# Annual Report

For the year ended 30 June 2018

**Gas2Grid Limited**
**ABN 46 112 138 780**

# Gas2Grid Limited ABN 46 112 138 780

## Annual Report for the year ended 30 June 2018

# Table of contents

Dear Shareholders,

The oil industry has experienced a positive turnaround since I last reported to you, underpinned by a stabilised oil price with West Texas crude (WTI) trading from US$65+ to US$70+ per barrel. Investment in oil exploration by both junior and major companies has increased resulting in increased development, appraisal and exploration activities worldwide.

We have restrained from investing funds for exploration, appraisal or development work during the year while the security of tenure of our licences remains uncertain and subject to governments' decision. However, we have been actively assessing new oil and gas ventures leading to farm-in negotiations. We plan to use the Company owned rigs to drill new wells as part contribution to the acquisition of equity in new ventures, therefore minimising our cash outlays.

The Philippines Department of Energy (DOE) has been receptive to our claim of "force majeure" for stopping field activities with regards to Service Contract 44 and we have met with its representatives several times during the last year. Recognising the extensive work we have conducted in past years, the DOE is seriously considering an extension of time that will enable us to carry out the pre-approved deepening of Nuevo Malolos-1 and conduct extended production testing, which if successful, will result in an application for a 25 year production licence.

Securing title would increase the level of interest for potential joint venture partners in the proposed work program as the economics of an onshore oil field development in the Philippines is financially very attractive. However, we plan to proceed with the program should partners not be forthcoming promptly by funding with our existing cash resources and new equity funds to be raised. Use of our 100% owned rig to drill will reduce substantially the cash outlay for the program.

In France, we are persevering with our legal attempts to protect the investment we made in our 100% interest in the St Griede permit, located within the Aquitaine Basin. We have been in dispute with the French Government in the French Tribunal since November 2015 on their unlawful refusal to renew the permit which expired in May 2013. In November 2016, the Tribunal handed down a judgement directing the French Government to renew the permit for 5 years, subject to a penalty of Euros 3,000 per day of delay that the permit is not granted within 30 days, from the judgement day.

The French Government issued a Decree on Friday 8$^{th}$ December, 2017 that was published in the Official Gazette of France on Saturday 23$^{rd}$ December, 2017 immediately before Christmas, to extend the St. Griede permit to the 31$^{st}$ May, 2018. The French Government effectively provided only 5 months to complete a 5 years' proposed work commitment. That decree disregarded the November 2016 Tribunal judgement.

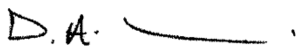
Following our claim for payment of the penalties under the November 2016 Tribunal judgement, the Tribunal has determined in July, 2018 the total penalty to Euros 383,500 plus Euros 1,200 for court costs. That penalty and the costs have been received in August 2018 supplementing the Company's working capital.

The French Government had lodged an appeal against the November 2016 Tribunal judgement on 3rd January, 2017. The date of final submissions for the appeal was set at 14$^{th}$ September 2018 and the Company now awaits the hearing of the Court of Appeal and its decision.

In 2010 the Company had lodged three permit applications, namely Tartas, Eauze and Mirande (all for 100% interest), in the Aquitaine Basin. The French Government advised the Company during the June, 2018 Quarter that the three applications have been rejected after implementation of a new law decreed in December, 2017 banning petroleum exploration in France.

The Company raised a total of $500,000 in early 2018 to fund costs associated with new venture acquisition and working capital.

We thank our shareholders for their patience and support as we seek to develop the Malolos oil field, acquire new ventures and get a financial return on our investment in France.



David Munns
Chairman
28 September 2018

## NEW VENTURES

During the year, the Company commenced pursuing new venture opportunities in the Philippines in view of the disappearance of opportunities in France (as a result of the new law introduced in December 2017 banning petroleum exploration), the delay in securing extension of SC 44 in Philippines and the improving oil price to above US60 per barrel.

Management has sought new energy opportunities in Australia utilising its many years of working experience in that jurisdiction, but unfortunately found it is now a difficult and lengthy process to acquire onshore Australian petroleum licences.

New South Wales and Victoria are "closed for oil and gas business" and have been for over 6 years with no certainty as to when that situation will be reversed – the sovereign risk now associated with Victoria and New South Wales is therefore high. Queensland is open for petroleum business but acquisition of new petroleum licences is by a gazettal process which provides no certainty of success and takes approximately 3 years from commencing the process with a nomination request. In the uncertain event of successful issue of a new licence it will take at least three years (maybe longer) before field operations can commence. South Australia and Western Australia are open for petroleum business and not surprisingly most of the attractive areas are already under licence. The possible way forward in these states is for the Company to seek to farm-in to an existing licence in Queensland, South Australia or Western Australia, but licence holders would be seeking free carry interests representing a high financial premium in order to participate.

The other major hurdle in Australia is the significant increase in the bureaucratic approval process in order to conduct land based exploration operations (e.g. seismic acquisition and drilling). The increase in the administrative procedures and community opposition adds significantly to the time and costs for operations. By comparison, approval to drill a petroleum exploration well or conduct a seismic acquisition survey in other jurisdictions eg. onshore, Philippines, can be achieved in significantly shorter time frame and at lower costs.

With management's many years of working experience in Philippines, new ventures in that country present good potential for the Company to generate growth in a relatively low cost environment and in short time frame whilst using the Company's 100% owned drilling rigs, presently located in Cebu, to drill for equity.

Onshore, Cebu is rapidly becoming the focus of an emerging petroleum production region with the operator of SC 49 in the southern part of the island being recently awarded a 25 year production licence. The SC 49 operator has discovered and is developing the Alegria oil field which produces oil and gas from the same sandstone reservoirs that are oil productive in SC 44. The Libertad gas field in SC 40, northern Cebu has already been awarded a 25 year production licence.

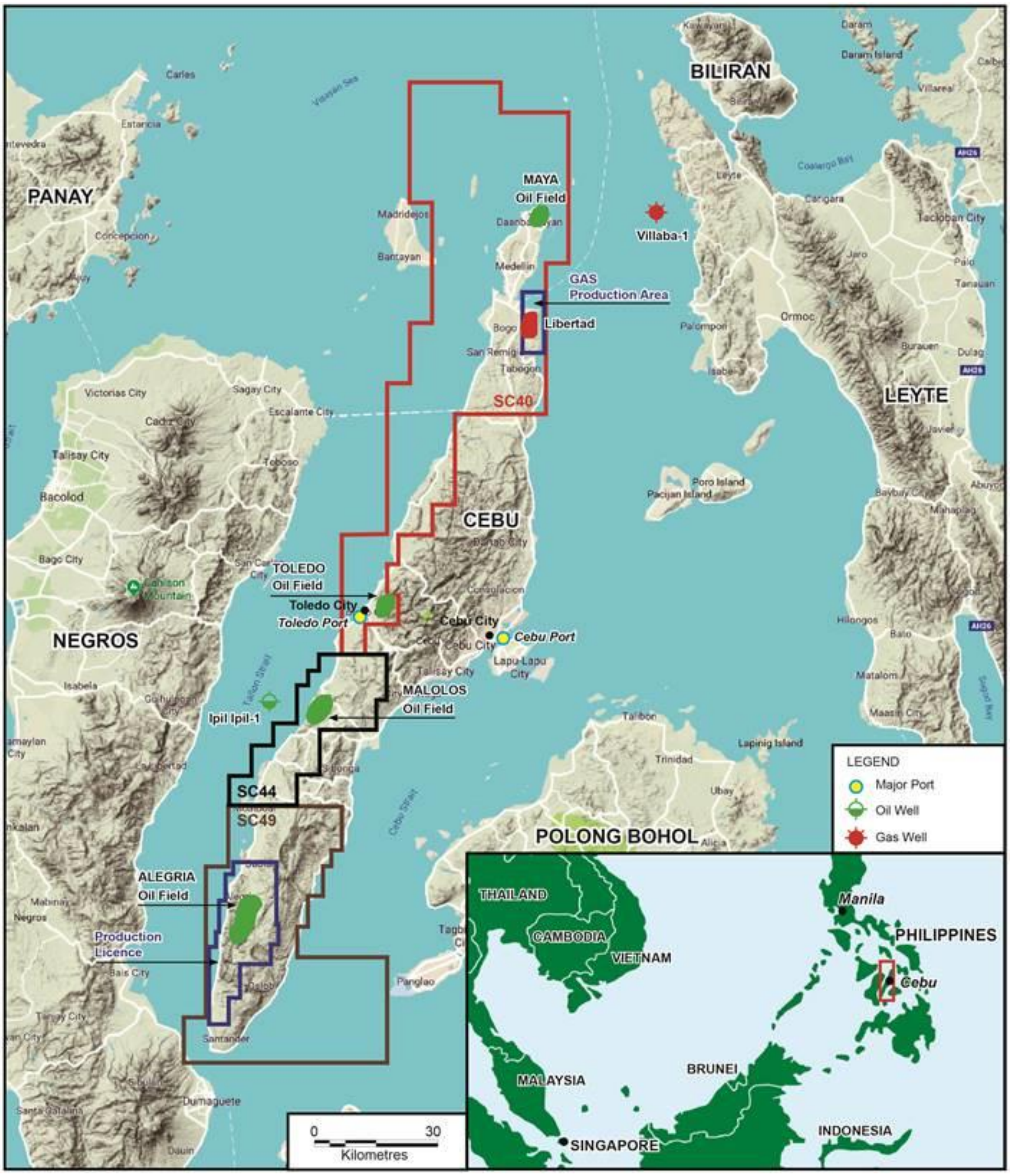
The Company identified certain oil and gas appraisal opportunities onshore Philippines which it has been pursuing through technical evaluation and commercial negotiation. Positive conclusion on the evaluations and successful negotiations for investment would result in new appraisal wells being drilled in 2018/2019. In one opportunity the Company reached a stage after lengthy negotiations where satisfactory farm-in terms could not be agreed and the opportunity has been abandoned.

