ABN 96 009 217 154

26 April 2017

ASX Limited **Electronic lodgement**

ASX Code: XST

Dispatch of 2016 Annual Report and Notice of AGM

Attached is copy of our 2016 Annual Report together with the Notice of Annual General Meeting, Explanatory Statement and Proxy Form which have been dispatched to shareholders.

A copy of the Annual Report and Notice of Annual General Meeting will also be available on our website www.xstate.com.au

On behalf of the Board of Directors

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY STATEMENT

Date of Meeting

Tuesday 30 May 2017

Time of Meeting

11:00 am (WST)

Place of Meeting

Level 1, 31 Cliff Street
Fremantle, Western Australia

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Xstate Resources Limited ("**Company**") will be held at 11:00 am (WST) on Tuesday 30 May 2017, at Level 1, 31 Cliff Street, Fremantle, Western Australia.

In order to determine voting entitlements, the register of Shareholders will be closed at 4:00 pm (WST) on 29 May 2017.

An Explanatory Statement containing information in relation to each of the Resolutions to be put to the meeting accompanies this Notice.

AGENDA

To consider and, if thought fit, to pass the following Resolutions.

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report for the Company for the financial year ended 31 December 2016 together which the declaration of the directors, the director's report, the Remuneration Report and the auditor's report.

Resolution 1: Adoption of the Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

> "*That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report contained within the Company's annual financial report for the financial year ended 31 December 2016*."

Note 1: the vote on this resolution is advisory only and does not bind the Directors of the Company.

Note 2: If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election. Less than 25% of shareholder voted against the remuneration report at the 2015 Annual General Meeting.

Voting Prohibition Statement:

A vote on this Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

(a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or

(b) a Closely Related Party of such a member,

(collectively, a "**Prohibited Voter**").

However, a Prohibited Voter may cast a vote on this Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

(a) the Prohibited Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or

(b) the Prohibited Voter is the Chair and the appointment of the Chair as proxy:

(i) does not specify the way the proxy is to vote on this Resolution; and

(ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 2: Re-election of Director – Mr Chris Hodge

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That Mr Chris Hodge, a Director, retires by rotation in accordance with Clause 13.2 of the Company's constitution, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director."*

Resolution 3: Approval of 10% Placement Capacity

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

> *"That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Important note: The proposed recipients of any Equity Securities under the 10% Placement Capacity are not as yet known or identified. In these circumstances (and in accordance with the note set out in ASX Listing Rule 14.11.1 relating to ASX Listing Rules 7.1 and 7.1A), for a person's vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of any Equity Securities issued under the 10% Placement Capacity), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted, and there is no reason to exclude their votes.

By Order of the Board

D McArthur

D M McARTHUR
Company Secretary

Dated: 18 April 2017

ENTITLEMENT TO ATTEND AND VOTE

The Company may specify a time, not more than 48 hours before the Meeting, at which a "snap-shot" of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Annual General Meeting.

The Company's Directors have determined that all Shares of the Company that are quoted on ASX at 4:00pm (WST) on 29 May 2017 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

(a) each Shareholder has a right to appoint a proxy;

(b) the proxy need not be a member of the Company; and

(c) a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints two proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

CORPORATE REPRESENTATIVE

A Shareholder that is a corporation may appoint an individual to act as its corporate representative to vote at the Meeting in accordance with section 250D of the Corporations Act. Any corporation wishing to appoint an individual to act as its representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or Share Registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. A 'Certificate of Appointment of Corporate Representative' is enclosed if required.

ENQUIRIES

Shareholders are invited to contact the Company Secretary, Mr David McArthur on +61 8 9423 3200 if they have any queries in respect of the matters set out in this document.

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting ("**Notice**") of the Company.

The Directors of the Company ("**Directors**") recommend Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice.

FINANCIAL STATEMENTS AND REPORTS

The business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 31 December 2016, together with the declaration of the Directors, the Directors' report, the Remuneration Report and the auditor's report.

A copy of the Company's 2016 Annual Report is available on the Company's ASX platform (ASX: XST) and on the website www.xstate.com.au. Alternatively, a hard copy will be made available upon request.

The Company's auditor, BDO, will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company's auditor about:

(a) the preparation and content of the auditor's report;

(b) the conduct of the audit;

(c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and

(d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the meeting date to the Company Secretary.

RESOLUTION 1: Adoption of Remuneration Report

General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for a financial year.

The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the Remuneration Report at the Annual General Meeting.

Voting consequences

Under changes to the Corporations Act which came into effect on 1 July 2011, a company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

Previous voting results

At the Company's previous annual general meeting, the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

Proxy restrictions

Shareholders appointing a proxy for Resolution 1 should note the following:

(a) ***If you appoint a member of the Key Management Personnel (other than the Chair) as your proxy***

If you elect to appoint a member of the Key Management Personnel (other than the Chair) whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member, ***you <u>must</u> direct the proxy how they are to vote***. Undirected proxies granted to these persons will not be voted and will not be counted in calculating the required majority if a poll is called on this Resolution.

(b) ***If you appoint the Chair as your proxy***

If you elect to appoint the Chair where he/ she is also a member of the Key Management Personnel whose remunerations details are included in the Remuneration Report, or a Closely Related Party of such a member, ***you <u>must</u> direct the Chair how they are to vote.*** Undirected proxies granted to these persons will be voted in favour of all Resolutions.

(c) ***If you appoint any other person as your proxy***

You ***<u>do not</u>*** need to direct your proxy how to vote, and you ***<u>do not</u>*** need to tick any further acknowledgement on the Proxy Form. Undirected proxies granted to these persons will be voted at their discretion.

RESOLUTION 2: Re-election of Director – Mr Chris Hodge

ASX Listing Rule 14.4 provides that a director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer.

Clause 13.2 of the Company's Constitution requires that at every Annual General Meeting of the Company one-third of the Directors excluding the Managing Director (rounded up to the nearest whole number) shall retire from office. The Directors to retire are those who have been longest in office since their last election. A Director who retires by rotation under clause 7.3(a) is eligible for re-election.

The Company currently has 3 Directors (excluding the managing director) and accordingly 1 must retire.

Mr Chris Hodge, the Director longest in office since his last re-election, retires by rotation and seeks re-election as a Director.

Information about Mr Hodge is set out in the Company's 2016 Annual Report.

The Board unanimously supports the re-election of Mr Hodge.

RESOLUTION 3: Approval of 10% Placement Capacity – Shares

General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its annual general meeting to allow it to issue Equity Securities up to 10% of its issued capital over a period up to 12 months after the annual general meeting (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 3, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 3 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 3 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 3 for it to be passed.

ASX Listing Rule 7.1A

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

(a) is not included in the S&P/ASX 300 Index; and

(b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of $300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a current market capitalisation of approximately $6.3 million.

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has one class of quoted Equity Securities on issue, being the Shares (ASX Code: XST)

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times B) - C$$

Where:

A is the number of Shares on issue 12 months before the date of issue or agreement:

(i) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;

(ii) plus the number of partly paid shares that became fully paid in the previous 12 months;

(iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4.; and

(iv) less the number of Shares cancelled in the previous 12 months.

B is 10%.

C is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 3:

(a) **Minimum Price**

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within 5 ASX trading days of the date above, the date on which the Equity Securities are issued.

(b) **Date of Issue**

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

(i) 12 months after the date of this Meeting; and

(ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking).

(c) **Risk of voting dilution**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 3 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Variable "A"		DILUTION $0.005 50% decrease in Issue Price	$0.01 Issue price	$0.02 100% increase in Issue Price
Current Variable A **626,792,718 Shares**	**10% Voting Dilution**	62,679,272	62,679,272	62,679,272
	Funds Raised	$313,396	$626,792	$1,253,585
50% Increase in Current Variable A **940,189,077 Shares**	**10% Voting Dilution**	94,018,907	94,018,907	94,018,907
	Funds Raised	$470,094	$940,189	$1,880,378
100% Increase in Current Variable A **1,253,585,436 Shares**	**10% Voting Dilution**	125,358,543	125,358,543	125,358,543
	Funds Raised	$626,792	$1,253,585	$2,507,170

* The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

(a) The current shares on issue are the Shares on issue as at 4 April 2017.

(b) No options are exercised into Shares before the date of issue of the Equity Securities.

(c) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. That is why the voting dilution is shown in each example as 10%.

(d) The issue price set out above is the closing price of the Shares on the ASX on 4 April 2017.

(e) The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.

(f) The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

(g) The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.

(h) This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.

Shareholders should note that there is a risk that:

(i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and

(ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) **Purpose of Issue under 10% Placement Capacity**

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

(i) as cash consideration in which case the Company may use funds raised for the acquisition of new resources, assets and investments (including expenses associated with such an acquisition), continued exploration expenditure on the Company's current assets and general working capital; or

(ii) as non-cash consideration for the acquisition of new resources, assets and investments in which circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

(e) **Allocation under the 10% Placement Capacity**

The Company's allocation policy for the issue of Equity Securities under the 10% Placement Capacity will be dependent on the prevailing market conditions at the time of the proposed placement(s).

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

(i) the purpose of the issue;

(ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;

(iii) the effect of the issue of the Equity Securities on the control of the Company;

(iii) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;

(v) prevailing market conditions; and

(vi) advice from corporate, financial and broking advisers (if applicable).

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the recipients under the 10% Placement Capacity will be vendors of the new resources, assets or investments.

(f) **Previous Approval under ASX Listing Rule 7.1A**

The Company obtained approval under Listing Rule 7.1A on 13 May 2016. The Company has not issued any Equity Securities pursuant to Listing Rule 7.1A in the 12 months preceding the date of the Annual General Meeting.

As the Company has previously sought shareholder approval for the additional placement capacity under Listing Rule 7.1A, the following information is provided in relation to all issues of equity securities in the 12 months prior to the date of the Annual General Meeting, pursuant to the requirements of Listing Rule 7.3A6(a) and 7.3A6(b):

A total of 330,465,600 ordinary shares a have been issued representing 112% of the equity securities on issue at the commencement of the 12 month period preceding the date of the Annual General Meeting.

