



ANNUAL REPORT

2019

STATE GAS LIMITED

ACN 617 322 488

Annual Report – 30 June 2019

| | |
|--|----|
| Corporate directory | 2 |
| Chairman's letter | 3 |
| Directors' report | 5 |
| Directors and Company Secretary | |
| Principal activities | |
| Dividends | |
| Review of operations | |
| Significant changes in the state of affairs | |
| Events after reporting period | |
| Likely developments and expected results of operations | |
| Environmental regulation | |
| Information on Directors | |
| Meetings of Directors | |
| Remuneration report (Audited) | |
| Shares under option | |
| Insurance of officers and indemnities | |
| Proceedings on behalf of the Company | |
| Non-audit services | |
| Auditor's independence declaration | 25 |
| Corporate governance statement | 26 |
| Financial report | 27 |
| Directors' declaration | 57 |
| Independent auditor's report to the members | 58 |
| Shareholder information | 62 |

Corporate directory

| | |
|------------------------------------|--|
| Directors | A Bellas <i>B.Econ, DipEd, MBA, FAICD, FCPA, FGS</i> R Cottee <i>BA, LLB (Hons)</i> G Baynton <i>M.Econ St, MBA, B.Bus , FGIA, FGS</i> R Towner I Paton <i>BSc MPetEng MBA</i> |
| Company Secretary | S M Yeates <i>CA, B.Bus</i> |
| Principal Place of Business | Level 8, 46 Edward Street, Brisbane QLD 4000 |
| Registered Office | Level 8, 46 Edward Street Brisbane QLD 4000 |
| Share register | Link Market Services Limited Level 15, 324 Queen Street Brisbane QLD 4000 www.linkmarketservices.com.au |
| Auditor | BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au |
| Solicitors | Allens Linklaters Level 26, 480 Queen Street Brisbane QLD 4000 www.allens.com.au |
| Bankers | Westpac Banking Corporation |
| Stock exchange listing | State Gas Limited shares are listed on the Australian Securities Exchange (ASX: GAS). |
| Website address | www.stategas.com |

Chairman's letter

Letter from the Chairman

Dear Shareholder

It is a distinct pleasure to write my first Chairman's letter as Chairman of your Company.

We live in interesting times, as the old Chinese proverb goes. The domestic gas market remains very tight and the extent to which it tightens is primarily driven by the rate of decline of Bass Strait production. Whilst only roughly a quarter of domestic gas is consumed in the electricity sector, with aging generators being replaced by intermittent power, the role of gas is becoming increasingly important in creating reliability in the grid. This dynamic looks as if it will increase over time and along with netback LNG prices will drive the domestic price. That being said, it is important that the supply /demand curve is not brought back into balance by what is euphemistically called "demand management" if that comes at the expense of industrial jobs.

State Gas has a golden opportunity to not only help the nation but also reap the rewards from doing so. Hence our new strategy "Target 2021" for our Reid's Dome Project in Petroleum Lease 231. This is an ambitious target from a timing point of view, but your Board and State Gas management remains committed to it. This strategy has three phases, the first of which has already commenced and is fully funded.

Phase 1 - Confirming Potential

The potential of CSG in Reid's Dome in PL 231 looks very promising and it is less than 50 km from existing infrastructure. The work to be undertaken during this phase falls into 3 categories, namely:

Seismic Interpretation: State Gas located seismic data from a survey which had been shot in the 1980s but remained unprocessed. We have just completed the processing of this seismic and it has given us greater confidence in the extensive nature and depth of the coals.

Drilling and Testing: In Q4 of calendar 2019 we are undertaking at least 2 production tests of 3-6 months duration. We will select the best sites after analysis of data from a potential 3 locations. In addition, two new wells, one cored, in different areas of the permit, will be drilled and tested. By the beginning of calendar 2020 we should have a handle on the permeability and gas content.

Pipeline: We are undertaking route survey work so that if there is sufficient data to support it, we will go out to tender to pipeline owners for them to undertake engineering and permitting activities with a view to commence construction at the end of phase 2.

Phase 2 - Establishing reserves and entry into a GSA

Dependent on the results of Phase 1, this phase involves pilot production testing with the aim of establishing Saleable reserves sufficient to underwrite, to the extent necessary, the construction of the Pipeline connecting Reid's Dome to the pipeline network. As the results come to hand, we will embark on a marketing programme to secure State Gas' first Gas Sale Agreement("GSA"). With a fair wind these activities may be completed during calendar 2020.

Phase 3 - Development and production

At the end of this phase State Gas will be the proud recipient of significant cash flows.

Whilst Mother Nature always has the capacity to surprise, the risk/reward proposition looks very enticing given the short timeframe between the deployment of risk capital to the receipt of steady income.

If we achieve our objective State Gas will have made a useful contribution to the national dilemma of the energy “crisis”, increased the diversity of gas supply (with the concomitant increase in competition) as well as providing substantial shareholder value – our primary duty.

I look forward to an exciting year ahead.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R Cottee', with a stylized flourish at the end.

Richard Cottee
Chairman
State Gas Limited

Directors' report

Your Directors present their report on the Company for the year ended 30 June 2019.

Directors and Company Secretary

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

G Baynton
A Bellas
I Paton
R Towner

Richard Cottee was appointed as a Director and Executive Chairman on 3 June 2019 and continues in office at the date of this report. Mr Bellas, former Chairman, has remained on the Board as Deputy Chairman.

The Company Secretary is Mrs S Yeates. Mrs Yeates was appointed to the position of Company Secretary on 7 June 2017. She is a Chartered Accountant, Founder and Principal of Outsourced Accounting Solutions Pty Ltd. She holds similar positions with other public and private companies.

Principal activities

The principal activity of the company during the financial year was the development of PL231.

No significant change in the nature of these activities occurred during the year.

Dividends

The Directors do not recommend the payment of a dividend. No dividend was paid during the year.

Review of operations

The 2018-19 financial year has been an important period for your Company with significant developments in the key areas of personnel, operations and our principal asset, the Reid's Dome Project on Petroleum Lease 231.

The year was bookended by two very significant personnel appointments. In July 2018, Mr James Crowley *BSc(Hons)* took up his role as Chief Operating Officer. Mr Crowley, a highly experienced exploration geologist, has a proven track record of adding petroleum production and reserves through initial exploration, appraisal and development of projects. He immediately proved his value in his review of the geology on PL 231, identifying, for the first time, the potential for significant gas to be present in the coals of the Reid's Dome Beds.

In June this year we were very pleased to have Mr Richard Cottee join us as Executive Chairman of the Company. Mr Cottee is internationally renowned for his experience, commercial strategy and acumen within the energy and utilities sector. As Managing Director of Queensland Gas Company from 2002 to 2008, he took the company from an early stage explorer with a market value of \$20m to a major non-conventional gas supplier valued at \$5.7 billion upon sale to Britain's BG Group in 2008.

Late 2018 saw State Gas undertake its first major exploration activities, drilling the Primero West-1 and Nyanda-4 wells. The results of the Primero West-1 appraisal well were as an appraisal well should be - in line with expectations, confirming the western extent of the previously discovered “Primero” gas pool. The results of the Nyanda-4 corehole were much more exciting. As the first well investigating the gas potential of the coals in the Reid’s Dome Beds, Nyanda-4 has established the potential for a significant coal seam gas project in this area of the Bowen Basin.

However, not only did State Gas’ first wells produce good results, they were delivered safely and efficiently, establishing a record for the Company as a competent operator.

Also during the year the Company was granted Pipeline Survey Licence 2028. Valid for a period of 2 years, the PSL entitles the Company to enter upon the land covered by the licence to investigate the route of a potential export pipeline. The area of the licence covers a broad area encompassing route options to the Rolleston Gas Plant to the north east, and to the Queensland Gas Pipeline to the south east.

The year also saw developments in the Company’s holding of its principal asset, PL 231. At the commencement of the year State Gas held a 60% interest in PL 231 and the associated Joint Venture (JV). In late November 2018 the Company acquired a further 20% interest in the permit and JV, and then in early December 2018 State Gas elected to exercise provisions in the JV Joint Operating Agreement to acquire the remaining 20% and increase its interest in PL 231 to 100%. This was resisted by the Company’s JV partner, and in early 2019 State Gas commenced legal proceedings to enforce its rights in this regard. The matter was heard on 16 September 2019, where the Court found in favour of State Gas.

The Company is now in a position to move forward on PL 231. And that is just what State Gas is doing. At the date of this report the Company is in the final stages of preparations for a drilling and testing campaign to progress the exploration and development of PL 231.

