares
30-Sep-19	10	10,000,000
31-Dec-19	15	27,000,000
		<hr/>
		37,000,000

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

10. SHARE OPTIONS (continued)

Unissued shares under options (continued)

All unissued shares are ordinary shares of the Company.

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

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

Shares issued on exercise of options

During or since the end of the financial year, the following shares were issued as a result of the exercise of options:

Number of Shares Issued	Exercise Price
8,698,773	3 cents
1,000,000	10 cents
500,000	15 cents

Options expired

No options expired during the reporting period (2016: 500,000 options expired).

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$26,879 (2016: \$17,594) to insure the directors and key management of the Group.

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

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

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

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

12. NON-AUDIT SERVICES

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

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

13. PROCEEDINGS ON BEHALF OF THE GROUP

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

14. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2017 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 2017 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.

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT – AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

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.

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.

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT – AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Long-term incentive (continued)

Options over equity instruments granted as compensation

All options refer to options over ordinary shares which are exercisable on a one-for-one basis

Details of options over ordinary shares in the Company that were granted as compensation to Directors during the reporting period are as follows:

	Number of options and rights granted during 2017	Grant date	Fair value per option or right at grant date cents	% vested in year (A)	% forfeited in year	Date on which grant vests	Exercise price per option cents	Expiry date	Number of options and rights vested during 2017
Executive directors									
Gary Jeffery	5,000,000	11-Jan-17	8.1	100%	-	27-Jan-17	15	31-Dec-19	5,000,000
Non-executive directors									
Andrew Childs	5,000,000	11-Jan-17	8.1	100%	-	27-Jan-17	15	31-Dec-19	5,000,000
Philip Haydn-Slater	5,000,000	31-May-17	6.5	100%	-	14-Jun-17	15	31-Dec-19	5,000,000
David McArthur	3,000,000	11-Jan-17	8.1	100%	-	27-Jan-17	15	31-Dec-19	3,000,000

(A) The percentage vested in the year represents the number of options that become unconditional due to the recipient satisfying specified vesting conditions;

Exercise of options granted as compensation

During the reporting period, 1,000,000 shares were issued on the exercise of options previously granted as compensation.

Options expired

During the reporting period, no options expired (31 December 2016: no options expired).

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT - AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

Consequences of performance on shareholder wealth

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

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

Shareholder returns	2017	2016	2015 Restated
Net comprehensive (loss) / profit attributable to equity holders (\$)	(6,677,312)	(1,146,471)	(1,228,853)
Basic (loss) / earnings per share EPS (cents)	(3.29)	(0.98)	(1.19)
Share price at year end (cents)	7.80	6.50	3.90
Market capitalisation (\$)	19,024,191	8,457,214	1,821,292
Net tangible (liabilities) / assets (NTA) (\$)	1,517,627	(1,007,577)	(471,472)
NTA Backing (cents)	0.62	(0.77)	(0.44)

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

(c) Board and management changes

Following the resignation of Mr David McArthur on 1 February 2017, Mr Philip Haydn-Slater was appointed Non-executive Director.

(d) Service contracts

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

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

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

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 2017, 100% of non-executive director fees and 50% of non-executive Chairman's fees are satisfied through the issue of shares on a quarterly basis on the same basis as the Executive Director, and were issued as follows:

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT - AUDITED (continued)

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

	Tranche	Value of services rendered (A) \$	Fair value of shares on grant date (B) \$	No. of Plan Shares issued	Date of Issue
Executive directors					
Gary Jeffery	1	25,000	23,239	352,113	6-Apr-17
	2	25,000	30,488	304,878	12-Jul-17
	3	25,000	32,118	173,611	9-Oct-17
Non-executive directors					
Andrew Childs	1	5,000	4,648	70,423	6-Apr-17
	2	5,000	6,098	60,976	12-Jul-17
	3	5,000	6,424	34,722	9-Oct-17
Philip Haydn-Slater	1	5,000	4,648	70,423	12-Jul-17
	2	7,500	9,146	91,463	12-Jul-17
	3	7,500	9,635	52,083	9-Oct-17

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

(B) Reflects the fair value of shares at the date the share plan was approved by shareholders on 20 May 2016 (3.6 cents each) and 31 May 2017 (7 cents each).

Shares to be issued in lieu of accrued director fees as at 31 December 2017

	Value of services rendered (A) \$	Fair value of shares on grant date (B) \$	No. of plan shares to be issued (C)
Executive directors			
Gary Jeffery	25,000	11,818	151,515
Non-executive directors			
Andrew Childs	5,000	2,364	30,303
Philip Haydn-Slater	7,500	3,545	45,455

(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

(C) Shares were issued on 10 January 2018.

