



ANNUAL REPORT

2020

STATE GAS LIMITED

ACN 617 322 488

Annual Report – 30 June 2020

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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 21 10 Eagle Street, Brisbane, QLD, 4000, Australia 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

Dear Fellow Shareholders,

This year marks my first 12 months as Executive Chairman of your Company, and what a momentous year it has been. It was a year in which State Gas undertook a substantial de-risking process of what has become a new CSG province, with all the inherent and attendant risk and excitement that entails. It was a year in which State Gas gained 100% ownership of PL231 thus enabling the Company to expedite the pathway to commercialisation of the Reid's Dome gas field.

During the year, we successfully embarked on the production testing of Nyanda-4 in the southern portion of our 100% owned PL231, Serocold-1 in the central portion and testing of Aldinga East-1A in the northern reaches. All of these have shown CSG presence across Reid's Dome, surely making PL231 a new CSG province which, with the further work envisaged this year should see PL231 become highly productive. Flow rates exceeding 230mscf/d at Nyanda-4 have been particularly encouraging for an open hole completion with no sentinel wells in little over 8 weeks of de-watering. This is extraordinary.

The existence of conventional gas at Reid's Dome alongside the CSG should enable State Gas to better meet the increasingly volatile demand profile of the Eastern Seaboard gas market. This demand-volatility is being caused by the increasing use of gas for intermediate/peak power as the need for dispatchable electricity increases to offset the intermittency inherent in renewable electricity. Nothing beats optionality in times of volatility.

The Federal Government's recently announced energy policy highlights the key role natural gas will play in the post COVID-19 recovery phase for the national economy. It is our intention that State Gas will play its role in this national objective. Hopefully, we will be commissioning our production facilities in late 2022, and selling gas in 2023 - the very year in which a critical shortage is forecast to eventuate.

You may have noticed that I have referred to Reid's Dome being a new gas province a number of times in this letter. The work to date has shown a combination of parameters not replicated in other Queensland CSG provinces, many of which are beneficial for commerciality.

The first is the comparatively low water make. This not only shortens the de-watering period but also reduces the cost of water processing. It may also obviate the necessity of sentinel wells. Water processing is a major component of CSG production costs and so this advantage should increase our competitiveness in the market.

The second feature is our ability to extract gas flows at depths not normally associated with CSG. With up to 40 metres of net coal in Reid's Dome wells, this advantage enables State Gas to access additional coal seams in each well, further enhancing your Company's productivity. The downside of a new province has been the requisite tailoring of well completions and pumps to find the optimal design for the conditions: inevitably a process of trial and error. This year's work has made great progress in customising production techniques, and the valuable learnings made during this phase of testing will be incorporated in the next phase of development. The upcoming phase should therefore see even better results through enhanced efficiencies.

There should be no need to remind shareholders that Reid's Dome is within 50 kilometres of two major trunk gas pipelines supplying the east coast markets. We have renewed our Pipeline Survey Licence, and expect to be in position to choose the optimal pipeline route around the end of this calendar year. The fact that State Gas has a Pipeline Survey Licence should not be construed as an indication that we intend to construct, own and operate this new pipeline. We have better uses for our capital and there are infrastructure specialists seeking such investments.

In conclusion this has been an extremely successful year providing solid foundations for your Company's progress towards production over the next two years.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R. Cottee', written in a cursive style.

Richard Cottee
Chairman
State Gas Limited

Directors' report

Your Directors present their report on the Company for the year ended 30 June 2020.

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:

R Cottee
G Baynton
A Bellas
I Paton
R Towner

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.

Covid 19 Impact

The unprecedented conditions created by Covid 19 have not had a significant effect on the operations of the Company. The main impacts of Covid 19 experienced to date are restrictions on movement of personnel and disrupted supply chains.

To facilitate cash flow in the face of uncertainty around the global Covid 19 pandemic, from 1 April 2020 all Directors and Management fees and salaries have been temporarily reduced by between 20% and 50%. These reductions are still in place at the date of this report. It is planned that the deferred amounts will be repaid to Directors and Management once conditions revert to normal.

Review of operations

The 2019-2020 financial year ("FY20") has been another significant year for your Company, with several important milestones achieved.

Just prior to the commencement of FY20 the Company was materially strengthened by the appointment of Mr Richard Cottee as Executive Chairman. Mr Cottee needs no introduction to those familiar with the gas industry; his achievements in bringing Queensland Gas Company (QGC) from smaller than State Gas to a \$5.7B ASX top 50 company on sale to BG Group are well known. Your Executive Chairman is internationally renowned for his energy experience, commercial strategy and acumen within the energy and utilities sector.

Under Mr Cottee the Company quickly developed a new strategy explicitly targeting early commercialisation and development of its flagship Reid's Dome Project to bring gas to market to meet the well publicised shortfalls in eastern Australia gas supply in the early 2020's. The COVID-19 pandemic has dampened global gas demand but shortfalls continue to loom, as most recently noted in the ACCC Gas Inquiry 2017-2025 Interim Report July 2020. The pandemic may even exacerbate the problems; several proposed major LNG projects have been cancelled or suspended. Such projects have long lead times, creating the very real potential that they cannot be revived in time to meet revitalised demand as economies return.

The new strategy is supported by a new Company structure, with a larger, highly experienced Operations Team focussed on successful field appraisal and development.