Date of Issue:	**14/6/2016**
Number issued:	300,000,000
Class:	Fully paid ordinary
Terms:	Fully paid
Name of applicants:	Sophisticated investor placement
Price:	0.01 cents per share
Discount to market:	23%
Total cash received:	$3,000,000
Intended use of cash:	Working capital and to part fund the Sansenena asset acquisition in California as announced to the market. $1.2 million remaining from this issue.

Date of Issue:	**29/6/2016**
Number issued:	25,465,600
Class:	Fully paid ordinary
Terms:	Convertible note conversion
Name of applicants:	Mr Teik Tatt Oh
Price:	0.005 cents per share
Discount to market:	58%
Total cash received:	Nil
Intended use of cash:	N/A

Date of Issue:	**6/2/2017**
Number issued:	5,000,000
Class:	Fully paid ordinary
Terms:	Director performance grant with shareholder approval
Name of applicants:	Mr Cosimo Damiano
Price:	Nil
Discount to market:	Nil
Total cash received:	Nil
Intended use of cash:	N/A
Value of shares at date of issue:	$95,000 (1.9 cents per share on 6 February 2017)

Date of Issue	**6/2/2017**
Number Issued:	42,000,000
Class:	31 December 2020 options
Terms:	Exercisable at 5 cents on or before 31 December 2020
Names of applicants:	Directors and consultants to the company with shareholder approval
Price:	Nil
Discount to market:	N/A
Total cash received:	Nil
Intended use of cash:	N/A
Value at current date:	$407,400 (Appendix 1)

Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 3.

GLOSSARY

10% Placement Capacity has the meaning given in Resolution 3 of the Explanatory Statement.

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Closely Related Party of a member of the Key Management Personnel means:

(a) a spouse or child of the member;

(b) a child of the member's spouse;

(c) a dependent of the member or the member's spouse;

(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;

(e) a company the member controls; or

(f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Xstate Resources Limited - ABN 96 009 217 154

Directors means the current directors of the Company.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

Explanatory Statement means the explanatory statement accompanying the Notice.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

Ordinary Securities has the meaning set out in the ASX Listing Rules.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Shareholder means a holder of a Share.

WST means Australian Western Standard Time (Perth, Western Australia).

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

APPENDIX 1

VALUATION OF OPTIONS ISSUED TO DIRECTORS AND CONSULTANTS

The Company has valued the Options issued to Directors ("Director Options") and consultants as at the date of this notice of meeting using the Black-Scholes option model and based on the assumptions as set out in the table below, with the Options ascribed a value as follows:

Assumptions:

Value date:	4 April 2017
Share price:	1.0 cents
Exercise price:	5.0 cents
Term:	48 months
Volatility:	250%
Risk free interest rate:	2.5%
Indicative value per Option:	$0.0097

Instructions for Completing 'Appointment of Proxy' Form

1. (**Changes to Proxy Voting**): Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Section 250R(5) of the Corporations Act came into effect on 28 June 2012 and will affect the Chair's votes on undirected proxies. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:

   (a) if proxy holders vote, they must cast all directed proxies as directed;

   (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed; and

   Further details on these changes are set out below.

2. (**Appointing a Proxy**): A member with two or more votes entitled to attend and vote at the General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.

3. (**Proxy vote if appointment specifies way to vote**): Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

   (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);

   (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands;

   (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and

   (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

4. (**Transfer of non-chair proxy to chair in certain circumstances**): Section 250BC of the Corporations Act provides that, if:

   (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;

   (b) the appointed proxy is not the chair of the meeting;

   (c) at the meeting, a poll is duly demanded on the resolution; and

   (d) either of the following applies:

      (i) the proxy is not recorded as attending the meeting;

      (ii) the proxy does not vote on the resolution,

   the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

5. (**Signing Instructions**):

   (a) (**Individual**): Where the holding is in one name, the member must sign.

   (b) (**Joint Holding**): Where the holding is in more than one name, all of the members should sign.

   (c) (**Power of Attorney**): If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

   (d) (**Companies**): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.

6. (**Attending the Meeting**): Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.

7. (**Voting in person**):

   (a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.

   (b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting

8. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):

   (a) In person to Level 1, 31 Cliff Street, Fremantle, Perth, WA;

   (b) By mail to PO Box 584, Fremantle, WA, 6959.

   (c) By Facsimile to +61 8 6444 7408;

   (d) By scan and email to david.mcarthur@broadwaymgt.com.au

so that it is received at least 48 hours prior to commencement of the General Meeting. Proxy Forms received later than this time will be invalid.

CERTIFICATE OF APPOINTMENT OF CORPORATE REPRESENTATIVE

Shareholder Details

This is to certify that by a resolution of the directors of:

…………………………………………………………………………………………........................ (***Company***),
Insert name of Shareholder Company
the Company has appointed:

……..,
Insert name of corporate representative

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at an annual general meeting of the members of Xstate Resources Limited to be held on 30 May 2017 commencing at 11.00 am (WST) and at any adjournments of that general meeting.

DATED ……………………………………………………….

Please sign here

Executed by the Company in accordance with its constituent documents	)))

....……………………… Signed by authorised representative	....…………………….... Signed by authorised representative
....………..….. Name of authorised representative (print)	....……………………….. Name of authorised representative (print)
....………….….. Position of authorised representative (print)	......................................……………………..…….. Position of authorised representative (print)

Instructions for Completion

- Insert name of appointing Shareholder Company and the name or position of the appointee corporate representative (eg “John Smith” or “each director of the Company”).
- Execute the Certificate following the procedure required by your Constitution or other constituent documents.
- Print the name and position (eg director) of each authorised company officer who signs this Certificate on behalf of the Company.
- Insert the date of execution where indicated.
- Prior to the Meeting, send or deliver the Certificate to the registered office of Xstate Resources Limited at Level 1, 31 Cliff Street, Fremantle WA or fax the Certificate to the registered office at +61 8 6444 7408

PROXY FORM

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL GENERAL MEETING

I/We ______________________

of (Address): ______________________

being a Member of Xstate Resources Limited entitled to attend and vote at the Annual General Meeting, hereby appoint:

Name: ______________________

Name of proxy (**Please note**: Leave blank if you have selected the Chair of the Annual General Meeting as your proxy.)

OR ☐ the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions or if no directions have been as the proxy sees fit, at the Annual General Meeting to be held at 11.00 am (WST) on Tuesday 30 May 2017 at Level 1, 31 Cliff Street, Fremantle, Western Australia, and at any adjournment of that meeting.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 - Adoption of Remuneration Report	☐	☐	☐
Resolution 2 - Re-Election of Director - Chris Hodge	☐	☐	☐
Resolution 3 - Approval of 10% placement capacity	☐	☐	☐

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is ____%.

Signature of Member(s) ______________________ **Date:** ___________

Individual or Member 1	**Member 2**	**Member 3**
Sole Director / Company Secretary	**Director**	**Director / Company Secretary**

Contact Name: ______________________ **Contact Ph (daytime):** ________________ **Date:** _____________

XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL FINANCIAL REPORT
For the year ended 31 December 2016

CONTENTS

CORPORATE DIRECTORY

Directors

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

Secretary

Mr David McArthur

Registered and Principal Office

Level 2, 55 Carrington Street
Nedlands WA 6009

Website: www.xstate.com.au

Telephone: +61 8 9423 3200
Facsimile: +61 8 6444 7408

Postal Address

PO Box 584
Fremantle WA 6959

Auditors

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

Bankers

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

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

ASX Code

Shares: XST

Legal Form of Entity

Public Company

Country of Incorporation and Domicile

Australia

REVIEW OF OPERATIONS

Overview

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

At 31 December 2016, Xstate had 621,792,718 shares on issue and 1,640 shareholders. Its Top 20 holders held 284,593,029 shares or 45.41% of the Company's issued capital.

The Financial Year

On 13 April 2016, the Company issued 58,265,423 fully paid shares at 0.5 cents per share via a private placement to raise $291,327 before costs.

On 14 April 2016, the Company entered into a Letter of Intent (LOI) with Sunset Exploration Inc to acquire various interests in three conventional onshore fields in California. The Company decided not to proceed with the acquisition due to risks identified during the due diligence period.

On 14 June 2016, the Company issued 300,000,000 fully paid shares at 1.0 cent per share to raise $3 million for working capital purposes as approved by shareholders on 31 May 2016.

On 29 June 2016, the Company issued 25,465,600 fully paid shares at 0.5 cents per share for conversion of a $125,000 Convertible Note and interest payable ($2,328) as approved by shareholders on 31 May 2016.

Sacramento Basin Farm-out

On 10 August 2016, the Company entered into an agreement to farm out part of its working interest in the onshore California Area of Mutual Interest held by Xstate ("XST") and its partner Sacgasco ("SGC") Limited (the "AMI") to private company Bombora Natural Energy Pty Ltd ("BNE"). BNE will fund the licensing of additional oil and gas leases over highly prospective prospects in the Northern Sacramento Basin.

BNE will earn a 20% Working Interest ("WI") in up to 9 natural gas prospects that have already been mapped in the AMI by providing staged funding of up to $400,000.

Xstate has agreed to sell down a 6% WI, with the remaining 14% interest provided by Sacgasco Limited.

BNE will provide funding in two stages, with funds being utilised by the AMI partners to acquire additional acreage of highly prospective leases containing prospects and leads identified by AMI partner SGC from seismic. XST anticipates making progress announcements after material leases have been secured.

Initial funding of $200,000 from BNE will focus on securing 3 Prospects in which Bombora will earn 20%.

BNE will have the option to fund a further A$200,000 of leasing to earn a 20% interest in an additional 6 prospects (6% from Xstate and 14% from Sacgasco).

Upon Bombora funding A$400,000 in lease costs, the Working Interests in the AMI will be:

Entity	Before	After
Xstate Resources Limited (ASX: XST)	30%	24%
Sacgasco Limited (ASX: SGC)	70%	56%
Bombora Natural Energy Pty Ltd	0%	20%

LA Basin Oil Field Acquisition

On 4 November 2016 Xstate (“Xstate” or the “Company”) announced that it had entered into a Letter of Intent “LOI” subject to funding and due diligence to acquire a working interest in two Los Angeles Basin oil fields- the Sansinena oil field located nearby the City of La Habra, and the East LA oil field located in Los Angeles.