### PHILIPPINES: SERVICE CONTRACT 44 (100%), Onshore Cebu

The Philippine Department of Energy ("DOE") had approved a 2 year technical moratorium under the terms of the SC 44 in order to provide sufficient time to complete studies and establish the appropriate drilling and completion technology for maximising sustainable oil production that if successful would lead to full oil field appraisal/development.

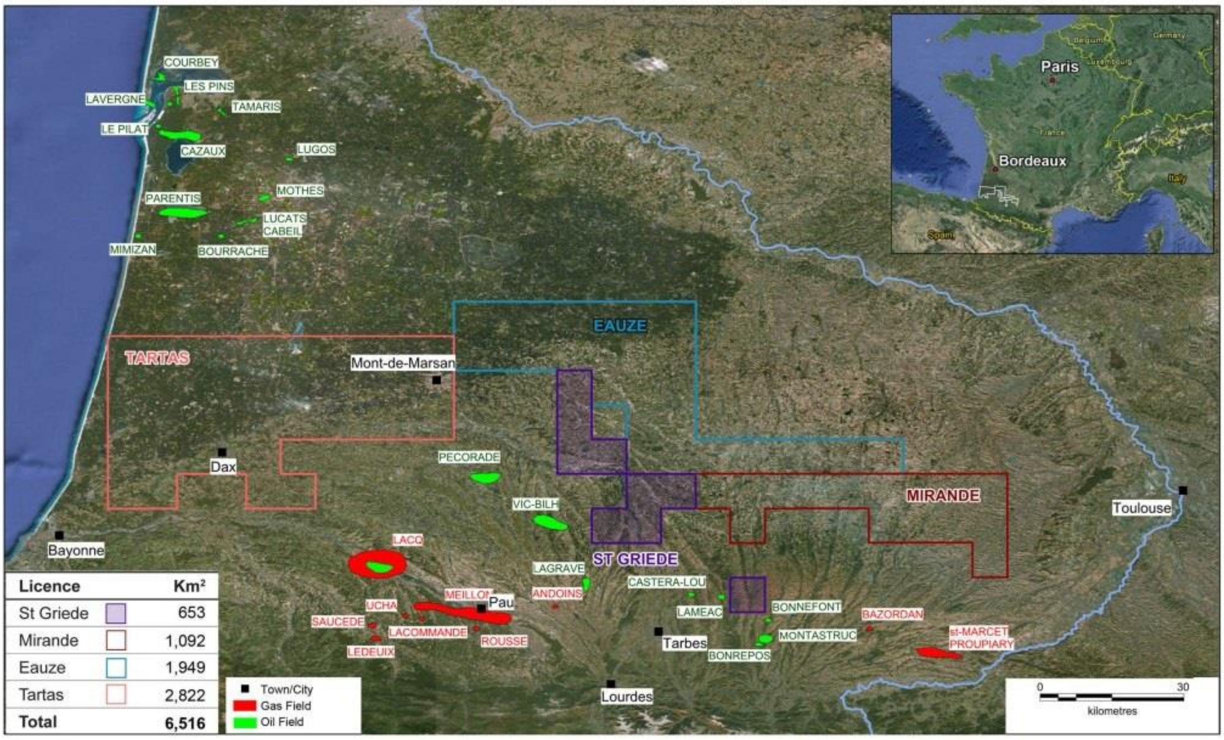
The Drilling Proposal for the deepening of Nuevo Malolos-1, an existing well drilled by the Company in SC 44 in December 2005/January 2006, was submitted to the DOE for their approval in March 2016 but a late approval in mid-September 2016 did not allow sufficient time to complete the drilling operations, conduct a long term oil production test of the well and if successful, submit an application for a 25 year production term prior to the expiry of the technical moratorium on 27 January 2017. The Company has been in discussions with the DOE and has lodged an application under "Force Majeure" for an extension of time, as provided for under the Service Contract terms. Following discussions and meetings with the DOE the Company has submitted a proposed work program to be implemented during the requested extension period. The Company is waiting for a formal written response from the DOE regarding the SC 44 extension, and there is indication that an extension is being considered favourably.

The operations in SC 44 are on hold until security of title has been established as under the current situation, security of title is not guaranteed. Minimum expenditure is being incurred to maintain security of equipment and well site. At US$65+ per barrel, funding for new drilling within SC 44 would be attractive to investors. If an extension of the service contract is awarded the Company plans on deepening the existing Nuevo Malolos-1 well to known oil sands for completion and production testing.




**Petroleum Service Contracts and Production Licences, Cebu Island, Philippines**

## FRANCE




***St Griede Permit and Mirande, Tartas and Eauze Applications in Aquitaine Basin, France***

### ST. GRIEDE (100%), Onshore Aquitaine Basin

The St Griede permit (100% working interest) located within the Aquitaine Basin, France was due for its first renewal in May 2013 after an initial 5 year term. With the terms and conditions of the work and expenditure commitments having been met for the first 5 year term, a renewal application for a second 5 year term was submitted in January 2013 in order to continue the work program towards the drilling of a well. Normally, a first renewal is expected as a matter of course if the initial commitments have been met. In September 2015, the French Government illegally decided not to grant the renewal.

Following an action in the Pau Tribunal in November 2015, a judgement was handed down in early November 2016 fully supporting the Company as follows:

1. Annulment of the decision of the French Ministers made in September 2015 to refuse the renewal of St Griede permit;
2. Instruction to the Ministers to grant, within 30 days, a 5 year extension to the St Griede permit commencing from 3rd November 2016; and
3. A penalty, to the French Government, of Euros 3,000 for each day after 3rd December 2016 that the grant of the permit extension is delayed.

On 3rd January 2017, the French Government lodged an appeal with the Appeal Court of Bordeaux against the decision of the Pau Tribunal. On 23rd December, 2017 the French Government issued a decree extending the St. Griede permit up until the 31st May, 2018. The French Government provided the Company 5 months in which to complete a 5 year work program that was proposed on the application for renewal of the permit in 2013. This extension is not in accordance with the November 2016 court directions of a 5 year extension from the judgement date and the Company has lodged a further dispute on that extension with the Tribunal. The Court of Appeal has set the 14th September 2018 for the parties to lodge their final submissions prior to a hearing at a date not yet notified.

As the appeal decision should have no bearing on the payment of the penalty decided by the Pau Tribunal in November 2016, the Company has requested the Pau Tribunal to direct the French Government to pay the imposed €3,000/day penalty. The matter was heard on 3rd July 2018 and a judgement was handed down on 5th July 2018 directing the French Government to pay the Company a total of Euros 383,500 plus Euros 1,200 for costs in settlement of the Company's claim allowing a reduction on the previously imposed total penalty payable. The penalty and awarded costs were received from the French Government in August 2018.

The Company continues to be guided by its lawyers in France of the various actions available to achieve the best outcome for its shareholders with regards to the investment made in the St Griede permit.

## FRANCE: NEW APPLICATIONS (100%), Onshore Aquitaine Basin

### *Mirande Permit Application*

The Mirande permit application was submitted in March 2011 and no decision was made by the Government within the prescribed time implicitly rejecting the application without reasons. The Company disputed that implicit rejection in the Toulouse Tribunal.

The Toulouse Tribunal heard the matter on 30th June 2017 and a decision was handed down on 21st July 2017. The Minister was directed to decide within 3 months on the application and any delay is subject to a penalty to the Government of €300/day.

In March 2018, the Minister formally rejected the permit application on the basis of the December, 2017 new law banning petroleum exploration in France.

The Company pursued for payment by the French Government of the court determined €300/day penalty effective from 20th October 2017 i.e. 3 months from 21st July 2018 to the date of a properly supported decision by the Government on the application. In July 2018, the Toulouse Tribunal directed the Government to pay Euros 29,700 to the Company in full settlement of penalties; the penalty was received from the French Government in August 2018.

### *Tartas and Eauze Permit Applications*

The Tartas permit application was submitted in October 2010 and after having been fully processed it was recommended for grant by the French Government officials. The Company has waited for the Minister of Energy's approval for a long period.

The Eauze permit application was submitted in November 2010 and was partially processed awaiting a public exposure under new procedures and was held in abeyance by the Government for a long time.

In March 2018, the Minister formally rejected the Tartas and Eauze permit applications on the basis of the December, 2017 new law banning petroleum exploration in France. The Company decided not to pursue those applications any further having regards to costs and other considerations.

*The information on oil and gas projects in this report has been compiled by Dennis Morton, Managing Director of Gas2Grid Limited, who graduated with First Class Honours in Geology (Macquarie University) and has 40 years' experience in the oil and gas industry.*

## FINANCIAL ANALYSIS

**Funding**: On 29 June 2018, the period of availability of the loan facilities from related entities of Directors (D Morton, D Munns and P Sam Yue) was extended from 16 April 2019 to 16 October 2019 to ensure that the Company is sufficiently funded for operations. At 30 June 2018, a total of $8,097,323 has been accounted as drawn under the facilities including provision for accrued interest and establishment fees. Cash of $110,000 was drawn under the facilities and loan repayment of $100,000 was made during the year. The loan facilities bear interest at 9% per annum computed quarterly in arrears with a 1% establishment fee based on arm's length commercial borrowing for an entity in the Group's circumstances. It is the intention of the Group to repay these loans with the agreement of the lenders as soon as the Group is able to do so when funds are raised.

To undertake exploration and appraisal activities in Philippines, exploration in France and search for new ventures while the Group has no revenue producing assets, the Group requires regular injection of funds and the activities during the year have been mainly towards legal costs for seeking extension of the permit in France, site upkeep in Philippines pending the extension of the technical moratorium of SC 44 and travel and data studies to investigate new ventures. At the date of this report there are no minimum licence commitments as the Company is waiting on the grant of extension of its licences in France and Philippines. Consequently, the Company has not budgeted for exploration expenditure other than costs relating to licence extension applications, minimal site maintenance in Philippines pending confirmation of the extensions and new ventures investigations.