The Company has made substantial progress in advancing its new strategy. The Nyanda-4 well, drilled during the prior period, identified the presence of coal seam gas (CSG) in the Reid's Dome Beds and the potential for a significant CSG project. In FY20, the Company undertook Phase 1 of a programme to bring the field to development. Phase 1 aimed to confirm the extent of gas bearing coals across the area of the permit (Production Lease 231) and prove producibility. Phase 1 has been successful: the Aldinga East-1A and Serocold-1 wells drilled in late 2019 confirmed the presence of the gas bearing Reid's Dome Beds coal measures, indicating the potential project stretches from the south (where Nyanda-4 is located) through the centre (Serocold-1), to the north (Aldinga East-1A). The Aldinga East-1A also provided the pleasant surprise of a new conventional gas discovery in the Cattle Creek Formation at a depth shallower than the coals in the well.



Picture: Drilling camp on PL231 September 2019

Producibility of the coal seam gas was confirmed by a production test of the Nyanda-4 well, commenced in December 2019. After just six weeks of dewatering the well was producing gas at a rate of 227,000 cubic feet per day with very limited water, both very encouraging for commerciality. After six weeks, the Nyanda-4 production test was shut down as a result of technical difficulties with the pump. Technical problems were also encountered in production testing at Serocold-1.

Flooding at site intervened and we were unable to replace the pumps before the pandemic struck, causing more delays. This delay provided time to redesign and procure new pumps and the Nyanda-4 and Serocold-1 production tests successfully recommenced in July 2020. Gas production resumed at Nyanda-4 after just 5 days and initial gas flows at Serocold-1 after 10 day's dewatering. As of the writing of this report, gas flows in both wells continue to increase with on-going low water make. On the basis of these results, the Company has commissioned Netherland Sewell & Associates to undertake the first resource certification of the field, with results expected shortly.



Picture: Gas production testing at Serocold-1

A further major milestone was the resolution of ownership of the Project. The Company's former joint venture partner had disputed State Gas' move in late 2018 to acquire 100% of PL231, forcing the Company to initiate legal proceedings to resolve the matter. In September 2019, the Supreme Court of Queensland endorsed your Company's position in full, confirming the consideration as fixed by the Joint Operating Agreement (\$233,333 for 20%) and awarding indemnity costs to State Gas. An appeal by the former Joint Venturer was struck out by the Court of Appeal as entirely without merit. Your Company was confirmed as sole owner with full control of the Reid's Dome Project.

Progress has also been made for an export pipeline with a desktop study identifying two potential routes to market. The survey licence enabling on-the-ground investigations has been refined to address the identified routes, and field investigations are planned once COVID-19 concerns recede.

With the conclusion of a successful Phase 1 of its exploration and appraisal program, your Company's focus is now turning to Phase 2, focussed on obtaining the data required to progress to development. We look forward to reporting to you as work progresses.

Tenement list

Tenement	Permit Holder	Grant date	GAS Rights	Expiry date
PL 231	State Gas Limited	15/12/2005	100%	14/12/2035

Significant changes in the state of affairs

During the financial year, State Gas's entitlement to the remaining 20% Participating Interest in PL 231 from its Joint Venture partner Dome Petroleum Resources Plc was confirmed by the Supreme Court of Queensland and the Court of Appeal of the Supreme Court of Queensland. State Gas is now the registered holder of 100% of PL231..

In addition, during the financial year the Company:

- a) raised \$1.5m through the issue of 2,307,691 fully paid ordinary shares at \$0.65 per share.
- b) raised \$150,000 through the issue of 500,000 fully paid ordinary shares on the exercise of 500,000 options at \$0.20, and 125,000 options at \$0.40.

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

No 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.

The impacts of COVID-19 have not changed since the end of the financial year.

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.

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 and 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	13,000 ordinary shares 5,000,000 performance rights

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 NOVONIX Limited (ASX: NVX) and intelliHR Limited (ASX: IHR), and Director of 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) and Shine Justice Limited (ASX: SHJ)(2013-2020)
Special responsibilities	Deputy Chairman of the Board Member of the Audit Committee.
Interests in shares and options	4,517,648 ordinary shares.

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.

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	500,000 ordinary shares 1,500,000 options over ordinary shares.

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 32.68% 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) .
Former listed directorships in last 3 years	Non-Executive director of Botanix Pharmaceuticals Limited (ASX: BOT)(204-2020)..
Special responsibilities	Member of the Audit Committee.
Interests in shares and options	None.

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 2020, and the number of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee	
	A	B	A	B
A Bellas	11	11	2	2
G Baynton	11	11	-	-
R Cottee	11	11	-	-
R Towner	10	11	2	2
I Paton	10	11	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 2020 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

R Cottee (Executive Chairman)
A Bellas (Non-Executive Deputy Chairman)
G Baynton (Executive Director)
R Towner (Non-Executive Director)
I Paton (Non-Executive Director)

Other key management personnel

<i>Name</i>	<i>Position</i>
J Crowley	Executive General Manager – Exploration and Development (from 1 June 2020) (formerly Chief Operating Officer from 1 July 2019 to 31 May 2020)
L Snelling	Head, Corporate and Commercial (from 1 June 2020) (formerly Chief Executive Officer from 1 July 2019 to 31 May 2020)
M Herrington	Chief Operating Officer (from 1 June 2020) (formerly Executive General Manager Technical and Operations from 1 November 2019 to 31 May 2020)

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 2020
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 FY2020.

