Consolidated Financial Report for the Half-Year to 31 December 2019

This document should be read in conjunction with the Annual Financial Report of XCD Energy Limited for the year ended 30 June 2019

DIRECTORS:	Peter Stickland (Non-Executive Chairman) Dougal Ferguson (Managing Director) Anthony Walsh (Non-Executive Director)
COMPANY SECRETARY:	Arron Canicais
REGISTERED OFFICE:	Level 1, 35 Outram Street West Perth, Western Australia 6005 Tel: +61 (8) 9381 4975 Email: info@xcdenergy.com
AUDITORS:	**Stantons International** Level 2, 1 Walker Avenue West Perth, WA 6005 Tel: +61 (8) 9481 3188 Fax: +61 (8) 9321 1204
SHARE REGISTRY:	**Computershare Investor Services Pty Ltd** Level 11, 172 St Georges Terrace Perth, Western Australia 6000 GPO Box D182 Perth, Western Australia 6840 Tel: 1300 850 505 (Within Australia) +61 3 9415 4000 (Outside Australia) Fax: +61 3 9473 2500 (Within Australia)
LEGAL ADVISORS:	**HWL Ebsworth** Level 20 240 St Georges Terrace Perth, Western Australia 6000
BANKERS:	**Westpac Banking Corporation** 109 St George Terrace Perth, Western Australia 6000

The directors of XCD Energy Limited (ACN 108 403 425) ("Parent Entity" or "Company" or "XCD Energy") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity or Group") for the half-year ended 31 December 2019 ("Period"). The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names of the directors of the Company who held office during or since the end of the half-year are as follows.

Peter Stickland (Non-Executive Chairman)
Dougal Ferguson (Managing Director)
Anthony Walsh (Non-Executive Director)

OPERATING RESULTS

The operating loss for the Group, after income tax amounted to $500,342 (31 December 2018, restated loss of $8,514,391). The loss incurred during the current half year was as a result of the increased activity levels of the Company and the ongoing exploration of the Alaskan leases, collectively named Project Peregrine. Exploration costs have generally been capitalised during the half year and the loss is made up of corporate, general and administration costs and non-cash share-based payments expenses.

The substantial loss from the previous half year was largely attributable to deconsolidation of a foreign subsidiary of $8,133,982 recognising a foreign currency translation loss over the years when the subsidiary was consolidated for reporting purposes.

REVIEW OF OPERATIONS

XCD Energy is an oil exploration company focussed on early stage exploration assets located on the North Slope of Alaska. The Company holds 17 leases within the National Petroleum Reserve of Alaska ("NPR-A") covering 195,373 acres over the highly prospective Nanushuk trend ("Project Peregrine"). Project Peregrine is around 35km south of the Willow discoveries owned and operated by ConocoPhillips which is estimated to be between 450–800 MMBOE (refer to Figure 1).

During the half year, the Company completed the reprocessing of approximately 600km (365 miles) of 2D seismic data originally acquired by the United States Geological Survey (USGS) in the 1970's and 1980's. The reprocessed data, along with other regional seismic and well data, was integrated into a more detailed proprietary study, named the Integrated Nanushuk Technical Regional Overview or INTRO Project, which involved detailed basin modelling over the area of interest, building a sequence stratigraphy framework for the region and full petrophysical interpretation of all the regionally significant wells. This study used expertise from around the world and formed the basis for the prospective resource estimations completed by ERC Equipoise Pte Ltd ("ERCE") (refer to Table 1 on the following page).

Upon completion of the study, the Company has now embarked on a farm-out campaign aimed at introducing partners to the 100% owned lease position to either drill two low cost exploration wells or alternatively, conduct a 3D seismic program over the key prospects identified in the winter of 2021.

New Lease Acquisitions

During the half year, the Company was announced as the high bidder on 45,783 acres (4 leases) in the NPR-A, Oil and Gas Lease Sale 2019. The new leases complement and are adjacent to XCD Energy's existing 149,590 acres Project Peregrine and contain analogous leads to the Harpoon prospect being drilled by ConocoPhillips in its 2020 exploration drilling program (refer to Figure 1).