The absence of guarantee in sourcing new funds for the Company's future activities presents a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. This going concern issue is further discussed in detail in Note 21(a)(iv) to the Financial Statements and is subject to emphasis of matter in the auditor's audit report.

To continue the exploration activities and to meet its financial commitments as and when they fall due the Company will be pursuing sources of finance that include:

- Amounts that can be drawn under the loan facilities provided by the Directors;
- Management's preferred option of selling part of the Group's interests in its exploration licences and entering into joint ventures for the potential development of the projects when the licences have been extended;
- Undertaking further capital raisings; selling of two drilling rigs and other field equipment.

**Performance:** During the year the Group incurred net losses of $1,525,733 which included $74,192 of expenditure relating to renewal of exploration licences in France and the Philippines, $41,600 of share based payments and $919,892 in financing costs.

**Financial Position:** Total negative equity increased from $7,958,096 to $8,935,430 primarily as a result of continuing loss from operations.

Cash at 30 June 2018 was $222,856, an increase from the 30 June 2017 balance of $43,075 as a result of a Share Purchase Plan and a share placement during the year raising $500,000 in new capital. Current assets were $243,704 (30 June 2017: $65,945). In August 2018, the Company received a total of Euros 414,877 (approximately A$627,300) in penalties and costs awarded by the Tribunals in France against the French Government.

Current liabilities were $60,738, a reduction from the 30 June 2017 amount of $87,861 as creditors have been settled through cash on hand.

The Directors agreed to defer payment of their Director and management fees of $301,000 for the year to 16 October 2019.

Non-current payables were $1,021,073, an increase from the 30 June 2017 amount of $647,055, consisting of fees and interest owing to Directors.

**Cash Flows:** Operating activities resulted in net outflow of $322,063 (2017: outflow $171,392) as the Group is still in the exploration phase with no sales revenue. The other revenue received of $21,746 (2017: $116,696) related to reimbursements of expenditure paid by the Company. The outflows were funded from existing cash on hand and borrowings from Directors.

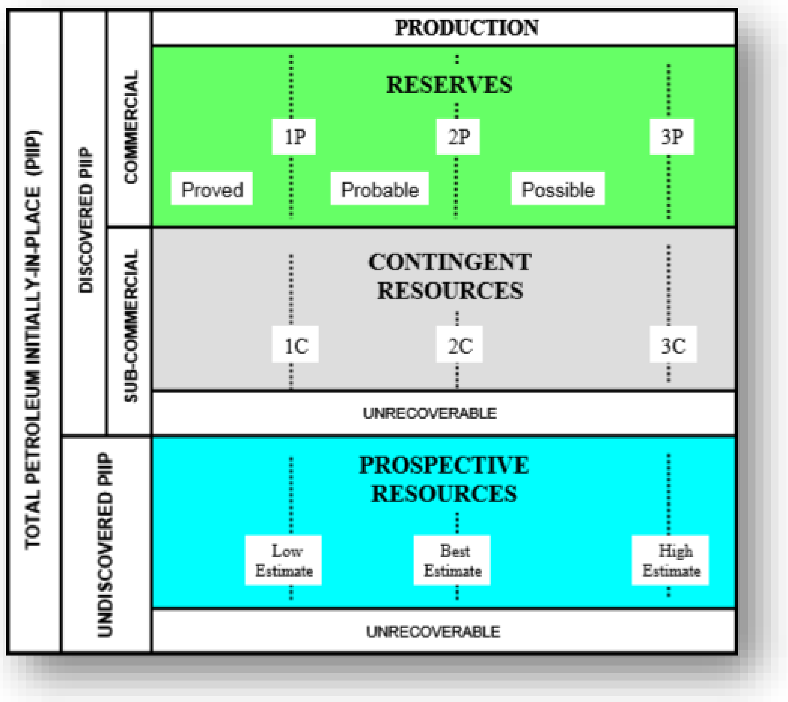
**Strategy and prospects for Future**

The Group proposes to continue pursuing new venture opportunities in oil and gas exploration and appraisal and investment activities in Cebu, Philippines and redress in France for the investment made in the St Griede permit in France. However, no indication as to likely results in the future can be given due to the uncertainties usually associated with exploration activities,the security of tenure of the licences and legal claims. Future financial performance will be driven by success in the following and subject to security of tenure of licences:

- Appraisal and development of the Malolos Oil Field within SC 44 that has been assessed to have best estimate “Contingent Resource” [1] of 20.4 million barrels of oil;
- Exploration of newly identified prospective leads within SC 44 that have been assessed to have best estimate “Unrisked Prospective Resource”[1] of 104 million barrels of oil;
- New investment opportunities in the Philippines.

To carry out those above activities the Company will require funding which may be by farmout of interests that may include upfront cash payments or equity issues or a combination of both. The method of funding will be determined at the appropriate time as part of the Group’s capital management in maintaining a capital structure that incurs a reasonable cost of capital and benefits all shareholders

*[1] The Resources assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The Resource estimates used in this review were compiled by Mr Len Diekman (Member SPE), Energetica Consulting, who is a qualified person as defined under the ASX Listing Rule 5.11 and has consented to the use of Resource figures in the form and context in which they appear in this presentation.*




**Graphic Summary of the SPE-PRMS classification of resources and reserves for petroleum projects.**

## CORPORATE GOVERNANCE STATEMENT

A table on Corporate Governance Statement setting out the extent to which the Group has followed the recommendations of the ASX Corporate Governance Principles and Recommendations – 3rd edition and the Corporate Governance Statement are posted on the Group's website for reference on disclosures (www.gas2grid.com/corporate-governance/).

## Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Gas2Grid Limited and the entities it controlled at the end of, or during the year ended 30 June 2018.

## Directors

The following persons were Directors of Gas2Grid Limited during the whole of the financial year and up to the date of this report:

David A Munns

Dennis J Morton

Patrick W V M Sam Yue

## Principal activities

During the year the principal continuing activities of the Group consisted of pursuing new venture opportunities in Australia and the Philippines, and the renewal and grant of its licences in Philippines and France.

## Operating and financial review

*Review of Operations and Financial Performance*

A detailed review of operations and financial performance for the financial year is set out on pages 3 to 9.

## Dividends – Gas2Grid Limited

The Directors report that during the year ended 30 June 2018 no dividends were declared or paid (2017: $nil).

## Matters subsequent to the end of the financial year

There has not arisen in the interval since 30 June 2018 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years other than the following:

- in August 2018, the Company received penalties and costs totalling Euros 414,877 imposed by the Tribunals in France on the French Government for delay in granting the St Griede permit under the judgement handed down in November 2016 and for failing to provide reasons for not granting the Mirande permit within directed time limit.

## Likely developments and expected results of operations

In relation to the Group's oil and gas exploration activities, no indication as to likely results in the future can be given due to the uncertainties usually associated with such activities. The Group proposes to continue its oil and gas exploration program and investment activities that are set out on pages 3 to 9.

## Environmental regulation

The Group is required to carry out its activities in accordance with applicable regulations in each of the jurisdictions in which it undertakes its exploration activities. The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

**Information on Directors**

**David A Munns, Bachelor in Mechanical Engineering (Peterborough Technical College, United Kingdom)** Chairman – Non-executive

***Experience and expertise***
David Munns has wide experience in drilling and engineering operations in South East Asia and particularly in the Philippines. He is the Chairman of Desco, Philippines – a drilling and engineering firm operating in the field of conventional and geothermal drilling.

***Other listed company directorships***
None.

***Former directorships of listed companies in the last 3 years***
None.

***Special responsibilities***
Chairman of the Board.

***Interest in shares and options***
67,262,973 ordinary shares in Gas2Grid Limited.

**Dennis J Morton BSc (Hons), (Macquarie University)** Managing Director

***Experience and expertise***
Dennis Morton was co-founder and until late in 2007 Managing Director of Eastern Star Gas Limited. He has extensive experience in the management of oil and gas exploration entities. He was previously in senior executive positions with Bow Valley (Australia) Ltd, Capital Energy Limited, Hartogen Energy Limited, and Esso Australia Limited.

***Other listed company directorships***
None.

***Former directorships of listed companies in last 3 years***
None.

***Special responsibilities***
Managing Director (since 31 March 2008).

***Interest in shares and options***
180,288,187 ordinary shares in Gas2Grid Limited.

**Patrick W V M Sam Yue, CA, FCIS, F Fin.** Executive Director

***Experience and expertise***
Patrick Sam Yue had several years' experience in international accounting and finance working in the United Kingdom, Africa and the Middle-East before he joined the finance industry in Australia in 1985 prior to moving to the resources industry. He has over 25 years' experience in financial and corporate management in Australia having held senior executive and company secretary positions with ASX listed entities in the oil and gas and minerals industry.

***Other listed company directorships***
None.

***Former directorships of listed companies in last 3 years***
None.

***Special responsibilities***
Chief Financial Officer.

***Interest in shares and options***
124,090,999 ordinary shares in Gas2Grid Limited.

**Company Secretary**

The Company Secretary is Mr Patrick W V M Sam Yue who is also an Executive Director.

**Meetings of Directors**

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2018, and the number of meetings attended by each Director:-

| | Directors' meetings | |
|---|---|---|
| | **Number eligible to attend** | **Number attended** |
| D A Munns | 1 | 1 |
| | 1 | 1 |
| D J Morton | | |
| P W V M Sam Yue | 1 | 1 |

During the year, other Board business was also effected by execution of circulated resolutions.

**Remuneration report (Audited)**

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration;
(b) Details of remuneration;
(c) Service agreements;
(d) Share-based compensation;
(e) Equity instruments held by key management personnel;
(f) Loans from key management personnel or their related entities;
(g) Other transactions with key management personnel; and
(h) Additional information.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

**(a) Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive reward framework is to ensure that reward for performance is competitive and appropriate.

During the year ended 30 June 2018, the Group did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee were considered to be the responsibility of the entire Board.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- transparency; and
- capital management.

