State Gas Limited

ACN 617 322 488

Financial report for the period ended 30 June 2017

Corporate directory

Directors	G A J Baynton A Bellas R Towner I Paton
Secretary	S M Yeates
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
Auditor	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au
Solicitors	McCullough Roberson Level 11, Central Plaza Two 66 Eagle Street Brisbane QLD 4000 www.mccullough.com.au
Bankers	Westpac Banking Corporation
Website address	www.state-gas.com

Directors' report

Your directors present their report on the company for the financial period ended 30 June 2017.

Directors

The names of the directors in office at any time during, or since the end of, the period are:

Gregory Baynton (Appointed 7 June 2017)
Anthony Bellas (Appointed 16 June 2017)
Rob Towner (Appointed 10 February 2017)
Darren Bromley (Appointed 10 February 2017; Resigned 16 June 2017)
Ian Paton (Appointed 16 August 2017)

Review of Operations

The loss of the company for the financial year after providing for income tax amounted to $7,484.

Since incorporation on the 10th of February 2017, the Company has been working towards preparation for IPO in the second half of 2017. During the period, the Company raised $500,000 in seed capital to progress exploration and evaluation activities and commence pipeline studies.

Significant Changes in the State of Affairs

The Company was incorporated on 10 February 2017 and as such no comparative information is reported.

No significant changes in the company's state of affairs occurred during the financial period.

Principal Activities

The principal activities of the company during the financial period were the development of PL231.

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

Events Subsequent to the End of the Reporting Period

On 10 August 2017, the Company has completed a 3 for 1 subdivision of capital resulting in each share on issue converting into 3 shares on issue.

On 16 August 2017, the Company issued 2,000,000 options to a director, Ian Paton. 1,000,000 of the options are exercisable at $0.20 with a vesting period of 1 year from issue. The remaining 1,000,000 options have an exercise price of $0.40 with a vesting period of 2 years from issue. All options expire on the date that is 36 months after the admission of the Company to the official list of ASX.

On 1 September 2017, the Company issued 8,250,000 fully paid ordinary shares at an issue price of $0.01333 per share for cash. 4,125,000 of these shares were issued to a director related entity of Mr Greg Baynton.

No other matters or circumstances have arisen since the end of the financial period 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.

Likely Developments and Expected Results of Operations

The Company intends to drill appraisal and development wells in PL 231 in the next twelve months. In addition, in order to accelerate the options for bringing gas from PL 231 to market, the Company has recently lodged a pipeline survey license application with the Queensland Department of Natural Resources and Mines (PSL 2028) with the intention to investigate suitable routes for a feeder pipeline to connect PL 231 with the Queensland Gas Pipeline and the broader east coast gas market.

Environmental Regulation

The Company's operations are subject to environmental and other regulations. The Company has a policy of engaging appropriately experiences 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.

Dividends

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

Options

At the date of this report, the Company has on issue 2,000,000 options over ordinary shares on issue. 1,000,000 of the options have an exercise price of $0.20 and the remaining 1,000,000 options have an exercise price of $0.40. All options expire on the date that is 36 months after the admission of the Company to the official list of ASX.

No shares were issued during or since the end of the period as a result of the exercise of an option over unissued shares or interests.

Indemnification of Officers or Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial period, for any person who is or has been an officer or auditor of the company.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or 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 any part of those proceedings.

The company was not a party to any such proceedings during the period.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 5.

The auditor has not provided any other services to the Company during the period.

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

A Bellas

Chairman

Brisbane

1 September 2017

Auditor's independence declaration

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DECLARATION OF INDEPENDENCE BY D P WRIGHT TO THE DIRECTORS OF STATE GAS LIMITED

As lead auditor of State Gas Limited for the year ended 30 June 2017, 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.

D P Wright
Director

BDO Audit Pty Ltd

Brisbane, 1 September 2017

Consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2017

	Note	2017 $
Revenue		
Other revenue	2	205
		205
Expenses		
General and administrative expenses		7,689
Profit before income tax		(7,484)
Tax expense	3	-
Profit for the year		(7,484)
Other comprehensive income		-
Total comprehensive income for the year		(7,484)
Profit attributable to members of the entity		(7,484)
Total comprehensive income attributable to members of the entity		(7,484)

Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		Cents
Basic earnings per share	19	(3.3)
Diluted earnings per share	19	(3.3)

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2017

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	Note	2017 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	6	500,208
Trade and other receivables	7	21,244
TOTAL CURRENT ASSETS		521,452
NON-CURRENT ASSETS		
Exploration and evaluation assets	8	1,815,293
TOTAL NON-CURRENT ASSETS		1,815,293
TOTAL ASSETS		2,336,745
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	9	71,538
TOTAL CURRENT LIABILITIES		71,538
NON-CURRENT LIABILITIES		
Provisions	10	427,969
TOTAL NON-CURRENT LIABILITIES		427,969
TOTAL LIABILITIES		499,507
NET ASSETS		1,837,238
EQUITY		
Issued capital	11a	463,754
Share based payments reserve	11b	1,380,968
Retained earnings		(7,484)
TOTAL EQUITY		1,837,238

The accompanying notes form part of these financial statements.