Tenement list

| Tenement | Permit Holder | Grant date | GAS Rights | Expiry date |
|-----------------|----------------------|-------------------|-----------------------|--------------------|
| PL 231 | State Gas Limited | 15/12/2005 | 80% | 14/12/2035 |

Significant changes in the state of affairs

In June 2019 the company completed a private placement of 7,000,000 ordinary shares at \$0.70 each to a sophisticated investor, raising a total of \$4.9m. The proceeds will be used for further drilling and appraisal activities at the Reid's Dome Gas Project in the Bowen Basin in Central Queensland.

In November 2018 State Gas increased its Participating Interest in the Reid's Dome Project from 60% to 80% by acquiring an additional 20% Participating Interest from its Joint Venture partner Dome Petroleum Resources Plc (Dome).

There were no other significant changes in the state of affairs of the Company during the financial year.

Likely developments and expected results of operations

Comments on likely developments and expected results of operations are included in the review of operations above.

Events after reporting period

On 16 September 2019 the Supreme Court in Queensland issued an order requiring Dome Petroleum Resources Plc (Dome) to execute the documents to affect the transfer of Dome's remaining 20% interest in PL 231 to State Gas Limited. The provisions of the Joint Operating Agreement, executed in February 2017, fix the price for the acquisition of the 20% interest at \$233,333. In addition, Dome has been ordered to pay the costs of State Gas Limited on an indemnity basis.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

Environmental regulation

The Company's operations are subject to environmental and other regulations. The Company has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration activities. The Company monitors compliance with relevant legislation on a continuous basis and the Directors are not aware of any compliance breaches up to the date of this report.

Information on Directors

The following information is current as at the date of this report.

G Baynton. *Executive Director*

| | |
|---|--|
| Experience and expertise | Mr Baynton has been a Director of Australian exploration companies for over 20 years. He is founder and Executive Director of investment and advisory firm, Orbit Capital Pty Ltd. Mr Baynton has experience in investment banking, merchant banking, infrastructure investment, IPOs, public company directorships, Queensland Treasury and the Department of Mines and Energy. |
| Other current directorships | Non-executive Director of Superloop Limited (ASX: SLC) and intelliHR Limited (ASX: IHR). Executive Director of NOVONIX Limited (ASX: NVX). |
| Former listed directorships in last 3 years | None. |
| Special responsibilities | None. |
| Interests in shares and options | 28,559,315 ordinary shares. |

A Bellas. Non-Executive Deputy Chairman

| | |
|---|---|
| Experience and expertise | <p>Mr Bellas brings over 30 years of experience in the public and private sectors. Tony was previously CEO of the Seymour Company, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Company, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company, operating over 3,500 MW of gas-fired and coal-fired plant at four locations.</p> <p>Tony had a long career with Queensland Treasury, achieving the position of Deputy Under Treasurer.</p> |
| Other current directorships | Chairman of Shine Limited (ASX: SHJ), NOVONIX Limited (ASX: NVX), intelliHR Limited (ASX: IHR) and The Endeavour Foundation. |
| Former listed directorships in last 3 years | Chairman of Corporate Travel Management Limited (ASX: CTD)(2010 - 2019) and ERM Power Limited (ASX: EPW) (2009 - 2019). |
| Special responsibilities | Deputy Chairman of the Board Member of the Audit Committee. |
| Interests in shares and options | 4,517,648 ordinary shares. |

R Cottee. *Chair – Executive Chairman*

| | |
|---|--|
| Experience and expertise | Mr Cottee is internationally renowned for his energy experience, commercial strategy and acumen within the energy and utilities sector. As former Managing Director of the Queensland Gas Company (QGC) from 2002 to 2008, he took the company from an early stage explorer to a major non-conventional gas supplier building the market value from \$20 million to \$5.7 billion facilitating the sale of QGC to Britain's BG Group. During his extensive career, he has also been CEO of Queensland Government-owned electricity generator CS Energy, NRG Europe and Managing Director of petroleum explorer-producers Nexus Energy Limited and Central Petroleum Limited. |
| Other current directorships | Chairman of Elixir Petroleum Limited (ASX: EXR). |
| Former listed directorships in last 3 years | Managing Director of Central Petroleum Limited (ASX: CTP) (2012 – 2019) |
| Special responsibilities | Chairman of the Board. |
| Interests in shares and options | None. |

R Towner. Non-Executive Director

| | |
|---|---|
| Experience and expertise | <p>Mr Towner has over 20 years of experience in the corporate advisory and finance sectors. He was appointed managing director & CEO of Triangle Energy (Global) Ltd in July 2014 and managed the Company's transition from operating Indonesian based assets to establishing a portfolio of Australian oil and gas projects, including the producing Cliff Head Oil Field and associated infrastructure in the Perth Basin, Western Australia.</p> <p>Rob has extensive experience in the oil and gas sector and has been involved in a number of capital raisings for projects throughout Australia, Canada, Asia and the USA since the early 1990's.</p> <p>Rob represents Triangle's 33.35% interest on the board of State Gas Ltd as a non-executive Director.</p> |
| Other current directorships | Managing Director of Triangle Energy (Global) Limited (ASX: TEG) and Non-Executive director of Botanix Pharmaceuticals Limited (ASX: BOT). |
| Former listed directorships in last 3 years | None. |
| Special responsibilities | Member of the Audit Committee. |
| Interests in shares and options | None. |

I Paton. Non-Executive Director

| | |
|---|---|
| Experience and expertise | Mr Paton is a geophysicist and petroleum engineer with substantial experience in the oil and gas industry having held senior technical and management roles in both exploration and development with companies such as Santos, Conoco, Coogee Resources, New Standard Energy and PTTEP. Among other roles, he was Exploration and Development Manager for Santos. He has been instrumental in many oil and gas discoveries in Australia and South East Asia over the last 30 years. |
| Other current directorships | None. |
| Former listed directorships in last 3 years | None. |
| Special responsibilities | Chairman of the Audit Committee. |
| Interests in shares and options | 2,000,000 options over ordinary shares. |

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

| | Full meetings of Directors | | Meetings of Audit Committee | |
|-----------|----------------------------|----|-----------------------------|---|
| | A | B | A | B |
| A Bellas | 21 | 21 | 2 | 2 |
| G Baynton | 21 | 21 | - | - |
| R Cottee | 1 | 1 | - | - |
| R Towner | 21 | 21 | 2 | 2 |
| I Paton | 21 | 21 | 2 | 2 |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Remuneration report (Audited)

The Directors present the State Gas Limited 2019 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

- (a) Key management personnel (KMP) covered in this report
- (b) Remuneration policy and link to performance
- (c) Elements of remuneration
- (d) Link between remuneration and performance
- (e) Remuneration expenses for executive KMP
- (f) Contractual arrangements for executive KMP
- (g) Non-executive Director arrangements
- (h) Additional statutory information

(a) Key management personnel covered in this report

Non-Executive and Executive Directors

A Bellas (Non-Executive Deputy Chairman)
G Baynton (Executive Director)
R Cottee (Executive Chairman – appointed 3 June 2019)
R Towner (Non-Executive Director)
I Paton (Non-Executive Director)

Other key management personnel

| <i>Name</i> | <i>Position</i> |
|-----------------------------------|-------------------------|
| J Crowley (appointed 2 July 2018) | Chief Operating Officer |
| L Snelling | Chief Executive Officer |

Changes since the end of the reporting period

No changes.

Remuneration report (Audited) (continued)

(b) Remuneration policy and link to performance

The role of a remuneration committee is performed by the full Board of Directors. The board reviews and determines the remuneration policy and structure annually to ensure it remains aligned to business needs, and conforms with our remuneration principles. In particular, the board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent
- aligned to the Company's strategic and business objectives and the creation of shareholder value
- transparent and easily understood, and
- align with shareholder interests and are acceptable to shareholders

| Element | Purpose | Performance metrics | Potential value | Changes for FY 2019 |
|-------------------------|--|--------------------------------|----------------------------------|---------------------|
| Fixed remuneration (FR) | Provide competitive market salary including superannuation and non-monetary benefits | Nil | Positioned at median market rate | No changes |
| LTI | Alignment to long-term shareholder value | Performance vesting conditions | Variable subject to share price. | No changes |

Long term incentives are assessed periodically and are designed to promote long-term stability in shareholder returns.

Assessing performance

The Board of Directors is responsible for assessing performance against KPIs and determining the LTI to be paid.

(c) Elements of remuneration

(i) Fixed annual remuneration (FR)

Executives receive their fixed remuneration as cash. FR is reviewed annually and is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The board has the flexibility to take into account capability, experience, value to the organisation and performance of the individual. The Company has not engaged an external remuneration consultant during FY2019.