**Use of remuneration consultants**

No remuneration consultants were used during the year.

**Director's fees**

The current base remuneration was last reviewed with effect from 1 July 2017. Director's fees are determined within an aggregate fee pool limit, which currently stands at $150,000 per annum. That limit shall not be increased except pursuant to a resolution passed at a general meeting of the Company.

| Base fees | From 1 July 2017 | From 1 July 2016 |
|---|---|---|
| Chairman | 35,000 | 35,000 |
| Other Directors (each) | 25,000 | 25,000 |

**Additional fees**

In addition to base Director's fees Dennis Morton and Patrick Sam Yue receive monthly management fees of $10,000 and $8,000 respectively for additional technical, corporate and administrative duties performed on a regular basis.

### (b) Details of remuneration

*Amounts of remuneration*

The following tables show details of the remuneration received by the Directors and the key management personnel of the Group for the current and previous financial year.

The key management personnel of the Group are the Directors.

| | Short-term employee benefits | | | Post-employment benefits | Long-term benefits | Termination benefits | Share-based payments | | % of remuneration that is performance based |
|---|---|---|---|---|---|---|---|---|---|
| Name | Salary and fees* | Cash bonus | Non-monetary benefits | Superannuation | | | EIP Shares | Total | |
| | $ | $ | $ | $ | $ | $ | $ | $ | % |
| **2018** | | | | | | | | | |
| ***Executive Directors*** | | | | | | | | | |
| D J Morton | 145,000 | - | - | - | - | - | - | 145,000 | - |
| P WVM Sam Yue | 121,000 | - | - | - | - | - | 27,600 | 148,600 | - |
| ***Non-executive Director*** | | | | | | | | | |
| D A Munns | 35,000 | - | - | - | - | - | - | 35,000 | - |
| **Total** | 301,000 | - | - | - | - | - | 27,600 | 328,600 | - |

* The Directors agreed to defer payment of the 2018 fees to 16 October 2019.

| | Salary and fees* | Cash bonus | Non-monetary benefits | Superannuation | Long-term benefits | Termination benefits | EIP Shares | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | |
| ***Executive Directors*** | | | | | | | | | |
| D J Morton | 145,000 | - | - | - | - | - | - | 145,000 | - |
| P WVM Sam Yue | 121,000 | - | - | - | - | - | 44,400 | 165,400 | - |
| ***Non-executive Director*** | | | | | | | | | |
| D A Munns | 35,000 | - | - | - | - | - | - | 35,000 | - |
| **Total** | 301,000 | - | - | - | - | - | 44,400 | 345,400 | - |

### (c) Service agreements

As at the date of this report, there are no service agreements with the Directors.

## (d) Share-based compensation

### Employee Incentive Plan ("EIP")

The Company has established a Gas2Grid Limited Employee Incentive Plan under which the Directors may offer options for free and ordinary shares at market price in the Company to eligible persons. The Directors may also offer interest free non-recourse loans for terms of up to 5 years under the plan for subscription of shares and under such loans the Company holds a lien over the issued shares. The loans are repayable at the option of the eligible persons to be able to deal with the shares. The options are issued free at grant. The shares may not be subscribed for less than the market value of the shares at the time an offer is made under the plan.

Subject to approval of shareholders, Directors may also be offered shares with non-recourse loans or options under the plan as a long-term benefit supplementing the short-term benefits that align their interests with those of all shareholders.

On 5 December 2017, following the approval of shareholders at the Annual General Meeting held on 29 November 2017, 12,000,000 fully paid ordinary shares were issued under the Gas2Grid Limited Employee Incentive Plan (see Note 17) to Director P W V M Sam Yue for which he was granted an interest free non-recourse loan to acquire the shares at $0.008 per share when the market price was $0.003 per share. The loan is repayable at his option to be able to trade the shares, as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Number of shares granted | Amount payable at $0.008 per share on or before 29 November 2022 at the Director's option | Fair value expensed under share based payments | Number of shares granted | Amount payable at $0.008 per share on or before 30 November 2020 at the Director's option | Fair value expensed under share based payments |
| | | $ | $ | | $ | $ |
| **Directors of Gas2Grid Limited** | | | | | | |
| D A Munns | - | - | - | - | - | - |
| D J Morton | - | - | - | - | - | - |
| P W V M Sam Yue | 12,000,000 | 96,000 | 27,600 | 12,000,000 | 96,000 | 44,400 |
| | 12,000,000 | 96,000 | 27,600 | 12,000,000 | 96,000 | 44,400 |

The fair value expensed under share-based payments is equal to the grant value as there are no vesting conditions.

## (e) Equity instruments held by key management personnel

The table below show the number of shares in the Company that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

| | Balance at beginning of year | Granted during the year as compensation | EIP shares issued in November 2012 surrendered during the year | Other changes (acquisition under Share Purchase Plan*) | Balance at end of year |
|---|---|---|---|---|---|
| **Directors of Gas2Grid Limited 2018** | | | | | |
| D A Munns (i) | 61,262,973 | - | - | 6,000,000 | 67,262,973 |
| D J Morton (ii) | 174,288,187 | - | - | 6,000,000 | 180,288,187 |
| P W V M Sam Yue (iii) | 109,590,999 | 12,000,000 | (3,500,000) | 6,000,000 | 124,090,999 |

* Offer of ordinary shares to all shareholders under Share Purchase Plan that closed on 2 March 2018.

i. 10,266,380 shares are registered in the name of TD International SA. 1,000,000 shares are registered in the name of Ann Patricia Munns.
ii. 76,760,843 shares are registered in the name of Budside Pty Limited Employees Superannuation Fund. 34,727,345 shares are registered in the name of Budside Pty Ltd.
iii. 72,590,999 shares are registered in the name of Lamdian Pty Ltd <ATF Samyue Super Fund>.

## (f) Loans from key management personnel and their related entities covered under loan facility agreements

| | At beginning of year | Loan principal received | Loan principal repaid | Accrued finance costs for the year | At end of year | Total loan facilities available at end of year |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **2018** | | | | | | |
| D A Munns | 1,597,370 | 10,000 | - | 178,783 | 1,786,153 | 2,000,000 |
| D J Morton | 4,698,250 | 95,000 | (50,000) | 511,360 | 5,254,610 | 5,250,000 |
| P W V M Sam Yue | 993,505 | 5,000 | (50,000) | 108,055 | 1,056,560 | 1,450,000 |
| | 7,289,125 | 110,000 | (100,000) | 798,198 | 8,097,323 | 8,700,000 |

On 29 June 2018, the expiry date of facilities was extended from 16 April 2019 to 16 October 2019.

| | At beginning of year | Loan principal received | Trade creditor transferred to loan | Directors' prior year fees drawn down reallocated to non-current creditors | Accrued finance costs for the year | At end of year | Total loan facilities available at end of year |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **2017** | | | | | | | |
| D A Munns | 1,424,734 | - | 27,933 | (26,250) | 170,953 | 1,597,370 | 2,000,000 |
| D J Morton | 4,161,469 | 150,000 | - | (108,750) | 495,531 | 4,698,250 | 5,250,000 |
| P W V M Sam Yue | 978,893 | - | - | (90,750) | 105,362 | 993,505 | 1,450,000 |
| | 6,565,096 | 150,000 | 27,933 | (225,750) | 771,846 | 7,289,125 | 8,700,000 |

An establishment fee of 1% of the facility amount is payable on agreement of an increase or extension of the facilities which expire on 16 October 2019 and a fixed interest rate of 9% per annum accruing quarterly in arrears applies.

The total amount owing under the loan facilities at 30 June 2018 of $8,097,323 is disclosed under Note 8 Non-Current Borrowings.

### (g) Summary of Directors' and management fees and accrued interest due and payable to Directors and their related entities for the year

| | 2018 $ | 2017 $ |
|---|---|---|
| **Management fees to the following entities recognised as expense** | | |
| Budside Pty Ltd[1] | 120,000 | 120,000 |
| Oni Design Pty Ltd[2] | 96,000 | 96,000 |
| | 216,000 | 216,000 |
| **Directors' fees recognised as expense** | | |
| Budside Pty Ltd | 25,000 | 25,000 |
| Oni Design Pty Ltd | 25,000 | 25,000 |
| David Munns | 35,000 | 35,000 |
| | 85,000 | 85,000 |

| | | |
|---|---|---|
| **Management and Directors' fees, loans establishment fees and accrued finance costs owing at balance date – non- current** | | |
| Budside Pty Ltd (fees inclusive of GST) | 455,734 | 264,625 |
| Budside Pty Ltd (accrued finance costs) | 46,787 | 15,647 |
| Oni Design Pty Ltd (fees inclusive of GST) | 359,630 | 217,800 |
| Oni Design Pty Ltd (accrued finance costs) | 39,270 | 13,265 |
| David Munns (fees) | 96,250 | 61,250 |
| David Munns (accrued finance costs) | 11,360 | 3,838 |
| TD International SA[3] (establishment fee) | 12,042 | - |
| | 1,021,073 | 576,425 |

The non-current fees payable to the Directors, loans establishment fees and accrued finance costs are due on 16 October 2019 and interest at the rate of 9% per annum is provided quarterly in arrears.

Related entities of the following Directors:
[1]D J Morton, [2] P W V M Sam Yue, [3]D Munns

### (h) Additional information

**Loans to Directors**

There are no outstanding loans to Directors and no loans have been issued during the year, other than non-recourse loans structured under the Employee Incentive Plan.

***End of audited remuneration report***

**Shares under option**

Nil.

**Insurance of officers**

During the financial year, a premium of $12,964 was paid to insure the Directors and officers of the Group and the parent entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and officers in their capacity as Directors and officers of entities in 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 Directors and officers or the improper use by the Directors and 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.

## Proceedings on behalf of the Company

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 Company for all or part of those proceedings.

## Non-audit services

There has been no provision of non-audit services by the auditor during the year.

## Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

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

Dennis J Morton
Director

Sydney
28 September 2018

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

28 September 2018

Board of Directors
Gas2Grid Limited
Export House,Level 2
18-22 Pitt Street
Sydney NSW 2000

Dear Sirs

**RE: GAS2GRID LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Gas2Grid Limited.

As Audit Director for the audit of the financial statements of Gas2Grid Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

**Martin Michalik**
**Director**

# Gas2Grid Limited ABN 46 112 138 780

## Financial Report for the year ended 30 June 2018

## Table of contents



These financial statements are the consolidated financial statements of the consolidated entity consisting of Gas2Grid Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Gas2Grid Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 10, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 28 September 2018. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally. All public releases, financial reports and other information are available on our website: www.gas2grid.com.

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Interest and other income** | 2 | 22,114 | 56,824 |
| **Expenses** | | | |
| Impairment of deferred exploration expenditure | | - | (43,288) |
| Administration expense | | (81,162) | (86,184) |
| Auditor's remuneration | 18 | (39,076) | (63,240) |
| Employee benefits expense | | (39,083) | (61,830) |
| Management and Directors fees | 15 | (301,000) | (301,000) |
| Depreciation | | - | (4,373) |
| Finance costs | | (919,892) | (813,879) |
| Insurance costs | | (19,137) | (16,853) |
| Licences renewal costs | | (74,192) | (71,169) |
| Rental expenses | | (29,888) | (33,034) |
| Share-based payments | 17 | (41,600) | (44,400) |
| Net foreign exchange loss | | (2,817) | (381) |
| Loss before income tax | | (1,525,733) | (1,482,807) |
| Income tax expense | 3 | - | - |
| **Loss from continuing operations** | | (1,525,733) | (1,482,807) |
| **Other comprehensive income** | | - | - |
| **Other comprehensive loss for the year, net of tax** | | - | - |
| **Total comprehensive loss for the year** | | (1,525,733) | (1,482,807) |
| Loss for the year attributable to the owners of Gas2Grid Limited | | (1,525,733) | (1,482,807) |
| Total comprehensive loss for the year attributable to owners of Gas2Grid Limited | | (1,525,733) | (1,482,807) |
| **Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:** | | Cents | Cents |
| Basic and diluted loss per share | 19 | (0.16) | (0.16) |

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

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 222,856 | 43,075 |
| Trade and other receivables | 5 | 20,848 | 22,870 |
| Total current assets | | 243,704 | 65,945 |
| | | | |
| **Total assets** | | 243,704 | 65,945 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 6 | 59,032 | 81,438 |
| Provisions | 7 | 1,706 | 6,423 |
| Total current liabilities | | 60,738 | 87,861 |
| | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 6 | 1,021,073 | 647,055 |
| Borrowings | 8 | 8,097,323 | 7,289,125 |
| Total non-current liabilities | | 9,118,396 | 7,936,180 |
| | | | |
| **Total liabilities** | | 9,179,134 | 8,024,041 |
| | | | |
| **Net liabilities** | | (8,935,430) | (7,958,096) |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 9 | 32,101,943 | 31,595,144 |
| Reserves | 10(a) | 275,402 | 233,802 |
| Accumulated losses | 10(b) | (41,312,775) | (39,787,042) |
| | | | |
| **Total deficit** | | (8,935,430) | (7,958,096) |

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

| | Contributed Equity $ | Accumulated Losses $ | Reserves $ | Total Equity/(Deficit) $ |
|---|---|---|---|---|
| **Balance at 1 July 2016** | 31,579,694 | (38,304,235) | 189,402 | (6,535,139) |
| **Total comprehensive loss for the year** | - | (1,482,807) | - | (1,482,807) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Contributions of equity, net of transaction costs | 15,450 | - | - | 15,450 |
| Employee Incentive Plan | - | - | 44,400 | 44,400 |
| **Balance at 30 June 2017** | 31,595,144 | (39,787,042) | 233,802 | (7,958,096) |
| **Total comprehensive loss for the year** | - | (1,525,733) | - | (1,525,733) |
| **Transactions with owners in their capacity as owners:** | | | | |
| Contributions of equity, net of transaction costs | 506,799 | - | - | 506,799 |
| Employee Incentive Plan | - | - | 41,600 | 41,600 |
| **Balance at 30 June 2018** | 32,101,943 | (41,312,775) | 275,402 | (8,935,430) |

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

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 368 | 877 |
| Other income | | 21,746 | 116,696 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (344,177) | (288,965) |
| **Net cash outflow from operating activities** | 11 | (322,063) | (171,392) |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for exploration expenditure | | - | (52,116) |
| Proceeds from sale of fixed assets | | - | 3,060 |
| Repayment of security deposits | | - | 27,207 |
| **Net cash outflow from investing activities** | | - | (21,849) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 500,000 | - |
| Proceeds from sale of EIP shares surrendered | | 12,050 | 15,700 |
| Proceeds from borrowings | | 110,000 | 150,000 |
| Repayment of borrowings | | (100,000) | - |
| Interest paid | | (13,929) | - |
| Share transaction costs | | (5,251) | (250) |
| **Net cash inflow from financing activities** | | 502,870 | 165,450 |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | 180,807 | (27,791) |
| Cash and cash equivalents at the beginning of year | | 43,075 | 74,511 |
| Effects of exchange rate changes on cash and cash equivalents | | (1,026) | (3,645) |
| **Cash and cash equivalents at end of year** | 4 | 222,856 | 43,075 |

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

## 1. Segment information

The Group operates a petroleum exploration business performing geological and geophysical studies, exploratory drilling of wells and seismic surveys in the Philippines and France. The Group manages these activities from its head office in Sydney, Australia, a branch office in Manila, Philippines and an office in Singapore.

| | Australia | France | Philippines | Total |
|---|---|---|---|---|
| **2018** | **$** | **$** | **$** | **$** |
| **Interest and other income** | | | | |
| Interest income | 368 | - | - | 368 |
| Other income | 21,746 | - | - | 21,746 |
| Total segment revenues | 22,114 | - | - | 22,114 |
| **Segment results** | | | | |
| Loss for the year | (1,451,541) | (26,541) | (47,651) | (1,525,733) |
| Including: | | | | |
| Share-based payments | (41,600) | - | - | (41,600) |
| Licences renewal costs | - | (26,541) | (47,651) | (74,192) |
| **Segment assets** | 238,297 | - | 5,407 | 243,704 |
| **Segment liabilities** | 9,152,353 | 5,580 | 21,201 | 9,179,134 |
| **2017** | | | | |
| **Interest and other income** | | | | |
| Interest revenue | 877 | - | - | 877 |
| Other income | 55,947 | - | - | 55,947 |
| Total segment revenues | 56,824 | - | - | 56,824 |
| **Segment results** | | | | |
| Loss for the year | (1,368,350) | (41,957) | (72,500) | (1,482,807) |
| Including: | | | | |
| Depreciation and amortisation | (4,373) | - | - | (4,373) |
| Share-based payments | (44,400) | - | - | (44,400) |
| Impairment of deferred exploration expenditure | - | - | (43,288) | (43,288) |
| Licences renewal costs | - | (41,957) | (29,212) | (71,169) |
| **Segment assets** | 64,289 | - | 1,656 | 65,945 |
| **Segment liabilities** | 8,007,017 | 17,024 | - | 8,024,041 |

## 2. Interest and other income

| | 2018 | 2017 |
|---|---|---|
| | **$** | **$** |
| Interest | 368 | 877 |
| Other income | 21,746 | 55,947 |
| | 22,114 | 56,824 |

## 3. Income tax expense

### (a) Numerical reconciliation of income tax expense to prima facie tax payable

| | 2018 $ | 2017 $ |
|---|---|---|
| Loss from continuing operations before income tax expense | (1,525,733) | (1,482,807) |
| Tax at Australian tax rate of 27.5% (2017 – 27.5%) | (419,577) | (407,772) |
| Tax effect of : | | |
| Non-temporary differences | 45,950 | 23,803 |
| Equity raising costs debited to equity | (16,349) | (28,049) |
| Tax losses and temporary differences not recognised | 389,976 | 412,018 |
| Income tax expense | - | - |

### (b) Tax losses

| | 2018 $ | 2017 $ |
|---|---|---|
| Unused tax losses for which no deferred tax asset has been recognised | (15,327,722) | (14,708,015) |
| Potential tax benefit @ 27.5% (2017 – 27.5%) | (4,215,123) | (4,044,704) |

The taxation benefits will only be obtained if:

(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;

(ii) the Group continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Group in realising the benefits from the deductions for the loss.

The Directors are of the view that there is insufficient probability that the Parent Entity and its subsidiaries will derive sufficient income in the foreseeable future to justify booking the tax losses and temporary differences as deferred tax assets and deferred tax liabilities.

## 4. Current assets – Cash and cash equivalents

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash at bank and in hand | 222,856 | 43,075 |

## 5. Current assets – Trade and other receivables

| | 2018 $ | 2017 $ |
|---|---|---|
| Other receivables | 9,941 | 8,144 |
| Prepayments | 10,907 | 14,726 |
| | 20,848 | 22,870 |

### Credit risk

There is no significant credit risk with respect to other receivables and prepayments. There are no debtors or other receivables that are considered past due.

| | 2018 $ | 2017 $ |
|---|---|---|

## 6. Trade and other payables

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Trade payables and other creditors | 59,032 | 81,438 |
| | | |
| **Non-current** | | |
| Trade payables and other creditors | - | 70,630 |
| Fees payable to Directors (including GST and accrued finance costs) | 968,692 | 576,425 |
| Establishment fees on Directors' loans not included under loan facility | 52,381 | - |
| | 1,021,073 | 647,055 |

At 30 June 2018, Directors have agreed for the amounts owing to them at balance date to be settled on 16 October 2019 or earlier at the Company's option. Interest at the rate of 9% per annum is provided quarterly in arrears.