The National Petroleum Reserve – Alaska, Oil and Gas Lease Sale 2019 was the most successful lease sale in over a decade with over US$11 million in bids being received by BLM over the 1,051,216 acres bid. In addition to XCD Energy's additional four leases, ConocoPhillips acquired a further three leases and Armstrong Oil and Gas ("Armstrong") acquired 85 leases over a large holding of around 1 million acres to the west of Borealis, an existing lease holder in the NPR-A. Armstrong also recently announced the acquisition of a 72% working interest in Borealis' Castle West Prospect that covers 8 leases amounting to approximately 92,000 acres immediately adjacent to Armstrong's recent lease position.

Regional drilling activity currently underway, focussed on the Nanushuk play, includes ConocoPhillips drilling up to 4 wells on the Harpoon Prospect north west of XCD Energy's leases and a further 4 appraisal wells on the Willow oil discovery north of XCD Energy's leases.

Oilsearch Limited (ASX:OSH) has also announced recent success in the Nanushuk play at its Mitquq-1 well and very recently, announced shows at the Stirrup well which are now being evaluated north east of XCD Energy's leases.

XCD estimates that up to US$270MM is being spent on appraisal and exploration activities of the Nanushuk play during the 2020 winter drilling season, being from approximately December 2019 through to April 2020.