Superannuation is included in FR for executives.

Remuneration report (Audited) (continued)

(ii) Short term incentives

Short term incentives were not in place for FY 2019.

(iii) Long-term incentives

Executive KMP participate, at the board's discretion, in the Long-term Incentive Program ("LTIP") comprising one off grants of options or performance rights with varying vesting conditions. The company does not have a formal LTIP, rather incentives are awarded at the discretion of the Board.

Options

During FY 2019 3,000,000 options were granted to the Chief Operating Office, James Crowley. Refer to the tables on pages 17-20 of this report for details of options on issue affecting remuneration.

Performance Rights

During FY 2019 5,000,000 performance rights were awarded to the Executive Chairman, Mr Richard Cottee. The performance rights expire on termination of employment or 3 June 2022, whichever is earlier.

The performance rights vest on 3 June 2021 (500,000) and 3 June 2022 (4,500,000) subject to the following performance related vesting conditions:

- Completion of two (2) years of service as Executive Chairman of State Gas Limited.
- Executive Chairman to Develop and arrange funding for, and deliver Phase 1 Work Program within the Reid's Dome Gas Project.
- If required by the Board, Executive Chairman to develop and arrange funding for, and deliver Phase 2 Work Program within the Reid's Dome Gas Project.
- Delivery and completion of a change-of-control transaction for State Gas that is recommended to shareholders by the Board of Directors.
- If required by the Board, completion of a material strategic acquisition by State Gas.

The grant of performance rights is subject to the approval of State Gas Shareholders at the Company's 2019 Annual General Meeting or an earlier General Meeting of Shareholders.

Refer to the tables on page 17-20 of this report for details of performance rights on issue affecting remuneration.

Remuneration report (Audited) (continued)

(d) Link between remuneration and performance

During the year, the Company has generated losses from its principal activity of developing PL231. As the Company is still growing the business, the link between remuneration, Company performance and shareholder wealth is difficult to define. Share prices are subject to the influence of fluctuation in the world market price for gas and general market sentiment towards the sector, and, as such, increases or decreases may occur quite independently of Executive performance.

Given the nature of the Company's activities and the consequential operating results, no dividends have been paid. There have been no returns of capital in the current or previous financial periods. The details of market price movements are as follows:

| | Share price |
|-----------------------|-------------|
| Year end 30 June 2019 | 65.0 cents |
| Year end 30 June 2018 | 15.5 cents |
| On admission to ASX | 20.0 cents |

(e) Remuneration expenses for executive KMP

The following table shows details of the remuneration expense recognised for the Company's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards. No KMP received any non-monetary benefits during the current or previous financial year.

Remuneration report (Audited) (continued)

| Name | Year | Fixed remuneration | | Variable remuneration | | Total | Performance related remuneration % |
|--|------|--------------------|--------------------------|-----------------------|---------------------|-----------|------------------------------------|
| | | Cash salary | Post-employment benefits | Options* | Performance Rights* | | |
| Executive Directors | | | | | | | |
| G Baynton | 2019 | 90,000 | 8,550 | - | | 98,550 | - |
| | 2018 | 91,667 | 8,707 | - | - | 100,374 | - |
| R Cottee (from 3 June 2019) | 2019 | 8,305 | 723 | - | 100,874 | 109,902 | 92% |
| | 2018 | - | - | - | - | - | - |
| Other key management personnel (Company) | | | | | | | |
| J Crowley (from 2 July 2018) | 2019 | 312,081 | 23,512 | 505,217 | - | 840,810 | 60% |
| | 2018 | - | - | - | - | - | - |
| L Snelling (from 22 February 2018) | 2019 | 159,230 | 14,749 | 95,212 | - | 269,191 | 35% |
| | 2018 | 54,985 | 5,224 | 96,163 | - | 156,372 | 61% |
| Non-Executive Directors | | | | | | | |
| A Bellas | 2019 | 50,000 | 4,750 | - | - | 54,750 | - |
| | 2018 | 37,500 | 3,563 | - | - | 41,063 | - |
| R Towner | 2019 | 40,000 | 3,800 | - | - | 43,800 | - |
| | 2018 | 30,000 | 2,850 | - | - | 32,850 | - |
| I Paton (from 16 August 2017) | 2019 | 40,000 | - | - | - | 40,000 | - |
| | 2018 | 30,000 | - | 1,210 | - | 31,210 | 4% |
| Total KMP remuneration expensed | 2019 | 699,616 | 56,084 | 600,429 | 100,874 | 1,457,003 | 48% |
| | 2018 | 244,152 | 20,344 | 97,373 | - | 361,869 | 27% |

* Performance rights and options granted under the executive performance rights and options plan are expensed over the performance period, which includes the year in which the rights and options are granted and the subsequent vesting period.

Remuneration report (Audited) (continued)

(f) Contractual arrangements with executive KMP's

| Component | Executive Chairman description | Executive Directors description | CEO description | COO description |
|------------------------------------|---|--|---|--|
| Fixed remuneration | \$100,000 per annum on a part time basis, inclusive of superannuation | \$80,000 per annum on a part time basis, inclusive of superannuation | \$170,000 per annum on a part time basis, inclusive of superannuation | \$300,000 per annum, inclusive of superannuation |
| Contract duration | Ongoing | Ongoing | Ongoing | Ongoing |
| Notice by the individual / company | 3 months | 3 months | 3 months | 2 months |
| Early termination payment | - | - | - | - |

(g) Non-Executive Director arrangements

The Non-Executive chair position (effective to 3 June 2019) received fees of \$50,000 per annum plus superannuation. The Non-Executive Duty Chair (from 3 June 2019) receives fees of \$50,000 per annum plus superannuation. Other Non-Executive directors receive \$40,000 per annum plus superannuation. Fees are reviewed annually by the board taking into account comparable roles. The current base fees were reviewed with effect from 1 October 2017.

The maximum annual aggregate Non-Executive Directors' fee pool limit is \$250,000 and was set out in the 2017 Prospectus.

All Non-Executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration relevant to the office of Director.

(h) Additional statutory information

(i) Performance based remuneration granted and forfeited during the year

The table below shows for each KMP the value of options and performance rights that were granted, exercised and forfeited during FY 2019. The number of options and performance rights and percentages vested / forfeited for each grant are disclosed in section (iii) below.

| | LTI Options | | LTI Performance Rights | |
|-------------|----------------|-------------------|------------------------|-----------------|
| | Value granted* | Value exercised** | Value granted* | Value exercised |
| | \$ | \$ | \$ | \$ |
| 2019 | | | | |
| R Cotte*** | - | - | 100,874 | - |
| J Crowley | 505,217 | - | - | - |
| L Snelling | 95,212 | - | - | - |

* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options and performance rights granted during the year as part of remuneration

** The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

*** The grant of these performance rights are subject to shareholder approval which will be sort at the 2019 AGM.

Remuneration report (Audited) (continued)

(iii) Terms and conditions of the share-based payment arrangements

Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

| Grant date | Vesting and exercise date | Expiry date | Exercise price | Value per option at grant date | Performance achieved | % vested |
|------------|---------------------------|-------------|----------------|--------------------------------|----------------------|----------|
| 16/08/2017 | 16/08/2018 | 16/08/2020 | \$0.20 | \$0.000786 | 100% | 100% |
| 16/08/2017 | 16/08/2019 | 16/08/2020 | \$0.40 | \$0.000424 | - | - |
| 22/02/2018 | Performance conditions | 22/03/2020 | \$0.40 | \$0.143694 | 25% | 25% |
| 22/02/2018 | Performance conditions | 22/03/2020 | \$0.60 | \$0.109503 | 25% | 25% |
| 02/07/2018 | Performance conditions | 02/07/2028 | \$0.40 | \$0.173814 | 100% | 100% |
| 02/07/2018 | Performance conditions | 02/07/2028 | \$0.60 | \$0.168180 | 100% | 100% |
| 02/07/2018 | Performance conditions | 02/07/2028 | \$0.80 | \$0.163223 | 100% | 100% |

The number of options over ordinary shares in the Company provided as remuneration to key management personnel is shown in the table below on page 20. The options carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share of State Gas Limited.

Performance Rights

The terms and conditions of each grant of performance rights affecting remuneration in the current or a future reporting period are as follows:

| | Grant date | Vesting date | Grant date value |
|----------|------------|--------------|------------------|
| R Cottee | 03/06/2019 | 03/06/2021 | \$0.78 |
| R Cottee | 03/06/2019 | 03/06/2022 | \$0.78 |

* Subject to shareholder approval at the 2019 Annual General Meeting of Shareholders

The number of performance rights over ordinary shares in the Company provided as remuneration to key management personnel is shown in the table below on page 20. The performance rights carry no dividend or voting rights. See page 15 above for conditions that must be satisfied for the performance rights to vest.