## 7. Provisions

| | 2018 $ | 2017 $ |
|---|---|---|
| **Current** | | |
| Provision for annual leave | 1,706 | 6,423 |

## 8. Non-current Borrowings

| | 2018 $ | 2017 $ |
|---|---|---|
| Loans from Directors' related entities | 8,097,323 | 7,289,125 |

See remuneration report on pages 12 to 16 for details on the loans.

Interest and establishment fees for the year covered under the loan facility agreements amounting to $798,198 (2017: $771,846) are included in the loans and not paid. The loan facilities expire on 16 October 2019 and a fixed interest rate of 9% per annum accruing quarterly in arrears applies.

## 9. Contributed equity

| | Notes | 2018 Shares | 2017 Shares | 2018 $ | 2017 $ |
|---|---|---|---|---|---|
| **a) Share capital** | | | | | |
| Ordinary shares - fully paid | (b),(c) | 1,132,409,076 | 913,409,076 | 32,101,943 | 31,595,144 |

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### b) Movements in ordinary share capital:

**2018**

| | Details | Notes | Number of shares | Issue price | $ |
|---|---|---|---|---|---|
| **1 Jul 17** | **Balance at beginning of year** | | 913,409,076 | | 31,595,144 |
| **(i)** | **Non- cash transactions** | | | | |
| 05 Dec 17 | Shares issued under EIP to Director | (d) | 12,000,000 | 0.008 | - |
| 22 Jan 18 | Shares issued under EIP | (d) | 7,000,000 | 0.004 | - |
| | | | 19,000,000 | | - |
| **(ii)** | **Cash transactions** | | | | |
| 14 Dec 17 | Sale of 6,025,000 shares surrendered under EIP | (d) | - | 0.002 | 12,050 |
| 7 Mar 18 | Share Purchase Plan | | 100,000,000 | 0.0025 | 250,000 |
| 16 Mar 18 | Share placement | | 100,000,000 | 0.0025 | 250,000 |
| | Less: Transaction costs | | - | | (5,251) |
| | **Total movement for the year** | | 219,000,000 | | 506,799 |
| **30 Jun 18** | **Balance at end of year** | | 1,132,409,076 | | 32,101,943 |

**2017**

| | Details | Notes | Number of shares | Issue price | $ |
|---|---|---|---|---|---|
| **1 Jul 16** | **Balance at beginning of year** | | 901,409,076 | | 31,579,694 |
| **(j)** | **Non- cash transactions** | | | | |
| 05 Dec 16 | Shares issued under EIP to Director | | 12,000,000 | 0.008 | - |
| | | | 12,000,000 | | - |
| **(ii)** | **Cash transactions** | | | | |
| 22 Mar 17 | Sale of 6,500,000 shares surrendered under EIP | | - | 0.002 | 13,000 |
| 09 May 17 | Sale of 900,000 shares surrendered under EIP | | - | 0.003 | 2,700 |
| | Less: Transaction costs | | - | | (250) |
| | **Total movement for the year** | | - | | 15,450 |
| **30 Jun 17** | **Balance at end of year** | | 913,409,076 | | 31,595,144 |

### c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### d) Employee Incentive Plan (EIP) shares

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 17.

Loans extended under the EIP for 6,025,000 shares, including 3,500,000 shares, for a Director, were not repaid at their maturity date during the year. Under the terms of the EIP those shares were sold and the

Company has retained the proceeds as payment of the loans with no further recourse to the EIP loans.

**Share issue**

On 29 November 2017 the Annual General Meeting approved the issue of 12,000,000 fully paid ordinary shares under EIP to a Director. The shares were issued on 5 December 2017. The terms of the issue of EIP shares are disclosed in Note 17.

**EIP shares granted at balance date**

| No. of shares | Expiry date | Loan amount ($) |
|---|---|---|
| 750,000 | 15 October 2018 | 22,500 |
| 13,000,000 | 21 November 2018 | 390,000 |
| 1,800,000 | 28 October 2019 | 36,000 |
| 9,000,000 | 26 November 2019 | 180,000 |
| 12,000,000 | 25 November 2020 | 96,000 |
| 12,000,000 | 1 December 2021 | 96,000 |
| 12,000,000 | 4 December 2022 | 96,000 |
| 7,000,000 | 16 January 2023 | 28,000 |
| 67,550,000 | | 944,500 |

Loans owing on the EIP shares at balance date were $944,500.

### e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide reasonable returns for shareholders and benefits for other stakeholders and to maintain a capital structure that minimises the cost of capital to the extent achievable.

In order to maintain or adjust the capital structure, the Company may issue new shares to raise funds in the equity market, farmout interests in its licences to fund exploration expenditure, sell assets and reduce debt.

There were no changes to the Group's approach to capital management during the year.

## 10. Reserves and accumulated losses

| | 2018 $ | 2017 $ |
|---|---|---|
| **a) Reserves** | | |
| Share-based payments reserve | 2,110,333 | 2,068,733 |
| Foreign currency translation reserve | (1,834,931) | (1,834,931) |
| | 275,402 | 233,802 |
| **Movements:** | | |
| *Share-based payments reserve* | | |
| Balance at beginning of year | 2,068,733 | 2,024,333 |
| Option expense | 41,600 | 44,400 |
| Balance at end of year | 2,110,333 | 2,068,733 |
| *Foreign currency translation reserve* | | |
| Balance at beginning and end of year | (1,834,931) | (1,834,931) |
| **b) Accumulated losses** | | |
| Movements in accumulated losses were as follows: | | |
| Balance at beginning of year | (39,787,042) | (38,304,235) |
| Loss for the year | (1,525,733) | (1,482,807) |
| Balance at end of year | (41,312,775) | (39,787,042) |

### c) Nature and purpose of reserves

*i. Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options issued but not exercised and the fair value of shares issued under the Employee Incentive Plan.

*ii. Foreign currency translation reserve*

Exchange differences arising on translation of the foreign subsidiary taken to the foreign currency translation reserve, as described in Note 21(d). The reserve is recognised in profit and loss when the net investment is disposed of.

## 11. Reconciliation of loss after income tax to net cash flows from operating activities

| | 2018 $ | 2017 $ |
|---|---|---|
| Loss for the year | (1,525,733) | (1,482,807) |
| Depreciation and amortisation | - | 4,373 |
| Directors' fees included in non-current creditors | 301,000 | 301,000 |
| Impairment of deferred exploration expenditure | - | 43,288 |
| Finance costs | 919,892 | 813,879 |
| Gain on disposal of fixed assets | - | (3,060) |
| Net exchange differences | (1,026) | 3,645 |
| Other costs included in non-current creditors | | 25,350 |
| Other costs transferred from non-current creditors | (32,696) | - |
| Share based payments | 41,600 | 44,400 |
| Change in operating assets and liabilities: | | |
| (Increase)/Decrease in trade and other receivables | (1,797) | 69,815 |
| (Decrease)/Increase in trade and other payables | (22,405) | 7,190 |
| Decrease/(Increase) in prepayments | 3,819 | 7,749 |
| (Decrease)/Increase in provisions | (4,717) | (6,214) |
| Net cash outflow from operating activities | (322,063) | (171,392) |

## 12. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Share-based payments*

The fair value of shares issued under the Gas2Grid Limited Employee Incentive Plan is measured by reference to the fair value of options granted. The Employee Incentive Plan shares granted with loans repayable at the option of the holder are treated on an akin to share options in accordance with generally accepted accounting principles.The fair value estimate is based on the Black Scholes option-pricing model. The contractual life of the options is used as an input into the model. Further information regarding assumptions is included in Note 17.

## 13. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board and the interest rates risk and credit risks faced by the Group are considered minimal at this stage.

The Group holds the following financial instruments:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 222,856 | 43,075 |
| Trade and other receivables | 9,941 | 8,144 |
| | 232,797 | 51,219 |
| **Financial liabilities** | | |
| Trade and other payables - current | 59,032 | 81,438 |
| Trade and other payables – Non-current | 1,021,073 | 647,055 |
| Borrowings | 8,097,323 | 7,289,125 |
| | 9,177,428 | 8,017,618 |

### (a) Market risk

*i. Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and Philippines Peso.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the reporting date, other than translation of overseas subsidiaries, was not material.

*ii. Interest rate risk*

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities, is as follows:

| | | Fixed interest rate maturing | | Non-interest bearing | | |
|---|---|---|---|---|---|---|
| | Variable interest rate | Within 1 year | 1 to 5 years | Within 1 year | 1 to 5 years | Total |
| **2018** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 222,856 | - | - | - | - | 222,856 |
| Trade and other receivables | - | - | - | 9,941 | - | 9,941 |
| | 222,856 | - | - | 9,941 | - | 232,797 |
| **Financial liabilities** | | | | | | |
| Trade and other payables | - | - | 1,021,073 | 59,032 | - | 1,080,105 |
| Borrowings | - | - | 8,097,323 | - | - | 8,097,323 |
| | - | - | 9,118,396 | 59,032 | - | 9,177,428 |

| | | Fixed interest rate maturing | | Non-interest bearing | | |
|---|---|---|---|---|---|---|
| | Variable interest rate | Within 1 year | 1 to 5 years | Within 1 year | 1 to 5 years | **Total** |
| **2017** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 43,075 | - | - | - | - | 43,075 |
| Trade and other receivables | - | - | - | 8,144 | - | 8,144 |
| | 43,075 | - | - | 8,144 | - | 51,219 |
| **Financial liabilities** | | | | | | |
| Trade and other payables | - | - | 647,055 | 81,438 | - | 728,493 |
| Borrowings | | - | 7,289,125 | - | - | 7,289,125 |
| | - | - | 7,936,180 | 81,438 | - | 8,017,618 |

The Group's main interest rate risk arises from cash and cash equivalents and deposits with banks.

The Group is not exposed to price risk.

*Group sensitivity*
At 30 June 2018, if interest rates had changed by -/+ 100 basis points ("bps") from the year-end rates with all other variables held constant, post-tax profit for the year would have been $2,229 lower/higher (2017 - change of 100 bps: $431 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks held at balance date.