The acquisition secured existing production, production enhancement and associated development drilling potential as well as appraisal opportunities within the Sansinena Field. The fields are operated by Matrix Oil Corp (“Matrix”)., which holds a 50% equity interest in the fields. Xstate intends to acquire its working interest from a private investor group that will retain a 25.5% gross working interest in the oil fields.

Xstate previously announced a strategic shift to focus on low risk conventional production opportunities onshore USA targeting underperforming at or near the bottom of the oil price cycle. The Sansinena field is the first step towards transforming Xstate into a USA conventional oil and gas producer and explorer focused on building a material cash flow and production asset base with the potential for significant growth to complement its existing exploration portfolio.

The Sansinena field represents an ideal investment opportunity for Xstate that is well suited to its growth strategy. The field already has economic production with numerous low risk well recompletion and development drilling opportunities as well as exploration potential. The current production and future development opportunities exist in proven reservoirs between 1,500 to 5,000 feet containing 15 - 32 degree API oil. The fields contain a large independently assessed undeveloped reserve potential as well as a large acreage position of approximately 3,450 gross acres. The economics of the field are enhanced by low royalties (approximately 15%) low well decline rates (2-3% per annum). The reserve and resource potential including the forecast production profile will be fully described at the conclusion of Phase 1 due diligence.

This acquisition with associated drilling investment options provides an excellent platform from which Xstate can grow. Expected cash flow from the workover program can be used for further development and appraisal activities and other projects that are currently under review. The location of the assets adjacent to other oil discoveries also provides opportunities for growth and aggregation.

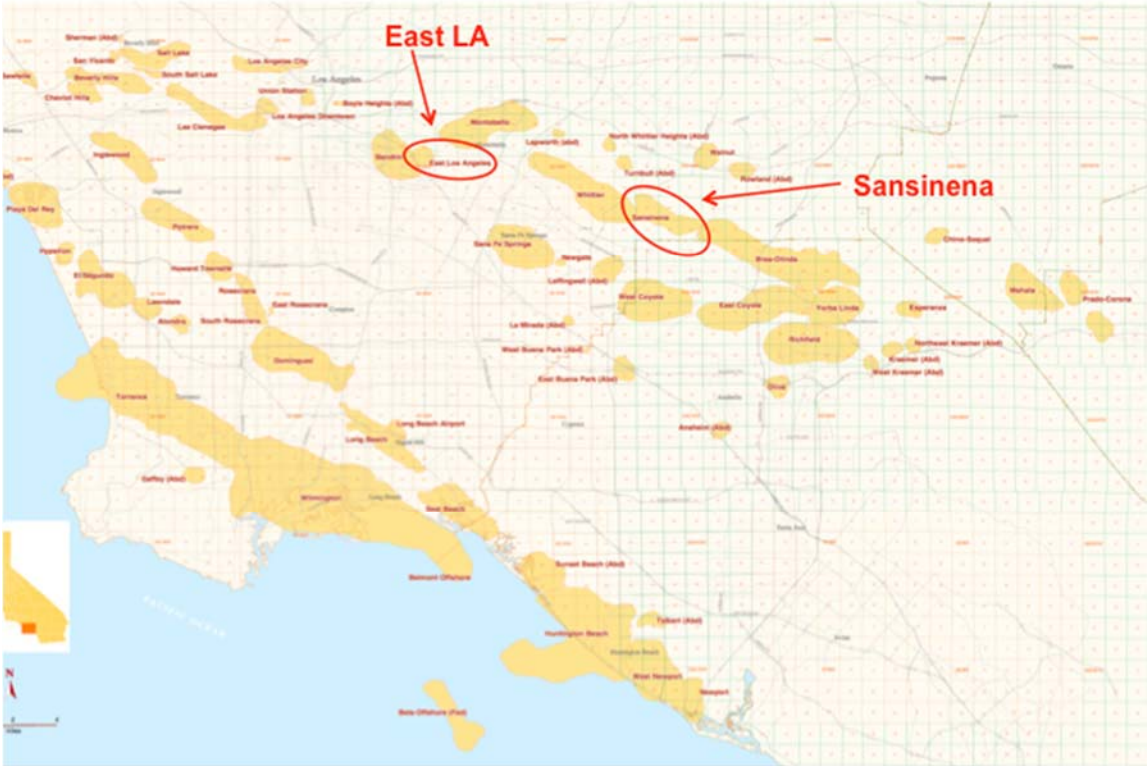
This acquisition provides cash flow, production infrastructure and more importantly access to growth opportunities consistent with Xstate’s revised business strategy to generate value for shareholders through low risk field development, appraisal and production enhancement opportunities.

It is vitally important when working in the USA for joint venture interests to be aligned. Xstate will have the opportunity to work with an experienced onshore Californian operator, Matrix Oil Corp. who has partnered with a sophisticated financial investor. The joint venture will benefit from the operator’s management team’s past activities at the adjacent Whittier Main and West fields, providing economies of scale in operating costs and production operations.

As a result of this transaction Xstate will develop on the ground operational capability and gain access to commercially aligned operational relationships in California, which will enable the identification, purchase and enhancement of additional production opportunities in line with the Company’s investment strategy.

Proposed Gross Working Interests[1]	**Sansinena Field**	**East Los Angeles Field**
Matrix Oil Corp. (Operator)	50.0%	50.0%
Private Group	25.5%	25.5%
Xstate Resources Limited	**24.5%**	**24.5%**

Los Angeles Basin – Field Location Map



Source: Californian Division of Oil, Gas, and Geothermal

Forward Plan

- Completion was initially targeted for February 2017
- Effective date is January 1, 2016
- Acquisition was subject to customary due diligence and mutually satisfactory Purchase and Sales Agreement
- Reserves to be booked following completion of financial close

Due diligence was completed on 22 December 2016 and Xstate executed a Purchase and Sales Agreement (PSA) on 22 December 2016.

During due diligence, Xstate was extremely impressed with the quality of the asset and Matrix Oil Corp. ("Matrix") the operator. Matrix has accomplished significant recent productivity gains and cost reductions leveraging their own experience from the successful optimisation of adjacent fields, which are in analogous reservoir settings. Importantly a significant percentage of the productivity gains and cost reductions are sustainable in the long term thereby providing an excellent platform from which the joint venture can pursue Sansinena's multi-well inventory of proven undeveloped drilling locations.

The unique nature of the multilayered reservoirs in the North East position of the LA basin where oil pay is encountered at depths from 200 - 500 metres with up to 1500 meters of gross pay, means that wells recover substantial reserves on a per well basis from a relatively small drainage area. As a result, a substantial reserve of undrained oil potential exists within close proximity to existing well bores with low technical risk. Importantly the commerciality of proven but yet to be developed reserves ("PUDs") is enhanced by the shallow and predictable nature of drilling, the ability to use existing well bores, as well as existing drilling pads and surface facilities.

Netherland Sewell & Associates Inc. ("NSA") has completed its analysis of the Sansinena field, which supports the Company's prior analysis. The Proven reserves are in line with prior estimates, however the Probable and Possible reserve categories have been revised downwards (between 5-10%, mostly due to more conservative oil pricing assumption) which the Company considers immaterial to the overall transaction given the large premium of asset value to acquisition cost.

On 19 December 2016, the company advised that it had agreed to enter into a series of subscription agreements to raise $25,000,000 before costs at 3.8 cps, representing a premium of more than 2.0x the last traded price of 1.8cps. The Company entered into binding letters of offer with four sophisticated Asian investors who are subscribing for shares. No investor will hold more than 15% of the company on a diluted capital basis post raising.

In total the capital raising will result in Xstate issuing 657,894,736 fully paid shares at $0.038 cps to raise $25,000,000 representing 51.4% of the issued capital on a post issue basis. The issue of the shares pursuant to the subscription agreement was approved by shareholders on 31 January 2017.

On 28 March 2017, the Company advised the market that funds under the subscription agreement had still not been received, and that the vendor of the Los Angeles Basin assets being acquired by the Company had agreed to extend the time for settlement of the acquisition whilst the transfer of funds out of Indonesia is being finalised.

Company strategy

Xstate currently has a solid base from which to build a successful E&P company onshore in the USA. Accordingly, the company is focussed on longer term strategic value creation than short-term activity.

Specifically, the company's strategy is as follows:

- to secure a suitable farminee(s) to drill or otherwise evaluate its existing high impact multi-TCF appraisal and exploration assets in the Sacramento Basin
- to continue to screen and pursue the acquisition of low risk production assets in multiple proven hydrocarbon basins
- to build a production portfolio with diversity, materiality and follow-up potential focused on low risk conventional production enhancement and development drilling
- to prudently manage cash in order to keep operating and administrative costs to a minimum

Project review

New Ventures

Concurrent with the Company's existing Sacramento Basin gas assets, Xstate announced a strategic shift to focus on low risk conventional production opportunities onshore USA targeting underperforming or distressed assets at or near the bottom of the oil price cycle.

The Company remains focused on assets with proven upside which are in production rather than shut in. This ensures that the facilities are functioning, all required environmental and regulatory approvals are in place and importantly, in the case of onshore production acquisitions, a viable water disposal solution is in place.

California is one of the world's most prolific oil and gas provinces, with well over 100 years of continuous oil and gas production. The state of California has extensive infrastructure and support facilities with abundant opportunities that Xstate Board believe the Company is well positioned to acquire and enhance.

Xstate has an active business evaluation program targeting producing assets and is advancing discussions in relation to other potential transactions, such discussions at advanced stages. The agreement for the acquisition of the Sansinena and East LA Oil Fields is the commencement of this program.

Exploration

Sacramento Basin Joint Venture – Onshore Northern California

Exploration leases have continued to be maintained within the Sacramento Basin during the quarter. Xstate has a working interest (WI) of between 10% and 25% in lease areas, which cover conventional gas prospects.

Dempsey Conventional Gas Prospect (XST 10% WI)

The Dempsey prospect remains the current focus of the Joint Venture's exploration activities, primarily because of the potential for near term production given the prospect's location beneath the joint ventures existing production facilities.