When exercisable, each performance right is convertible into one ordinary share of State Gas Limited.

If an executive ceases employment before the rights vest, the rights will be forfeited

Remuneration report (Audited) (continued)

(iii) Reconciliation of options, performance rights, and ordinary shares held by KMP

Options

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY2019. No options were forfeited during the year.

| Name & Grant dates | Balance at the start of the year | | Granted as compensation | Vested | | Exercised | Balance at the end of the year | |
|--------------------|----------------------------------|--------|-------------------------|-----------|------|-----------|--------------------------------|-----------|
| | Unvested | Vested | | Number | % | | Vested and exercisable | Unvested |
| 2019 | | | | | | | | |
| J Crowley | - | - | 3,000,000 | 3,000,000 | 100% | - | 3,000,000 | |
| I Paton | 2,000,000 | - | - | 1,000,000 | 50% | - | 1,000,000 | 1,000,000 |
| L Snelling | 2,000,000 | - | - | 500,000 | 25% | - | 500,000 | 1,500,000 |

There were no options exercised during FY 2019 or FY 2018.

Performance Rights

During FY2019 5,000,000 performance rights were awarded to Richard Cottee and are subject to shareholder approval which will be sought at the 2019 Annual General Meeting. The fair value of the options at the date of award was \$3,900,000 of which \$3,799,126 is yet to vest. No performance rights were forfeited during the year.

Remuneration report (Audited) (continued)

Shareholdings

| Name | Balance at the start of the year | Changes during the year | Balance at the end of the year |
|------------------------|----------------------------------|-------------------------|--------------------------------|
| 2019 | | | |
| Ordinary shares | | | |
| A Bellas | 4,500,000 | 17,648 | 4,517,648 |
| G Baynton | 26,625,000 | 1,934,315 | 28,559,315 |
| R Cottee | - | - | - |
| J Crowley | - | - | - |
| I Paton | - | - | - |
| L Snelling | - | - | - |
| R Towner | - | - | - |

* Changes during the year includes shares acquired on the same terms and conditions as other shareholders.

(iv) Other transactions with key management personnel

During the financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid \$4,250 in consulting fees.

During the previous financial year, Orbit Capital Pty Ltd, a company of which Mr Greg Baynton is a shareholder and director, was paid net capital raising fees totalling \$75,000, after paying \$40,000 in commission to a third party, relating to both the IPO and Seed capital raisings.

There have been no other transactions with key management personnel.

End of remuneration report (audited)

Shares under option and performance rights

Unissued ordinary shares

Unissued ordinary shares of State Gas Limited under option at the date of this report are as follows (2018: 7,000,000):

| Date options granted | Expiry date | Issue price of Shares | Number under option |
|----------------------|-------------------------|-----------------------|---------------------|
| 16/08/2017 | 16/08/2020 | \$0.20 | 1,000,000 |
| 16/08/2017 | 16/08/2020 | \$0.40 | 1,000,000 |
| 22/02/2018 | 22/03/2020 | \$0.40 | 1,000,000 |
| 22/02/2018 | 22/03/2020 | \$0.60 | 1,000,000 |
| 02/07/2018 | Cessation of employment | \$0.40 | 1,000,000 |
| 02/07/2018 | Cessation of employment | \$0.60 | 1,000,000 |
| 02/07/2018 | Cessation of employment | \$0.80 | 1,000,000 |

Unissued ordinary shares of State Gas Limited under performance rights at the date of this report total 2,500,000 (2018: NIL). A further 5,000,000 of performance rights were awarded as remuneration to Mr Richard Cottee and are subject to shareholder approval. Details of the performance rights granted to key management personnel are disclosed on pages 17-20 above.

No performance right holder or option holder has any right to participate in any other share issue of the Company or any other entity.

No options or performance rights have been granted to the Directors of the Company since the end of the financial year.

Insurance of officers and indemnities

(a) Insurance of officers

During the financial year, State Gas Limited paid a premium of \$55,467 to insure the Directors and Officers of the Company.

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

(b) Indemnity of auditors

State Gas Limited has not agreed to indemnify its auditors.

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 Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

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

Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year, the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|--------------|--------|
| | 2019 | 2018 |
| | \$ | \$ |
| Other assurance services | | |
| BDO Audit Pty Ltd: | | |
| Investigating accountants report | - | 10,850 |
| Total remuneration for taxation / non-audit services | - | 10,850 |

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 25.

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

A handwritten signature in black ink, appearing to read 'R Cottee', with a stylized flourish at the end.

R Cottee
Chairman

Brisbane
24 September 2019

Auditor's independence declaration



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www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY R M SWABY TO THE DIRECTORS OF STATE GAS LIMITED

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

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a light blue horizontal line.

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 24 September 2019

Corporate governance statement

State Gas Limited and the board are committed to achieving and demonstrating the highest standards of corporate governance. State Gas Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 corporate governance statement is dated as at 30 June 2019 and reflects the corporate governance practices in place throughout the 2019 financial year. The 2019 corporate governance statement was approved by the board on 24 September 2019. A description of the Company's current corporate governance practices is set out in the Company's corporate governance statement which can be viewed at <https://www.stategas.com/governance/>.



STATE GAS LIMITED

ACN 617 322 488

Annual financial report – 30 June 2019

| | |
|--|----|
| Financial statements | |
| Statement of profit or loss and other comprehensive income | 28 |
| Balance sheet | 29 |
| Statement of changes in equity | 30 |
| Statement of cash flows | 31 |
| Notes to the financial statements | 32 |
| Directors' declaration | 57 |

These financial statements are for State Gas Limited.

The financial statements are presented in the Australian currency.

State Gas Limited is a Company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

State Gas Limited
Level 8, 46 Edward Street
Brisbane QLD 4000

All press releases, financial reports and other information are available at our website:
www.stategas.com.

Statement of profit or loss and other comprehensive income for the year ended 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|---|-------|--------------------------------|------------------------------|
| Continuing operations | | | |
| Other income | 2 | 66,241 | 51,755 |
| Administrative and other expenses | | (576,947) | (235,447) |
| Employee benefits expense | | (1,457,003) | (361,869) |
| Financing costs | 3 | (15,646) | (15,113) |
| Share issue expenses relating to IPO | | - | (141,356) |
| | | <hr/> | <hr/> |
| Loss before income tax expense | | (1,983,355) | (702,030) |
| Income tax benefit | 4 | - | - |
| | | <hr/> | <hr/> |
| Loss from continuing operations | | (1,983,355) | (702,030) |
| Other comprehensive income for the period, net of tax | | - | - |
| | | <hr/> | <hr/> |
| Total comprehensive income for the period | | <hr/> (1,983,355) <hr/> | <hr/> (702,030) <hr/> |
| | | Cents | Cents |
| Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 7 | (1.46) | (0.55) |
| Diluted earnings per share | 7 | (1.46) | (0.55) |

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

Balance sheet

As at 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|-----------------------------------|-------|-------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 6,344,568 | 4,537,398 |
| Trade and other receivables | 9 | 49,407 | 71,321 |
| Total current assets | | <u>6,393,975</u> | <u>4,608,719</u> |
| Non-current assets | | | |
| Property, plant and equipment | | 1,844 | - |
| Exploration and evaluation assets | 10 | 5,985,990 | 2,588,428 |
| Other assets | 11 | 35,000 | 35,000 |
| Total non-current assets | | <u>6,022,834</u> | <u>2,623,428</u> |
| Total assets | | <u>12,416,809</u> | <u>7,232,147</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 577,220 | 402,215 |
| Total current liabilities | | <u>577,220</u> | <u>402,215</u> |
| Non-current liabilities | | | |
| Provisions | 13 | 505,467 | 443,082 |
| Total non-current liabilities | | <u>505,467</u> | <u>443,082</u> |
| Total liabilities | | <u>1,082,687</u> | <u>845,297</u> |
| Net assets | | <u>11,334,122</u> | <u>6,386,850</u> |
| EQUITY | | | |
| Contributed equity | 14 | 13,201,970 | 6,972,646 |
| Reserves | 15 | 825,021 | 123,718 |
| Accumulates losses | | (2,692,869) | (709,514) |
| Total equity | | <u>11,334,122</u> | <u>6,386,850</u> |