### (b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

### (c) Liquidity risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash or finance facilities to fund operations. Surplus funds are generally only invested in short term deposits with Australian banks.

*Financing arrangements*

At 30 June 2018, the Group had access to borrowing facilities of $8,700,000 bearing interest at a fixed rate of 9% and is available until 16 October 2019. At balance date an amount of $8,097,323 represented the total principal drawn and finance costs accrued under the facilities.

*Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table reflect the contractual undiscounted cash flows (including interest payments where applicable under non-interest bearing liabilities), which may differ to the carrying values of the liabilities at the reporting date. The amounts are based on conditions existing at the balance date and may change depending on decisions taken by the group.

| | Less than 6 months | 6 – 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount liabilities |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **At 30 June 2018** | | | | | | | |
| Non-derivatives | | | | | | | |
| Fixed rate | 59,032 | - | 10,229,122 | - | - | 10,229,122 | 9,177,428 |
| Total non-derivatives | 59,032 | - | 10,229,122 | - | - | 10,229,122 | 9,177,428 |
| | | | | | | | |
| **At 30 June 2017** | | | | | | | |
| Non-derivatives | | | | | | | |
| Fixed rate | 438,566 | 373,199 | 8,893,713 | - | - | 9,705,478 | 8,017,618 |
| Total non-derivatives | 438,566 | 373,199 | 8,893,713 | - | - | 9,705,478 | 8,017,618 |

### (d) Net fair values

The hierarchy of the fair value measurement of the Group's financial assets and liabilities was as follows:

| | Note | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **2018** | | | | | |
| **Assets** | | | | | |
| Total | (a) | 232,797 | - | - | 232,797 |
| **Liabilities** | | | | | |
| Total | (b) | - | - | (9,177,428) | (9,177,428) |
| **Net fair value** | | 232,797 | - | (9,177,428) | (8,944,631) |
| | | | | | |
| **2017** | | | | | |
| **Assets** | | | | | |
| Total | (a) | 51,249 | - | - | 51,219 |
| **Liabilities** | | | | | |
| Total | (b) | - | - | (8,017,618) | (8,017,618) |
| **Net fair value** | | 51,249 | - | (8,017,618) | (7,9 66,399) |

***Measurement of fair value***

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
(b) Level 3: inputs for the liabilities that are not based on observable market data (unobservable inputs).

| | 2018 $ | 2017 $ |
|---|---|---|

## 13. Commitments

**Lease commitments**

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | | |
|---|---|---|
| Not later than one year | 32,939 | 15,359 |
| Later than one year but not later than 5 years | 6,918 | 19,327 |
| | 39,857 | 34,686 |

## 14. Events occurring after the reporting period

There has not arisen in the interval since 30 June 2018 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years other than the following:

- in August 2018, the Company received penalties and costs totalling Euros 414,877 imposed by the Tribunals in France on the French Government for delay in granting the St Griede permit under the judgement handed down in November 2016 and for failing to provide reasons for not granting the Mirande permit within directed time limit.

## 15. Related party transactions

### (a) Key management personnel compensation

| | | |
|---|---|---|
| Short-term employee benefits | 301,000 | 301,000 |
| Post-employment benefits | - | - |
| Long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments (see Note 17) | 27,600 | 44,400 |
| | 328,600 | 345,400 |

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 16.

### (b) Other transactions and balances

Other transactions with and balances at reporting date with key management personnel or their related entities are disclosed in the remuneration report on pages 12 to 16 and in Notes 6 and 8.

## 16. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 21(b).

| Name of entity | Country of incorporation | Class of shares | Equity holding* | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| | | | **%** | % |
| Gas2Grid Pte Limited | Singapore | Ordinary | 100 | 100 |
| Wellfin Pty Limited | Australia | Ordinary | 100 | 100 |

*The proportion of ownership interest is equal to the proportion of voting power held.

## 17. Share-based payments

The Company has established a Gas2Grid Limited Employee Incentive Plan ("EIP") under which the Directors may offer options for free and ordinary shares at market price in the Company to eligible persons. The Directors may also offer interest free non-recourse loans for terms of up to 5 years under the plan for subscription of shares. Under such loans the Company holds a lien over the issued shares and the loans are repayable at the option of the eligible persons to be able to deal with the shares. Shares issued under the EIP in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from the eligible persons in relation to these loans are not recognised in the financial statements. Refer to the Remuneration Report contained in the Directors' Report on pages 12 to 16 for details of the Gas2Grid Limited Employee Incentive Plan.

During the year, 12,000,000 shares were issued at $0.008 per share to Director Mr P Sam Yue (market price at grant date was $0.003 per share) with non-recourse loans totalling $96,000 as approved by shareholders at the Annual General Meeting held on 29 November 2017. There are no vesting conditions on the shares issued.

| | 2018 SHARES | 2017 SHARES |
|---|---|---|
| **Balance at beginning of year** | 54,575,000 | 49,975,000 |
| Granted during the year | 19,000,000 | 12,000,000 |
| Surrendered during the year | (6,025,000) | (7,400,000) |
| **Balance at end of year** | 67,550,000 | 54,575,000 |

The model inputs for assessing the fair value of shares granted under the EIP, applying the Black-Scholes Option Pricing Model, during the year and in prior year are:

| Shares issued under EIP | Issue and grant date | Exer-cise price $ | Share price at grant date $ | Life assump-tion | Risk free rate | Expected price volatility of Company's share price | Value of option $ | Value of share based payment $ |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| 12,000,000 | 05/12/17 | 0.008 | 0.003 | 5 years | 2.09% | 135% | 0.0023 | 27,600 |
| 7,000,000 | 22/01/18 | 0.004 | 0.003 | 5 years | 2.39% | 125% | 0.0020 | 14,000 |
| | | | | | | | | 41,600 |
| **2017** | | | | | | | | |
| 12,000,000 | 29/11/16 | 0.008 | 0.004 | 5 years | 2.26% | 170% | 0.0037 | 44,400 |

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

## 18. Remuneration of auditors

During the year the following fees were paid or payable for the remuneration of auditors:

| | 2018 $ | 2017 $ |
|---|---|---|
| Remuneration of the current auditor for: | | |
| - auditing or reviewing the financial reports | 28,000 | - |
| Remuneration of the previous auditor for: | | |
| - auditing or reviewing the financial reports (PWC) | 11,076 | 63,240 |
| Total remuneration for audit services | 39,076 | 63,240 |

No non-audit services were provided.

## 19. Earnings per share

| | 2018 Cents | 2017 Cents |
|---|---|---|
| **a) Basic and diluted earnings (loss) per share** | | |
| From continuing operations attributable to the ordinary equity holders of the Company | (0.16) | (0.16) |

**b) Reconciliations of earnings (loss) used in calculating earnings per share**

| | 2018 $ | 2017 $ |
|---|---|---|
| *Basic and diluted earnings/(loss) per share* | | |
| Loss from continuing operations | (1,525,733) | (1,482,807) |
| Loss from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | (1,525,733) | (1,482,807) |

### c) Weighted average number of shares used as the denominator

| | 2018 Number | 2017 Number |
|---|---|---|
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | 983,811,816 | 908,214,555 |
| *Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share* | 983,811,816 | 908,214,555 |

## 20. Parent entity financial information

The Parent Entity within the Group is Gas2Grid Limited and this is also the ultimate Parent Entity within the Group. The investment by the Parent Entity in subsidiaries at 30 June 2018 is $1 (2017: $1).

### a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

| | 2018 $ | 2017 $ |
|---|---|---|
| **Balance sheet** | | |
| Current assets | 243,704 | 65,945 |
| Total assets | 243,704 | 65,945 |
| | | |
| Current liabilities | 60,738 | 87,861 |
| Non-current liabilities | 9,542,878 | 8,360,664 |
| Total liabilities | 9,603,616 | 8,448,525 |
| | | |
| Net (liabilities)/assets | (9,359,912) | (8,382,580) |
| | | |
| *Shareholders' equity* | | |
| Issued capital | 32,101,943 | 31,595,144 |
| Reserves | 275,402 | 233,800 |
| Accumulated losses | (41,737,257) | (40,211,524) |
| | (9,359,912) | (8,382,580) |
| | | |
| **Loss for the year** | (1,525,733) | (1,482,807) |
| **Total comprehensive loss** | (1,525,733) | (1,482,807) |

### b) Guarantees entered into by the Parent Entity

The Parent Entity has not entered into any financial guarantees as at 30 June 2018 (2017: nil).

### c) Contingent liabilities of the Parent Entity

The Parent Entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

### d) Contractual commitments for the acquisition of property, plant or equipment

The Parent Entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2018 or 30 June 2017.

## 21. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Gas2Grid Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Gas2Grid Limited is a for-profit entity for the purpose of preparing the financial statements.

*i. Compliance with IFRS*

The consolidated financial statements of the Gas2Grid Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Financial Reporting Standards Board (IASB).

*ii. Historical cost convention*

These financial statements have been prepared under the historical cost convention.

*iii. Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 12.

*iv. Going concern – Emphasis of matter*

The consolidated financial statements of the Group have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

At 30 June 2018, the Group had net liabilities of $8,935,430 (2017: Net liabilities of $7,958,096) including $8,097,323 in Directors' loans and $1,021,073 in Directors' fees and accrued finance charges that fall due for repayment on 16 October 2019. The Group has made a loss of $1,525,733 for the year ended 30 June 2018.

Management is actively pursuing extension of SC 44 following expiry of the technical moratorium on 27 January 2017 and persevering with legal attempts to seek recovery of its investment in the St Griede permit in France which had not been renewed by the French Government on improper legal grounds as ruled by the tribunal. In December 2017, the French Government issued a Decree to extend the St. Griede permit to 31 May 2018. The French Government effectively provided only 5 months to complete a 5 years' proposed work commitment. That extension is being challenged in the Tribunal by the Company. The Decree disregarded the November 2016 Tribunal judgement directing an extension of 5 years from the date of the judgement.

