STATE GAS

ANNUAL REPORT

2018

STATE GAS LIMITED

ACN 617 322 488

Annual Report – 30 June 2018

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Corporate directory

Directors	A Bellas *B.Econ, DipEd, MBA, FAICD, FCPA, FGS* G A J Baynton *M.Econ St, MBA, B.Bus , FGIA, FGS* R Towner I Paton *BSc MPetEng MBA*
Company Secretary	S M Yeates *CA, B.Bus*
Principal Place of Business	Level 8, 46 Edward Street, Brisbane QLD 4000
Registered Office	C/- McCullough Robertson Central Plaza Two Level 11, 66 Eagle Street Brisbane QLD 4000
Share register	Link Market Services Limited Level 15, 324 Queen Street Brisbane QLD 4000 www.linkmarketservices.com.au
Auditor	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au
Solicitors	McCullough Robertson Level 11, Central Plaza Two 66 Eagle Street Brisbane QLD 4000 www.mccullough.com.au
Bankers	Westpac Banking Corporation
Stock exchange listing	State Gas Limited shares are listed on the Australian Securities Exchange (ASX).
Website address	www.stategas.com

Letter from the Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to provide our first Annual Report as an ASX-listed company. Our company's major focus is the Reid's Dome gas project, hosted within PL 231 in the Bowen Basin in Central Queensland.

The PL 231 Permit hosts a conventional gas project located in the Denison Trough, first discovered in the 1950s. The initial area of focus for State Gas has been the shallow, conventional gas target in the Cattle Creek Formation, a marine sandstone source rock, with additional major conventional and Coal Seam Gas targets in the underlying Reid's Dome beds. As outlined in our 2017 Prospectus, a number of historical wells have flowed gas from the Cattle Creek formation, which was reached at depths of as shallow as 130 meters.

We spent the 2017-18 year conducting activities that facilitated a better understanding of the targets within the Reid's Dome gas project and prepared State Gas Limited for the first drilling program within our Permit since 2006. With access and tendering processes almost complete, the initial drilling program is now planned for the December quarter of 2018.

To provide optionality to transport gas from PL 231 to market, in July 2017 State Gas lodged a pipeline survey licence application (PSL) with the Queensland Department of Natural Resources and Mines (PSL 2028) to consider suitable routes for a lateral pipeline to connect PL 231 with the Queensland Gas Pipeline and the broader east coast gas market. PSL 2028 was granted to State Gas on 1 August.

Following initial field investigations and desk-top activities, the Company listed on ASX on 10 October last year. In accordance with our plans outlined in the Prospectus, we conducted a search for, and appointed a Chief Executive Officer, with Lucy Snelling commencing on a consulting basis and her formal appointment on 22 February. Lucy was formerly Manager Gas Development for AGL Energy Limited and comes from a specialist background as a commercial and legal advisor in the oil and gas sector and as the former Partner and head of oil and gas in a Queensland-headquartered law firm.

In April we announced that we were adding to the Company's technical resources with the appointment of James Crowley as Chief Operating Officer. James is a highly-experienced petroleum geologist who was previously employed by Apache Corporation, Origin Energy, Senex and AGL Energy. He has been instrumental in identifying significant new unconventional gas opportunities within PL 231 since his commencement with State Gas.

In terms of the east coast gas market conditions, it continues to be an exciting time to be an investor in the supply side of the Queensland gas market. For example, commodity researcher Wood Mackenzie, among others, predicted in July that a combination of volatile gas demand, declining mature gas fields and LNG exports will lead to impending gas shortages where gas is consumed most in Australia. Wood Mackenzie also noted that rapid LNG demand growth in Asia is leading to concerns over broader LNG market tightness, which could see further gas price inflation.

In the context of the east coast gas market outlook, the drilling activities we plan for the coming months and our current funding in place, the 2018-19 year will be a transformational year for the Company.

I take this opportunity to thank our Board and management team for their efforts during the past year. Most importantly, I thank our continuing shareholders for their support and welcome new shareholders who have joined since our ASX-listing in October last year.

Yours faithfully

Tony Bellas
Chairman
State Gas Limited

Directors' report

Your Directors present their report on the Company for the year ended 30 June 2018.

Directors and Company Secretary

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

G A J Baynton
A Bellas
R Towner

Ian Paton was appointed as a Director on 16 August 2017 and continues in office at the date of this report.

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

Principal activities

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

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

Dividends

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

Review of operations

2017-18 can truly be said to have been a formative year for State Gas. From little more than a shelf company at the beginning of the period, having acquired its interest in the PL 231 Gas Project in the prior year, the Company underwent an Initial Public Offering, listed on the ASX on 10 October 2017, and commenced operations. Lucy Snelling joined in February 2018, and subsequently James Crowley was engaged as Chief Operating Officer, starting on 2 July.