The Dempsey well's proposed depth is 3,200m and is estimated to cost between US$3.5 and US$4.0mm to drill (based on a 100% equity with Xstate's share between US$350,000 and US$400,000).

Alvares Conventional Gas Prospect (XST 25% WI)

The Alvares gas appraisal project provides the opportunity to appraise a large anticline originally drilled in 1982, which encountered extensive gas, shows and flowed gas to surface.

Production

Sacramento Basin

Rancho - Capay Gas Field (XST 10% WI in 4 wells) & Los Medanos Gas Field (XST 10% WI in 3 wells)

Xstate acquired a working interest in minor gas production rights in the Sacramento Basin onshore California in 2013. The purpose of the acquisition was to acquire the leases for further exploration and to access an extensive 3D seismic database from which to generate new exploration opportunities.

Production for the year was as follows:

Production	2016	2015
Gross mcf (Thousand Cubic Feet of Gas)	57,143	155,483
Net XST mcf (after royalty)	3,929	10,674

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

XSTATE RESOURCES LIMITED – PROJECT LIST		
Project name	**Location**	**Working Interest**
Alvares Prospect	Sacramento Basin Onshore Northern California	25%
Dempsey Prospect	Sacramento Basin Onshore Northern California	10%
California AMI Prospects	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.		

Corporate summary

The directors of Xstate Resources believe the Company is well positioned to deliver significant shareholder value on the back of its plans to pursue its revised strategy of adding low operating cost conventional oil and gas production as well as undeveloped reserves to the Company's portfolio.

Financial results and condition

The loss for the financial year ended 31 December 2016 attributable to members of Xstate Resources Limited after income tax was $1,036,227 (2015: loss of $1,527,322).

The Group has a working capital surplus of $1,325,356 (2015: deficit $55,383) and net cash inflows of $1,424,374 (2015: outflow $466,445).

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

Summary of results

	2016 $	**2015 $**
Revenue from ordinary activities	17,099	3,850
Other income	19,360	52,158
Loss before income tax	(1,035,151)	(1,526,259)
Income tax expense	(1,076)	(1,063)
Loss attributable to owners of Xstate Resources	(1,036,227)	(1,527,322)
Other comprehensive income / (loss)	61	(2,703)
Underlying loss per share (cents)	(0.23)	(0.77)
Shares in issue at reporting date	621,792,718	238,061,695
Weighted average number of shares	457,625,651	199,040,722

Planned Activity - 2017

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

Competent person statement

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

DIRECTORS' REPORT

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

1. DIRECTORS

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

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Cosimo Damiano Managing Director Appointed: 27 October 2015 <u>Appointed positions:</u> Executive Director on 27 October 2015 Managing Director on 31 May 2016 <u>Interest in shares and options:</u> Shares: 8,733,333 Options: 13,000,000	Cosimo Damiano brings to Xstate extensive commercial and finance experience and asset familiarity on the ground in Xstate's core areas of interest in the USA. Mr. Damiano's experience involves the strategic analysis and financial modelling of oil & gas companies for global investment banks and energy commodity trading companies in a principal investment role. This experience has provided Mr. Damiano with a strong commercial understanding and analytical analysis of financing oil and gas assets across various geographic and fiscal regimes. Mr Damiano has extensive experience in North America, representing the Mercuria Group as a Director of Upstream Investments and represented Mercuria's Board interests in the company's oil and gas investments throughout North America located in California and North Dakota.
Chris Hodge Non-executive Director Appointed: 12 November 2013 <u>Appointed positions:</u> Non-executive Director on 12 November 2013; <u>Interest in shares and options:</u> Shares: 7,617,339 Options: 9,000,000	Chris Hodge is a qualified geologist and petroleum geophysicist with extensive technical experience both in Australia and overseas. He has held managerial positions in major petroleum exploration and production companies and played a significant part in the growth of these companies via a mix of successful exploration and acquisition. Mr Hodge is a member of the Petroleum Exploration Society of Australia ("PESA") and the American Association of Petroleum Geologists ("AAPG"). He is also a Member of the Australian Institute of Company Directors ("MAICD") and holds a Graduate Diploma in Applied Finance and Investment. Mr Hodge was Managing Director of ASX-listed Adelphi Energy until 2010 and is currently the Exploration and Production Advisor to Mitsubishi in Australia. Mr Hodge was a Non-executive Director of Roc Oil Company Limited from 7 September 2010 until 31 December 2016. Mr Hodge is a member of the Audit and Risk Management Committee and the Nominations and Remuneration Committee.

1. DIRECTORS (continued)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
David McArthur Non-executive Director Appointed: 3 September 2013 <u>Interest in shares and options:</u> Shares: 14,993,699 Options: 9,000,000	David McArthur is a Chartered Accountant, having spent four years with a major international accounting firm, 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 a Bachelor of Commerce Degree from the University of Western Australia. Mr McArthur has substantial experience in capital raisings, company re-organisations and restructuring, mergers and takeovers, and asset acquisitions by public companies. Mr McArthur is an Executive Director of Lodestar Minerals Limited and a Non-executive Director of Renewable Heat & Power Limited and Shark Mitigation Systems Limited. Mr McArthur was a director of Sacgasco Limited until 1 February 2017. Mr McArthur is Chair of the Audit and Risk Management Committee and is a member of the Nominations and Remuneration Committee.
Ian Tchacos Non-executive Director Appointed: 12 August 2014 <u>Interest in shares and options:</u> Shares: 4,532,019 Options: 9,000,000	Mr Tchacos is a mechanical engineer with over 25 years international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production, operations, marketing and finance. He has a proven management track record in a range of international company environments. In his last appointment as Managing Director of Nexus Energy, he was responsible for the company's development from an onshore micro cap explorer to an ASX top 200 onshore producer and operator. Mr Tchacos is a Non-executive Director of ADX Energy Limited and Riedel Resources Limited. Mr Tchacos is a member of the Audit and Risk Management Committee and is Chair of the Nominations and Remuneration Committee.

2. COMPANY SECRETARY

Mr David McArthur was appointed to the position of Company Secretary on 29 October 1999.

3. DIRECTORS' MEETINGS

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

Director	Full meetings of directors		Meeting of audit and risk management committee	
	No. of meetings attended	No. of meetings held whilst a director	No. of meetings attended	No. of meetings held whilst a director
Cosimo Damiano	8	8	-	-
Chris Hodge	8	8	1	1
David McArthur	8	8	2	2
Ian Tchacos	8	8	2	2

4. PRINCIPAL ACTIVITIES

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

5. OPERATING AND FINANCIAL REVIEW

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

Significant changes in the state of affairs

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

6. DIVIDENDS

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

7. LIKELY DEVELOPMENTS

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

8. EVENTS SUBSEQUENT TO REPORTING DATE

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

9. ENVIRONMENTAL REGULATION

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

10. SHARE OPTIONS

Options granted to directors of the Group

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

	Grant date	Number of options granted	Exercise price per option cents	Expiry date
Executive directors				
Cosimo Damiano	31-Jan-17	13,000,000	5	31-Dec-20
Non-executive directors				
Chris Hodge	31-Jan-17	9,000,000	5	31-Dec-20
Ian Tchacos	31-Jan-17	9,000,000	5	31-Dec-20
David McArthur	31-Jan-17	9,000,000	5	31-Dec-20

These options were provided at no cost to the recipients. Issue of these options was approved by shareholders at a General Meeting on 31 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
31-Dec-20	5	42,000,000

All unissued shares are ordinary shares of the Company.

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

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

Shares issued on exercise of options

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

Options expired

22,000,000 options expired during the reporting period (31 December 2015: 17,000,000 options expired).

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of $35,382 (2015: $20,548) 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.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS (continued)

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.

12. NON-AUDIT SERVICES

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

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

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

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

	2016 $	**2015 $**
Taxation services		
BDO Audit (WA) Pty Ltd		
Tax compliance services	8,660	21,670
Total remuneration for non-audit services	**8,660**	**21,670**

13. PROCEEEDINGS ON BEHALF OF THE GROUP

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

14. REMUNERATION REPORT - AUDITED

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

The report contains the following sections:

(a) Remuneration governance
(b) Executive remuneration strategy and framework
(c) Board and management changes
(d) Service contracts
(e) Non-executive director remuneration
(f) Key management personnel remuneration
(g) Other KMP disclosures
(h) Voting and comments made at the Company's 2015 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 were new ventures and exploration / evaluation, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

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

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

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

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

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

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

14. REMUNERATION REPORT – AUDITED (continued)

(b) Executive remuneration strategy and framework (continued)

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

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2014. Under the ESOS, the Company may grant options to Company eligible employees to motivate and reward their performance in their respective roles up to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes Simulation model.

The Company has awarded options to directors and consultants.

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

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

Shareholder returns	**2016**	**2015**	**2014**	**2013**	**2012 Restated**
Net loss attributable to equity holders ($)	(1,036,166)	(1,530,025)	(1,485,283)	(1,368,998)	(2,562,319)
Basic EPS (cents)	(0.23)	(0.77)	(0.88)	(1.17)	(2.54)
Share price at year end (cents)	2.40	0.5	1.0	3.5	1.5
Market capitalisation ($)	14,923,025	1,190,308	1,821,292	4,911,460	1,513,220
Net tangible (liabilities) / assets (NTA) ($)	1,295,307	(79,484)	387,186	272,605	759,174
NTA Backing (cents)	0.21	(0.03)	0.21	0.19	0.75

During the financial years noted above, there were no dividends paid or other returns of capital made by the Company to shareholders. The Group's financial performance is impacted by a number of factors.

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

(c) Board and management changes

On 31 May 2016 Xstate announced a Board restructure to reflect an alignment with the Company's strategic positioning and proposed future activities in California. The key change was the appointment of Cosimo Damiano as Managing Director. Mr Damiano, who has been a Director of the Company since 27 October 2015, has extensive commercial and finance experience and asset familiarity on the ground in the Company's cores areas of interest in the USA. His appointment to the role of Managing Director will assist the Company to pursue, assess and secure funding for a strategy of adding low operating cost conventional oil and gas production as well as undeveloped reserves to the Company's portfolio.