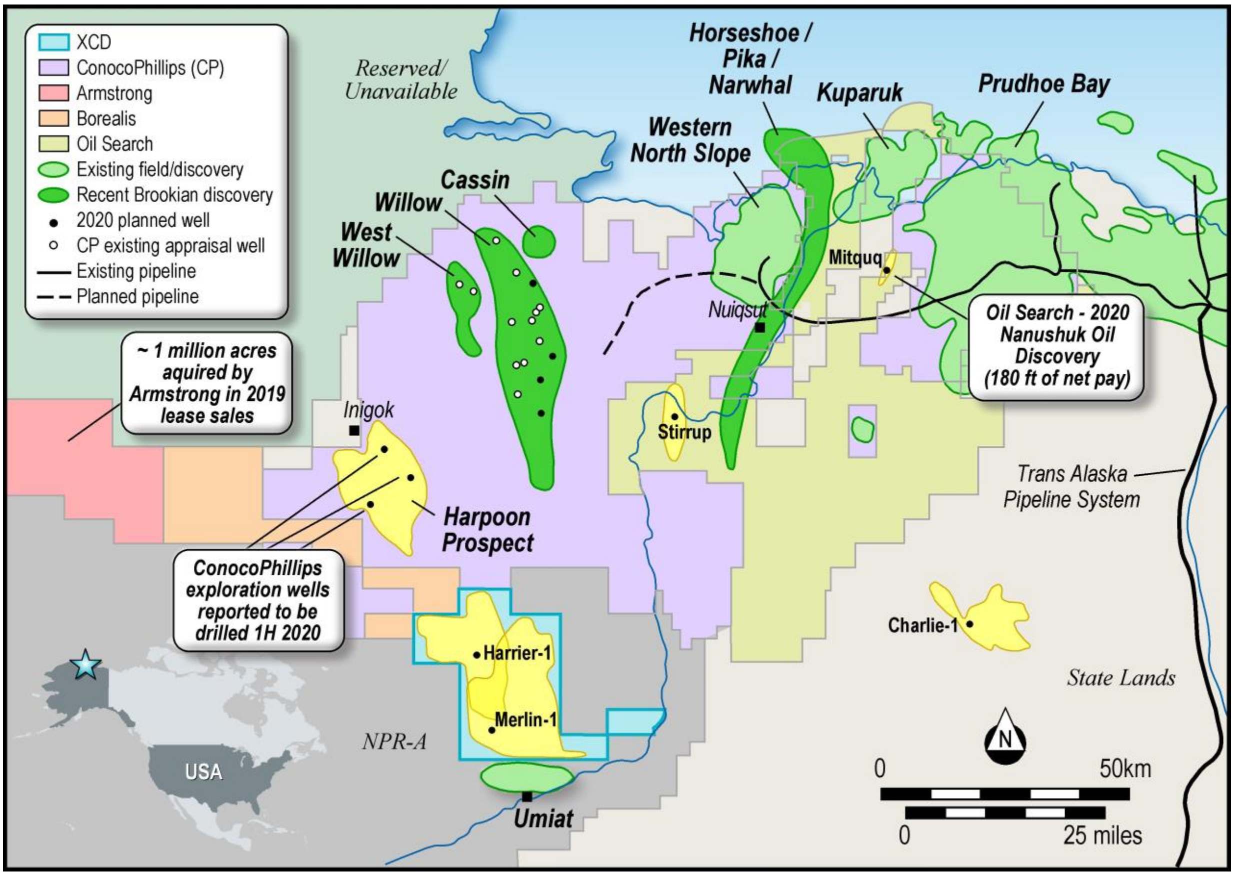

Figure 1: Map of XCD Energy leases relative to other major operators in the region

Independent Prospective Resource Report

Subsequent to the end of the half year, the Company completed its maiden independent prospective resources report which was undertaken by ERCE (refer to the ASX announcement dated 21 January 2020).

The data used to compile the independent prospective resource report includes reprocessed 2D seismic data, basin modelling, petrophysical analysis of publicly available wells and historical geological records. The data was compiled and interpreted by XCD and was reviewed, validated and in some cases modified independently by ERCE.

Table 1 below summarises the results of the independent resource estimates, with the range of low (1U) through to high (3U) reflecting the exploratory nature of the prospects and the mean estimates being within the discovered field size distribution of the region.

Table 1: Excerpt from the ERCE Prospective Resource Report

Project Peregrine: Alaska North Slope	**Unrisked Net Entitlement to XCD [1,2] Prospective Oil Resources (MMstb)**				
Prospects (Probabilistic Calculations)	**Low (1U)**	**Best (2U)**	**High (3U)**	**Mean**	**COS [4]**
Merlin (Nanushuk)	***40***	***257***	***1,411***	***622***	***32%***
Harrier (Nanushuk)	***48***	***207***	***959***	***420***	***18%***
Harrier Deep (Torok)	***42***	***266***	***1,333***	***572***	***20%***
Prospects Total				***1,614 [3]***	

1. *The working interest share of the Prospective Resources is the net entitlement interest to XCD which is calculated as 86% of 100% Working interest after deduction of state royalty (12.5%) and an overriding royalty interest (1.5%) which is accounted for in the table above.*

2. *The Prospective Resources include the resources associated with four provisionally awarded leases which XCD expects to be formally issued in Q1 2020 (highlighted in dark blue in Figure 1).*

3. The unrisked means, which have been arithmetically added to arrive at 1.6 billion barrels in total, is not representative of the expected total from the three prospects and assumes a success case in all three wells.

4. COS represents the geological chance of success of at least one of the stacked layers which comprise each prospect. This excludes phase risk which ERCE has estimated to be 70% oil (30% gas). The Prospective Resources have also not been adjusted for the chance of development, which is estimated by XCD to be 60% (including phase risk), ERCE sees this as reasonable based on the data available. Quantifying the chance of development (COD) requires consideration of both economic contingencies and other contingencies, such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are outside the knowledge of ERCE they must be used with caution

**Cautionary Statement: The estimated quantities of petroleum that may be potentially recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation are required to determine the existence of a significant quantity of potentially movable hydrocarbons.*

XCD Energy is not aware of any new information or data that materially affects the information included in the ASX announcement of 21 January 2020 and that all the material assumptions and technical parameters underpinning the estimates in the ASX announcement continue to apply and have not materially changed.

Corporate and Financial

On 23 October 2019, the Company announced it had received commitments to raise $2 million (before costs) by way of a two-tranche placement. During the half year, the Company completed both the Tranche 1 portion of the raise utilising XCD's existing placement capacity under Listing Rule 7.1, and Tranche 2 of the raise following receipt of shareholder approval at the Company's Annual General Meeting held on 29 November 2019.