Superannuation is included in FR for executives.

Remuneration report (Audited) (continued)

(ii) Short term incentives

No short term incentive plans were in place for FY 2020. Lucy Snelling was paid a discretionary bonus of \$50,000.

(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

No options were granted during FY 2020. Refer to the tables on pages 17-20 of this report for details of options on issue affecting remuneration.

Performance Rights

During FY 2020 3,100,000 performance rights were awarded to Chief Operating Officer, Mr Mike Herrington. The performance rights expire on termination of employment or 1 November 2022, whichever is earlier.

The performance rights vest as follows:

Number of rights	Vesting date	Vesting condition	% Vested
150,000	30/04/2020	NSAI agreement to a State Gas appraisal program in accordance with SPE PRMS industry and ASX-approved requirement by 30 April 2020.	100%
300,000	31/12/2020	Achievement of actual SPE PRMS industry and ASX-approved a Reserve Estimate for the Reid's Dome Gas Project by 31 December 2020.	0%
150,000	31/10/2020	Assist in optimisation and delivery of the Phase 1 Work Program and related production testing within PL231.	0%
500,000	31/12/2021	Assist the Executive Chairman to develop and deliver the Phase 2 Work Program and associated production testing within PL 231.	0%
1,500,000	31/12/2021	Consistent with the Company's 2021 Gas-to - Market strategy, delivery of first material gas production under a gas sale agreement approved by the State Gas Board, if achieved by 31 December 2021.	0%
500,000	03/06/2022	Assistance with the delivery and completion of a change-of-control transaction for State Gas that is recommended to Shareholders by the board of Directors.	0%

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 2020	37.0 cents
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 KMP*

The following table shows details of the remuneration expense recognised for the Company's 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** (Short term benefit)	Post-employment benefits**	Cash Bonus (Short term benefit)	Options*	Performance Rights*		
<i>Executive Directors</i>								
G Baynton	2020	76,528	7,270	-	-	-	83,798	-
	2019	90,000	8,550	-	-	-	98,550	-
R Cottee (from 3 June 2019)	2020	91,322	8,676	-	-	1,657,185	1,757,183	94%
	2019	8,305	723	-	-	100,874	109,902	92%
<i>Other key management personnel (Company)</i>								
J Crowley (from 2 July 2018)	2020	304,999	25,000	-	-	-	329,999	-
	2019	312,081	23,512	-	505,217	-	840,810	60%
L Snelling	2020	155,253	14,749	50,000	61,822	-	281,824	40%
	2019	159,230	14,749	-	95,212	-	269,191	35%
M Herrington (from 1 November 2019)	2020	40,590	3,856	-	-	581,039	625,485	93%
	2019	-	-	-	-	-	-	-
<i>Non-Executive Directors</i>								
A Bellas	2020	50,000	4,750	-	-	-	54,750	-
	2019	50,000	4,750	-	-	-	54,750	-
R Towner	2020	40,000	3,800	-	-	-	43,800	-
	2019	40,000	3,800	-	-	-	43,800	-
I Paton	2020	40,000	-	-	-	-	40,000	-
	2019	40,000	-	-	-	-	40,000	-
Total KMP remuneration expensed	2020	798,692	68,101	50,000	61,822	2,238,224	3,216,839	73%
	2019	699,616	56,084	-	600,429	100,874	1,457,003	48%

* 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.

**Effective 1 April 2020 all Directors and KMP deferred 50% of their remuneration. The component of remuneration that has been deferred is included in the remuneration report and is recorded in other payables in the Balance Sheet.

Remuneration report (Audited) (continued)

(f) Contractual arrangements with executive KMP's

Component	Executive Chairman description	Executive Directors description	Head, Corporate and Commercial description	COO description	Executive General Manager description
Fixed remuneration	\$100,000 per annum on a part time basis, inclusive of superannuation	\$83,800 per annum on a part time basis, inclusive of superannuation	\$170,000 per annum on a part time basis, inclusive of superannuation	\$66,667 per annum on a part time basis, inclusive of superannuation	\$300,000 per annum, inclusive of superannuation
Contract duration	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Notice by the individual / company	3 months	3 months	3 months	3 months	2 months

The contracts do not provide for any early termination payments.

(g) Non-Executive Director arrangements

The Non-Executive Deputy Chair receives fees of \$50,000 per annum plus superannuation. Other Non-Executive Directors receive \$40,000 per annum excluding 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 2020. 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 \$
2020				
M Herrington	-	-	1,968,500	-
L Snelling	-	13,750	-	-

* 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.

Remuneration report (Audited) (continued)

(ii) 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	09/10/2020	\$0.20	\$0.000786	100%	100%
16/08/2017	16/08/2019	09/10/2020	\$0.40	\$0.000424	100%	100%
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 21. 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	13/11/2019	03/06/2021	\$0.75
R Cottee	13/11/2019	03/06/2022	\$0.75
R Cottee	13/11/2019	31/10/2020	\$0.75
R Cottee	13/11/2019	31/12/2021	\$0.75
M Herrington	23/01/2020	30/04/2020	\$0.635
M Herrington	23/01/2020	31/10/2020	\$0.635
M Herrington	23/01/2020	31/12/2020	\$0.635
M Herrington	23/01/2020	31/12/2021	\$0.635
M Herrington	23/01/2020	03/06/2022	\$0.635

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 21. The performance rights carry no dividend or voting rights. See page 16 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 FY2020. No options were forfeited during the year.