Mr Chris Hodge, who was previously Managing Director, remains on the Board as a non-executive Director.

14. REMUNERATION REPORT – AUDITED (continued)

(d) Service contracts

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

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

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

(i) Base salary is inclusive of superannuation and quoted as at the year ended 31 December 2016;

(ii) Base salary is exclusive of superannuation and quoted as at the year ended 31 December 2016;

(iii) 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) Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders on 19 May 2011, is not to exceed $400,000 per annum and is based on comparative roles in the external market. The base fee for all non-executive directors, including the Chairman, for the year ended 31 December 2016 was $32,500 per annum. Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Remuneration and Nomination Committee and they do not receive cash performance related compensation.

The base fees were increased to $36,000 per annum, effective from 1 January 2017. The revised fees, which were approved by the Board on 11 January 2017, are inclusive of the statutory superannuation amount and cover all main board activities and memberships of sub-committees.

In addition to their base fees, non-executive directors may also receive payment for consultancy services at $1,500 per day plus reimbursable expenses. The contracts have a 12 months' termination clause.

14. REMUNERATION REPORT - AUDITED (continued)

(f) Key management personnel remuneration

Name		Short-term employee benefits			Post-employment benefits	Share based payments		
		Salary and fees (A) $	Non-monetary benefits (B) $	Total $	Super-annuation $	Shares *(C) $	Options $	Total $
Executive directors								
Cosimo Damiano	2016	91,104	8,846	99,950	7,230	65,000	-	172,180
	2015	6,000	1,151	7,151	-	-	-	7,151
Non-executive directors								
Chris Hodge	2016	32,500	8,845	41,345	-	-	-	41,345
	2015	32,500	6,466	38,966	-	-	-	38,966
David McArthur	2016	79,680	8,846	88,526	7,570	-	-	96,096
	2015	79,680	6,465	86,145	7,570	-	-	93,715
Ian Tchacos	2016	32,495	8,845	41,340	-	-	-	41,340
	2015	32,497	6,466	38,963	-	-	-	38,963
Sub-total non-executive directors' remuneration	2016	144,675	26,536	171,211	7,570	-	-	178,781
	2015	144,677	19,397	164,074	7,570	-	-	171,644
Total key management personnel remuneration	2016	235,779	35,382	271,161	14,800	65,000	-	350,961
	2015	150,677	20,548	171,225	7,570	-	-	178,795

***** As approved by shareholders on 31 January 2017, on 3 February 2017 5,000,000 shares were issued to Mr Cosimo Damiano pursuant to his having achieved certain performance milestones under his contract (refer note 6.1). Accounting standards require that the fair value be assessed at 31 December 2016 since the full amount had been expensed during that period when the vesting milestones had been achieved. The fair value was assessed as $65,000.

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:

- Chris Hodge $41,784 (2015: $22,500)
- David McArthur $84,000 (2015: $84,000)
- Ian Tchacos $17,638 (2015: $17,250)

(B) Comprises Directors and Officers insurance premiums;

(C) The fair value of shares granted was determined using the share price at grant date.

(g) Analysis of bonuses included in remuneration

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

(h) Other KMP disclosures

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

Loans from a director

David McArthur provided cash loans to the Company, repayable within 6 months or when the Company is in a financial position to do so, accruing interest at 7% per annum, pro rata. These loans, including accrued interest, were repaid on 3 May 2016.

Options over equity instruments granted as compensation

During the reporting period, no options were issued to directors of the Company.

Exercise of options granted as compensation

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

Options over equity instruments

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

	Held at 1 January 2016	Expired	Held at 31 December 2016	Vested and exercisable at 31 December 2016
Non-executive directors				
David McArthur	2,250,000	(2,250,000)	-	-

14. REMUNERATION REPORT - AUDITED (continued)

(h) Other KMP disclosures (continued)

Movements in shares

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

	Held at 1 January 2016	Purchases	Held at 31 December 2016
Executive directors			
Cosimo Damiano	-	3,733,333	3,733,333
Non-executive directors			
Chris Hodge	7,117,339	500,000	7,617,339
David McArthur	11,945,529	3,048,170	14,993,699
Ian Tchacos	4,348,967	183,052	4,532,019

(i) Voting and comments at the Company's 2015 Annual General Meeting

The Company received 99.96% of "yes" votes on its remuneration report for the 31 December 2015 financial year. The Company did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

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

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

COSIMO DAMIANO

Managing Director

Dated at Perth, Western Australia this 29th day of March 2017.

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

As lead auditor of Xstate Resources Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 29 March 2017

CORPORATE GOVERNANCE STATEMENT

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

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

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 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 evaluates this policy on an ongoing basis.

Board composition

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

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

- Industry Experience / technical qualification
- Commercial experience

Board composition (continued)

- 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 an Executive Director, one Non-Executive Director and two Non-Executive Independent directors. A written agreement is entered into with each Director and Senior Executive of the Company setting out the terms of their employment.

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

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

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

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

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

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

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

Retirement and re-election of directors

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

Independence of directors

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

Independence of directors (continued)

The Board considers that Messrs Chris Hodge and Ian Tchacos meet the criteria in Principle 2. They have no material business or contractual relationship with the Group, other than as Directors, and no conflicts which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

Director education

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

Independent professional advice

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

Board performance review

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

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

Director remuneration

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

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

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

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

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

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

Managing Business Risk

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

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans; 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. The Board has determined that the established internal controls for the Company, combined with the work of the audit committee and the risk management committee, at this stage satisfactorily address the function that would otherwise be dealt with by an internal audit function.

Internal Controls

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

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

Audit and Risk Management Committee

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

The primary role of the Audit Committee is to:

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

Audit and Risk Management Committee (continued)

- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;
- Review the financial report and other financial information distributed externally;
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Improve the quality of the accounting function;
- Review audit reports to ensure that if major deficiencies or breakdowns in controls or procedures are identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;
- 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; and
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the Australian Securities Exchange and financial institutions.

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

- Mr David McArthur – non-executive director (Chair)
- Mr Ian Tchacos – independent non-executive director
- Mr Chris Hodge – independent non-executive director

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

Remuneration and Nomination Committee

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

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

Remuneration and Nomination Committee (continued)

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

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

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

- Mr Ian Tchacos – independent non-executive director (Chair)
- Mr David McArthur – non-executive director
- Mr Chris Hodge – independent non-executive director

The Committee did not meet during the year.

Ethical Standards

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

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

Trading in the Company's Securities by Directors and Employees

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

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

Continuous Disclosure

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

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

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

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

Shareholders

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

- As the Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Group's disclosure policy, including the half-year review, the year-end audited accounts and an Annual Report;
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website;
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry;
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the Australian Securities Exchange Listing Rules;
- 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; and
- The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report.

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

Diversity Policy

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

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

The Group strives to:

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

Diversity Policy (continued)

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

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

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

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

Recommendation 2.1

A majority of the Board should be independent directors

Recommendation 4.2

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*

Recommendation 8.2

The remuneration and nomination committee should be structured so that it:

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

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

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

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

This statement is current as at 31 December 2016 and has been approved by the Board.

Director - David McArthur

Director - Cosimo Damiano

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 $	2015 $
Assets			
Cash and cash equivalents	4.1	1,457,298	38,039
Trade and other receivables	4.2	7,176	24,296
Prepayments		32,768	13,098
Other financial assets	5.2	-	59,919
Total current assets		1,497,242	135,352
Prepayment – oil and gas properties	3.1	741,626	-
Property, plant and equipment		1,041	3,270
Trade and other receivables	4.2	11,708	43,590
Deposits and bonds		15,855	-
Total non-current assets		770,230	46,860
Total assets		2,267,472	182,212
Liabilities			
Trade and other payables	4.3	(146,886)	(129,360)
Short term borrowings	5.2	-	(45,123)
Employee benefits		(25,000)	(16,252)
Total current liabilities		(171,886)	(190,735)
Site restoration provision	3.2	(58,653)	(70,961)
Total non-current liabilities		(58,653)	(70,961)
Total liabilities		(230,539)	(261,696)
Net assets / (liabilities)		2,036,933	(79,484)
Equity			
Share capital	5.1	46,825,108	43,737,525
Reserves		65,169	92,158
Accumulated losses		(44,853,344)	(43,909,167)
Total equity / (deficiency) attributable to equity holders of the Company		2,036,933	(79,484)

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

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

	Note	2016 $	2015 $
Revenue from operating activities			
Other income	2.2	36,459	56,008
Expenses			
Other operating expenses		(59,411)	(44,076)
Exploration expenditure		(192,986)	(178,311)
Impairment of capitalised exploration expenditure		-	(897,321)
Personnel expenses	2.3	(350,961)	(186,286)
Administrative expenses		(69,063)	(62,711)
Professional fees		(300,799)	(217,661)
Finance expenses	2.4	(14,648)	(1,522)
Other expenses		(56,960)	(9,114)
Foreign exchange (loss) / gain		(25,468)	21,622
Other gains and losses		(1,314)	(6,887)
Results from operating activities		(1,035,151)	(1,526,259)
Loss before income tax		(1,035,151)	(1,526,259)
Income tax expense	2.5	(1,076)	(1,063)
Loss for the year from continuing operations		(1,036,227)	(1,527,322)
Loss for the year		(1,036,227)	(1,527,322)
Loss per share (cents per share)			
Basic and diluted (cents per share)	2.6	(0.23)	(0.77)

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

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

	2016	2015
	$	$
Loss for the year	(1,036,227)	(1,527,322)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation difference of foreign operations	61	(2,703)
Total items that may be reclassified subsequently to profit or loss	61	(2,703)
Total comprehensive loss for the year	(1,036,166)	(1,530,025)
Loss attributable to owners of the Company	(1,036,227)	(1,527,322)
Total comprehensive loss attributable to owners of the Company	(1,036,166)	(1,530,025)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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