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 2017

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits			Share based payments		Total \$
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Shares \$	Options (C) \$	
Executive directors							
Gary Jeffery	2017	100,000	8,959	108,959	56,776	286,000	451,735
	2016	100,000	4,919	104,919	113,594	-	218,513
Non-executive directors							
Andrew Childs	2017	20,000	8,960	28,960	11,356	286,000	326,316
	2016	20,000	4,919	24,919	22,719	-	47,638
Philip Haydn-Slater	2017	-	8,199	8,199	15,765	141,500	165,464
	2016	-	-	-	-	-	-
Sub-total non-executive directors' remuneration	2017	20,000	17,159	37,159	27,121	427,500	491,780
	2016	20,000	4,919	24,919	22,719	-	47,638
Total current directors' remuneration	2017	120,000	26,118	146,118	83,897	713,500	943,515
	2016	120,000	9,838	129,838	136,313	-	266,151

SACGASCO LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2017

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits			Post employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total	Super-annuation	Shares	Options (C) \$	
				\$		\$		\$
Former directors								
David McArthur ⁽³⁾	2017	10,719	761	11,480	781	-	171,600	183,861
	2016	3,750	619	4,369	-	-	-	4,369
Keith Martens ⁽²⁾	2017	-	-	-	-	-	-	-
	2016	13,125	4,301	17,426	-	15,875	-	33,301
Aqeel Virk ⁽¹⁾	2017	-	-	-	-	-	-	-
	2016	8,750	2,836	11,586	-	12,404	-	23,990
Sub-total former directors' remuneration	2017	10,719	761	11,480	781	-	171,600	183,861
	2016	21,875	7,137	29,012	-	28,279	-	57,291
Total key management personnel remuneration	2017	130,719	26,879	157,598	781	83,897	885,100	1,127,376
	2016	145,625	17,594	163,219	-	164,592	-	327,811

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

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

(3) Appointed 15 November 2016. Resigned 1 February 2017.

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration (continued)

Notes in relation to the table of directors' remuneration

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

- Andrew Childs \$27,600 (2016: \$22,000)
- Keith Martens \$nil (2016: \$10,418)
- David McArthur \$6,000 (2016: \$9,000)

(B) Comprises Directors and Officers insurance premiums;

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

(g) Other KMP disclosures

KMP option holdings

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

	Held at 1 January 2017	Granted as compensation	Expired	Held on appointment or resignation	Held at 31 December 2017	Vested during the year	Vested and exercisable at 31 December 2017
Executive directors							
Gary Jeffery	3,000,000	5,000,000	-	-	8,000,000	5,000,000	8,000,000
Non-executive directors							
Andrew Childs	3,000,000	5,000,000	-	-	8,000,000	5,000,000	8,000,000
David McArthur	1,000,000	3,000,000	-	(4,000,000)	-	3,000,000	-
Philip Haydn-Slater	-	5,000,000	-	-	5,000,000	5,000,000	5,000,000

SACGASCO LIMITED
DIRECTORS' REPORT

For the year ended 31 December 2017

14. REMUNERATION REPORT - AUDITED (continued)

(g) Other KMP disclosures (continued)

KMP shareholdings

	Held at 1 January 2017	Purchases	Sales	Held on appointment	Issue in lieu of director fees	Issued in lieu of director loan repayment	Held at 31 December 2017
Executive directors							
Gary Jeffery	6,120,410	-	-	-	1,261,636	4,000,000	11,382,046
Non-executive directors							
Andrew Childs	5,109,557	71,195	(16,529)	-	252,328	-	5,416,551
Philip Haydn-Slater	-	1,000,000	-	2,320,000	213,969	-	3,533,969

(h) Voting and comments at the Company's 2017 Annual General Meeting

The Company received 99.74% of "yes" votes on its remuneration report for the 31 December 2016 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.

SACGASCO LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2017

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 2017.

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



GARY JEFFERY

Director

Dated at Perth, Western Australia this 26th day of March 2018.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Sacgasco Limited for the year ended 31 December 2017, 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.



Perth, Western Australia
26 March 2018

N G Neill
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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CORPORATE GOVERNANCE STATEMENT

The 2017 Corporate Governance Statement is dated as at 31 December 2017 and reflects the corporate governance practices in place throughout the 2017 financial year.

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

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

Board of Directors

Role of the Board

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

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

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

The Board evaluates this policy on an ongoing basis.

Board composition

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

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Board composition (continued)

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

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

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

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

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

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

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

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

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

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

Retirement and re-election of directors

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

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Independence of directors

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

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

Director education

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

Independent professional advice

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

Board performance review

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

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

Director remuneration

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

- (a) Non-Executive Directors are remunerated by cash payments (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director. Non-executive directors may be offered performance-based remuneration by way of options or Incentive share rights. The Board acknowledges the grant of options or incentive share rights to non- executive directors is contrary to Recommendation 8.3 of The Corporate Governance Principles and Recommendations, however the Board considers the grant of such options and share rights is reasonable in the circumstances for the following reasons:
- (i) the grant of options or incentive shares to non- executive directors will align the interests of the non-executive directors with those of Shareholders;
 - (ii) the grant of the options or incentive shares is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the non-executive directors; and
 - (iii) it is not considered that there are any significant opportunity costs to the Company or opportunities foregone by the Company in granting the non-executive directors options or incentive shares.
- (b) The Executive Director is remunerated by both fixed remuneration and equity performance-based remuneration, subject to obtaining all regulatory approvals from shareholders. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Managing Business Risk

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

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

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

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

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

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

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

Internal Controls

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

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

Audit and Risk Management Committee

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

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

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in over-viewing 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;

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Audit and Risk Management Committee (continued)

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

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

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

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

Remuneration and Nomination Committee

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

- Determine remuneration policies and remuneration of Directors;
- Determine remuneration and incentive policies of Key Executives;
- Determine the Group recruitment, retention and termination policies and procedures for senior management;
- Determine and review incentive schemes;
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment;
- Evaluate senior executive performance on an annual basis. This occurred during the 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; and
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary.