Name & Grant dates	Balance at the start of the year		Granted as compensation	Vested		Exercised	Expired	Balance at the end of the year	
	Unvested	Vested		Number	%			Vested and exercisable	Unvested
J Crowley Granted 20/07/2018	-	3,000,000	-	-	-	-	-	3,000,000	-
I Paton Granted 16/08/2017	1,000,000	1,000,000	-	1,000,000	50%	(500,000)	-	1,500,000	-
L Snelling Granted 22/02/2018	1,500,000	500,000	-	500,000	25%	(125,000)	(1,875,000)	-	-

The amounts paid per ordinary share on the exercise of options at the date of exercise was:

Exercise date	Amount paid per share
6 November 2019	\$0.20
25 May 2020	\$0.40

Performance Rights

The table below shows how many performance rights were granted and vested during the year. No performance rights were forfeited during the year.

Name	Year granted	Balance at the start of the year		Granted as compensation	Vested during the year		Exercised during the year	Balance at the end of the year		Maximum value yet to vest*
		Unvested	Vested		Number	%		Vested and exercisable	Unvested	
R Cottee	2019	5,000,000	-	-	1,000,000	20%	-	1,000,000	4,000,000	1,991,942
M Herrington	2020	-	-	3,100,000	150,000	5%	-	150,000	2,950,000	1,387,461

* The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the rights that are yet to be expensed. The minimum value of deferred shares yet to vest is nil, as the shares will be forfeited if the vesting conditions are not met.

Remuneration report (Audited) (continued)

Shareholdings

Name	Balance at the start of the year	Changes during the year	Balance at the end of the year
2020			
Ordinary shares			
A Bellas	4,517,648	-	4,517,648
G Baynton	28,559,315	-	28,559,315
R Cottee	-	13,000**	13,000
J Crowley	-	-	-
I Paton	-	500,000*	500,000
L Snelling	-	125,000*	125,000
R Towner	-	-	-

* Shares acquired on the exercise of options.

** Shares acquired on-market

(iv) *Other transactions with key management personnel*

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 (2019: 7,000,000):

Date options granted	Expiry date	Issue price of Shares	Number under option
16/08/2017	09/10/2020	\$0.20	500,000
16/08/2017	09/10/2020	\$0.40	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 10,600,000 (2019: 2,500,000). 5,000,000 of these performance rights were the performance rights granted to Mr Cottee in the previous year. 3,100,000 of these performance rights were the performance rights granted to Mr Mike Herrington in the current financial year. The remaining 2,500,000 were performance rights granted to an advisor in a previous year. 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 \$76,930 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, no 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.

Auditor's independence declaration

A copy of the auditor's 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
16 September 2020

Auditor's independence declaration



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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor of State Gas Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a light grey, semi-transparent rectangular box.

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 16 September 2020

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 2020 Corporate Governance Statement is dated as at 30 June 2020 and reflects the corporate governance practices in place throughout the 2020 financial year. The 2020 Corporate Governance Statement was approved by the board on 16 September 2020. 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/corporate-governance/>.



STATE GAS LIMITED

ACN 617 322 488

Annual financial report – 30 June 2020

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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 2020

	Notes	2020 \$	2019 \$
Continuing operations			
Other income	2	84,539	66,241
Administrative and other expenses		(621,140)	(576,947)
Employee benefits expense		(2,837,445)	(1,457,003)
Financing costs	3	<u>(179,284)</u>	<u>(15,646)</u>
Loss before income tax expense		(3,553,330)	(1,983,355)
Income tax benefit	4	<u>-</u>	<u>-</u>
Loss after income tax expense		(3,553,330)	(1,983,355)
Other comprehensive income for the period, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the period		<u>(3,553,330)</u>	<u>(1,983,355)</u>
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	7	(2.5)	(1.46)
Diluted earnings per share	7	(2.5)	(1.46)

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 2020

	Notes	2020 \$	2019 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	875,048	6,344,568
Trade and other receivables	9	115,340	49,407
Total current assets		<u>990,388</u>	<u>6,393,975</u>
Non-current assets			
Property, plant and equipment		617	1,844
Exploration and evaluation assets	10	11,827,879	5,985,990
Other assets	11	35,000	35,000
Total non-current assets		<u>11,863,496</u>	<u>6,022,834</u>
Total assets		<u>12,853,884</u>	<u>12,416,809</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	258,354	577,220
Total current liabilities		<u>258,354</u>	<u>577,220</u>
Non-current liabilities			
Provisions	13	915,389	505,467
Total non-current liabilities		<u>915,389</u>	<u>505,467</u>
Total liabilities		<u>1,173,743</u>	<u>1,082,687</u>
Net assets		<u>11,680,141</u>	<u>11,334,122</u>
EQUITY			
Contributed equity	14	14,801,273	13,201,970
Reserves	15	3,125,067	825,021
Accumulates losses		<u>(6,246,199)</u>	<u>(2,692,869)</u>
Total equity		<u>11,680,141</u>	<u>11,334,122</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 2020