Our focus for 2017-18 has, as outlined in the Prospectus, been the PL 231 Gas Project. Since the ASX listing State Gas has:

- Conducted field surveys to investigate access and pipeline routes within the PL 231 permit;
- Conducted short term tests of historic wells on the permit, confirming the potential of three existing wells to produce good flows of pipeline quality gas;
- Reprocessed and interpreted as much existing seismic for the northern area of the permit as possible, identifying new gas targets in the north west of the permit and below the already discovered gas pool in the Cattle Creek Gas Sands to the west of Primero-1. State Gas has commissioned further reprocessing and interpretation of the limited amount of seismic in the southern area with the results to become available in Q3 2018;

- Made application for a pipeline survey licence (granted in August 2018) to assist in the investigation of a potential pipeline route to enable gas to be sold to market;

- Investigated commercialisation options, holding discussions with potential customers, engineering, infrastructure and facilities suppliers, and transportation providers to explore options for commercialisation and indicative costs;

- Commenced formal joint venture governance and activities with our 40% joint venture partner in the Reid's Dome gas project;

- Commenced planning for a three well drilling program to investigate the north west gas target identified by the seismic reprocessing, appraise the known gas pool in the Cattle Creek Formation and the newly identified lower target near Primero-1, and investigate the potential for coal seam as well as conventional gas in the Reids Dome beds. The objective of the program is to obtain information that, together with the flow tests, will enable the independent certification of reserves; and

- Established relationships and commenced negotiations with landholders and Aboriginal parties for the permit to enable the proposed drilling activities.

We are looking forward to drilling the three initial targets in the coming months and obtaining the first new drilling data since 2006.

While the PL 231 Gas Project is our focus we have also monitored the market for other opportunities which may be of interest to State Gas and its shareholders.

With our increasing knowledge base surrounding the Reid's Dome gas project and the initial drilling program about to commence, we are excited about the prospects for State Gas for the 2018-19 year.

Tenement list

Tenement	Permit Holder	Grant date	GAS Rights	Expiry date
PL 231	State Gas Limited	15/12/2005	60%	14/12/2035

Significant changes in the state of affairs

During the financial year, State Gas Limited gained admission to the official list of the Australian Securities Exchange after an Initial Public Offering (IPO) raising $5,250,000.

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

Since the end of the financial year the following has occurred:

- Issue of 3,000,000 options over ordinary shares to the newly appointed Chief Operating Officer, Mr James Crowley.

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

Environmental regulation

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

Information on Directors

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

G A J Baynton. *Executive Director*	
Experience and expertise	Mr Baynton founded NOVONIX Limited in April 2012. He has been a Director of Australian exploration companies for over 19 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 Holdings 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	28,541,667 ordinary shares

A Bellas. *Chair – Non-Executive Chairman*	
Experience and expertise	Mr Bellas brings almost 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. Tony had a long career with Queensland Treasury, achieving the position of Deputy Under Treasurer. Tony is a director of the listed companies shown below and is also a director of Loch Exploration Pty Ltd, Colonial Goldfields Pty Ltd and West Bengal Resources (Australia) Pty Ltd.
Other current directorships	Chairman of Corporate Travel Management Ltd (ASX: CTD), ERM Power Ltd (ASX: EPW), Shine Limited (ASX: SHJ), NOVONIX Limited (ASX: NVX) and intelliHR Holdings Limited (ASX: IHR). Chairman of the Endeavour Foundation.
Former listed directorships in last 3 years	None.
Special responsibilities	Chairman of the Board Member of the Audit Committee.
Interests in shares and options	4,500,000 ordinary shares

R Towner. *Non-Executive Director*	
Experience and expertise	Rob has over 20 years' 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. 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. Rob represents Triangle's 35.47% interest on the board of State Gas Ltd as a non-executive Director and is also currently a non-executive director of Botanix Pharmaceuticals Limited and a non-executive director of the Telethon Type 1 Diabetes Family Centre.
Other current directorships	Managing Director of Triangle Energy (Global) Limited (ASX: TEG) and Non-Executive director of Botanix Pharmaceuticals Limited (ASX: BOT).
Former listed directorships in last 3 years	None.
Special responsibilities	Member of the Audit Committee.
Interests in shares and options	None.

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

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee	
	A	**B**	**A**	**B**
A Bellas	9	9	1	1
G A J Baynton	9	9	-	-
R Towner	9	9	1	1
I Paton	8	8	1	1

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 2018 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

(a) Key management personnel (KMP) covered in this report

(b) Remuneration policy and link to performance

(c) Elements of remuneration

(d) Link between remuneration and performance

(e) Remuneration expenses for executive KMP

(f) Contractual arrangements for executive KMP

(g) Non-executive Director arrangements

(h) Additional statutory information

(a) Key management personnel covered in this report

Non-Executive and Executive Directors
A Bellas (Non-Executive Chairman) G A J Baynton (Executive Director) R Towner (Non-Executive Director) I Paton (Non-Executive Director)

Other key management personnel

Name	*Position*
L Snelling (appointed 22 February 2018)	Chief Executive Officer

Changes since the end of the reporting period

J Crowley was appointed Chief Operating Officer on 2 July 2018.

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 2018
Fixed remuneration (FR)	Provide competitive market salary including superannuation and non-monetary benefits	Nil	Positioned at median market rate	FY 2018 is the first year in which the Company has employed.
LTI	Alignment to long-term shareholder value	Performance vesting conditions	Variable subject to share price.	FY 2018 is the first year in which the Company has employed.