As part of the capital raise which was completed at $0.01 per share, one free attaching option was issued on the ratio of 1 option for every 2 fully paid shares subscribed for and will be exercisable at $0.02 per option on or before 30 November 2022. These unlisted options have since been converted into quoted options listed on the ASX.

On 1 August 2019, the Company issued 20 million performance rights to the Managing Director of the Company as part of his remuneration package. Details of the various terms and condition of the performance rights are provided in Note 10 of the Financial Statements.

During the period, the Company also agreed to issue 17,450,000 Broker Options to corporate advisors as consideration for assisting with the placement of shares undertaken in late 2019, the fair value of which has been recorded as part of share issue costs and therefore not recognised as an expense in the reporting period. The options vested on grant date and expire on 30 November 2022.

As at 31 December 2019, the Company has approximately 700 million shares on issue and approximately $2.7M in cash.

There were no changes to the capital structure during the half year other than noted above.

Auditors Independence Declaration

In accordance with the *Corporations Act 2001* section 307C, the auditors of the Company, Stantons International have provided a signed auditors independence declaration to the directors in relation to the half-year ended 31 December 2019. This declaration has been attached to the independent review report to the members of the Company.

Signed in accordance with a resolution of the directors.

Dougal Ferguson
Managing Director

10 March 2020
Perth, Western Australia

DIRECTORS' DECLARATION

The directors of XCD Energy Limited A.C.N. 108 403 425 ("Company") declare that:

a) in their opinion the accompanying financial statements and notes of the Consolidated Entity;

 i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

 ii) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and

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

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Dougal Ferguson
Managing Director

10 March 2020
Perth, Western Australia

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Half-Year to 31 December 2019 $	Restated Half-Year to 31 December 2018 $
CONTINUING OPERATIONS			
Revenue	2	5,793	23,304
Foreign currency gain / (loss)		(15,300)	87,327
Other expenses	2	(490,835)	(491,040)
Loss from continuing operations before income tax		(500,342)	(380,409)
Income tax		-	-
Loss from continuing operations after income tax		(500,342)	(380,409)
Loss on deregistration of foreign subsidiary	9	-	(8,133,982)
Loss after income tax		(500,342)	(8,514,391)
Other comprehensive income			
Items which are subsequently reclassified to profit or loss			
Foreign currency translation differences	4	(2,914)	(4,611)
Reclassification to P&L on deregistration of foreign subsidiary	9	-	8,367,368
Other comprehensive loss for the period, net of income tax		(503,256)	(151,634)
Total comprehensive loss for the period		(503,256)	(151,634)
Comprehensive loss attributable to:			
Members of the parent entity:		(503,256)	(151,634)
Basic and diluted loss from continuing operations per share (cents per share)		(0.01)	(0.12)
Basic and diluted earnings / (loss) per share (cents per share)		(0.01)	(2.79)

The accompanying notes form part of this financial report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	2,743,128	1,624,016
Trade and other receivables		148,199	75,090
Total Current Assets		2,891,327	1,699,106
NON-CURRENT ASSETS			
Plant and Equipment		14,715	16,993
Right of use asset	6	51,361	-
Deferred exploration expenditure	7	4,211,737	3,809,479
Other receivables		427,792	426,821
Total Non-Current Assets		4,705,605	4,253,293
Total Assets		7,596,932	5,952,399
CURRENT LIABILITIES			
Trade and other payables		205,159	134,409
Lease liability		20,731	-
Provisions		24,969	7,344
Total Current Liabilities		250,859	141,753
NON-CURRENT LIABILITIES			
Lease liability		33,829	-
Total Non-Current Liabilities		33,829	-
Total Liabilities		284,688	141,753
Net Assets		7,312,244	5,810,646
EQUITY			
Issued capital	3	67,190,869	65,259,579
Reserves	4	18,879,352	18,806,019
Accumulated losses		(78,757,977)	(78,254,952)
Total Equity		7,312,244	5,810,646