	Contributed equity \$	Accumulated losses \$	Share based payments reserve \$	Total \$
Balance as at 1 July 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 as at 30 June 2019	<u>13,201,970</u>	<u>(2,692,869)</u>	<u>825,021</u>	<u>11,334,122</u>
Loss for the period	-	(3,553,330)	-	(3,553,330)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(3,553,330)	-	(3,553,330)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,599,303	-	-	1,599,303
Share-based payments	-	-	2,300,046	2,300,046
Balance as at 30 June 2020	<u>14,801,273</u>	<u>(6,246,199)</u>	<u>3,125,067</u>	<u>11,680,141</u>

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 2020

	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers (GST inclusive)		583,825	19,474
Payments to suppliers and employees (GST inclusive)		(1,883,757)	(1,157,669)
Interest received		4,539	13,003
Government incentives received		80,000	-
Net cash outflow from operating activities	17	<u>(1,215,393)</u>	<u>(1,125,192)</u>
Cash flows from investing activities			
Payments for exploration assets		(5,853,430)	(3,295,118)
Payments for property plant and equipment		-	(1,844)
Net cash outflow from investing activities		<u>(5,853,430)</u>	<u>(3,296,962)</u>
Cash flows from financing activities			
Proceeds on issue of shares		1,649,999	6,270,004
Payment of capital raising costs and listing expenses		(50,696)	(40,680)
Net cash inflow from financing activities		<u>1,599,303</u>	<u>6,229,324</u>
Net increase (decrease) in cash and cash equivalents		(5,469,520)	1,807,170
Cash and cash equivalents at the beginning of the year		<u>6,344,568</u>	<u>4,537,398</u>
Cash and cash equivalents at the end of the year	8	<u>875,048</u>	<u>6,344,568</u>

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 2020

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.

Going Concern

The financial statements were authorised for issue by the Directors on 16 September 2020. 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 \$3,553,330 and net operating cash outflows of \$1,215,393 for the year ended 30 June 2020. As at 30 June 2020, the Company has cash of \$875,048.

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 2020

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 2020

Note 1 Summary of significant accounting policies (continued)

b. Income 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 income

Other income 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 2020

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 2020

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 2020

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-market 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 2020

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.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

AASB 16 Leases

AASB 16 Leases became effective for the current reporting period however there were no retrospective adjustments or current period adjustments resulting from adopting the standard as there are no material leases in place.

Notes to the financial statements for the year ended 30 June 2020

Note 1 Summary of significant accounting policies (continued)

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.

In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant petroleum interest. Factors that could impact the future commercial production at the project 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.

Notes to the financial statements for the year ended 30 June 2020

Note 1 Summary of significant accounting policies (continued)

o. Critical accounting estimates and judgements (continued)

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 Cox, Ross & Rubinstein Binomial Tree 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 2020

Note 2 Other income

	2020	2019
	\$	\$
Other income		
Interest received from unrelated parties	4,539	10,536
Government incentives	80,000	-
Other income	-	55,705
	<u>-</u>	<u>55,705</u>
 Total other income	 <u>84,539</u>	 <u>66,241</u>

Note 3 Loss for the year

Loss before income tax includes the following specific expenses:

	2020	2019
	\$	\$
Finance costs		
Provisions: Unwinding of discount (Note 13)	179,284	15,646
 Legal costs	 499,272	 317,151
Supreme court settlement*	(233,333)	-
Net legal costs expensed	<u>265,939</u>	<u>317,151</u>
 Share based payments expense		
Options granted	61,822	600,429
Performance rights granted	2,238,224	100,874
Total share-based compensation expense	<u>2,300,046</u>	<u>701,303</u>

*The Company's former joint venture partner had disputed State Gas' move in late 2018 to acquire 100% of PL231, forcing the Company to initiate legal proceedings to resolve the matter. In September 2019, the Supreme Court of Queensland endorsed your Company's position in full, confirming the consideration as fixed by the Joint Operating Agreement (\$233,333 for 20%) and awarding indemnity costs to State Gas. The sum of \$233,333 was received by State Gas in part payment of its costs.

Notes to the financial statements for the year ended 30 June 2020

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.

	2020 \$	2019 \$
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	<u>(3,553,330)</u>	<u>(1,983,355)</u>
Tax at the Australian tax rate of 27.5%	(977,166)	(545,423)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	911,955	192,858
Legal fees	158,452	-
Other	46,480	4,303
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	<u>(139,721)</u>	<u>(348,262)</u>
Income tax expense / (benefit)	<u>-</u>	<u>-</u>
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	<u>2,607,959</u>	<u>2,124,421</u>
Potential tax benefit @ 27.5%	<u>717,189</u>	<u>584,216</u>

Notes to the financial statements for the year ended 30 June 2020

Note 4 Income tax expense

	2020	2019
	\$	\$
(c) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses	3,349,932	1,650,780
Share issue costs	56,595	67,319
Accrued expenses	9,976	9,198
	<u>3,416,503</u>	<u>1,727,297</u>
Total deferred tax assets		
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,699,314)	(1,143,081)
Deferred tax assets not recognised	<u>(717,189)</u>	<u>(584,216)</u>
Net deferred tax assets	<u>-</u>	<u>-</u>
(d) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Exploration and evaluation assets	2,686,175	1,143,081
Prepayments	13,139	-
	<u>2,699,314</u>	<u>1,143,081</u>
Total deferred tax liabilities		
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(2,699,314)</u>	<u>(1,143,081)</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 2020