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 FY2018.

Superannuation is included in FR for executives. FY 2018 is the first year in which the Company has remunerated employees.

Remuneration report (Audited) (continued)

(ii) *Short term incentives*

Short term incentives have not been in place for FY 2018.

(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 with varying vesting conditions. The company does not have a formal LTIP, rather incentives are awarded at the discretion of the Board.

Options

During FY2018, 4,000,000 options were granted to KMP. Refer to the table on page 16 of this report.

(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 2018	15.5 cents
On admission to ASX	20.0 cents

(e) Remuneration expenses for executive KMP

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

Remuneration report (Audited) (continued)

Name	Year	Fixed remuneration		Variable remuneration	Total	Performance related remuneration %
		Cash salary	Post-employment benefits	Options*		
Executive Directors						
G A J Baynton	**2018**	91,667	8,707	-	100,374	-
	2017	-	-	-	-	-
Other key management personnel (Company)						
L Snelling (from 22/02/18)	**2018**	54,985	5,224	96,163	156,372	61%
	2017	-	-	-	-	-
Non-Executive Director						
A Bellas	**2018**	37,500	3,563	-	41,063	-
	2017	-	-	-	-	-
R Towner	**2018**	30,000	2,850	-	32,850	-
	2017	-	-	-	-	-
I Paton (from 16/08/17)	**2018**	30,000	-	1,210	31,210	4%
	2017	-	-	-	-	-
Total KMP remuneration expensed	**2018**	244,152	20,344	97,373	361,869	-
	2017	-	-	-	-	-

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

(f) Contractual arrangements with executive KMP's

Component	Executive Director description	CEO description	COO description
Fixed remuneration	$100,000 per annum on a part time basis, inclusive of superannuation	$170,000 per annum on a part time basis, inclusive of superannuation	$300,000 per annum, inclusive of superannuation
Contract duration	Ongoing	Ongoing	Ongoing
Notice by the individual / company	3 months	3 months	2 months

(g) Non-Executive Director arrangements

The Non-Executive chairman receives fees of $50,000 per annum plus superannuation. Other Non-Executive directors receive $40,000 per annum plus superannuation. Fees are reviewed annually by the board taking into account comparable roles. The current base fees were reviewed with effect from 1 October 2017.

Remuneration report (Audited) (continued)

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 that were granted, exercised and forfeited during FY 2018. The number of options and percentages vested / forfeited for each grant are disclosed in section (iii) below.

	LTI Options	
	Value granted $*	*Value exercised* $**
2018		
L Snelling	96,163	-
Ian Paton	1,210	-

* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options 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.

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

Options

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

Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% vested
16/08/2017	16/08/2018	16/08/2020	$0.20	$0.000786	-	-
16/08/2017	16/08/2019	16/08/2020	$0.40	$0.000424	-	-
22/02/2018	Performance conditions	22/03/2020	$0.40	$0.143694	-	-
22/02/2018	Performance conditions	22/03/2020	$0.60	$0.109503	-	-

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 16. The options carry no dividend or voting rights.

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

Remuneration report (Audited)(continued)

(iv) Reconciliation of options, performance rights, ordinary shares and loan notes held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY2018. No options were forfeited during the year.

Options

2018 Name & Grant dates	Balance at the start of the year		Granted as compen-sation	Vested		Exer-cised	Balance at the end of the year	
	Unvested	Vested		Number	%		Vested and exercisable	Unvested
Ian Paton 16 August 2017	-	-	2,000,000	-	-	-	-	2,000,000
Lucy Snelling 22 February 2018	-	-	2,000,000	-	-	-	-	2,000,000

There were no options exercised during FY 2018.

Shareholdings

2018 Name	Balance at the start of the year	Share split 1:3	Other changes during the year	Balance at the end of the year
Ordinary shares				
A Bellas	1,500,000	3,000,000	-	4,500,000
G Baynton	7,500,000	15,000,000	4,125,000*	26,625,000
R Towner	-		-	-
I Paton	-		-	-
L Snelling	-		-	-

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

(v) Other transactions with key management personnel

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

During the financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid $28,350 in consulting fees for the supervision and interpretation of seismic reprocessing.

There have been no other transactions with key management personnel.

End of remuneration report (audited)

Shares under option

Unissued ordinary shares

Unissued ordinary shares of State Gas Limited under option at the date of this report are as follows (2017: Nil):

Date options granted	Expiry date	Issue price of Shares	Number under option
16/08/2017	16/08/2020	$0.20	1,000,000
16/08/2017	16/08/2020	$0.40	1,000,000
22/02/2018	22/03/2020	$0.40	1,000,000
22/02/2018	22/03/2020	$0.60	1,000,000
17/07/2018	Cessation of employment	$0.40	1,000,000
17/07/2018	Cessation of employment	$0.60	1,000,000
17/07/2018	Cessation of employment	$0.80	1,000,000

Insurance of officers and indemnities

(a) Insurance of officers

During the financial year, State Gas Limited paid a premium of $44,260 to insure the Directors and Officers of the Company.