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Remuneration and Nomination Committee (continued)

If required, the Committee can seek independent external advice from consultants with specific industry experience relevant to the Company's remuneration assessment. External advice was not obtained during the 2017 year.

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

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

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

The Committee did not meet formerly during the year.

Ethical Standards Code of Conduct

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

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

Trading in the Company's Securities by Directors and Employees

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

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

Continuous Disclosure

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

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

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

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

SACGASCO LIMITED

CORPORATE GOVERNANCE STATEMENT

Communication with Shareholders

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

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

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

Diversity Policy

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

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

The Group strives to:

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

SACGASCO LIMITED
CORPORATE GOVERNANCE STATEMENT

Diversity Policy (continued)

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

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

Percentage details	Women	Men
Women and Men employed within the Group	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%

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

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

Recommendations 2.1 & 8.1

The Nomination and Remuneration Committee should be structured so that it:

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

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. 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
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017 \$	31 December 2016 \$
Assets			
Cash and cash equivalents	4.1	2,006,364	118,215
Trade and other receivables	4.2	119,513	65,161
Prepayments		60,554	69,318
Total current assets		2,186,431	252,694
Trade debtors and other receivables	4.2	256,246	7,642
Property, plant and equipment		10,088	-
Total non-current assets		266,334	7,642
Total assets		2,452,765	260,336
Liabilities			
Trade and other payables	4.3	(486,441)	(611,633)
Employee entitlements		(70,379)	(53,385)
Loans and borrowings	5.2	(2,055)	(125,901)
Deferred income	4.4	(175,000)	(153,963)
Current tax liabilities		(1,025)	-
Total current liabilities		(734,900)	(944,882)
Site restoration	3.1	(200,238)	(323,031)
Total non-current liabilities		(200,238)	(323,031)
Total liabilities		(935,138)	(1,267,913)
Net assets / (liabilities)		1,517,627	(1,007,577)
Equity			
Issued capital	5.1	19,899,304	12,133,480
Reserves		1,671,546	207,971
Accumulated losses		(20,053,223)	(13,349,028)
Total equity / (deficiency) attributable to equity holders of the Company		1,517,627	(1,007,577)

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 2017

	Note	2017 \$	2016 \$
Revenue from continuing operations			
Other income	2.2	404,632	185,089
Gain on sale of available for sale asset		344,390	-
Gain on disposal of an associate		-	5,665
Foreign exchange (loss) / gain		9,270	4,603
Expenses			
Other operating expenses		(996,815)	(322,912)
Exploration expenditure expensed through profit or loss	2.6	(2,179,860)	(356,128)
Exploration expenditure expensed on asset acquisition	1.7	(1,890,102)	-
Exploration expenditure written off		(336,340)	-
Site restoration reduction		99,399	-
Marketing and business development		(49,553)	(5,618)
Personnel expenses	2.3	(1,223,154)	(348,507)
General and administration		(144,591)	(101,382)
Professional fees		(736,654)	(176,520)
Depreciation		(5,853)	-
Finance expenses	2.4	(9,533)	(18,029)
Impairment of investment in associate		-	(117)
Share of loss of an associate		-	(1,067)
Results from operating activities		(6,714,764)	(1,134,923)
Loss before income tax		(6,714,764)	(1,134,923)
Income tax expense	2.5	(5,331)	(2,197)
Loss for the year		(6,720,095)	(1,137,120)
Loss per share (cents per share)			
Basic and diluted	2.7	(3.29)	(0.98)

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

SACGASCO LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	\$	\$
Loss for the year	(6,720,095)	(1,137,120)
Other comprehensive income		
<i>Items that may be classified subsequently to profit or loss</i>		
Foreign currency translation difference of foreign operations	42,783	(9,351)
Total items that may be classified subsequently to profit or loss	42,783	(9,351)
Total comprehensive loss for the year	(6,677,312)	(1,146,471)

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)
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(6,720,095)	(6,720,095)
Other comprehensive income for the year						
Foreign exchange translation difference on foreign operations	-	42,783	-	-	-	42,783
Total other comprehensive loss for the year	-	42,783	-	-	-	42,783
Total comprehensive loss for the year	-	42,783	-	-	(6,720,095)	(6,677,312)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
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)
Total contributions by and distributions to owners	7,765,824	-	1,398,250	22,542	15,900	9,202,516
Total transactions with owners	7,765,824	-	1,398,250	22,542	15,900	9,202,516
Balance at 31 December 2017	19,899,304	56,070	1,573,150	42,326	(20,053,223)	1,517,627