Note 5 Key Management Personnel Compensation

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

	2020	2019
	\$	\$
Short-term employee benefits	848,692	699,616
Post-employment benefits	68,101	56,084
Share-based compensation	<u>2,300,046</u>	<u>701,303</u>
Total KMP compensation	<u>3,216,839</u>	<u>1,457,003</u>

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

	2020	2019
	\$	\$
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	<u>42,000</u>	<u>39,106</u>
	<u>42,000</u>	<u>39,106</u>

Notes to the financial statements for the year ended 30 June 2020

Note 7 Earnings per share

	2020 Cents	2019 Cents
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	<u>(2.5 cents)</u>	<u>(1.46 cents)</u>
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	<u>(2.5 cents)</u>	<u>(1.46 cents)</u>
(c) Reconciliations of earnings used in calculating earnings per share		
	2020 \$	2019 \$
<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>(3,553,330)</u>	<u>(1,983,355)</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>(3,553,330)</u>	<u>(1,983,355)</u>
(d) Weighted average number of shares used as the denominator		
	2020 Number	2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>144,960,814</u>	<u>135,535,545</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 2020. 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 2020

Note 8 Cash and cash equivalents

	2020	2019
	\$	\$
Cash at bank and on hand	875,048	6,344,568
	<u>875,048</u>	<u>6,344,568</u>

Note 9 Trade and other receivables

	2020	2019
	\$	\$
Prepayments	65,583	48,487
Other receivables	49,757	920
	<u>115,340</u>	<u>49,407</u>

For other receivables, the Company applies the simplified approach permitted by AASB 9, which requires expected lifetime credit losses to be recognised from initial recognition of the receivables. Management has determined that assessment of expected credit loss associated with other receivables is immaterial.

Note 10 Exploration and evaluation assets

	2020	2019
	\$	\$
Exploration and evaluation assets – at cost	<u>11,827,879</u>	<u>5,985,990</u>

The capitalised exploration and evaluation assets carried forward above have been determined as follows:

Balance at the beginning of the year	5,985,990	2,588,428
Expenditure incurred during the year	5,371,324	3,350,823
Consideration to acquire additional interest in PL231	239,927	-
Rehabilitation asset increment (refer to note 13)	230,638	46,739
	<u>11,827,879</u>	<u>5,985,990</u>

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2020, 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 2020

Note 11 Other assets

	2020	2019
	\$	\$
Security deposits	35,000	35,000
	<u>35,000</u>	<u>35,000</u>

Note 12 Trade and other payables

	2020	2019
	\$	\$
Unsecured liabilities:		
Trade payables	87,107	43,360
Sundry payables and accrued expenses	134,660	224,093
Provision for annual leave	36,587	15,142
Payable to related party (note 20(d))	-	294,625
	<u>258,354</u>	<u>577,220</u>

Note 13 Provisions

	2020	2019
	\$	\$
Provision for rehabilitation	915,389	505,467
Reconciliation of carrying amount:		
Opening balance	505,467	443,082
Additions (refer to note 10)	230,638	46,739
Unwinding of discount (refer to note 3)	179,284	15,646
	<u>915,389</u>	<u>505,467</u>

Rehabilitation provision

The rehabilitation provision relates to the Reid's Dome production lease PL231 (located in Bowen Basin, Queensland). State Gas Limited is liable to pay 100% 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 2020

Note 14 Contributed equity

	2020	2019	2020	2019
	Shares	Shares	\$	\$
(a) Share capital				
Fully paid ordinary shares	146,357,014	143,424,323	14,801,273	13,201,970

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2018	Balance		134,812,500		6,972,646
8 Mar 2019	Placement shares	(c)	588,240	\$0.85	500,004
27 Mar 2019	Security Purchase Plan	(d)	1,023,583	\$0.85	870,000
17 Jun 2019	Placement shares	(e)	7,000,000	\$0.70	4,900,000
	Share issue costs		-		(40,680)
30 Jun 2019	Balance		143,424,323		13,201,970
6 Nov 2020	Exercise of options	(f)	500,000	\$0.20	100,000
19 Dec 2019	Placement shares	(g)	1,538,461	\$0.65	1,000,000
30 Dec 2019	Placement shares	(g)	769,230	\$0.65	499,999
25 May 2020	Exercise of options	(h)	125,000	\$0.40	50,000
	Share issue costs		-		(50,696)
30 Jun 2020	Balance		146,357,014		14,801,273

(c) Issue to sophisticated investors

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

(d) 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.

(e) 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.

(f) Exercise of options

The issue of 500,000 fully paid ordinary shares to director, Ian Paton, on the exercise of options.

(g) Issue to sophisticated investors

The issue of a total of 2,307,691 fully paid ordinary shares to sophisticated investors at an issue price of \$0.65 cash.

(h) Exercise of options

The issue of 125,000 fully paid ordinary shares to an executive, Lucy Snelling, on the exercise of options.

Notes to the financial statements for the year ended 30 June 2020

Note 14 Contributed equity (continued)

(i) 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 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.

The Covid 19 pandemic has not impacted on the Company's ability to raise capital and the Company's strategy for capital risk management is unchanged from prior years.