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2019

| | Contributed equity \$ | Accumulated losses \$ | Share based payments reserve \$ | Total \$ |
|--|-----------------------------|-----------------------------|--|-------------------|
| Balance at 1 July 2017 | 463,754 | (7,484) | 1,380,968 | 1,837,238 |
| Loss for the period | - | (702,030) | - | (702,030) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | (702,030) | - | (702,030) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs | 5,154,269 | - | - | 5,154,269 |
| Transfer Class B shares to contributed equity | 1,354,623 | | (1,354,623) | - |
| Share-based payments | - | - | 97,373 | 97,373 |
| Balance at 30 June 2018 | 6,972,646 | (709,514) | 123,718 | 6,386,850 |
| Loss for the period | - | (1,983,355) | - | (1,983,355) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | (1,983,355) | - | (1,983,355) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity, net of transaction costs | 6,229,324 | - | - | 6,229,324 |
| Share-based payments | - | - | 701,303 | 701,303 |
| Balance at 30 June 2019 | 13,201,970 | (2,692,869) | 825,021 | 11,334,122 |

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

Statement of cash flows

For the year ended 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|---|-------|-------------|------------|
| Cash flows from operating activities | | | |
| Receipts from customers (GST inclusive) | | 19,474 | 81,512 |
| Payments to suppliers and employees (GST inclusive) | | (1,157,669) | (540,949) |
| Interest received | | 13,003 | 16,150 |
| | | <hr/> | <hr/> |
| Net cash outflow from operating activities | 17 | (1,125,192) | (443,287) |
| | | <hr/> | <hr/> |
| Cash flows from investing activities | | | |
| Payments for exploration assets | | (3,295,118) | (489,360) |
| Payments for property plant and equipment | | (1,844) | |
| Payments for security deposits | | - | (35,000) |
| | | <hr/> | <hr/> |
| Net cash outflow from investing activities | | (3,296,962) | (524,360) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Proceeds on issue of shares | | 6,270,004 | 5,350,000 |
| Payment of capital raising costs and listing expenses | | (40,680) | (345,163) |
| | | <hr/> | <hr/> |
| Net cash inflow from financing activities | | 6,229,324 | 5,004,837 |
| | | <hr/> | <hr/> |
| Net increase (decrease) in cash and cash equivalents | | 1,807,170 | 4,037,190 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the beginning of the year | | 4,537,398 | 500,208 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the year | 8 | 6,344,568 | 4,537,398 |
| | | <hr/> | <hr/> |

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

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards and Interpretations as issued by the International Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs.

The financial statements were authorised for issue by the Directors on 24 September 2019. The Directors have the power to amend and reissue the financial statements.

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

As disclosed in the financial report, the company achieved a net loss of \$1,983,355 (2018: \$702,030) and net operating cash outflows of \$1,125,192 (2018: outflow \$443,287) for the year ended 30 June 2019. As at 30 June 2019, the company has cash of \$6,344,568 (2018: \$4,537,398).

The ability of the company to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the Company to raise capital as and when necessary; and / or
- the successful exploration and subsequent exploitation of the company's tenements.

These conditions give rise to material uncertainty which may cast significant doubt over the company's ability to continue as a going concern.

The Directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- The Directors believe there is sufficient cash available for the company to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report. This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the company be unable to continue as a going concern.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

a. Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

b. Revenue recognition

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

c. Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

d. Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

e. Cash and cash equivalents

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.

For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the balance sheet.

f. Trade and other receivables

Trade and other receivables are recognised at amortised cost, less any provision for expected credit loss.

g. Exploration and evaluation assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

A provision is raised against exploration and evaluation assets where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

h. Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

i. Provisions

Provision for rehabilitation is recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

j. Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled transactions are awards of shares, options or performance rights over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined using various valuation methods including Cox, Ross & Rubinstein Binomial Tree, Black Scholes and the Monte Carlo Simulation method that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made.

An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if it were a modification.

Share-based payments to non-employees are accounted for on the same basis as share-based payments to employees as described above.

k. Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

l. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of State Gas Limited, 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 financial year.

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.

m. Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other 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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

n. New and Amended Accounting Policies Adopted by the Company

The company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There has been no material impact on the financial statements by their adoption.

Impact of application of AASB 15 *Revenue from Contracts with Customers*

In the current year, the company has applied AASB 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. The adoption of this standard has no impact on the company's financial statements as the company does not have revenue from contracts with customers.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

n. New and Amended Accounting Policies Adopted by the Company (continued)

Impact of application of AASB 9 *Financial Instruments*

In the current year, the company has applied AASB 9 *Financial Instruments* and the related consequential amendments to other AASB Standards that are effective for the annual period that begins on or after 1 January 2018.

Additionally, the company adopted consequential amendments to AASB 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2019 and to the comparative period.

The adoption of this standard has had no impact of the measurement or recognition of any balances in the financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the company. The company's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 *Leases*

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Management has assessed the effects of applying the new standard and as the company only has short term leases, the impact is not expected to be significant.

o. Critical accounting estimates and judgements

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 below.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the Company intends to commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised.

Notes to the financial statements for the year ended 30 June 2019

Note 1 Summary of significant accounting policies (continued)

o. Critical accounting estimates and judgements (continued)

In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of production, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Provision for restoration and rehabilitation

A provision for rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring affected areas.

The provision for future rehabilitation costs is the best estimate of the present value (including an appropriate discount rate relevant to the time value of money plus any risk premium associated with the liability) of the expenditure required to settle the restoration obligation at the reporting date. Future rehabilitation costs are reviewed annually and any changes in the estimate are reflected in the present value of the rehabilitation provision.

The initial estimate of the rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Share based payment transactions

The company measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a binomial or Monte Carlo option pricing model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions, including share price volatility, interest rates and vesting periods would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the profit or loss and equity.

Notes to the financial statements for the year ended 30 June 2019

Note 2 Other income

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| Other income | | |
| Interest received from unrelated parties | 10,536 | 18,520 |
| Other revenue | 55,705 | 33,235 |
| | <hr/> | <hr/> |
| Total other income | 66,241 | 51,755 |
| | <hr/> | <hr/> |

Note 3 Loss for the year

Loss before income tax from continuing operations includes the following specific expenses:

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| Finance costs | | |
| Provisions: Unwinding of discount | 15,646 | 15,113 |
| Legal costs (refer also to note 24) | 317,151 | 41,286 |
| Share based payments expense | | |
| Options granted | 600,429 | 97,373 |
| Performance rights granted | 100,874 | - |
| | <hr/> | <hr/> |
| Total share-based compensation expense | 701,303 | 97,373 |
| | <hr/> | <hr/> |

Notes to the financial statements for the year ended 30 June 2019

Note 4 Income tax expense

This note provides an analysis of the Company's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Company's tax position.

| | 2019 \$ | 2018 \$ |
|---|-------------|------------|
| (a) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit/(loss) before income tax expense | (1,983,355) | (702,030) |
| Tax at the Australian tax rate of 27.5% | (545,423) | (193,058) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share based payments | 192,858 | 26,778 |
| Other | 4,303 | - |
| Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised | (348,262) | 166,280 |
| Income tax expense / (benefit) | - | - |
| (b) Tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | 2,124,421 | 827,874 |
| Potential tax benefit @ 27.5% | 584,216 | 227,665 |

Notes to the financial statements for the year ended 30 June 2019

Note 4 Income tax expense

| | 2019 \$ | 2018 \$ |
|--|--------------------|------------------|
| (c) Deferred tax assets | | |
| The balance comprises temporary differences attributable to: | | |
| Tax losses | 1,650,780 | 362,396 |
| Share issue costs | 67,319 | 78,009 |
| Accrued expenses | 9,198 | 8,865 |
| | <u>1,727,297</u> | <u>449,270</u> |
| Total deferred tax assets | | |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (1,143,081) | (221,605) |
| Deferred tax assets not recognised | <u>(584,216)</u> | <u>(227,665)</u> |
| Net deferred tax assets | <u>-</u> | <u>-</u> |
| (d) Deferred tax liabilities | | |
| The balance comprises temporary differences attributable to: | | |
| Exploration and evaluation assets | <u>1,143,081</u> | <u>221,605</u> |
| Total deferred tax liabilities | 1,143,081 | 221,605 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | <u>(1,143,081)</u> | <u>(221,605)</u> |
| Net deferred tax liabilities | <u>-</u> | <u>-</u> |

Unused losses which have not been recognised as an asset, will only be obtained if:

- (i) the Company derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the Company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Company in realising the losses.

Notes to the financial statements for the year ended 30 June 2019

Note 5 Key Management Personnel Compensation

Refer to the remuneration report contained in the Directors' report for details of the remuneration paid or payable to each member of the Company's key management personnel (KMP) for the year ended 30 June 2019.