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

(b) Indemnity of auditors

State Gas Limited has not agreed to indemnify its auditors.

Proceedings on behalf of the Company

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

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

Non-audit services

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

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

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

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

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

	Consolidated	
	2018	2017
	$	$
Other assurance services		
BDO Audit Pty Ltd:		
Investigating accountants report	10,850	-
Total remuneration for taxation / non-audit services	10,850	-

Auditor's independence declaration

A copy of the auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

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

A Bellas
Chairman

Brisbane
4 September 2018

Auditor's Independence Declaration

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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 2018, 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.

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 4 September 2018

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 2018 corporate governance statement is dated as at 30 June 2018 and reflects the corporate governance practices in place throughout the 2018 financial year. The 2018 corporate governance statement was approved by the board on 4 September 2018. A description of the Company's current corporate governance practices is set out in the Company's corporate governance statement which can be viewed at https://www.stategas.com/governance/.

STATE GAS LIMITED

ACN 617 322 488

Annual financial report – 30 June 2018

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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 2018

	Notes	2018 $	2017 $
Continuing operations			
Other income	2	51,755	205
Administrative and other expenses		(235,447)	(7,689)
Employee benefits expense		(361,869)	-
Financing costs	3	(15,113)	-
Share issue expenses relating to IPO		(141,356)	-
Loss before income tax expense		(702,030)	(7,484)
Income tax benefit	4	-	-
Loss from continuing operations		(702,030)	(7,484)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		(702,030)	(7,484)
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	7	(0.55)	(0.11)
Diluted earnings per share	7	(0.55)	(0.11)

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 2018

	Notes	**2018** $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	8	4,537,398	500,208
Trade and other receivables	9	71,321	21,244
Total current assets		4,608,719	521,452
Non-current assets			
Exploration and evaluation assets	10	2,588,428	1,815,293
Other assets	11	35,000	-
Total non-current assets		2,623,428	1,815,293
Total assets		7,232,147	2,336,745
LIABILITIES			
Current liabilities			
Trade and other payables	12	402,215	71,538
Total current liabilities		402,215	71,538
Non-current liabilities			
Provisions	13	443,082	427,969
Total non-current liabilities		443,082	427,969
Total liabilities		845,297	499,507
Net assets		6,386,850	1,837,238
EQUITY			
Contributed equity	14	6,972,646	463,754
Reserves	15	123,718	1,380,968
Accumulates losses		(709,514)	(7,484)
Total equity		6,386,850	1,837,238

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

Statement of changes in equity
For the year ended 30 June 2018

	Contributed equity $	Accumulated losses $	Share based payments reserve $	Total $
Balance at 1 July 2016	-	-	-	-
Loss for the period	-	(7,484)	-	(7,484)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(7,484)	-	(7,484)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	463,754	-	-	463,754
Share-based payments	-	-	1,380,968	1,380,968
Balance at 30 June 2017	463,754	(7,484)	1,380,968	1,837,238
Loss for the period	-	(702,030)	-	(702,030)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(702,030)	-	(702,030)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	5,154,269	-	-	5,154,269
Transfer Class B shares to contributed equity	1,354,623		(1,354,623)	-
Share-based payments	-	-	97,373	97,373
Balance at 30 June 2018	6,972,646	(709,514)	123,718	6,386,850

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 2018

	Notes	**2018** **$**	2017 $
Cash flows from operating activities			
Receipts from customers (GST inclusive)		81,512	-
Payments to suppliers and employees (GST inclusive)		(540,949)	-
Interest received		16,150	108
Net cash outflow from operating activities	17	(443,287)	108
Cash flows from investing activities			
Payments for exploration assets		(489,360)	-
Payments for security deposits		(35,000)	-
Net cash outflow from investing activities		(524,360)	-
Cash flows from financing activities			
Proceeds on issue of shares		5,350,000	500,100
Payment of capital raising costs and listing expenses		(345,163)	-
Net cash inflow from financing activities		5,004,837	500,100
Net increase (decrease) in cash and cash equivalents		4,037,190	500,208
Cash and cash equivalents at the beginning of the year		500,208	-
Cash and cash equivalents at the end of the year	8	4,537,398	500,208

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 2018

Note 1 Summary of significant accounting policies

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

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

The financial statements were authorised for issue by the Directors on 4 September 2018. 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 $702,030 (2017: $7,484) and net operating cash outflows of $443,287 (2017: inflow $108) for the year ended 30 June 2018. As at 30 June 2018, the company has cash of $4,537,398 (2017: $500,208).

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.

Note 1 Summary of significant accounting policies (continued)

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.

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.

Note 1 Summary of significant accounting policies (continued)

b. Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

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

Other revenue

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

c. Operating segments

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

d. Current and non-current classification

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

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

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

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

Notes to the financial statements for the year ended 30 June 2018

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. Other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

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 2018

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 using the projected unit credit method. 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.

Note 1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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.