Note 15 Share-based payment reserve

	2020 \$	2019 \$
Share-based payment reserve	<u>3,125,067</u>	<u>825,021</u>
Movements:		
Opening balance	825,021	123,718
Share based payments	<u>2,300,046</u>	<u>701,303</u>
Closing balance	<u>3,125,067</u>	<u>825,021</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 2020

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

	2020	2019
	\$	\$
Profit / (loss) for the year	(3,553,330)	(1,983,355)
Adjustments for		
Share based payments	2,300,047	701,303
Depreciation expense	1,227	-
Financing costs	179,284	15,646
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(48,127)	(33,791)
Increase in trade creditors and other payables	(94,494)	175,005
Net cash inflow (outflow) from operating activities	<u>(1,215,393)</u>	<u>(1,125,192)</u>

(b) Non-cash financing and investing activities

There were no non-cash financing and investing activities during FY 2020.

(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 2020

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 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
Options exercisable as at 30 June 2019	4,500,000	\$0.50
Granted	-	-
Exercised	(625,000)	\$0.24
Forfeited	-	-
Expired	(1,875,000)	\$0.51
Options outstanding as at 30 June 2020	4,500,000	\$0.51
Options exercisable as at 30 June 2020	4,500,000	\$0.51

The weighted average remaining contractual life of options outstanding at year end was 5.4 years (2019: 4.4 years).

There were no options issued during the financial year.

On 22 February 2018, 2,000,000 share options were granted to Lucy Snelling under the State Gas Limited Executive Option Plan to take up ordinary shares. 1,000,000 were exercisable at \$0.40 each and the remaining 1,000,000 were exercisable at \$0.60 each. All options vest subject to non-market performance conditions (set out in the table below). During the financial year Lucy Snelling exercised 125,000 of the options at \$0.40 each. The remaining options expired on 22 March 2020. The options held no voting or dividend rights and are not transferable.

Vesting conditions	Vested %
1. Successful completion of the Executive's probationary period	100%
2. Written confirmation from the Executive that the Executive intends to continue employment in the Position for the remainder of the term	100%
3. State Gas retaining an interest of no less than 60% in PL231, other than where State Gas voluntarily elects to sell some or all of that interest or voluntarily dilutes that interest through a farm out arrangement	100%
4. Execution of a conduct and compensation agreement with landowners.	100%
5. Satisfaction of State Gas's obligation to drill one well under the Reid's Dome Joint Venture Agreement.	100%
6. Establishment of the JV committee under the JOA, holding the first JV committee meeting, achieving an approve budget in respect of the JV for 2018 and issuing the first valid AFE and first valid Cash Call.	100%

Notes to the financial statements for the year ended 30 June 2020

Note 18 Share-based payments

The fair value of these options at grant date was \$253,197. This value was calculated using a Cox, Ross & Rubinstein Binomial Tree option pricing model applying the following inputs:

	Tranche 1	Tranche 2
Number of option	1,000,000	1,000,000
Exercise price	\$0.40	\$0.60
Grant date	22/02/2018	22/02/2018
Expiry date	22/03/2020	22/03/2020
Volatility	87.93%	87.93%
Dividend yield	0%	0%
Risk-free interest rate	2.49%	2.49%
Weighted average fair value at grant date	\$0.1437	\$0.1095

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 2019	7,500,000	-
Granted	3,100,000	-
Forfeited	-	-
Expired	-	-
Performance rights outstanding as at 30 June 2020	10,600,000	-
Performance rights exercisable as at 30 June 2020	150,000	-

The weighted average remaining contractual life of performance rights outstanding at year end was 1.6 years (2019: 2.5 years).

Notes to the financial statements for the year ended 30 June 2020

Note 18 Share-based payments (continued)

3,100,000 performance rights were granted to the Chief Operating Officer, Mr Mike Herrington, on 23 January 2020. The fair value of these performance rights was \$1,968,500. This value was calculated based on the share price at the date the performance rights were granted and the share based payment expense is being recognised on the basis that all performance rights will vest.

Grant date	Number of Rights	Vesting conditions	Vesting date	% Vested	Expiry date	Fair value at grant date per right
23/01/2020	150,000	NSAI agreement to a State Gas appraisal program in accordance with SPE PRMS industry and ASX-approved requirement by 30 April 2020.	30/04/2020	100%	01/11/2022	\$0.635
23/01/2020	300,000	Achievement of actual SPE PRMS industry and ASX-approved a Reserve Estimate for the Reid's Dome Gas Project by 31 December 2020.	31/12/2020	0%	01/11/2022	\$0.635
23/01/2020	150,000	Assist in optimisation and delivery of the Phase 1 Work Program and related production testing within PL231.	31/10/2020	0%	01/11/2022	\$0.635
23/01/2020	500,000	Assist the Executive Chairman to develop and deliver the Phase 2 Work Program and associated production testing within PL 231.	31/12/2021	0%	01/11/2022	\$0.635
23/01/2020	1,500,000	Consistent with the Company's 2021- Gas-to-Market strategy, delivery of first material gas production under a gas sale agreement approved by the State Gas Board, if achieved by 31 December 2021.	31/12/2021	0%	01/11/2022	\$0.635
23/01/2020	500,000	Assistance with the delivery and completion of a change-of-control transaction for State Gas that is recommended to Shareholders by the board of Directors.	03/06/2022	0%	01/11/2022	\$0.635

Notes to the financial statements for the year ended 30 June 2020

Note 18 Share-based payments (continued)

5,000,000 performance rights were awarded to the Executive Chairman, Richard Cottee on 3 June 2019 and subsequently approved by Shareholders at the Company's 2019 Annual General Meeting.