The totals of remuneration paid to KMP of the Company and the Company during the year are as follows:

| | 2019 | 2018 |
|------------------------------|-----------|---------|
| | \$ | \$ |
| Short-term employee benefits | 699,616 | 244,152 |
| Post-employment benefits | 56,084 | 20,344 |
| Share-based compensation | 701,303 | 97,373 |
| Total KMP compensation | 1,457,003 | 361,869 |

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Directors as well as all salary, paid leave benefits and fringe benefits paid to Executive Directors and employees.

Post-employment benefits

These amounts are the current-year's superannuation contributions made during the year.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, performance rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the Remuneration Report.

Note 6 Auditor's Remuneration

| | 2019 | 2018 |
|--|--------|--------|
| | \$ | \$ |
| Remuneration of the auditor for: | | |
| - Auditing or reviewing the financial report | 39,106 | 33,650 |
| <i>Remuneration for non-audit services</i> | | |
| - Investigating accountants report | - | 10,850 |
| | 39,106 | 44,500 |

Notes to the financial statements for the year ended 30 June 2019

Note 7 Earnings per share

| | 2019 Cents | 2018 Cents |
|---|---------------------|---------------------|
| (a) Basic earnings per share | | |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | <u>(1.46 cents)</u> | <u>(0.55 cents)</u> |
| (b) Diluted earnings per share | | |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | <u>(1.46 cents)</u> | <u>(0.55 cents)</u> |
| (c) Reconciliations of earnings used in calculating earnings per share | | |
| | 2019 \$ | 2018 \$ |
| <i>Basic earnings per share</i> | | |
| Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | <u>(1,983,355)</u> | <u>(702,030)</u> |
| <i>Diluted earnings per share</i> | | |
| Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | <u>(1,983,355)</u> | <u>(702,030)</u> |
| (d) Weighted average number of shares used as the denominator | | |
| | 2019 Number | 2018 Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | <u>135,535,545</u> | <u>126,507,021</u> |

(e) Information concerning the classification of securities

(i) Options and performance rights

Options and performance rights on issue during the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2019. These options and performance rights could potentially dilute basic earnings per share in the future. Details relating to options and performance rights are set out in note 18.

Notes to the financial statements for the year ended 30 June 2019

Note 8 Cash and cash equivalents

| | 2019 | 2018 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Cash at bank and on hand | 6,344,568 | 4,537,398 |
| | <u>6,344,568</u> | <u>4,537,398</u> |

The above figures reconcile to cash and cash equivalents at the end of the financial period.

Note 9 Trade and other receivables

| | 2019 | 2018 |
|---|---------------|---------------|
| | \$ | \$ |
| Prepayments | 48,487 | 64,883 |
| Other receivables | 920 | 6,438 |
| | <u>49,407</u> | <u>71,321</u> |
| Total current trade and other receivables | <u>49,407</u> | <u>71,321</u> |

Note 10 Exploration and evaluation assets

| | 2019 | 2018 |
|--|------------------|------------------|
| | \$ | \$ |
| Exploration and evaluation assets – at cost | <u>5,985,990</u> | <u>2,588,428</u> |
| The capitalised exploration and evaluation assets carried forward above have been determined as follows: | | |
| Balance at the beginning of the year | 2,588,428 | 1,815,293 |
| Expenditure incurred during the year | 3,350,823 | 773,135 |
| Rehabilitation asset increment (refer to note 13) | <u>46,739</u> | <u>-</u> |
| Balance at the end of the year | <u>5,985,990</u> | <u>2,588,428</u> |

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2019, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this, the Directors have had regard to the facts and circumstances that indicate a need for an impairment as noted in Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Notes to the financial statements for the year ended 30 June 2019

Note 11 Other assets

| | 2019 \$ | 2018 \$ |
|-------------------|---------------|---------------|
| Security deposits | 35,000 | 35,000 |
| | <u>35,000</u> | <u>35,000</u> |

Note 12 Trade and other payables

| | 2019 \$ | 2018 \$ |
|---------------------------------------|----------------|----------------|
| Unsecured liabilities: | | |
| Trade payables | 43,360 | 53,899 |
| Sundry payables and accrued expenses | 224,093 | 48,816 |
| Provision for annual leave | 15,142 | 4,875 |
| Payable to related party (note 20(d)) | 294,625 | 294,625 |
| | <u>577,220</u> | <u>402,215</u> |

Note 13 Provisions

| | 2019 \$ | 2018 \$ |
|---|----------------|----------------|
| Provision for rehabilitation | 505,467 | 443,082 |
| Reconciliation of carrying amount: | | |
| Opening balance | 443,082 | 427,969 |
| Additions (refer to note 10) | 46,739 | - |
| Unwinding of discount (refer to note 3) | 15,646 | 15,113 |
| | <u>505,467</u> | <u>443,082</u> |

Rehabilitation provision

The rehabilitation provision relates to the Reid's Dome production lease PL231 (located in Bowen Basin, Queensland). Under the terms of the Joint Venture Agreement relating to PL231, State Gas Limited is liable to pay 80% of rehabilitation costs for all wells and infrastructure on the lease.

The liability associated with the provision has been present valued in accordance with the Company's accounting policy.

Notes to the financial statements for the year ended 30 June 2019

Note 14 Contributed equity

| | | 2019 Shares | 2018 Shares | 2019 \$ | 2018 \$ |
|-----------------------------------|------------------------------|----------------|---------------------|----------------|-------------------|
| (a) Share capital | | | | | |
| Fully paid ordinary shares | | 143,424,323 | 134,812,500 | 13,201,970 | 6,972,646 |
| (b) Ordinary share capital | | | | | |
| Date | Details | Note | Number of Shares | Issue Price | \$ |
| 30 Jun 2017 | Balance | | 25,000,000 | | 463,754 |
| 10 Aug 2017 | Share split 3:1 | (c) | 50,000,000 | | - |
| 1 Sep 2017 | Placement shares | (d) | 8,250,000 | \$0.0133 | 110,000 |
| 2 Oct 2017 | Conversion of B Class shares | (e) | 25,312,500 | | 1,354,623 |
| 5 Oct 2017 | IPO shares | (f) | 26,250,000 | \$0.20 | 5,250,000 |
| | Share issue costs | | - | | (205,731) |
| 30 Jun 2018 | Balance | | 134,812,500 | | 6,972,646 |
| 8 Mar 2019 | Placement shares | (g) | 588,240 | \$0.85 | 500,004 |
| 27 Mar 2019 | Security Purchase Plan | (h) | 1,023,583 | \$0.85 | 870,000 |
| 17 Jun 2019 | Placement shares | (i) | 7,000,000 | \$0.70 | 4,900,000 |
| | Share issue costs | | - | | (40,680) |
| 30 Jun 2019 | Balance | | 143,424,323 | | 13,201,970 |

(c) Share split

Share subdivision on a 1 for 3 basis.

(d) Issue to sophisticated investors

The issue of 8,250,000 fully paid ordinary shares to sophisticated investors at an issue price of \$0.0133 cash.

(e) Class B shares

10,000,000 Class B shares converted to 25,312,500 fully paid ordinary shares.

(f) Shares issued under prospectus

The issue of 26,250,000 ordinary shares at an issue price of \$0.20 per share to raise \$5,250,000 cash before expenses of the Offer. All ordinary shares issued pursuant to the Prospectus were issued as fully paid. Transaction costs of \$347,087 were incurred as a result of listing the Company, of which \$205,731 were directly attributable to capital raising and the remainder of \$141,356 were expensed.

(g) Issue to sophisticated investors

The issue of 588,240 fully paid ordinary shares to sophisticated investors at an issue price of \$0.85 cash.

(h) Security Purchase Plan

Placement to existing shareholders on record at 27 February 2019 to purchase ordinary shares up to a value of \$15,000 at an issue price of \$0.85 cash.

Notes to the financial statements for the year ended 30 June 2019

Note 14 Contributed equity (continued)

(i) Issue to sophisticated investors

The issue of 7,000,000 fully paid ordinary shares to sophisticated investors at an issue price of \$0.70 cash.

(j) Capital Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company includes equity attributable to equity holders, comprising of issued capital, reserves and accumulated losses. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the company.

The Company monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Company will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Company has no externally imposed capital requirements. The Company's strategy for capital risk management is unchanged from prior years.

Note 15 Share-based payment reserve

| | 2019 \$ | 2018 \$ |
|---|----------------|--------------------|
| Share-based payment reserve | <u>825,021</u> | <u>123,718</u> |
| Movements: | | |
| Opening balance | 123,718 | 1,380,968 |
| Share based payments | 701,303 | 97,373 |
| Class B shares transferred to equity (refer note 14(e)) | <u>-</u> | <u>(1,354,623)</u> |
| Closing balance | <u>825,021</u> | <u>123,718</u> |

The share-based payment reserve records items recognised as expenses on valuation of director, employee and contractor options and performance rights.