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 9 *Financial Instruments*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Notes to the financial statements for the year ended 30 June 2018

Note 1 Summary of significant accounting policies (continued)

The Company has reviewed its financial assets and liabilities and does not expect the standard to have any material impact other than expanded disclosure requirements and changes in presentation.

AASB 15 *Revenue from Contracts with Customers*

The AASB has issued a new standard for the recognition of revenue. This will replace AAB 118 which covers revenue arising from the sale of goods and rendering of services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The Standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the group's financial statements and has concluded that there are no areas that will be affected.

AASB *16 Leases*

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

The accounting for lessors will not significantly change.

Management has assessed the effects of applying the new standard and as the Company does not have any leases currently, there will be no impact.

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.

Note 1 Summary of significant accounting policies (continued)

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

Share based payment – Issue of Class B shares

During the prior year, 10,000,000 Class B Shares were issued to Triangle Energy (Global) Limited as consideration for the transfer of PL231 to State Gas Limited.

Class B shares have the same rights as Ordinary shares in all respects, including the right to vote at a general meeting of members, but the Class B Shares have value protection rights. Following the IPO, the Class B shares converted to 25,312,500 ordinary shares being 20% of the enlarged share capital of the Company (after the IPO Issue), excluding the 8,250,000 fully paid ordinary shares issued on 2 October 2017 (refer note 14(f)).

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 2018

Note 2 Other income

	2018 $	2017 $
Other income		
Interest received from unrelated parties	18,520	208
Other revenue	33,235	-
Total other income	51,755	208

Note 3 Loss for the year

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

	2018 $	2017 $
Finance costs		
Provisions: Unwinding of discount	15,113	-
Superannuation expense	20,344	-
Share based payments expense		
Options granted	97,373	-
Total share based compensation expense	97,373	-

Notes to the financial statements for the year ended 30 June 2018

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.

	2018	2017
	$	$
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(644,053)	(7,484)
Tax at the Australian tax rate of 27.5% (2017: 27.5%)	(177,115)	(2,058)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	26,778	
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	150,337	2,058
Income tax expense / (benefit)	-	-
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	779,895	17,484
Potential tax benefit @ 27.5% (2017: 27.5%)	214,471	4,808
(c) Tax expense (income) recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Share issue costs	-	-

Notes to the financial statements for the year ended 30 June 2018

Note 4 Income tax expense

	2018	2017
	$	$
(d) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses	347,002	8,257
Share issue costs	80,209	2,200
Accrued expenses	8,865	1,650
	436,076	
Total deferred tax assets		12,107
Set-off of deferred tax liabilities pursuant to set-off provisions	(221,605)	(7,299)
Deferred tax assets not recognised	(214,471)	(4,808)
Net deferred tax assets	-	-
(e) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Exploration and evaluation assets	221,605	7,299
Total deferred tax liabilities	221,605	7,299
Set-off of deferred tax liabilities pursuant to set-off provisions	(221,605)	(7,299)
Net deferred tax liabilities	-	-

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 2018

Note 5 Key Management Personnel Compensation

Refer to the remuneration report contained in the Directors' report for details of the remuneration paid or payable to each member of the Company's key management personnel (KMP) for the year ended 30 June 2018.

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

	2018	2017
	$	$
Short-term employee benefits	244,152	-
Post-employment benefits	20,344	-
Share-based compensation	97,373	-
Total KMP compensation	361,869	-

Short-term employee benefits

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

Post-employment benefits

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

Share-based payments

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

Further information in relation to KMP remuneration can be found in the Directors report.

Note 6 Auditor's Remuneration

	2018	2017
	$	$
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	33,650	6,000
Remuneration for non-audit services		
- Investigating accountants report	10,850	-
	44,500	6,000

Notes to the financial statements for the year ended 30 June 2018

Note 7 Earnings per share

	2018 Cents	2017 Cents
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.55 cents)	(0.11 cents)
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.55 cents)	(0.11 cents)

(c) Reconciliations of earnings used in calculating earnings per share

	2018 $	2017 $
Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(702,030)	(7,484)
Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(702,030)	(7,484)

(d) Weighted average number of shares used as the denominator

	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	126,507,021	6,750,300

(e) Information concerning the classification of securities

(i) Share split

On 10 August 2017, the Company did a subdivision of its share capital on a 3:1 basis (share split), as approved by shareholders on 16 June 2017, which resulted in the total number of fully paid ordinary shares on issue increasing from 25,000,000 to 75,000,000 shares. The basic and diluted loss per share for the 30 June 2017 and 30 June 2018 years have been calculated on a post-share split basis.

(ii) Options and rights

Options 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 2018. These options could potentially dilute basic earnings per share in the future. Details relating to options are set out in note 18.

Notes to the financial statements for the year ended 30 June 2018

Note 8 Cash and cash equivalents

	2018	2017
	$	$
Cash at bank and on hand	4,537,398	500,208
	4,537,398	500,208

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

Note 9 Trade and other receivables

	2018	2017
	$	$
Prepayments	64,883	-
Other receivables	6,438	21,244
Total current trade and other receivables	71,321	21,244

Credit risk

The Company has no significant concentration of credit risk with respect to any counterparties or on a geographical basis. The following table details the Company's trade and other receivables exposed to credit risk with ageing analysis. Amounts are considered as "past due" when the debt has not been settled, with the terms and conditions agreed between the Company and the customer to the transaction. Receivables that are past due are assessed for impairment.