	Share capital	Translation reserve	Options Reserve	Performance Shares	Accumulated Losses	Total
	$	$	$		$	
Balance at 1 January 2016	43,737,525	108	92,050	-	(43,909,167)	(79,484)
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(1,036,227)	(1,036,227)
Other comprehensive income for the year						
Foreign exchange translation difference on foreign operations	-	61	-	-	-	61
Total other comprehensive loss for the year	-	61	-	-	-	61
Total comprehensive loss for the year	-	61	-	-	(1,036,227)	(1,036,166)
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	3,418,655	-	-	-	-	3,418,655
Transfer to accumulated losses on lapse of options	-	-	(92,050)	-	92,050	-
Share-based payment transactions	-	-	-	65,000	-	65,000
Capital raising costs	(331,072)	-	-	-	-	(331,072)
Total contributions by and distributions to owners	3,087,583	-	(92,050)	65,000	92,050	3,152,583
Total transactions with owners	3,087,583	-	(92,050)	65,000	92,050	3,152,583
Balance at 31 December 2016	46,825,108	169	-	65,000	(44,853,344)	2,036,933

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

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

	Share capital	Translation reserve	Options Reserve	Accumulated Losses	Total
	$	$	$	$	
Balance at 1 January 2015	43,571,491	2,811	659,200	(42,948,995)	1,284,507
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,527,322)	(1,527,322)
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	(2,703)	-	-	(2,703)
Total other comprehensive loss for the year	-	(2,703)	-	-	(2,703)
Total comprehensive loss for the year	-	(2,703)	-	(1,527,322)	(1,530,025)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	172,798	-	-	-	172,798
Transfer to accumulated losses on lapse of options	-	-	(567,150)	567,150	-
Capital raising costs	(6,764)	-	-	-	(6,764)
Total contributions by and distributions to owners	166,034	-	(567,150)	567,150	166,034
Total transactions with owners	166,034	-	(567,150)	567,150	166,034
Balance at 31 December 2015	43,737,525	108	92,050	(43,909,167)	(79,484)

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

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

	Note	2016 $	2015 $
Cash flows from operating activities			
Cash paid to suppliers and employees		(717,047)	(411,977)
Payments for exploration, evaluation and development		(190,284)	(148,585)
Interest paid		(3,569)	-
Interest received		17,099	457
Income taxes paid		(1,076)	(1,063)
Net cash used in operating activities	4.1b	(894,877)	(561,168)
Cash flows from investing activities			
Payment of deposit for oil and gas properties		(741,626)	-
Payments to associate		-	(6,887)
Net cash used in investing activities		(741,626)	(6,887)
Cash flows from financing activities			
Proceeds from issue of shares and options	5.1	3,291,237	164,798
Proceeds from issue of convertible note		125,000	-
Proceeds from related party loans		25,000	-
Proceeds from settlement of loan to JV partner		59,919	-
Payment of capital raising costs		(318,869)	(6,764)
Payment of transaction costs related to loans		(8,750)	-
Repayment of loans from related party		(25,000)	-
Repayment of loans from / payment on behalf of JV partner		(45,123)	(56,424)
Repayment of premium funding facility		(42,537)	-
Net cash from financing activities		3,060,877	101,610
Net increase / (decrease) in cash and cash equivalents		1,424,374	(466,445)
Cash and cash equivalents at 1 January		38,039	490,147
Effect of exchange rate fluctuations on cash held		(5,115)	14,337
Cash and cash equivalents at 31 December	4.1a	1,457,298	38,039

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

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

SECTION 1 BASIS OF PREPARATION

In preparing the 2016 financial statements, the Company has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users. We have grouped notes into sections under six key categories:

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

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

1.1 GENERAL INFORMATION

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

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 29 March 2017. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments 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. Calog LLC functional currency is United States dollar;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2016. Refer to note 6.9 for further details; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

1.2 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business. The Directors are satisfied the Company is a going concern, as whilst it incurred a total comprehensive loss of $1,036,166 for the period, it has a net asset position of $2,036,933 and a cash balance of $1,457,298 as at 31 December 2016.

1.3 BASIS OF CONSOLIDATION

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

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

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

1.5 IMPAIRMENT

Non-financial assets

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

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

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

1.6 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

- *Note 1.2* *- Going concern*
- *Note 2.5* *- Income tax expense*
- *Note 3.2* *- Site restoration*
- *Note 6.1* *- Share-based payments*

SECTION 2 RESULTS FOR THE YEAR

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

Key estimates and assumptions in this section

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

2.1 OPERATING SEGMENTS

Information about reportable segments

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

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

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

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

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

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

2.2 OTHER INCOME

Accounting Policy

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

Finance income
Interest is recognised using the effective interest method.

	Note	2016 $	2015 $
Other operating income	(i)	18,611	52,158
Finance income		17,099	3,850
Other		749	-
		36,459	56,008

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

2.3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

Accounting Policy

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

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

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

	Note	2016 $	2015 $
Directors remuneration	6.3	350,961	178,795
Other wages and salaries		-	5,618
Employee contributions to defined contribution plans		-	1,677
Other associated personnel expenses		-	196
		350,961	186,286

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.

	Note	2016 $	2015 $
Interest expense on financial liabilities measured at amortised cost			
Convertible notes	5.2	2,328	-
Loans from JV partner		1,443	1,522
Premium funding facility	5.2	1,868	-
Related party loans	5.2	259	-
Other finance charges		8,750	-
Net finance income recognised in profit or loss		14,648	1,522

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 the reporting date.

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

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

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

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

(a) Amounts recognised in profit or loss

	2016 $	2015 $
Current tax benefit		
Current period	(143,207)	(134,008)
Adjustment for prior periods	1,076	1,063
Deferred tax benefit		
Origination and reversal of temporary differences	143,207	134,008
Total income tax benefit	1,076	1,063

2.5 INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

	2016 $	2015 $
Loss for the period	(1,036,227)	(1,527,322)
Total income tax benefit / (expense)	1,076	1,063
Profit / (Loss) excluding income tax	(1,035,151)	(1,526,259)
Income tax using the Group's domestic tax rate of 28.5% (2015: 30%)	(295,018)	(457,878)
Non-deductible expenses	159,257	345,981
Adjustment for prior periods	1,076	1,063
Timing differences not brought to account	(7,446)	(22,111)
Tax losses not brought to account	143,207	134,008
	1,076	1,063
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	2,366,745	1,882,714
Potential tax benefit at 28.5% (2015: 30%)	674,522	564,814

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to $674,522 (2015: $564,814) attributed to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

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

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

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

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

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

2.5 INCOME TAX EXPENSE (continued)

(c) Unrecognised deferred tax assets and liabilities

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

	2016 $	2015 $
Trade and other payables	727	7,316
Employee benefits	7,125	4,876
Carry forward tax losses	674,522	564,814
Other	1,048	547
DTAs not brought to account	683,422	577,553

There were no unregistered deferred tax liabilities.

2.6 LOSS PER SHARE

(a) Basic loss per share

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

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

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

Loss per share attributable to ordinary shareholders

	2016	2015
Net loss attributable to ordinary shareholders - $	(1,036,227)	(1,527,322)
Issued ordinary shares at 1 January	238,061,695	182,129,185
Effect of shares issued	219,563,956	16,911,537
Weighted average number of ordinary shares at 31 December	457,625,651	199,040,722
Basic loss per share (cents)	(0.23)	(0.77)
Diluted loss per share (cents) *	(0.23)	(0.77)

* At 31 December 2016, no options (2015: 22,000,000 options) were excluded from diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

SECTION 3 ASSETS AND LIABILITIES SUPPORTING EXPLORATION AND EVALUATION

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

Key estimates and assumptions in this section

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

3.1 PREPAYMENT – OIL AND GAS PROPERTIES

Accounting Policy

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

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

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

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

	2016 $	2015 $
Prepayment for 24.5% WI in Sansinena & East LA Basin oil and gas fields	741,626	-

On 22 December 2016, the Company paid $670,980 (US$500,000) as a non-refundable deposit to acquire a 24.5% working interest for US$13 million in the Sansinena and East Los Angeles oil and gas fields. Under the revised terms of the PSA, the effective date of the agreement is 1 January 2017.

In addition to the deposit, associated expenses related to the deal have been capitalised.

3.2 PROVISIONS

Accounting Policy

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

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

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

The non-current site restoration provision of $58,653 (2015: $70,961) 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 oil field which may vary in the future. The nature of restoration activities includes restoration, reclamation and revegetation of affected areas. The Company continues to work with the Californian authorities with regards to the planning and timing of the rehabilitation.

	2016	2015
	$	$
Movement in carrying amounts		
Opening balance	(70,961)	(63,496)
Amounts utilised	13,431	-
Effects of foreign exchange	(1,123)	(7,465)
Closing balance	(58,653)	(70,961)

3.3 COMMITMENTS

Office rent		
Not less than one year	7,782	-

SECTION 4 WORKING CAPITAL DISCLOSURES

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

4.1 CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(a) Reconciliation of cash and cash equivalents

	Note	2016 $	2015 $
Cash and cash equivalents in the statement of cash flows	6.2	1,457,298	38,039

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

(b) Reconciliation of cash flows from operating activities

	2016 $	2015 $
Cash flows from operating activities		
Loss for the period	(1,036,227)	(1,527,322)
Adjustments for:		
Capitalised exploration expenditure written off	-	897,321
Depreciation	916	7,201
Equity-settled share-based payment transactions	65,000	8,000
Net finance expense / (income)	11,168	(1,973)
Impairment of investment in subsidiary		-
Impairment of investment in associate		6,887
Loss on sale of property, plant and equipment	1,314	-
Net profit on foreign exchange translation	5,176	(9,651)
Change in other receivables	49,002	(9,277)
Change in prepayments	(19,670)	4,503
Change in other operating assets	(15,856)	-
Change in trade and other payables	5,323	19,399
Change in interest bearing liabilities	42,537	43,601
Change in employee benefits	8,748	143
Change in provisions	(12,308)	-
Net Cash used in operating activities	(894,877)	(561,168)

4.2 TRADE AND OTHER RECEIVABLES

Accounting Policy

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

	2016 $	2015 $
Net production revenue receivable	11,708	43,590
Other receivables	824	21,450
Authorised government agencies	6,352	2,846
	18,884	67,886
Current	7,176	24,296
Non-current	11,708	43,590
	18,884	67,886

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

4.3 TRADE AND OTHER PAYABLES

Accounting Policy

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

	2016 $	2015 $
Current		
Trade payables	(128,328)	(99,725)
Other payables and accrued expenses	(18,558)	(29,635)
	(146,886)	(129,360)

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

SECTION 5 EQUITY AND FUNDING

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

5.1 CAPITAL AND RESERVES

Accounting Policy

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

Share capital

	Ordinary shares			
	Number of shares		Amount in $	
	2016	**2015**	**2016**	**2015**
Movements in ordinary shares on issue:				
On issue at 1 January	**238,061,695**	**182,129,185**	**43,737,525**	**43,571,491**
Shares issued and expensed during the period:				
Issue of shares at 0.8 cents each as part consideration for consulting fees	-	1,000,000		8,000
Issue of shares at 0.3 cents each under Share Purchase Plan	-	54,932,510		164,798
Private placement of shares at 0.5 cents each to raise working capital	58,265,423	-	291,327	-
Private placement of shares at 1.0 cent each to raise working capital	300,000,000	-	3,000,000	-
Issue of shares at 0.5 cents each for conversion of Convertible Note plus interest (1)	25,465,600	-	127,328	-
Capital raising costs	-	-	(331,072)	(6,764)
On issue at 31 December	**621,792,718**	**238,061,695**	**46,825,108**	**43,737,525**

(1) Refer to note 5.2 for the terms of the convertible note.