Notes to the financial statements for the year ended 30 June 2019

Note 16 Operating segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on an operational basis. Operating segments are determined on the basis of financial information reported to the Board.

Management currently identifies the Company as having only one operating segment, being the exploration and development of gas fields in Australia. All significant operating decisions are based upon analysis of the Company as one segment. The financial results from the segment are equivalent to the financial statements of the Company as a whole.

Note 17 Cash flow information

(a) Reconciliation of profit / (loss) after income tax to net cash inflow from operating activities

| | 2019 | 2018 |
|--|--------------------|------------------|
| | \$ | \$ |
| Profit / (loss) for the year | (1,983,355) | (702,030) |
| Adjustments for | | |
| Share based payments | 701,303 | 97,373 |
| Share issue costs transferred to financing cash flows | - | 141,356 |
| Financing costs | 15,646 | 15,113 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (33,791) | (90,140) |
| Increase in trade creditors and other payables | 175,005 | 95,041 |
| Net cash inflow (outflow) from operating activities | (1,125,192) | (443,287) |

(b) Non-cash financing and investing activities

There were no non-cash financing and investing activities during FY 2019.

(c) Net debt reconciliation

The Company does not have any debt on its balance sheet and therefore no net debt reconciliation has been provided.

Notes to the financial statements for the year ended 30 June 2019

Note 18 Share-based payments

OPTIONS

A summary of movements of all options issued is as follows:

| | Number | Weighted Average Exercise Price |
|---|------------------|---------------------------------|
| Options outstanding as at 1 July 2017 | 2,750,000 | \$0.04 |
| Granted | 4,000,000 | \$0.40 |
| Forfeited | (2,750,000) | \$0.04 |
| Expired | - | - |
| Options outstanding as at 30 June 2018 | 4,000,000 | \$0.40 |
| Granted | 3,000,000 | \$0.60 |
| Forfeited | - | - |
| Expired | - | - |
| Options outstanding as at 30 June 2019 | 7,000,000 | \$0.49 |

The weighted average remaining contractual life of options outstanding at year end was 4.4 years (2018: 1.9 years).

Details of options issued during the financial year are as follows:

On 17 July 2018, 3,000,000 share options were granted to the Chief Operating Officer, James Crowley under the State Gas Limited Executive Option Plan to take up ordinary shares. 1,000,000 are exercisable at \$0.40 each, 1,000,000 are exercisable at \$0.60 each and the remaining 1,000,000 are exercisable at \$0.80 each. All options vested during FY2019 on completion of James Crowley's employment probation period. All options expire on cessation of employment. The options hold no voting or dividend rights and are not transferable.

The fair value of these options was \$505,217. This value was calculated using the Cox, Ross & Rubinstein Binominal Tree option pricing model applying the following inputs:

| | Tranche 1 | Tranche 2 | Tranche 2 |
|--------------------------|------------|------------|------------|
| Number of options | 1,000,000 | 1,000,000 | 1,000,000 |
| Exercise price | \$0.40 | \$0.60 | \$0.80 |
| Grant date | 02/07/2018 | 02/07/2018 | 02/07/2018 |
| Expiry date | 02/07/2028 | 02/07/2028 | 02/07/2028 |
| Volatility* | 87.33% | 87.33% | 87.33% |
| Dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 4.01% | 4.01% | 4.01% |
| Fair value at grant date | \$0.173814 | \$0.168180 | \$0.163223 |

* Volatility has been determined by looking at the historical volatility over the same period as the expected life of the option, long term average level of volatility, the length of time an entity's shares have been publicly traded, and the appropriate interval for price observations. The company does not have a reasonable history of share transactions by which to gauge the company's volatility. Due to this fact an average volatility of comparable companies share transactions over the same period of time have been used to calculate an appropriate volatility.

Notes to the financial statements for the year ended 30 June 2019

Note 18 Share-based payments (continued)

PERFORMANCE RIGHTS

A summary of movements of all performance rights issued is as follows:

| | Number | Weighted Average Exercise Price |
|--|------------------|---------------------------------|
| Performance rights outstanding as at 30 June 2018 | - | - |
| Granted | 2,500,000 | - |
| Granted – Subject to shareholder approval | 5,000,000 | - |
| Forfeited | - | - |
| Expired | - | - |
| Performance rights outstanding as at 30 June 2019 | 7,500,000 | - |

The weighted average remaining contractual life of performance rights outstanding at year end was 2.5 years.

The company has appointed leading independent M&A/Advisory firm Highbury Partnership Pty Ltd as financial advisor to help it respond to inquiries from potentially interested parties. 2,500,000 performance rights were granted to Highbury Partnership Pty Ltd on 4 February 2019. No value will be ascribed to these rights until such time as the vesting conditions are satisfied.

5,000,000 performance rights were granted to the Executive Chairman, Richard Cottee on 3 June 2019. The grant of Performance Rights is subject to the approval of State Gas Shareholders at the Company's 2019 Annual General Meeting or an earlier General Meeting of Shareholders.

The fair value of these performance rights was \$3,900,000. This value was calculated based on the share price at the date the performance rights were granted.

| Grant date | Number of Rights | Vesting conditions | Vesting date | % Vested | Expiry date | Fair value at grant date per right |
|-------------|------------------|--|--------------|----------|-------------|------------------------------------|
| 03/06/2019* | 500,000 | Conditions as set out in the Remuneration Report on page 15. | 3 June 2021 | 0% | 3 June 2022 | \$0.78 |
| 03/06/2019* | 4,500,000 | Conditions as set out in the Remuneration Report on page 15. | 3 June 2022 | 0% | 3 June 2022 | \$0.78 |

* Subject to shareholder approval which will be sought at the 2019 Annual General Meeting of Shareholders

Notes to the financial statements for the year ended 30 June 2019

Note 19 Events after the reporting date

On 16 September 2019 the Supreme Court in Queensland issued an order requiring Dome Petroleum Resources Plc (Dome) to execute documents to affect the transfer of Dome's remaining 20% interest in PL 231 to State Gas Limited. The provisions of the Joint Operating Agreement, executed in February 2017, fix the price for the acquisition of the 20% interest at \$233,333. In addition, Dome has been ordered to pay the costs of State Gas Limited on an indemnity basis.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

Note 20 Related party transactions

Related Parties

The company's main related parties are as follows:

a. **Ultimate parent entity**

The company does not have an ultimate parent entity.

b. **Key management personnel**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity is considered key management personnel.

For details of disclosures relating to key management personnel, refer to the Remuneration Report and Note 5.

c. **Other related parties**

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

d. **Transactions with related parties**

Triangle Energy Limited is a company of which Mr Robert Towner is a shareholder and director. In consideration of Triangle Energy Limited keeping PL231 in good standing, State Gas Limited agrees to pay its back costs capped at \$267,840 (excl. GST)(Back Cost Reimbursement). The Back Cost Reimbursement is payable by State Gas Limited as soon as practicable after the approval of an amended later development plan to be lodged by State Gas Limited. The total balance outstanding at 30 June 2019 is \$294,625 (including GST) (2018: \$294,625).

During the previous financial year, Orbit Capital Pty Ltd, a company of which Mr Greg Baynton is a shareholder and director, was paid net capital raising fees totalling \$75,000, after paying \$40,000 in commission to a third party, relating to both the IPO and Seed capital raisings.

During the financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid \$4,250 (2018: \$28,350) in consulting fees.

Notes to the financial statements for the year ended 30 June 2019

Note 21 Contingent liabilities

State Gas Limited has notice of the existence of a potential royalty payable in respect of petroleum produced from PL 231, being an overriding royalty interest in seven percent (7%) of the gross production of oil, gas and associated hydrocarbons produced and saved pursuant to the terms of the authority to prospectus (ATP 333-P, as it was at the time), calculated on the arm's length sale price of petroleum less: (i) all costs and expenses incurred in or attributable to the treating, processing dehydrating, compressing and transporting such petroleum; (ii) levies and other taxes on production; and (iii) all fuel oil and gas used in conducting exploration, drilling, completion, equipping, producing, and other operations pursuant to the authority (Override). The royalty interest appears to have been established as part of a transfer of ATP 333-P in 1983.

It requires each subsequent assignor of the authority to make the conveyance subject to the assignee covenanting to pay the Override and the assignor remains obliged to pay the Override until such agreement has been consented to by the Override holder. Given the time that has passed since the Override was created, and the fact that State Gas Limited does not have records evidencing each transfer of the authority, State Gas Limited is unable to determine if the Override remains on-foot.