The balance of receivables that remain within initial trade terms are considered to be of high credit quality.

	Gross Amount $	**Past Due but Not Impaired (Days Overdue)**				**Within initial trade terms $**
		< 30 $	**31 – 60 $**	**61 – 90 $**	**> 90 $**	
2018						
Other receivables	6,438	-	-	-	-	6,438
Total	6,438	-	-	-	-	6,438
2017						
Joint venture receivables	-	-	-	-	-	-
Other receivables	21,244	-	-	-	-	21,244
Total	21,244	-	-	-	-	21,244

Notes to the financial statements for the year ended 30 June 2018

Note 10 Exploration and evaluation assets

	2018	2017
	$	$
Exploration and evaluation assets – at cost	2,588,428	1,815,293
The capitalised exploration and evaluation assets carried forward above have been determined as follows:		
Balance at the beginning of the year	1,815,293	-
Acquisition costs (refer note 14(f))	-	1,354,623
Expenditure incurred during the year	773,135	32,701
Rehabilitation asset	-	427,969
Balance at the end of the year	2,588,428	1,815,293

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2018, 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*.

Capitalised exploration and evaluation assets include initial acquisition costs (valued as per note 14(f)), capitalised costs and a rehabilitation asset (refer note 13).

Note 11 Other assets

	2018	2017
	$	$
Security deposits	35,000	-
	35,000	-

Notes to the financial statements for the year ended 30 June 2018

Note 12 Trade and other payables

	2018	2017
	$	$
Unsecured liabilities:		
Trade payables	53,899	49,957
Sundry payables and accrued expenses	48,816	16,000
Provision for annual leave	4,875	-
Payable to related party	294,625	5,581
	402,215	71,538

Note 13 Provisions

	2018	2017
	$	$
Provision for rehabilitation	443,082	427,969
Reconciliation of carrying amount:		
Opening balance	427,969	-
Additions	-	427,969
Unwinding of discount	15,113	-
	443,082	427,969

Rehabilitation provision

The rehabilitation provision relates to the Reid's Dome production lease PL231 (located in Bowen Basin, Queensland). Under the terms of the Joint Venture Agreement relating to PL231, State Gas Limited is liable to pay 60% 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 2018

Note 14 Contributed equity

		2018 Shares	2017 Shares	2018 $	2017 $
(a)	**Share capital**				
	Fully paid ordinary shares	134,812,500	25,000,000	6,972,646	463,754

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	$
1 July 2016	Balance		-		-
	Incorporation shares		100	$1.00	100
21 June 2017	Placement shares	(c)	24,999,900	$0.02	500,000
	Share issue expenses		-		(36,346)
30 June 2017	Balance		25,000,000		463,754
10 August 2017	Share split 3:1	(d)	50,000,000		-
1 Sep 2017	Placement shares	(e)	8,250,000	$0.0133	110,000
2 Oct 2017	Conversion of B Class shares	(f)	25,312,500		1,354,623
5 Oct 2017	IPO shares	(g)	26,250,000	$0.20	5,250,000
	Share issue costs		-		(205,731)
30 June 2018	Balance		134,812,500		6,972,646

(c) Issue to sophisticated investors

The issue of 24,999,900 fully paid ordinary shares to sophisticated investors at an issue price of $0.02 cash. Transaction costs of $36,346 were incurred.

(d) Share split

Share subdivision on a 1 for 3 basis.

(e) Issue to sophisticated investors

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

(f) Class B shares

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

During the prior year, 10,000,000 Class B Shares were issued to Triangle Energy (Global) Limited as consideration for the transfer of PL231 to State Gas Limited.

Class B shares had the same rights as Ordinary shares in all respects, including the right to vote at a general meeting of members, but the Class B Shares had value protection rights. The Class B shares would convert to 25,312,500 ordinary shares being 20% of the enlarged share capital of the Company (after the IPO issue), excluding the 8,250,000 fully paid ordinary shares issued on 1 September 2017 (refer note 14(g)).

The value of the Class B shares was determined by reference to the total cash expected to be received from shares issued. Post IPO, $5,860,000 was expected to be received, in cash, for 134,812,500 fully paid ordinary shares. On conversion, the B Class shares represented 18.78% of the issued capital of the Company which prescribed a value of $1,354,623 (18.78% of $5,860,000) to the Class B Shares.

At 30 June 2018 there are no Class B shares on issue.