The fair value of these performance rights at grant date was \$3,750,000. 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
13/11/2019	500,000	Completion of 2 years of service as Executive Chairman	03/06/2021	0%	3 June 2022	\$0.75
13/11/2019	1,000,000	Develop, arrange funding and deliver Phase 1 Work Program within Reid's Dome Gas Project	31/10/2020	0%	3 June 2022	\$0.75
13/11/2019	1,000,000	If required by the Board, develop, arrange funding and deliver Phase 2 Work Program within Reid's Dome Gas Project	31/12/2021	0%	3 June 2022	\$0.75
13/11/2019	2,000,000	Delivery and completion of a change of control transaction for State Gas that is recommended to shareholders by the Board.	03/06/2022	0%	3 June 2022	\$0.75
13/11/2019	500,000	If required by the Board, Completion of a material strategic acquisition by State Gas.	03/06/2022	0%	3 June 2022	\$0.75

Note 19 Events after the reporting date

No 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.

The impacts of COVID-19 have not changed since the end of the financial year.

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 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**

During the financial year, Triangle Energy Limited, a company of which Mr Robert Towner is a shareholder and director, was paid back costs of \$267,840 for keeping PL231 in good standing (Back Cost Reimbursement). The Back Cost Reimbursement was 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.

During the previous financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid \$4,250 in consulting fees. No consulting fees were paid during the current financial year.

Notes to the financial statements for the year ended 30 June 2020

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 \$6,570,000 to be spent over the period 1 January 2020 through to the expiry of the LDP on 31 December 2022. To 30 June 2020, \$986,697 has been spent on the LDP.

Notes to the financial statements for the year ended 30 June 2020

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	2020 \$	2019 \$
Financial assets			
Cash and cash equivalents		875,048	6,344,568
Trade and other receivables		49,757	920
Other assets – security deposits		35,000	35,000
Total financial assets		<u>959,805</u>	<u>6,380,488</u>
Financial liabilities			
Trade and other payables		<u>221,767</u>	<u>562,078</u>
Total financial liabilities		<u>221,767</u>	<u>562,068</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, with the exception of security deposits.

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 2020

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 2020, 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 \$8,750 (2019: \$52,349) 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.

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 27 to 58 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 2020 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 Executive Chairman 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 Cottée

Director

Brisbane, 16 September 2020

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 balance sheet as at 30 June 2020, 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 2020 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 (including Independence Standards)* (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.

Recoverability of exploration and evaluation assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
Refer to note 10 of the financial statements.	Our procedures included, but were not limited to the following:
The Company carries exploration and evaluation assets as at 30 June 2020 in accordance with the Company's accounting policy for exploration and evaluation assets.	<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
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.	<ul style="list-style-type: none"> 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 2020, 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.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 2020.

In our opinion, the Remuneration Report of State Gas Limited, for the year ended 30 June 2020, 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

R M Swaby

Director

Brisbane, 16 September 2020

Shareholder information

The shareholder information set out below was applicable as at 8 September 2020.

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		54
1,001 – 5,000		117
5,001 – 10,000		139
10,001 – 100,000		282
100,001 and over		106
		698

There were 54 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:

Name	Ordinary shares	
	Number held	% of issued shares
Triangle Energy (Global) Limited	47,830,148	32.68
Allegro Capital Nominees Pty Ltd	16,541,668	11.30
Investment for Retirement Pty Ltd	9,000,000	6.15
HSBC Custody Nominees (Australia) Limited	6,032,405	4.12
Pherous Holdings Group Pty Ltd	4,910,750	3.36
AG & M Bellas Super Pty Ltd	4,350,000	2.97
Graeme Eric Fielding & Noelle Lee Halpin	3,703,686	2.53
Mr Jamie Pherous	2,733,821	1.87
Ms Amanda Elizabeth Kitson Collins	2,674,785	1.83
Physick SMSF Pty Ltd	2,601,350	1.78
Jarrad Street Corporate Pty Ltd	1,600,000	1.09
Baynton Brothers Pty Ltd	1,500,000	1.02
Orbit Capital Pty Ltd	1,500,000	1.02
Gregory Pavlos Papavassilliou	1,250,000	0.85
M E J C Pty Ltd	1,173,000	0.80
HSBC Custody Nominees (Australia) Limited – A/c 2	1,112,762	0.76
Australian Philanthropic & Services Foundation P/L	975,000	0.67
Immanuel Developments Pty Ltd	942,148	0.64
Clericus Pty Ltd	880,000	0.60
Foligno Pty Limited	735,296	0.50
Total	112,046,819	76.54

Unquoted equity securities

	Number on issue	Number of holders
Options	4,500,000	2
Performance rights	10,600,000	3

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

	Number held	% of total on issue
Ian Paton	1,500,000	33.3%
James Crowley	3,000,000	66.7%

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

	Number held	% of total on issue
Highbury Partnership Pty Ltd	2,500,000	23.6%
Richard Cottee	5,000,000	47.2%
Mike Herrington	3,100,000	29.2%

C Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Triangle Energy (Global) Limited	47,830,148	32.68%
Greg Alexander John Baynton, Allegro Capital Nominees Pty Ltd, Intercontinental Pty Ltd Investment for Retirement Pty Ltd and Baynton Brothers Pty Ltd	28,559,315	19.5%

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
- (c) Performance rights: No voting rights