Note 22 Commitments

Later Development Plan

So as to maintain current rights to tenure of PL231, the Company will be required to outlay amounts in respect of the Later Development Plan (LDP) commitments. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if the PL is relinquished.

The LDP commitment is calculated at \$20,800,000 on the assumption that the current LDP will continue until its expiry in 2020 and that the Company will fund its share of commitments, being equal to its 80% working interest in PL231, or \$26,000,000 for a 100% working interest in PL231.

The Company believes the current LDP is not appropriate for the development of PL231 and has been in discussions the Department of Natural Resources, Mines and Energy to that effect. With the Department's agreement, the Company is currently finalising a revised LDP to replace the current LDP, which will propose a commitment of approximately \$7m for the period until 14 December 2022.

Notes to the financial statements for the year ended 30 June 2019

Note 23 Financial risk management

The Company's financial instruments consist mainly of deposits with banks, security deposits and accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 9: *Financial Instruments* as detailed in the accounting policies to these financial statements, are as follows:

| | Notes | 2019 \$ | 2018 \$ |
|------------------------------------|-------|------------------|------------------|
| Financial assets | | | |
| Cash and cash equivalents | | 6,344,568 | 4,537,398 |
| Trade and other receivables | | 920 | 6,438 |
| Other assets – security deposits | | 35,000 | 35,000 |
| Total financial assets | | <u>6,380,488</u> | <u>4,578,836</u> |
| Financial liabilities | | | |
| Trade and other payables | | <u>562,078</u> | <u>379,715</u> |
| Total financial liabilities | | <u>562,068</u> | <u>379,715</u> |

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Credit risk

Credit risk is managed on a Company basis. Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions. For bank and financial institutions, only independently rated parties with a minimum rating of 'AA' are accepted. The company currently banks with Westpac Banking Corporation.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows. No finance facilities were available to the Company at the end of the reporting period.

All financial assets and financial liabilities mature within one year.

Market risk

Market risk is the risk that the change in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company is not exposed to market risks other than interest rate risk.

Notes to the financial statements for the year ended 30 June 2019

Note 23 Financial risk management (continued)

Cash flow and fair value interest rate risk

As the Company has interest-bearing cash assets, the Company's income and operating cash flows are exposed to changes in market interest rates. The Company manages its exposure to changes in interest rates by using fixed term deposits.

At 30 June 2019, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit / (loss) for the year would have been \$52,349 (2018: \$45,374) lower/higher, as a result of higher/lower interest income from cash and cash equivalents.

Fair Value

The carrying value of all financial assets and financial liabilities approximate their fair value, due to their short term nature.

Note 24 Joint Operations

In November 2018 State Gas increased its Participating Interest in the Reid's Dome Project from 60% to 80% by acquiring an additional 20% Participating Interest from its Joint Venture partner Dome Petroleum Resources Plc (Dome). State Gas became entitled under the Joint Operating Agreement to acquire the remaining 20% interest when Dome reduced its Participating Interest to less than 25% (the Minimum Interest). State Gas exercised that right in December 2018, however Dome failed to complete the sale. Subsequent to State Gas commencing action in the Supreme Court of Queensland to enforce completion, Dome lodged a counterclaim seeking to reverse the November 2018 acquisition.

Since the end of the financial year the Supreme Court in Queensland made a court order requiring Dome Petroleum Resources Plc (Dome) to execute the transfer of Dome's remaining 20% interest in PL 231 to State Gas Limited.

The Company accounts for its share of expenditure within exploration and evaluation assets as cash calls are made. The Company's share of expenditure commitments for PL231 are set out in Note 22.

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 27 to 56 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 company's financial position as at 30 June 2019 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 1 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 Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



R Cottee

Director

Brisbane, 24 September 2019

INDEPENDENT AUDITOR'S REPORT

To the members of State Gas Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of State Gas Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How the matter was addressed in our audit |
|--|--|
| <p>Refer to note 10 of the financial statements.</p> <p>The Company carries exploration and evaluation assets as at 30 June 2019 in accordance with the Company's accounting policy for exploration and evaluation assets.</p> <p>The recoverability of exploration and evaluation asset is a key audit matter due to the significance of the total balance and the level of procedures undertaken to evaluate management's application of the requirements of AASB 6 Exploration for and Evaluation of Mineral Resources ('AASB 6') in light of any indicators of impairment that may be present.</p> | <p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtaining evidence that the Company has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining supporting documentation such as license agreements and also considering whether the Company maintains the tenements in good standing • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Company's cash flow budget for the level of budgeted spend on exploration projects and held discussions with management of the Company as to their intentions and strategy. • Enquiring of management, reviewing ASX announcements and reviewing directors' minutes to ensure that the Company had not decided to discontinue activities in any applicable areas of interest and to assess whether there are any other facts or circumstances that existed to indicate impairment testing was required. |

Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2019, 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 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 Company's ability 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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 21 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of State Gas Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

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

BDO Audit Pty Ltd

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a faint, larger 'BDO' logo.

R M Swaby
Director

Brisbane, 24 September 2019

Shareholder information

The shareholder information set out below was applicable as at 30 August 2019.

A Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | Class of equity security |
|------------------|--------------------------|
| | Ordinary shares |
| 1 - 1,000 | 42 |
| 1,001 – 5,000 | 97 |
| 5,001 – 10,000 | 134 |
| 10,001 – 100,000 | 258 |
| 100,001 and over | 99 |
| | 630 |

There were 32 holders of less than a marketable parcel of ordinary shares.

B Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| | Ordinary shares | |
|--|--------------------|--------------------|
| Name | Number held | % of issued shares |
| Triangle Energy (Global) Limited | 47,830,148 | 33.35 |
| Allegro Capital Nominees Pty Ltd | 16,541,668 | 11.53 |
| Investment for Retirement Pty Ltd | 9,000,000 | 6.28 |
| HSBC Custody Nominees (Australia) Limited | 7,172,762 | 5.00 |
| Pherous Holdings Group Pty Ltd | 7,000,000 | 4.88 |
| Graeme Eric Fielding & Noelle Lee Halpin | 5,031,036 | 3.51 |
| AG & M Bellas Super Pty Ltd | 4,517,648 | 3.15 |
| Ms Amanda Elizabeth Kitson Collins | 2,840,500 | 1.98 |
| Physick SMSF Pty Ltd | 2,447,504 | 1.71 |
| Jarrad Street Corporate Pty Ltd | 1,925,000 | 1.34 |
| Gregory Pavlos Papavassiliou | 1,500,000 | 1.05 |
| Baynton Brothers Pty Ltd | 1,500,000 | 1.05 |
| Orbit Capital Pty Ltd | 1,500,000 | 1.05 |
| M E J C Pty Ltd | 1,350,000 | 0.94 |
| Asgard Capital Management Ltd | 990,278 | 0.69 |
| Clericus Pty Ltd | 960,000 | 0.67 |
| Foligno Pty Limited | 735,296 | 0.51 |
| CA & MD Pty Ltd | 625,000 | 0.44 |
| Mr Jamie Pherous | 567,648 | 0.40 |
| Australian Philanthropic & Services Foundation P/L | 550,000 | 0.38 |
| Total | 114,584,488 | 79.91 |

Unquoted equity securities

| | Number of issue | Number of holders |
|--------------------|-----------------|-------------------|
| Options | 7,000,000 | 3 |
| Performance rights | 2,500,000 | 1 |

Holders of more than 20% of unquoted share options on issue

| | Number held | % of total on issue |
|---------------|-------------|---------------------|
| Ian Paton | 2,000,000 | 28.57% |
| Lucy Snelling | 2,000,000 | 28.57% |
| James Crowley | 3,000,000 | 42.86% |

Holders of more than 20% of unquoted performance rights on issue

| | Number held | % of total on issue |
|------------------------------|-------------|---------------------|
| Highbury Partnership Pty Ltd | 2,500,000 | 100.00% |

Restricted equity securities

| | Number of issue | Release date |
|-----------------|-----------------|----------------|
| Ordinary shares | 77,012,500 | 9 October 2019 |

C Substantial holders

Substantial holders in the company are set out below:

| | Number held | Percentage |
|---|-------------|------------|
| Ordinary shares | | |
| Triangle Energy (Global) Limited | 47,830,148 | 33.35% |
| Greg Alexander John Baynton, Allegro Capital Nominees Pty Ltd and | 28,559,315 | 19.91% |

D Voting rights

The voting rights attaching to each class of equity securities are set out below:

- (a) Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Share options: No voting rights