Note 14 Contributed equity (continued)

(g) Shares issued under prospectus

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

(h) Capital Management

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

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

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

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

Note 15 Share-based payment reserves

	2018	2017
	$	$
Share-based payment reserve	123,718	1,380,968
Movements:		
Balance 1 July 2017	1,380,968	-
Share based payments	97,373	26,345
Class B shares (refer note 14(f))	-	1,354,623
Class B shares transferred to equity (refer note 14(f))	(1,354,623)	-
Balance 30 June 2018	123,718	1,380,968

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

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

	2018	2017
	$	$
Profit / (loss) for the period	(702,030)	(7,484)
Adjustments for		
Share based payments	97,373	-
Share issue costs transferred to financing cash flows	141,356	-
Financing costs	15,113	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(90,140)	(4,416)
Increase in trade creditors and other payables	95,041	12,008
Net cash inflow (outflow) from operating activities	(443,287)	108

(b) Non-cash financing and investing activities

There were no non-cash financing and investing activities during FY 2018. During the prior year:

- 10,000,000 Class B Shares were issued to Triangle Energy (Global) Limited as consideration for the transfer of PL231 to State Gas Limited (refer note 14(f)).
- 2,750,000 options to acquire unissued shares in State Gas Limited were granted to Orbit Capital Pty Ltd, or Orbit Capital Pty Ltd's nominee. These options had an exercise price of $.04 per option and expire 21 June 2020. These options have since been cancelled.
- A rehabilitation provision relating to the Reid's Dome production license PL231 (located in Bowen Basin, Queensland) was recognised. Under the terms of the Joint Venture Agreement relating to PL231, State Gas Limited is liable to pay rehabilitation (refer note 13).

(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 2018

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 2016	**-**	**-**
Granted	2,750,000	$0.04
Forfeited	-	-
Expired	-	-
Options outstanding as at 30 June 2017	**2,750,000**	**$0.04**
Granted	4,000,000	$0.40
Forfeited	(2,750,000)	$0.04
Expired	-	
Options outstanding as at 30 June 2018	**4,000,000**	**$0.40**

The weighted average remaining contractual life of options outstanding at year end was 1.9 years (2017: 2.7 years).

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

a. On 16 August 2017, 2,000,000 share options were granted to Ian Paton under the State Gas Limited Executive Option Plan to take up ordinary shares. 1,000,000 are exercisable at $0.20 each and vest on 16 August 2018. The remaining 1,000,000 are exercisable at $0.40 each and vest on 16 August 2019. All options expire on 16 August 2020. The options hold no voting or dividend rights and are not transferable.

The fair value of these options was $1,210. This value was calculated using the Cox, Ross & Rubinstein Binominal Tree option pricing model applying the following inputs:

	Tranche 1	Tranche 2
Number of options	1,000,000	1,000,000
Exercise price	$0.20	$0.40
Grant date	16/08/2017	16/08/2017
Expiry date	16/08/2020	16/08/2020
Volatility	110.20%	110.20%
Dividend yield	0%	0%
Risk-free interest rate	2.69%	2.69%
Fair value at grant date	$0.000786	$0.000424

Note 18 Share-based payments (continued)

b. 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 are exercisable at $0.40 each and the remaining 1,000,000 are exercisable at $0.60 each. All options vest subject to non-market performance conditions (set out in the table below). All options expire on 22 March 2020. The options hold no voting or dividend rights and are not transferable.

Vesting conditions	
1.	Successful completion of the Executive's probationary period
2.	Written confirmation from the Executive that the Executive intends to continue employment in the Position for the remainder of the term
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
4.	Execution of a conduct and compensation agreement with land owners.
5.	Satisfaction of State Gas's obligation to drill one well under the Reid's Dome Joint Venture Agreement.
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.

The fair value of these options 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

c. During the prior year, 2,750,000 options to acquire unissued shares in State Gas Limited were granted to Orbit Capital Pty Ltd, or Orbit Capital Pty Ltd's nominee. These options have an exercise price of $.04 per option and expire 21 June 2020. The options were issued in addition to a cash fee paid on normal commercial terms. The Company has therefore rebutted the assumption that the options be valued at the fair value of the services provided and have valued the instruments themselves. The options hold no voting or dividend rights and are not transferrable.

The fair value of these options was $26,345. This value was calculated using the Cox, Ross & Rubinstein Binomial Tree option pricing model that takes into account the following inputs:

Note 18 Share-based payments (continued)

Number of options	2,500,000
Exercise price	$0.04
Grant date	15/03/2017
Expiry date	28/02/2020
Volatility	101.40%
Dividend yield	0%
Risk-free interest rate	2.83%
Fair value at grant date	$0.0096

During the current financial year, these options were forfeited. As these options were forfeited post vesting, there has been no reversal of the expense associated with them.

Note 19 Events after the reporting date

Since the end of the financial year the following has occurred:

- Issue of 3,000,000 options over ordinary shares to the newly appointed Chief Operating Officer, Mr James Crowley.

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

Note 20 Related party transactions

Related Parties

The company's main related parties are as follows:

a. **Ultimate parent entity**

The company does not have an ultimate parent entity.

b. **Key management personnel**

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

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

c. **Other related parties**

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

Note 20 Related party transactions (continued)

d. **Transactions with related parties**

I n consideration of Triangle Energy Limited keeping PL231 in good standing, State Gas Limited agrees to pay its back costs capped at $267,840 (excl. GST)(Back Cost Reimbursement). The Back Cost Reimbursement is payable by State Gas Limited as soon as practicable after the approval of an amended later development plan to be lodged by State Gas Limited. The total balance outstanding at 30 June 2018 is $294,625 (including GST) (2017: $nil).