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 2016

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

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

SACGASCO LIMITED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		-	81,904
Cash paid to suppliers and employees		(523,764)	(248,481)
Payments for exploration and evaluation		(3,099,455)	(299,830)
Interest received		-	2,965
Interest paid		(17,184)	(8,411)
Income taxes paid		(4,287)	(2,197)
Net cash used in operating activities	4.1b	(3,644,690)	(474,050)
Cash flows from investing activities			
Proceeds from sale of available for sale assets	1.8	533,828	-
Proceeds from dissolution of a subsidiary		-	1,163
Proceeds on dissolution of an associate		4,502	-
Payments for available for sale assets	1.8	(190,840)	-
Payments for property, plant and equipment		(15,941)	-
Payments to associates		-	(1,217)
Net cash from / (used in) investing activities		331,549	(54)
Cash flows from financing activities			
Proceeds from issue of shares and options	5.1	5,046,248	434,939
Proceeds from other borrowings		-	57,500
Proceeds from exercise of options		382,000	53,963
Proceeds from related party loans	5.2	270,000	100,000
Proceeds from settlement of loans to joint venture partner		-	43,601
Payment of capital raising costs		(207,292)	(34,143)
Payment of transaction costs related to loans		(400)	(3,007)
Repayment of related party loans		(270,000)	-
Settlement of loans from joint venture partner		-	(56,424)
Repayment of premium funding facility		(15,795)	(6,481)
Repayment of other borrowings		-	(57,500)
Net cash from financing activities		5,204,761	532,448
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		118,215	70,972
Effect of exchange rate fluctuations on cash held		(3,471)	(11,101)
Cash and cash equivalents at 31 December	4.1a	2,006,364	118,215

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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 2017 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 26 March 2018. 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 2017. Refer to note 6.10 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 6.11 for further details.

SACGASCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 \$1,451,531 (2016: deficit of \$692,188) and a net cash inflow of \$1,891,620 (2016: \$58,344). The Group recorded a loss for the period of \$6,720,095 (2016: \$1,137,120). The Group had cash and cash equivalents at 31 December 2017 and at 19 March 2018 of \$2,006,364 and \$1,778,070 respectively.

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 2019, reflects the Group's ability to meet its working capital requirements and its committed and planned development 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 programs and development expenditure that are not contractually committed. The timing of raising additional capital will depend on the investment markets, current and future planned exploration and development 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 development 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

SACGASCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3 BASIS OF CONSOLIDATION (continued)

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

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

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

1.4 FOREIGN CURRENCIES

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

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

1.5 IMPAIRMENT

Financial assets

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

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

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.

SACGASCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

1.7 ASSET ACQUISITION

On 26 October 2016, the Company signed an agreement to acquire Peregrine Limited, a company registered in Belize, to secure additional equity and operatorship of the Dempsey and Alvares Prospects in the Sacramento Basin Onshore Northern California.

On 11 January 2017, shareholders approved the issue of 32 million fully paid shares at 7 cents each in consideration for the acquisition of Peregrine. The effective date of the transaction was 1 January 2017.

Details of the fair value of the assets and liabilities acquired as at 1 January 2017 are as follows:

	\$
Purchase consideration comprises:	
32,000,000 ordinary shares at 7 cents each	2,240,000
Net assets acquired:	
Oil and gas leases	358,258
Exploration and evaluation assets expensed in line with accounting policy to expense exploration as incurred	1,890,102
Trade payables and other payables	(8,360)
	<u>2,240,000</u>

1.8 AVAILABLE FOR SALE FINANCIAL ASSETS

Accounting Policy

Available for sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available for sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available for sale reserve in equity. Cumulative gain or loss previously reported in the available for sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

On 9 June 2017, the Company acquired 3,200,000 fully paid ordinary shares in Empyrean Energy PLC, a UK listed company, at 3.5 pence each for GBP 112,000 (\$190,840).

These shares were sold on 1 September 2017 for 10 pence each, generating cash income of \$533,828.

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 in production, the tax asset has not yet been recognised.

2.1 OPERATING SEGMENTS

Information about reportable segments

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

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

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

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2016.

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	2017	2016
			\$
Other operating income	(i)	404,632	101,742
Consultancy fees		-	81,904
Finance income		-	1,443
		404,632	185,089

- (i) A by-product of exploration leases acquired in the Rancho Capay, Denverton Creek, East Rice Creek, Malton – Black Butte, Dutch Slough and Los Medanos 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	2017 \$	2016 \$
Directors' remuneration	6.3	1,127,376	327,811
Other wages and salaries		36,500	16,800
Contributions to defined contribution plans		3,468	1,596
Equity-settled share-based payments to employees	6.1	56,300	-
Other associated personnel expenses		(490)	2,300
Total Directors' remuneration		1,223,154	348,507

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.