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

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

All issued shares are fully paid.

The Company had no share options on issue at 31 December 2016.

5.1 CAPITAL AND RESERVES (continued)

Options

	Options under issue			
	Number of shares		Amount in $	
	2016	**2015**	**2016**	**2015**
Movements in options on issue:				
On issue at 1 January	**22,000,000**	**39,000,000**	**92,050**	**659,200**
Expiry of options issued on 31-Jan-14, exercisable at 6 cents each	-	(5,500,000)	-	(196,350)
Expiry of options issued on 31-Jan-14, exercisable at 8 cents each	-	(5,500,000)	-	(182,600)
Expiry of options issued on 31-Jan-14, exercisable at 10 cents each	-	(5,500,000)	-	(171,600)
Expiry of options issued on 19-Feb-14, exercisable at 8 cents each	-	(500,000)	-	(16,600)
Expiry of options issued on 31-May-13, exercisable at 4 cents each	(6,500,000)	-	(19,500)	-
Expiry of options issued on 31-May-13, exercisable at 6 cents each	(6,500,000)	-	(13,650)	-
Expiry of options issued on 31-May-13, exercisable at 8 cents each	(6,500,000)	-	(10,400)	-
Expiry of options issued on 25-Oct-13, exercisable at 5 cents each	(2,000,000)	-	(39,000)	-
Expiry of options issued on 04-Nov-13, exercisable at 5 cents each	(500,000)	-	(9,500)	-
On issue at 31 December	**-**	**22,000,000**	**-**	**92,050**

Performance shares

	Performance shares			
	Number of shares		Amount in $	
	2016	**2015**	**2016**	**2015**
Movements in performance shares:				
On issue at 1 January	**-**	**-**	**-**	**-**
Approval of performance shares granted on 14-Jun-16	5,000,000	-	65,000	-
On issue at 31 December	**5,000,000**	**-**	**65,000**	**-**

5.1 CAPITAL AND RESERVES (continued)

Nature and purpose of reserves

Options reserve

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

Performance shares reserve

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

Translation reserve

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

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.

(a) Loans and borrowings

	2016 $	2015 $
Current		
Loan to joint venture partner for cash calls	-	59,919
Loan from joint venture partner for cash calls	-	(45,123)
	-	14,796

(b) Reconciliation of loans and borrowings

	Loans to JV partner	Loans from JV partner	Loans from a director	Premium funding	Convertible note
Balance at 1 January 2015	-	-	-	-	-
Loans advanced	56,424	-	-	-	-
Loans & borrowings received	-	(43,601)			
Interest charged	3,495	(1,522)	-	-	-
Balance at 31 December 2015	59,919	(45,123)	-	-	-
Loans & borrowings received	-	-	(25,000)	(42,537)	(125,000)
Interest charged	-	-	(259)	(1,868)	(2,328)
Less repaid	(59,919)	45,123	25,259	44,405	127,328
Balance at 31 December 2016	-	-	-	-	-

5.2 LOANS AND BORROWINGS (continued)

Convertible Note

On 6 April 2016, the Company issued 25,000,000 8% convertible notes with a face value of 0.5 cents each, for total proceeds of $125,000. Interest was payable quarterly in arrears at a rate of 8% per annum based on the face value. The notes were convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable within 6 months of the issue date. The conversion rate was 1 ordinary fully paid share for each note held which was based on the market price per share at the date of issue of the notes, but subject to adjustments for reconstructions of equity. The convertible notes were unsecured.

On 29 June 2016, the Company issued 25,465,600 shares at 0.5 cents each for conversion of the $125,000 convertible note and the interest payable of $2,328. The transaction was approved by shareholders on 31 May 2016.

Loan received from a director

During the year, a director provided the Company with a $50,000 loan with an interest rate of 7% pa. The loan plus interest was repaid on 3 May 2016.

SECTION 6 OTHER DISCLOSURES

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

Key estimates and assumptions in this section

Share-based payments
The fair value of share options is measured using the 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 PAYMENTS

Accounting Policy

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

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

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

	2016 $	2015 $
Expensed in personnel expenses (director remuneration)		
Performance shares to be issued to a director	65,000	-
Expensed in professional fees		
Shares issued in part consideration for consultancy fees	-	8,000

6.1 SHARE-BASED PAYMENTS

Performance shares

On 27 October 2015, the Company signed a consultancy agreement with the Managing Director, Cosimo Damiano, whereby remuneration would include 5 million shares if, and when, the following criteria are satisfied:

- Source, evaluate, negotiate and assist in securing finance for an asset or assets which are secured by the Company that leads to a 300% increase in the Company's market capitalisation (to exclude any capital appreciation from any deal relating to the existing California assets); Or
- Source in excess of $3 million of new equity capital at terms acceptable to the Board; And
- 3 years' service with the Company.

The criteria could be amended at the discretion of the Board should the base market capitalisation prior to a suitable asset being sourced not provide an equitable performance incentive.

On 14 June 2016, the Company announced a $3 million capital raising. On this date, one of the discretionary clauses attached to the consultancy agreement with Cosimo Damiano passed resulting in the granting of 5 million shares to Cosimo Damiano, subject to shareholder approval.

Under Australian Accounting Standards AASB 2, this transaction is deemed a share-based payment and the fair value of the shares is the market price on the date the discretionary clause passed being 1.3 cents each.

6.1 SHARE-BASED PAYMENT PLANS (continued)

Equity-settled share option programme

The Company adopted an Employee Share Options Scheme (ESOS) effective 31 January 2014. Under the ESOS, the Company may grant options and rights to Company eligible employees to acquire securities to a maximum of 10% of the Company's total issued ordinary shares at the date of the grant. The fair value of share options granted is estimated using the Black-Scholes option pricing model.

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.

Options

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

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-May-13	25-Jun-13	31-May-16	4.0	6,500,000	(6,500,000)	-	-
31-May-13	25-Jun-13	31-May-16	6.0	6,500,000	(6,500,000)	-	-
31-May-13	25-Jun-13	31-May-16	8.0	6,500,000	(6,500,000)	-	-
25-Oct-13	28-Oct-13	31-Dec-16	5.0	2,000,000	(2,000,000)	-	-
04-Nov-13	05-Nov-13	31-Dec-16	5.0	500,000	(500,000)	-	-
Total				**22,000,000**	**(22,000,000)**	**-**	**-**
Weighted Average Exercise Price (cents)				5.89	(5.89)	-	-

No options were granted during the year (2015: no options granted).

During the year ended 31 December 2016, 22,000,000 options expired (2015: 17,000,000 options expired).

The weighted average exercise price of outstanding shares at the end of the reporting period was nil cents (2015: 5.89 cents).

At the exercise date, the weighted average remaining contractual life of options outstanding at year end was nil years (2015: 0.48 years).

6.1 SHARE-BASED PAYMENT PLANS (continued)

Options

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

Grant date	Vesting date	Expiry date	Exercise Price (cents)	Balance at the start of the year	Expired / forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
31-May-13	25-Jun-13	31-May-16	4.0	6,500,000	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	6.0	6,500,000	-	6,500,000	6,500,000
31-May-13	25-Jun-13	31-May-16	8.0	6,500,000	-	6,500,000	6,500,000
25-Oct-13	28-Oct-13	31-Dec-16	5.0	2,000,000	-	2,000,000	2,000,000
04-Nov-13	05-Nov-13	31-Dec-16	5.0	500,000	-	500,000	500,000
31-Jan-14	3-Feb-14	31-Dec-15	6.0	5,500,000	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	8.0	5,500,000	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	10.0	5,500,000	(5,500,000)	-	-
31-Jan-14	3-Feb-14	31-Dec-15	8.0	500,000	(500,000)	-	-
Total				**39,000,000**	**(17,000,000)**	**22,000,000**	**22,000,000**
Weighted Average Exercise Price (cents)				6.81	8.00	5.89	5.89

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 amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The Group held cash and cash equivalents of $1,457,298 at 31 December 2016 (2015: $38,039). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

6.2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Other receivables

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

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

	Carrying amount	
	2016	**2015**
	$	**$**
Australia	7,176	24,296
USA	11,708	43,590
	18,884	67,886

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

Liquidity risk

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

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

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

	Carrying amount	Contractual cash flows	12 months or less
	$	**$**	**$**
31 December 2016			
Non-derivative financial liabilities			
Trade and other payables	(146,886)	(146,886)	(146,886)
Employee entitlements	(25,000)	(25,000)	(25,000)
	(171,886)	(171,886)	(171,886)
31 December 2015			
Non-derivative financial liabilities			
Trade and other payables	(129,360)	(129,360)	(129,360)
Employee entitlements	(16,252)	(16,252)	(16,252)
Interest bearing liabilities	(45,123)	(45,123)	(45,123)
	(190,735)	(190,735)	(190,735)