The accompanying notes form part of this financial report

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-Year to 31 December 2019 $	Half-Year to 31 December 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers & employees	(408,474)	(503,252)
Interest received	6,323	23,304
Net Cash (used in) Operating Activities	(402,151)	(479,948)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit paid on additional lease acquisition	(74,178)	(50,000)
Payment on exploration expenditure	(271,118)	-
Net Cash (used in) / from Investing Activities	(345,296)	(50,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from equity issues	2,000,000	-
Payments related to equity issues	(104,700)	-
Lease liability payment	(12,828)	
Net Cash provided by Financing Activities	1,882,472	-
Net Increase (Decrease) in Cash and cash equivalents	1,135,024	(529,948)
Net foreign exchange differences	(15,913)	80,278
Cash and cash equivalents at beginning of period	1,624,016	4,353,622
Cash and cash equivalents at end of Period	2,743,128	3,903,952

The accompanying notes form part of this financial report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Attributable to Members of the Group	**Issued Capital $**	**Option Premium Reserve $**	**Currency Translation Reserve $**	**Accumulated Losses $**	**Total Equity $**
At 1 July 2018	63,039,578	5,741,262	4,650,886	(69,255,091)	4,176,635
Restated loss for period	-	-	-	(8,514,391)	(8,514,391)
Other comprehensive loss					
Currency translation differences	-	-	(4,611)	-	(4,611)
Deregistration of foreign subsidiary	-	-	8,367,368	-	8,367,368
Total comprehensive result for the period	-	-	8,362,757	(8,514,391)	(151,634)
Share based payment	-	36,703	-	-	36,703
At 31 December 2018	63,039,578	5,777,965	13,013,643	(77,769,482)	4,061,704

Attributable to Members of the Group	**Issued Capital $**	**Option Premium Reserve $**	**Currency Translation Reserve $**	**Accumulated Losses $**	**Total Equity $**
At 1 July 2019	65,259,578	5,783,868	13,022,151	(78,254,951)	5,810,646
Change in accounting policy	-	-	-	(2,684)	(2,684)
Restated	65,259,578	5,783,868	13,022,151	(78,257,635)	5,807,962
Loss for period	-	-	-	(500,342)	(500,342)
Other comprehensive loss					
Currency translation differences	-	-	(2,914)	-	(2,914)
Total comprehensive result for the period	-	-	(2,914)	(500,342)	(503,256)
Issue of shares	2,100,000	-	-	-	2,100,000
Share issue cost	(168,709)	-	-	-	(168,709)
Share based payment	-	76,247	-	-	76,247
At 31 December 2019	67,190,869	5,860,115	13,019,237	(78,757,977)	7,312,244

NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. The half-year financial report should be read in conjunction with the annual Financial Report of XCD Energy Limited as at 30 June 2019. It is also recommended that the half year financial report be considered together with any public announcements made by XCD Energy Limited during the half year ended 31 December 2019 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

a. Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of XCD Energy Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 10 March 2020.

b. Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except for those as described below.

New and Amended Standards adopted by the Group

The Group has considered the implications of new and amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following Standard:

- AASB 16: *Leases*

The impact of the adoption of this Standard and the respective accounting policies is disclosed below.

Changes in Accounting Policies

This note describes the nature and effect of the adoption of AASB 16: Leases on the Group’s financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As a result of the changes in Group’s accounting policies, prior year financial statements were required to be restated. However, the Group has adopted AASB 16: Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised as 1 July 2019.

Leases

At inception of a contract the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. leases with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially, the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows;

- fixed lease payments less any lease incentives;
- variable lease payments that depend on index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of options to terminate the lease.

NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

The right-of-use asses comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the costs of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

c. Going Concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Consolidated Entity to continue as a going concern is dependent upon the farm-down or partial sale of its Alaskan assets and/or future capital raisings. The directors believe that at the date of signing the financial report they have reasonable grounds to believe the group will have sufficient funds to meet its obligations as and when they fall due.