	2017 \$	2016 \$
Interest expense on financial liabilities measured at amortised cost		
Loans from JV partner	-	1,867
Related party loans	8,594	10,107
Premium funding facility	539	519
Other borrowings	-	2,529
Other finance charges	400	3,007
Net finance (expense) / income recognised in profit or loss	9,533	18,029

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

	2017	2016
	\$	\$
Current tax expense / (benefit)		
Adjustment for prior periods	5,331	2,197
Total income tax expense	5,331	2,197

(b) Reconciliation of effective tax rate

	2017	2016
	\$	\$
Loss for the period	(6,720,095)	(1,137,120)
Total income tax expense	5,331	2,197
Profit / (Loss) excluding income tax	(6,714,764)	(1,134,923)
Income tax using the Group's domestic tax rate of 27.5% (2016: 28.5%)	(1,846,560)	(323,453)
Non-deductible expense	1,164,587	245,842
Adjustment for prior periods	5,331	2,197
Timing differences not brought to account	(29,717)	(5,575)
Tax losses not brought to account	711,690	83,186
	5,331	2,197

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 \$1,777,195 (2016: \$1,618,133) 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:

	2017	2016
	\$	\$
Deferred tax assets (DTAs)		
Capital raising costs	51,713	17,534
Trade and other payables	5,500	5,700
Employee benefits	437	15,215
Carry forward tax losses	1,719,545	1,618,133
DTAs not brought to account	1,777,195	1,656,582

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 2017 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

	2017	2016
Net loss attributable to ordinary shareholders - \$	(6,720,095)	(1,137,120)
Issued ordinary shares at 1 January - number	130,110,984	107,095,783
Effect of shares issued - number	74,275,861	8,381,306
Weighted average number of ordinary shares at 31 December	204,386,845	115,477,089
Basic loss per share (cents)	(3.29)	(0.98)
Diluted loss per share (cents) *	(3.29)	(0.98)

* At 31 December 2017, 37,500,000 options (31 December 2016: 11,000,000 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

	2017	2016
	\$	\$
Office rent		
Not less than one year	31,200	24,000
Between one and five years	-	12,000
	31,200	36,000

Contingent liabilities

Pursuant to the acquisition of Peregrine Limited, a cash bonus totalling in aggregate of \$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 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 \$200,238 (2016: \$323,031) 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 DoGGR bond of US\$200,000 for up to fifty wells.

	2017	2016
	\$	\$
Site restoration provision	(200,238)	(323,031)
Movement in carrying amounts		
Opening balance	(323,031)	(350,438)
Adjustment to provision recognised as per DoGGR bond	99,399	-
Provision extinguished	-	31,708
Effects of foreign exchange	23,394	(4,301)
Closing balance	(200,238)	(323,031)

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

	2017	2016
	\$	\$
Cash and cash equivalents in the statement of cash flows	2,006,364	118,215

(b) Reconciliation of cash flows from operating activities

	2017	2016
	\$	\$
Cash flows from operating activities		
Loss for the period	(6,720,095)	(1,137,120)
Adjustments for:		
Depreciation	5,853	-
Equity-settled share-based payment transactions	1,662,596	211,077
Finance expense	400	13,113
Net (profit) / loss on foreign exchange translation	83,675	7,517
Exploration expenditure expensed on asset acquisition	1,890,102	-
Capitalised exploration expenditure impaired	336,340	-
Impairment of investment in associate	-	117
Loss on disposal of subsidiaries	2,498	-
Gain on disposal of an associate	-	(5,665)
Share of losses of an associate	-	1,067
Profit on sale of available for sale assets	(344,390)	-
Change in other receivables	(58,854)	150,621
Change in prepayments	(26,645)	(40,990)
Change in other operating assets	(253,717)	-
Change in interest bearing assets	-	1,522
Change in trade and other payables	(133,041)	207,214
Change in current tax liabilities	1,044	-
Change in interest bearing liabilities	(8,051)	18,780
Change in employee benefits	16,994	29,984
Change in site restoration provision	(99,399)	(31,287)
Change in deferred income	-	100,000
Net Cash used in operating activities	(3,644,690)	(474,050)

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

	2017	2016
	\$	\$
Continuing operations		
GST and PAYG receivable	54,627	60,659
Net production receivable	-	4,502
Deposits and bonds	256,246	7,642
Other receivables	64,886	-
	375,759	72,803
Current	119,513	65,161
Non-current	256,246	7,642
	375,759	72,803

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.

	2017	2016
	\$	\$
Current		
Trade payables	(447,223)	(583,133)
Non-trade payables and accrued expenses	(39,218)	(28,500)
	(486,441)	(611,633)

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.4 DEFERRED INCOME

	Note	2017 \$	2016 \$
Joint venture receipt	(i)	(100,000)	(100,000)
Conversion of options	(ii)	(75,000)	(53,963)
		(175,000)	(153,963)

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

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 \$	
	2017	2016	2017	2016
On issue at 1 January	130,110,984	107,095,783	12,133,480	11,477,843
Shares issued and expensed during the period:				
Issue of fully paid shares for cash	65,197,935	17,397,546	5,046,248	434,939
Issue of fully paid shares on conversion of options	9,698,773	-	360,964	-
Issue of shares in lieu of directors' fees	1,760,261	4,325,434	87,772	209,862
Issue of shares pursuant to acquisition of Peregrine Limited	32,000,000	-	2,240,000	-
Issue of shares in satisfaction of service provider fees	631,931	1,292,221	63,132	46,485
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	-	-	(207,292)	(35,649)
On issue at 31 December	243,899,884	130,110,984	19,899,304	12,133,480

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).