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

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

Currency risk

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

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

	Assets		Liabilities	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
US dollar	201,489	49,485	(57,842)	(24,121)

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

	Impact on profit or loss	
	2016	**2015**
	$	**$**
If AUD strengthens by 2% (31 December 2015: 10%)		
USD	(2,816)	(2,306)
If AUD weakens by 2% (31 December 2015: 10%)		
USD	2,932	2,818

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

6.2. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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

Exposure to interest rate risk

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

	Carrying amount	
	2016	**2015**
	$	**$**
Variable rate instruments		
Cash and cash equivalents	1,457,298	38,039
Interest bearing assets	-	59,919
	1,457,298	97,958

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100 bp increase	**100 bp decrease**
	$	**$**
31 December 2016		
Variable rate instruments	14,572	(12,833)
Cash flow sensitivity	14,572	(12,833)
31 December 2015		
Variable rate instruments	380	(80)
Cash flow sensitivity	380	(80)

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

6.2. FINANCIAL RISK MANAGEMENT (continued)

Fair values

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

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

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

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

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

6.3 RELATED PARTIES

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

	Note	2016 $	2015 $
Short term employee benefits		271,161	171,225
Post-employment benefits		14,800	7,570
Share based payments – performance shares	6.1	65,000	-
	2.3	350,961	178,795

Individual directors and executives' compensation disclosures

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

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

6.3 RELATED PARTIES (continued)

Other key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

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

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

			Transactions value year ended 31 December		Balance outstanding as at 31 December	
			2016	**2015**	**2016**	**2015**
Key management person	***Transaction***	**Note**	**$**	**$**	**$**	**$**
Chris Hodge	Consultancy fees	(i)	41,784	22,500	18,837	27,775
David McArthur	Management fees	(ii)	84,000	84,000	7,700	30,800
Ian Tchacos	Consultancy fees	(iii)	17,638	17,250	4,526	9,785
David McArthur	Loan Interest	(iv)	259	-	-	-
					31,063	68,360

(i) The Group used the consultancy services of CCH Resources Pty Ltd, a company associated with Chris Hodge, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

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

(iii) The Group used the consultancy services of Lykos Consulting Pty Ltd, a company associated with Ian Tchacos, in relation to advice on certain exploration and management activities of the Group. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(iv) David McArthur provided cash loans to the Company, repayable within 6 months for when the company is in a financial position to do so, accruing interest at 7% per annum, pro rata. These loans, including accrued interest, were repaid on 3 May 2016.

6.4 SUBSIDIARIES

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

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group 2016 %	2015 %
California Gas Pty Ltd	Oil and gas exploration	Australia	31 December	100	100
Calog LLC	Oil and gas exploration	California, USA	31 December	100	100

6.5 ASSOCIATES

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

Name of associate	Place of incorporation / operation	Nature of relationship	Measurement method	% of ownership interest		Quoted fair value		Carrying amount	
				2016 %	2015 %	2016 $	2015 $	2016 $	2015 $
Cal LNG LLC	California, USA	Associate (1)	Equity method	18	18	-	-	-	-

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

6.6 PARENT COMPANY DISCLOSURES

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

	2016 $	2015 $
Results of the parent entity		
Loss for the year	(1,036,166)	(1,501,529)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,036,166)	(1,501,529)
Financial position of parent entity at year end		
Current assets	1,497,242	135,352
Total assets	2,267,472	182,212
Current liabilities	(171,886)	(190,735)
Total liabilities	(230,539)	(261,696)
Total equity of the parent entity comprising of:		
Share capital	46,825,108	43,737,525
Reserves	65,000	92,050
Accumulated losses	(44,853,175)	(43,909,059)
Total (deficiency) / equity	2,036,933	(79,484)
Commitments		
Office rent		
Less than one year	7,782	-

6.7 SUBSEQUENT EVENTS

Applications have been made and / or approved, to establish the following USA entities:

Name of entity	Date	Comments
CalX SELA LLC	10 January 2017	Registered in California to hold the Los Angeles Basin assets to be acquired from Sunny Frog Oil LLC
Xstate (USA) Corp	20 January 2017	Incorporated in Delaware as a USA holding company
XGas LLC	10 February 2017	Application submitted to set up a California based subsidiary to hold the exploration permits

At a general meeting held on 31 January 2017, shareholders approved the adoption of an Employee Incentive Option Plan and on 3 February 2017 the Company issued 5,000,000 fully paid shares to Mr Cosimo Damiano and 42,000,000 options to directors and consultants pursuant to the Employee Incentive Option Plan. The 42,000,000 options are exercisable at 5 cents each on or before 31 December 2020.

On 31 January 2017, shareholders also approved the placement of up to 657,894,736 shares at an issue price of 3.8 cents per share to raise approximately $25,000,000.

On 28 March 2017, the Company advised the market that funds under the subscription agreement had still not been received, and that the vendor of the Los Angeles Basin assets being acquired by the Company had agreed to extend the time for settlement of the acquisition whilst the transfer of funds out of Indonesia is being finalised.

On 29 March 2017, the Company announced that it had exercised an option to acquire various working interests ranging from 10% to 30% of wells in five producing gas fields.

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

6.8 AUDITORS' REMUNERATION

	2016	2015
	$	**$**
BDO Audit (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial reports	20,000	-
Total remuneration for audit and other assurance services	20,000	-
Taxation services		
Tax compliance services	8,660	21,670
Total remuneration of BDO Audit (WA) Pty Ltd and its related parties	28,660	21,670

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

6.8 AUDITORS' REMUNERATION (continued)

	2016	2015
	$	$
Non-BDO audit firms		
Audit and other assurance services		
Audit and review of financial reports	13,102	36,758
Total remuneration for audit and other assurance services	13,102	36,758
Taxation services		
Tax compliance services	2,898	-
Total remuneration of non-BDO audit firms	16,000	36,758
TOTAL AUDITORS' REMUNERATION	**44,660**	**58,428**

6.9 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6.10 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 9	Financial Instruments (2014)	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised. AASB 9 introduces new requirements for classifying and measuring financial assets,	1 January 2018	1 January 2018
AASB 15	Revenue from Contracts with Customers	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue*, Interpretation 13 *Customer Loyalty Programmes*, and Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, and Interpretation 131 *Revenue-Barter Transactions Involving Advertising Services*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services.	1 January 2018	1 January 2018
AASB 16	Leases	The new Standard introduces three main changes: - Enhanced guidance on identifying whether a contract contains a lease; - A completely new leases accounting model for lessees that require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets; Enhanced disclosures. Lessor accounting will not significantly change.	1 January 2019	1 January 2019
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15 *(not yet fully compiled)*	This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2018	1 January 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 *(December 2014)*	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	1 January 2018

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

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2014-10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Addresses a conflict between the requirements of AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements* and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.	1 January 2018	1 January 2018
AASB 2016-1	Recognition of Deferred Tax Assets for Unrealised Losses	Amends AASB 112 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 January 2017
AASB 2016-2	Disclosure Initiative: Amendments to AASB 107	Amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 January 2017

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

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 1.1 to the financial statements, constitutes explicit and unreserved compliance with International Reporting Standards (IFRS), the Corporations Regulations 2001, and other mandatory reporting requirements; and

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

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

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

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

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

3 In the Directors' opinion, as set out in note 1.2, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

COSIMO DAMIANO

Managing Director

Dated at Perth, Western Australia this 29th day of March 2017.

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INDEPENDENT AUDITOR'S REPORT

To the members of Xstate Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Xstate Resources Limited(the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

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. We have determined there are no Key Audit Matters to be communicated in our report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 29 March 2017

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 14 March 2017:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	712	81,621	0.01
1,001 - 5,000	104	284,557	0.04
5,001 - 10,000	67	543,846	0.09
10,001 - 100,000	310	15,721,113	2.51
100,001 and over	430	610,161,581	97.35
Total	**1,623**	**626,792,718**	**100.00**

There were 982 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

The substantial shareholders are set out below:

Shareholders	Number of Shares
HSBC Custody Nominees (Australia) Limited	87,191,529

3. Voting rights

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

Options and rights
No voting rights.

4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
31-Jan-17	42,000,000	7	31-Dec-2020	5

5. Twenty largest shareholders

	Ordinary shares	
Shareholders	**Number held**	**% of issued shares**
HSBC Custody Nominees (Australia) Limited	87,191,529	13.91
Citicorp Nominees Pty Limited	21,958,564	3.50
Suburban Holdings Pty Ltd <Suburban Super Fund A/C>	19,600,000	3.13
Bond Street Custodians Limited <PNCORK - D00089 A/C>	17,581,658	2.81
IBT Holdings Pty Ltd <IBT Holdings Pty Ltd Fam A/C>	15,000,000	2.39
153 Fish Capital Pte Ltd	11,000,000	1.76
Geraldine Tan Chon Suan	10,000,000	1.60
Mr Low Peng Koon	10,000,000	1.60
EE Chey Chuan	10,000,000	1.60
Soi Chei Yong	10,000,000	1.60
Kyrus Superannuation Pty Ltd <Aurora Consulting PL S/F A/C>	10,000,000	1.60
MGL Corp Pty Ltd	9,000,000	1.44
DASMAC (WA) Pty Ltd <McArthur Family Super Fund A/C>	8,755,566	1.40
Cosimo Damiano	8,733,333	1.39
Ching Ling Yong	6,957,080	1.11
Sacco Developments Australia Pty Ltd <The Sacco Family A/C>	6,869,534	1.10
Netwealth Investments Limited <Wrap Services A/C>	6,852,500	1.09
Rimoyne Pty Ltd	6,380,315	1.02
David Maxwell McArthur	6,188,133	0.99
Jouke Jan Van Der Baan	5,188,979	0.83

6. Petroleum lease interests at 14 March 2017

Project name	Location	Working interest
Alvares Prospect	Sacramento Basin Onshore Northern California	25%
Dempsey Prospect	Sacramento Basin Onshore Northern California	10%
California AMI Prospects	Sacramento Basin Onshore Northern California	30%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%

7. Gold tenements listing at 14 March 2017

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