Although the Group is still planning to undertake exploration activities on its tenement in Cebu once its tenure has been extended, it has currently only budgeted for those amounts that the financial position of the Group allows. Consistent with the nature of the Group's activities, its ongoing investment of funds into further exploration projects, will only be possible as and when sufficient funds are available to the Group. In the short term additional funds may be required for the Group to continue as a going concern.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of the business and at the amounts stated in the financial report.

At the date of this report, the Directors are of the opinion that there are reasonable grounds to expect that the Group will be able to continue as a going concern. In arriving at this conclusion, the Directors considered the followings:

- The expiry date of the loan facilities from related entities of Directors (D Morton, D Munns and P Sam Yue) was extended to 16 October 2019. The undrawn amount on these loans is $603,000 at 30 June 2018 and is able to be drawn upon in the short term.
- The Director's fees and management fees can continue to be deferred and not paid in cash by the Group.
- If required, management will negotiate to extend the maturity terms of the loan facilities and the fees payable to the Directors beyond the current maturity date on 16 October 2019.
- Depending on the outcome of the SC 44 matter, selling of two drilling rigs and other field equipment.
- Receipt in August 2018 of Euros 414,877 (approximately A$627,300) in penalty and awarded costs from the French Government.

In the longer term, the continuing ability of the Group to continue as a going concern and to undertake exploration activities and repay Directors' loans, outstanding fees and interest is dependent upon resolution of the above SC 44 and St Griede issues.

If the extension of SC 44 is granted, management's preferred option is to sell part of the Group's interest in SC 44 and enter into joint venture for the potential development of the project. However, new equity capital may also be sought.

On that basis the Directors have prepared the financial report on a going concern basis. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2018. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The financial report for the year ended 30 June 2018 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gas2Grid Limited ("Company" or "Parent Entity") as at 30 June 2018 and the results of its subsidiaries for the year then ended. Gas2Grid Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is expected to, or has rights to, variable returns from its investment in the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. (refer to Note 21(p)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

**(d) Foreign currency translation**

*i. Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Gas2Grid Limited's functional and presentation currency.

*ii. Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

**(e) Revenue recognition**

Interest revenue is recognised using the effective interest rate.

Other revenue is recognised from the rendering of services to the customer.

**(f) Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

**(g) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (i) Cash and cash equivalents

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (j) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as non-current liabilities when the Group has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

### (l) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are discounted to their present values, where the time value of money is material. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (m) Share-based payments

Share-based compensation benefits may be provided to employees and eligible persons via an employee incentive plan.

The fair value of options or shares granted under an employee incentive plan is recognised as share-based payment with a corresponding increase in equity. The Employee Incentive Plan shares granted with loans repayable at the option of the holder are treated on an akin to share options in accordance with generally accepted accounting principles. The total amount to be expensed is determined by reference to the fair value of the options or shares granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

### (n) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (o) Earnings per share

*i. Basic earnings per share*

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*ii. Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (p) Investment in subsidiaries

Investments in subsidiaries are accounted for at cost. Trade amounts receivable from the subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables.

### (q) Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### (r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

### (s) Leases

Leases to which a significant portion of the risks and rewards of the ownership are not transferred to the Group as leases are classified as operating leases (Note 13). Payments under operating leases are charged to income statement on a straight line basis over the period of the lease.

### (t) New and effective standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2017. The adoption of these standards did not result in changes in accounting policies and did not amend the amounts recognised in the financial statements. Additional disclosures required by these standards have been included where relevant.

### (u) New accounting standards and interpretation

Certain new accounting standards and interpretations have been published that are not mandatory for annual reporting periods ending 30 June 2018 and have not been adopted early by the Group as follows:

- AASB 9 Financial Instruments, which becomes mandatory for the Group's 2019 financial statements. A detailed impact assessment is yet to be completed, however, no significant impact on the Group's financial performance or position, on transition date at 1 July 2018 is expected.

- AASB 15 Revenue from Contracts with Customers, which becomes mandatory for the Group's 2019 financial statements. While a detailed impact assessment is yet to be completed, management expects the majority of current revenue recognition practice not to be significantly impacted by the new standard.

- AASB 16 Leases, which becomes mandatory for the Group's 2020 financial statements. Whilst work is yet to commence, this standard will ultimately result in a portion of the Group's operating leases to be accounted for on balance sheet as a "right to use asset" and "lease liability" upon adoption of the standard on 1 July 2019. This standard will also result in reclassification of operating lease expense into depreciation and finance expenses, and a reclassification of certain cash flows from operating into financing activities.

- AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15.

- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.

**(v) Parent entity financial information**

The financial information for the Parent Entity, Gas2Grid Limited, disclosed in Note 20 has been prepared on the same basis as the consolidated financial statements.

In the Directors' opinion:

a) the financial statements and notes set out on pages 20 to 44 are in accordance with the *Corporations Act 2001,* including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 21(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Dennis Morton
Director

Sydney
28 September 2018

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
GAS2GRID LIMITED**

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of Gas2Grid Limited, the Company and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; 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 auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### *Emphasis of Matter Going Concern*

We draw attention to Note 21 a (iv) of the financial report, which describes that the financial statements have been prepared on a going concern basis. As at 30 June 2018, the Group had working capital of $182,966 and had incurred a loss for the year of $1,525,733. The ability of Gas2Grid Limited to continue as a going concern is subject to the company being able to draw down and or extend loan facilities, defer directors' fees and management fees and a successful recapitalisation of Gas2Grid Limited.

In the event that the Board is not successful in these matters and in raising further funds, Gas2Grid Limited may not be able to pay its debts as and when they become due and may be required to realise its assets and discharge its liabilities other than in the normal course of business, and at amounts different to those stated in the financial report. Our conclusion is not modified in respect of this matter.

Stantons International

### *Key Audit Matters*

Apart from the matter referred to in the Emphasis of Matter paragraph, there are no other key audit matters.

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

### *Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

Stantons International

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

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

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

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2018.

In our opinion the Remuneration Report of Gas2Grid Limited for the year ended 30 June 2018 complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

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

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**
**(Trading as Stantons International)**
**(An Authorised Audit Company)**

Stantons International Audit & Consulting Pty Ltd

Martin Michalik

**Martin Michalik**
Director

West Perth, Western Australia
28 September 2018

The shareholder information set out below was applicable as at 20 September 2018.

**1. Substantial Shareholders**

**Substantial Shareholders in the Company are set out below:**

| | Ordinary shares – number held | Percentage of issued shares |
|---|---|---|
| Dennis Morton | 180,288,187 | 15.92 |
| Patrick Sam Yue | 124,090,999 | 10.95 |
| David Munns | 67,262,973 | 5.94 |
| Darren Reeder | 59,772,618 | 5.28 |

**2. Voting rights**

The voting rights attached to the shares are, on a show of hands every member present in person or by proxy shall have one vote and upon a poll, are one vote for each share held.

**3. On-market buy-back**

There is no current on-market buy-back.

**4. Distribution of Shareholders**

(i) Analysis of numbers of shareholders by size of holding:

| Number of shares | Number of Shareholders |
|---|---|
| 1-1,000 | 115 |
| 1,001-5,000 | 27 |
| 5,001- 10,000 | 115 |
| 10,001-100,000 | 548 |
| 100,001 – and over | 453 |
| | **1,258** |

(ii) There were 852 shareholders with less than a marketable parcel of shares

## 5. Twenty largest Shareholders

| Name of Shareholder | Number held | Percentage of issued shares |
|---|---|---|
| LAMDIAN PTY LTD <SAMYUE SUPERFUND A/C> | 72,590,999 | 6.410 |
| BUDSIDE PTY LTD <EMPLOYEES SUPERANNUATION FUND> | 69,580,843 | 6.144 |
| MR DENNIS MORTON | 68,799,999 | 6.076 |
| MR DARREN WESLEY REEDER | 59,772,618 | 5.278 |
| OCTAN ENERGY PTY LTD | 51,000,000 | 4.504 |
| MR DAVID MUNNS | 37,829,927 | 3.341 |
| BUDSIDE PTY LIMITED | 34,727,345 | 3.067 |
| REMORA PTY LTD | 22,169,000 | 1.958 |
| VESWAY PTY LTD <ESVSY SUPER FUND A/C> | 21,936,666 | 1.937 |
| POBELO SUPER PTY LTD <POBELO P/L SUPER FUND A/C> | 20,000,000 | 1.766 |
| MR W Y M SAM YUE | 18,000,000 | 1.590 |
| MRS MAN SUN NG | 16,817,662 | 1.485 |
| MS JENNIFER ASHLEY MORTON | 16,429,108 | 1.451 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 13,763,512 | 1.215 |
| WALCOTT SUPER FUND PTY LTD <THE WALCOTT SUPER | 11,949,434 | 1.055 |
| MR DAVID ALLISTAIR MUNNS | 11,666,666 | 1.030 |
| MR MARC-KENSON BROWN | 11,125,000 | 0.982 |
| MR MANUEL FREDERICO ENRIQUE | 11,097,531 | 0.980 |
| MR NICHOLAS JAMES MORTON | 11,052,492 | 0.976 |
| SOLENTE NOMINEES PTY LTD | 10,617,187 | 0.938 |
| **Twenty largest shareholders** | 590,925,989 | 52.183 |
| **Others** | 541,483,087 | 47.817 |
| | **1,132,409,076** | **100.0000** |

## SCHEDULE OF OIL AND GAS TENEMENTS

| LOCATION | TEENEMENT NAME | HOLDER | INTEREST | AREA | STATUS |
|---|---|---|---|---|---|
| Cebu Island, The Philippines | Service Contract 44 | Gas2Grid Pte Ltd | 100% | 750 $km^2$ | Extension application |
| Onshore Aquitaine Basin, France | St Griede Licence | Gas2Grid Limited | 100% | 653 $km^2$ | Renewal to 31/05/2018. Under dispute |