Should the Company not successfully achieve a partial sale or farm-down of assets and/or future capital raisings, there will be a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern and therefore realise its assets and discharge its liabilities in the normal course of business.

NOTE 2. REVENUE, INCOME AND EXPENSES

The loss before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:

	Half-Year to 31 December 2019 $	Half-Year to 31 December 2018 $
Revenue		
Interest received	5,793	23,304
Charging as Expenses		
Directors, employees and consultants	310,835	216,629
Depreciation of plant & equipment and right of use asset	12,584	1,694
Cost of share based payment	23,897	36,702
Lease interest expense	1,519	-
Other	142,000	236,015
	490,835	491,040

	Half-Year to 31 December 2019 $	Year to 30 June 2019 $
NOTE 3. ISSUED CAPITAL		
Ordinary Shares		
699,728,934 (30 June 2019: 489,728,934) fully paid ordinary shares	67,190,869	65,259,579
Movements in ordinary shares:		
At the beginning of the period	65,259,579	63,039,579
48 million shares on 4 Nov 2019 at $0.01 each	480,000	-
152 million shares on 11 Dec 2019 at $0.01 each	1,520,000	-
10 million shares in lieu of services provided on 11 Dec 2019 at $0.01 each	100,000	-
185 million shares issued for the acquisition of new project	-	2,220,000
Share issue costs	(168,710)	-
At the end of the financial period	67,190,869	65,259,579

NOTE 4. RESERVES

Option premium reserve	5,860,115	5,783,869
Currency translation reserve	13,019,237	13,022,150
	18,879,352	18,806,019
Movements in option premium reserve:		
At the beginning of the period	5,783,868	5,741,262
Share based payments expense	76,247	42,606
At the end of the financial period	5,860,115	5,783,868
Movements in currency translation reserve:		
At the beginning of the period	13,022,151	4,650,886
Movement for the period	(2,914)	3,897
Reclassification to P&L	-	8,367,368
At the end of the financial period	13,019,237	13,022,151

NOTE 5. RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash on hand and at bank	2,243,128	1,624,016
Cash at call	500,000	-
	2,743,128	1,624,016

As per the policy of the Company for cash flow purposes, cash and cash equivalents are made up of all cash on hand and cash at bank and at call.

NOTE 6. RIGHT OF USE ASSET

Head Office Lease		
Cost	82,222	-
Accumulated depreciation	(30,861)	-
	51,361	-

The right of use asset comprises of a lease agreement for office premise rental over a period of four years, commencing from 1 July 2018

NOTE 7. CAPITALISED EXPLORATION EXPENDITURE

	Half-Year to 31 December 2019 $	Year to 30 June 2019 $
Cost at the beginning of the period		
Acquisition of asset	3,809,479	-
Additions	-	3,732,841
Impairment	402,258	76,638
Cost at the end of the period	-	-
	4,211,737	3,809,479

The ultimate recoupment of cost carried forward for capitalised exploration expenditure is dependent on the successful development and commercial exploitation or sale of the respective lease areas

NOTE 8. SEGMENT INFORMATION

Primary Reporting Business Segments

During the half-years ended 31 December 2019 and 31 December 2018, the Consolidated Entity operated entirely in the oil and gas industry. The consolidated entity operates in two geographical segments, Australia and North America.

Secondary Reporting Geographical Segments

	Total Revenue $	Segment Profit/(Loss) $
Half-Year to 31 December 2019:		
Australia	5,793	(500,332)
North America	-	(10)
Total	5,793	(500,342)
Half-Year to 31 December 2018:		
Australia	23,304	(380,409)
North America	-	(8,133,982)
Total	23,304	(8,514,391)

	Segment Assets $	Segment Liabilities $
Half-Year to 31 December 2019:		
Australia	6,569,751	284,686
North America	1,027,181	-
Total	7,596,932	284,686
Year to 30 June 2019:		
Australia	5,448,940	141,753
North America	503,459	-
Total	5,952,399	141,753

Segment revenues, expenses and results may include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length. These transfers are eliminated on consolidation.