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

	2017	2016
	\$	\$
Current		
Loans received from a director	(2,055)	(110,107)
Premium funding facility	-	(15,794)
	(2,055)	(125,901)

	Loans to JV partner	Loans from JV partner	Loans from a director ⁽²⁾	Premium funding	Other borrowings
Balance at 1 January 2016	45,123	(59,920)	-	-	-
Loans & borrowings received	-	-	(100,000)	(22,275)	(57,500)
Interest charged	1,443	(1,867)	(10,107)	(579)	(5,476)
Less repaid	(46,566)	61,787	-	7,060	62,976
Balance at 31 December 2016	-	-	(110,107)	(15,794)	-
Loans & borrowings received	-	-	(270,000)	-	-
Interest & establishment costs charged	-	-	(8,594)	(539)	-
Less loan extinguished through Issue of shares	-	-	100,000	-	-
Less repaid ⁽¹⁾	-	-	286,646	16,333	-
Balance at 31 December 2017	-	-	(2,055)	-	-

⁽¹⁾ Amounts repaid include interest and loan establishment costs;

⁽²⁾ Refer to note 6.3 for further details.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 6 OTHER DISCLOSURES

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

Key estimates and assumptions in this section

Share-based payments

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

6.1 SHARE-BASED PAYMENT PLANS

Accounting Policy

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

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

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

	2017	2016
	\$	\$
Expensed in personnel expenses		
Options issued to directors	885,100	-
Options issued to employees	56,300	-
Shares issued to directors	67,988	144,808
Shares to be issued to directors	15,909	19,784
Expensed in professional fees		
Options issued to consultants of the company	472,750	-

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.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options

At 31 December 2017, 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	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
Total				11,000,000	27,500,000	(1,000,000)	-	37,500,000	37,500,000
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 (2016: 2.75 years).

At 31 December 2016, 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
31-Jul-14	31-Jul-14	31-Dec-16	25	500,000	-	-	(500,000)	-	-
26-Oct-15	26-Oct-15	30-Sep-19	10	11,000,000	-	-	-	11,000,000	11,000,000
Total				11,500,000	-	-	(500,000)	19,698,773	11,000,000
Weighted Average Exercise Price (cents)				10.65	-	-	25.00	10.00	

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options (continued)

Key valuation assumptions made at valuation date are summarised below:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8
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
Exercise price (cents)	10	15	15	15	15	15	15	15
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
Expiry date	30-Sep-19	31-Dec-19						
Life of the options (years)	3.93	2.97	2.97	2.95	2.95	2.95	2.73	2.59
Volatility	90%	140.84%	140.84%	138.64%	138.64%	138.64%	121.42%	91.41%
Risk free rate	1.80%	1.83%	1.83%	1.83%	1.83%	1.83%	1.67%	1.66%
Fair value at grant date (cents)	1.59	5.72	5.72	5.63	5.63	5.63	3.57	2.83
Share price at grant date (cents)	3.9	8.1	8.1	8.1	8.1	8.1	6.5	7.4

6.2 FINANCIAL RISK MANAGEMENT

Accounting Policy

Classification of financial instruments

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

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

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

Recognition and de-recognition of financial assets and liabilities

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

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

Credit risk

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

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

Cash and cash equivalents

The Group held cash and cash equivalents of \$2,006,364 at 31 December 2017 (2016: \$118,215). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Other receivables

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

At 31 December 2017, the maximum exposure to credit risk for other receivables by geographic region was as follows:

	Carrying amount	
	2017	2016
	\$	\$
Australia	119,513	65,161
USA	256,246	7,642
	375,759	72,803

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

Liquidity risk

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

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

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

	Carrying amount	Contractual cash flows	12 months or less
	\$	\$	\$
31 December 2017			
Non-derivative financial liabilities			
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)
	(734,900)	(734,900)	(734,900)

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Carrying amount \$	Contractual cash flows \$	12 months or less \$
31 December 2016			
Non-derivative financial liabilities			
Trade and other payables	(611,633)	(611,633)	(611,633)
Employee entitlements	(53,385)	(53,385)	(53,385)
Interest bearing liabilities	(125,901)	(131,371)	(131,371)
Deferred income	(153,963)	(153,963)	(153,963)
	(944,882)	(950,352)	(950,352)

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.

Market risk

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

Currency risk

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

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

	Assets		Liabilities	
	2017 \$	2016 \$	2017 \$	2016 \$
US dollar	271,530	65,402	(50,380)	(178,536)

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD). The following table details the Group's sensitivity to a 2% (31 December 2016: 2%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 2% (31 December 2016: 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.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

		Impact on profit or loss	
		2017	2016
		\$	\$
If AUD strengthens by 2%	(31 December 2016: 2%)		
USD		(5,304)	2,218
If AUD weakens by 2%	(31 December 2016: 2%)		
USD		5,520	(2,309)

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

Interest rate risk

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

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	
		2017	2016
		\$	\$
Variable rate instruments			
Cash and cash equivalents		521,393	118,215

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 31 December 2016.