During the financial year, Orbit Capital Pty Ltd, a company of which Mr Greg Baynton is a shareholder and director, was paid net capital raising fees totalling $75,000, after paying $40,000 in commission to a third party, relating to both the IPO and Seed capital raisings. During the prior financial year, a related entity of Mr Greg Baynton, Allegro Capital Nominees Pty Ltd, paid expenses on behalf of State Gas Limited. At 30 June 2017 there was $5,581 owing to Mr Greg Baynton. These amounts were repaid during the current financial year.

During the financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid $28,350 in consulting fees for the supervision and interpretation of seismic reprocessing.

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 prospect (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 $15,600,000 on the assumption that the current LDP will continue until its expiry in 2020 and that the Company will fund its share of commitments, being equal to its 60% working interest in PL231.

Notes to the financial statements for the year ended 30 June 2018

Note 23 Financial risk management

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

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies to these financial statements, are as follows:

	Notes	**2018** **$**	2017 $
Financial assets			
Cash and cash equivalents		4,537,398	500,208
Trade and other receivables		6,438	21,244
Total financial assets		4,592,652	521,452
Financial liabilities			
Trade and other payables		379,715	71,538
Total financial liabilities		379,715	71,538

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.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

Liquidity risk

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

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

All financial assets and financial liabilities mature within one year.

Market risk

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

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

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 2018, 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 $45,374 (2017: $5,002) lower/higher, as a result of higher/lower interest income from cash and cash equivalents.

Fair Value

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

Note 24 Joint Operations

The Company has a 60% interest in a joint venture arrangement for PL231. The Company accounts for its share of expenditure within exploration and evaluation assets, under the same accounting policy, as cash calls are made. The Company's share of expenditure commitments for PL231 are set out in Note 22.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21 to 51 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 2018 and of its performance for the financial year ended on that date, and

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

Note 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 Managing Director 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.

A Bellas
Director
Brisbane, 4 September 2018

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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 2018, 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 2018 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Material uncertainty related to going concern

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

Key audit matters

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

Recoverability of exploration and evaluation assets

Key audit matter	*How the matter was addressed in our audit*
Refer to note 10 in the annual report The Company carries exploration and evaluation assets as at 30 June 2018 in accordance with the Company's accounting policy for exploration and evaluation assets. 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.	Our procedures included, but were not limited to the following: • Obtaining evidence that the Company has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining supporting documentation such as license agreements and also considering whether the Company maintains the tenements in good standing • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Company's cash flow budget for the level of budgeted spend on exploration projects and held discussions with management of the Company as to their intentions and strategy. • Enquiring of management, reviewing ASX announcements and reviewing directors' minutes to ensure that the Company had not decided to discontinue activities in any applicable areas of interest and to assess whether there are any other facts or circumstances that existed to indicate impairment testing was required.

Other information

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

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2018.

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

Responsibilities

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

BDO Audit Pty Ltd

BDO
R M Swaby

R M Swaby
Director

Brisbane, 4 September 2018

Shareholder information

The shareholder information set out below was applicable as at 31 August 2018.

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	8
1,001 – 5,000	62
5,001 – 10,000	127
10,001 – 100,000	242
100,001 and over	85
	524

There were 33 holders of less than a marketable parcel of ordinary shares.

B Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
Name	Number held	% of issued shares
Triangle Energy (Global) Limited	47,812,500	35.47
Allegro Capital Nominees Pty Ltd	16,541,667	12.27
Investment for Retirement Pty Ltd	9,000,000	6.68
St Baker Sunset Holdings Pty Ltd	6,000,000	4.45
Graeme Eric Fielding & Noelle Lee Halpin	5,800,000	4.30
AG & M Bellas Super Pty Ltd	4,500,000	3.34
Ms Amanda Elizabeth Kitson Collins	3,027,000	2.25
Jarrad Street Corporate Pty Ltd	2,720,000	2.02
M E J C Pty Ltd	1,510,000	1.12
Mr Darren John Hall	1,500,000	1.11
Gregory Pavlos Papavassilliou	1,500,000	1.11
Baynton Brothers Pty Ltd	1,450,000	1.08
Orbit Capital Pty Ltd	1,450,000	1.08
ACN 144 657 018 Pty Ltd	1,400,000	1.04
Clericus Pty Ltd	1,390,878	1.03
Gate Break Pty Ltd	1,306,667	0.97
Ms Visnja Veronika Cavanagh	676,667	0.50
CA & MD Pty Ltd	625,000	0.46
Lapana Pty Ltd	500,000	0.37
Carpe Diem Asset Management Pty Ltd	500,000	0.37
Total	**109,210,379**	**81.02**

Unquoted equity securities

	Number of issue	Number of holders
Options	7,000,000	3

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

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

Restricted equity securities

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

C Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Triangle Energy (Global) Limited	47,812,500	35.47
Greg Alexander John Baynton and Allegro Capital Nominees Pty Ltd	28,541,667	21.17%

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