NOTE 9. DISSOLUTION OF SUBSIDIARY

On 13 September 2018, the Group's US subsidiary (Entek GRB LLC) was dissolved. In the 31 December 2018 half year report, the Group recognised a net loss on deregistration of $10,412,442. This loss is largely attributable to the reclassification of foreign currency translation movement over the years when the US subsidiary was consolidated for reporting purposes. Entek GRB LLC was deconsolidated from the Group at 31 December 2018. This net loss on deregistration was restated in the 30 June 2019 financial statements to $8,133,982 due to an oversight and is also restated here in the comparative figures of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The foreign currency translation reserve value of $8,367,368 was transferred to the P&L.

NOTE 10. SHARE BASED PAYMENT EXPENSES

The Company issued 20 million performance rights to the Managing Director of the Company as part of his remuneration package. These 20 million performance rights were issued subsequent to shareholders' approval at a general meeting dated 1 August 2019, which were issued in four tranches, with the following vesting conditions and associated terms:

- 5,000,000 performance rights (tranche 1) will vest when the 20 days volume weighted average price ("VWAP") is greater than $0.025, last vesting date of 30 June 2021 and expiry date of 30 June 2024;
- 5,000,000 performance right (tranche 2) will vest when the 20 days VWAP is greater than $0.05, last vesting date of 30 June 2024 and expiry date of 30 June 2027;
- 5,000,000 performance rights (tranche 3) will vest with the completion of a farm-out transaction for one or more of the Alaskan Leases on or before 30 June 2022 and expiry on 30 June 2025; and
- 5,000,000 performance rights (tranche 4) will vest when tranche 3 has been satisfied and the successfully drilling of an exploration well in the Alaskan Leases on or before 30 June 2023 and expiry on 30 June 2026.

During the period, the Company also agreed to issue 17,450,000 Broker Options to corporate advisors as consideration for assisting with the placement of shares undertaken in late 2019, the fair value of which has been recorded as part of share issue costs and therefore not recognised as an expense in the reporting period. The options vested on grant date and expire on 30 November 2022.

The fair value of the options is valued at $52,350, based on the closing price at the date of recognition.

NOTE 11. CONTINGENT LIABILITIES

During the year ended 30 June 2019, the Company deregistered its US subsidiary, Entek GRB LLC. The deregistration resulted in several security bonds being forfeited by the Group. These security bonds were put in place by Entek GRB LLC to cover any rehabilitation costs associated with the assets of Entek GRB LLC. As at 31 December 2019, the Directors are of the opinion that the agreements made by Entek GRB LLC as part of the de-registration process relieves the Group of any further liability, however, there is a risk that a claim could be made against the Group and accordingly, the Directors consider this to be a contingent liability as at 31 December 2019. At this stage, it is not possible to quantify an amount of any potential claim.

Apart from the above, there are no other contingent liabilities as at 31 December 2019.

NOTE 12. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 12 February 2020, 17.45 million broker options were issued as part of the corporate advisor and joint lead manager mandate and a total of 117.45 million unquoted options with an exercise price of $0.02 each and expiry date of 30 November 2022 were converted into quoted options and listed on the ASX.

No other matters or circumstances have arisen since the end of the reporting date which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

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 REVIEW REPORT
TO THE MEMBERS OF
XCD ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of XCD Energy Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for XCD Energy Limited (the consolidated entity). The consolidated entity comprises both XCD Energy Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of XCD Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of XCD Energy Limited on 10 March 2020.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of XCD Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

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

Stantons International Audit and Consulting Pty Ltd
Samir

Samir Tirodkar
Director

West Perth, Western Australia
10 March 2020

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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

10 March 2020

Board of Directors
XCD Energy Limited
Level 1
35 Outram Street
West Perth WA 6005

Dear Directors

RE: XCD ENERGY 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 XCD Energy Limited.

As the Audit Director for the review of the financial statements of XCD Energy Limited for the half year ended 31 December 2019, 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 review; and

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

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
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Samir Tirodkar
Director