		Profit or loss	
		100 bp increase	100 bp decrease
		\$	\$
31 December 2017			
Variable rate instruments		5,214	(2,607)
Cash flow sensitivity		5,214	(2,607)

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

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

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

Fair values

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

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

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

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

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

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2017 \$	2016 \$
Short term employee benefits		157,598	163,219
Post-employment benefits		781	-
Share-based payments – shares issued	6.1	67,988	144,808
Share-based payments – shares to be issued	6.1	15,909	19,784
Share-based payments – options	6.1	885,100	-
	2.3	1,127,376	327,811

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.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.3 RELATED PARTIES (continued)

Other key management personnel transactions (continued)

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

		Note	Transactions value		Balance outstanding	
			year ended 31 December		as at 31 December	
			2017	2016	2017	2016
			\$	\$	\$	\$
Key management	Transaction					
Andrew Childs	Consulting fees	(i)	27,600	22,000	2,167	42,167
	Interest on loan	(iii)	1,578	-	-	-
Keith Martens	Consulting fees		-	10,418	-	58,118
Aqeel Virk	Consulting fees		-	-	-	8,647
David McArthur	Management fees	(ii)	6,000	9,000	-	19,800
Gary Jeffery	Interest on loan	(iii)	7,016	10,107	2,055	110,107
					4,222	238,839

Key to table

- (i) The Group used the offices of Resource Recruitment, a company associated with Andrew Childs. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;
- (ii) The Group used the consulting services of Broadway Management (WA) Pty Ltd, a company associated with David McArthur, for the provision of accounting and corporate compliance services to the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;
- (iii) Gary Jeffery and Andrew Childs provided cash loans to the Company, repayable within 6 months if, and when, the company was in a financial position to do so, accruing interest at 10% per annum, pro rata. These loans were repaid in April 2017.

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 subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2017 %	2016 %
AOC No. 2 Pty Ltd ⁽¹⁾	Corporate	Australia	31 December	100	100
AOC No. 3 Pty Ltd ⁽¹⁾	Corporate	Australia	31 December	100	100
AOC Investments Pty Ltd	Corporate	Australia	31 December	100	100
Sacgasco LLC	Oil and gas exploration	USA	31 December	100	100
Peregrine Limited	Corporate	Belize	31 December	100	-
Parker Companies Inc. ⁽²⁾	Oil and gas Exploration	USA	31 December	100	-
PEOCO LLC ⁽²⁾	Oil and gas exploration	USA	31 December	100	-

(1) On 24 January 2018, Australian Oil Company No. 2 Pty Ltd and Australian Oil Company No. 3 Pty Ltd were dissolved.

(2) Parker Companies Inc. and PEOCO LLC are 100% owned subsidiaries of Peregrine Limited.

6.5 ASSOCIATES

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

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2017 %	2016 %
Cal LNG LLC	Oil and gas exploration	California, USA	-	42

The above associate was accounted for using the equity method in these consolidated financial statements.

On 2 January 2018, Cal LNG LLC was dissolved.

SACGASCO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.6 INTEREST IN JOINT OPERATIONS

Accounting Policy

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interests in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the relevant standards and interpretations applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of the other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

The Group has a material joint operation in several natural gas fields and oil and gas leases in the Sacramento Basin, California, USA.

An extract of the financial position of the joint arrangement operated by PEOCO LLC as at 31 December 2017 is below:

	2017
	\$
Cash and cash equivalents ⁽¹⁾	1,469,683
Trade creditors and other payables ⁽²⁾	(1,519,038)
Net liability to be recovered from working interest participants	(49,355)

(1) Included in the Group's consolidated cash balances.

(2) Owed to Sacgasco Limited and eliminated on consolidation.

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.7 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2017, the parent entity of the Group was Sacgasco Limited.

	2017	2016
	\$	\$
Result of the parent entity		
Loss for the year	(8,478,093)	(1,692,642)
Other comprehensive income	-	-
Total comprehensive loss for the year	(8,478,093)	(1,692,642)
Financial position of parent entity at year end		
Current assets	715,259	211,928
Total assets	725,347	211,931
Current liabilities	(733,875)	(944,882)
Total liabilities	(733,875)	(944,882)
Total equity of the parent entity comprising of:		
Share capital	19,899,304	12,133,480
Reserves	1,615,476	194,684
Accumulated losses	(21,523,308)	(13,061,115)
Total deficiency	(8,528)	(732,951)
Commitments		
Office rent		
Less than one year	31,200	24,000
Between one and five years	-	12,000
	31,200	36,000

SACGASCO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.8 SUBSEQUENT EVENTS

On 10 January 2018, 500,000 options were converted to fully paid shares raising \$75,000. The options had an expiry date of 31 December 2019 and an exercise price of 15 cents each.

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

6.9 AUDITORS' REMUNERATION

	2017	2016
	\$	\$
HLB Mann Judd		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	32,500	20,000
Total remuneration for audit and other assurance services	32,500	20,000
Total Remuneration of HLB Mann Judd	32,500	20,000
TOTAL AUDITORS' REMUNERATION	32,500	20,000

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

6.10 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

- (a) *AASB 1048 Interpretation of Standards*
- (b) *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- (c) *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- (d) *AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016*

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

6.11 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 December 2017.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 9	Financial Instruments (2014)	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised. AASB 9 introduces new requirements for classifying and measuring financial assets,	1 January 2018	1 January 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15 (<i>not yet fully compiled</i>)	This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2018	1 January 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (<i>December 2014</i>)	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	1 January 2018
AASB 16	Leases	The new Standard introduces three main changes: <ul style="list-style-type: none"> - Enhanced guidance on identifying whether a contract contains a lease; - A completely new leases accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets; Enhanced disclosures. Lessor accounting will not significantly change.	1 January 2019	1 January 2019
AASB 2014-10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Addresses a conflict between the requirements of AASB 128 <i>Investments in Associates and Joint Ventures</i> and AASB 10 <i>Consolidated Financial Statements</i> and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.	1 January 2022	1 January 2022

SACGASCO LIMITED
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

The Directors of the Group declare that:

- 1 The financial statements and notes are in accordance with the Corporations Act 2001, and:
 - (a) comply with Accounting Standards, which as stated in accounting policy note 1.1 to the financial statements, constitutes explicit and unreserved compliance with International Reporting Standards (IFRS), the Corporations Regulations 2001, and other mandatory reporting requirements; and
 - (b) give a true and fair view of the financial position as at 31 December 2017 and of the performance for the year ended on that date of the Group;
- 2 The Chief Executive Officer and Chief Financial Officer have each declared that:
 - (a) the financial records of the Group for the financial year have been properly maintained in accordance with section 266 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
- 3 In the Directors' opinion, as set out in note 1.2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



GARY JEFFERY

Managing Director

Dated this 26th day of March 2018.

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 2017, 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 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Material Uncertainty Related to Going Concern

We draw attention to Note 1.2 in the half-year financial report, which indicates the existence of material uncertainty 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
<p>Accounting for Asset Acquisition and Joint Arrangements <i>Note 1.7 of the financial report</i> <i>Note 6.6 of the financial report</i></p> <p>During the financial year, the Company acquired 100% of the issued share capital of Peregrine Limited. This was considered a significant acquisition for the Group. The acquisition resulted in working interests in joint arrangements.</p> <p>Accounting for this acquisition is a complex and judgemental exercise, requiring management to determine the allocation of the purchase consideration to the fair value of acquired assets and liabilities.</p> <p>There is also complexity around the accounting for the joint arrangement.</p>	<p>We considered management’s accounting for the acquisition as well as the subsequent accounting of the Company’s share of the joint arrangement at 31 December 2017.</p> <p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> • We reviewed the Stock Purchase Agreement to understand the key terms and conditions of the acquisition; • We obtained audit evidence that the acquisition-date assets and liabilities of Peregrine Limited and its subsidiary were fairly stated; • We assessed the adequacy of the Group’s disclosures in respect to the acquisition; • We assessed the arrangement to determine the nature of the arrangement (e.g. Joint venture vs joint arrangement) to determine the appropriate accounting treatment of the assets, liabilities, revenue and expenses.

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 2017, but does not include the financial report and our auditor’s report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the 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 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 in pages 18 to 27 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Saccasco Limited for the year ended 31 December 2017 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

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

N G Neill
Partner

Perth
26 March 2018

SACGASCO LIMITED
STOCK EXCHANGE INFORMATION

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 14 March 2018:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	74	6,908	-
1,001 - 5,000	77	320,558	0.13
5,001 - 10,000	165	1,398,243	0.57
10,001 - 100,000	541	24,649,381	10.07
100,001 and over	276	218,407,925	89.23
Total	1,133	244,783,015	100.00

There were 187 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	28,692,075
HSBC Custody Nominees (Australia) Limited	20,036,212
Citicorp Nominees Pty Limited	14,801,355

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

SACGASCO LIMITED
STOCK EXCHANGE INFORMATION

5. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
BNP Parabis Nominees Pty Ltd	28,692,075	11.72
HSBC Custody Nominees (Australia) Limited	20,036,212	8.19
Citicorp Nominees Pty Limited	14,801,355	6.05
Bond Street Custodians Limited <PNCORK – D00089 A/C>	7,533,561	3.08
JP Morgan Nominees Australia Limited	6,119,458	2.50
Mr Benjamin William Jarvis	5,000,000	2.04
Magaurite Pty Ltd <Peter Nelson Super Fund A/C>	4,000,000	1.63
Dungay Resources Pty Ltd <Dungay Consulting A/C>	4,000,000	1.63
Mr Alan George Brooks & Mrs Philippa Clair Brooks <AG & PC Brooks S/Fund A/C>	3,869,837	1.58
Neja Pty Ltd	3,861,063	1.58
Brazell Pty Ltd <A & M Super Fund A/C>	3,750,000	1.53
Mr Brian Laurence Eibisch	3,136,559	1.28
Willing Vale Pty Ltd	2,575,000	1.05
Queensland M M Pty Ltd	2,500,000	1.02
Talex Investments Pty Ltd	2,400,000	0.98
Great Eastern Holdings Pty Ltd <Nambung Unit A/C>	2,338,139	0.96
Talex Investments Pty Ltd <A F Wylie Super Fund A/C>	2,290,000	0.94
NEFCO Nominees Pty Ltd	2,289,000	0.94
Hennessy Pacific Investments Limited	1,800,000	0.74
Mr Kim Steven Wilhelm	1,556,823	0.64