Statement of changes in equity for the period ended 30 June 2017

	Note	Issued Capital Ordinary	Share based payments reserve	Retained Earnings	Total
		$	$	$	$
Comprehensive income					
Loss for the period		-	-	(7,484)	(7,484)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period attributable to members of the entity		-	-	(7,484)	(7,484)
Transactions with owners, in their capacity as owners, and other transfers					
Share based payments		-	1,380,968	-	1,380,968
Shares issued (net of share issue expenses)		463,754	-	-	463,754
Total transactions with owners and other transfers		463,754	1,380,968	-	1,844,722
Balance at 30 June 2017		463,754	1,380,968	(7,484)	1,837,238

The accompanying notes form part of these financial statements.

Statement of cashflows for the period ended 30 June 2017

	Note	2017
		$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		-
Payments to suppliers and employees		-
Interest received		108
Net cash provided by operating activities	17	108
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Development project assets		-
Research and development tax incentive refund		-
Net cash used in investing activities		-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues		500,100
Proceeds from loans received from related parties		-
Net cash provided by financing activities		500,100
Net increase in cash held		500,208
Cash and cash equivalents at beginning of financial year		-
Cash and cash equivalents at end of financial year	6	500,208

The accompanying notes form part of these financial statements.

Notes to the financial statements for the period ended 30 June 2017

The financial statements cover State Gas Limited. State Gas Limited is a company limited by shares, incorporated and domiciled in Australia. State Gas Limited was incorporated on 10 February 2017.

The financial statements were authorised for issue on 1 September 2017 by the directors of the company.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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 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.

The financial statements, except for the cash flow information have been prepared on an accruals basis and are based on historical costs. The amounts presented in the financial statements have been rounded to the nearest dollar.

Going Concern

The financial statements have 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 statements, the Group achieved a net loss of $7,484 and net operating cash inflows of $108 for the period ended 30 June 2017. As at 30 June 2017 the Group has cash of $500,208.

The ability of the Group to continue as a going concern is principally dependent upon the following conditions:

- the ability of the Group to successfully raise capital, as and when necessary; and
- the ability to complete successful development and commercialisation of PL231.

These conditions give rise to material uncertainty which may cast significant doubt over the Group'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:

- proven ability of the Company to raise the necessary funding via the issuance of shares as evidenced by raising in June 2017 of $500,000 and an additional raising of $110,000 in September 2017; and
- the planned capital raising and IPO.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. **Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale. When an investment property that is depreciable is held by the company in a business model whose objective is to consume substantially all of the economic benefits embodied in the property through use over time (rather than through sale), the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of such property will be recovered entirely through use.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

b. **Impairment of Assets**

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset’s fair value less costs of disposal and value in use, to the asset’s carrying amount. Any excess of the asset’s carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with AASB 116.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. **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

d. **Provisions**

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured at the best estimate of the present value amounts required to settle the obligation at the end of the reporting period.

e. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

f. **Revenue and Other Income**

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

Interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax.

g. **Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(c) for further discussion on the determination of impairment losses.

h. **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)

i. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

j. Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

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 the Cox, Ross & Rubinstein model that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expect price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

The cost of equity-settled transactions are 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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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 they were a modification.

Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded in the share based payments reserve.

k. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 ATO is included with other receivables or payables in the statement of financial position.

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 ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

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. **Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key judgements

(i) Exploration and evaluation assets

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

In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant 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 mining, 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.

(ii) Share based payment – Issue of Class B shares

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

Class B shares has 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. The Class B shares will 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 16).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) 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.

n. New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the company. The company has decided not to early adopt any of the new and amended pronouncements. The company's assessment is that none of the new and amended pronouncements will have a significant impact on the financial statements.

NOTE 2 REVENUE AND OTHER INCOME

	Note	2017 $
Other revenue		
Interest received		205
Total revenue		205

NOTE 3 TAX EXPENSE

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

Profit/(loss) before income tax expense	(7,484)
Tax at the Australian tax rate of 27.5%	(2,058)
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	2,058
Income tax expense	-
(b) Tax losses	
Unused tax losses for which no deferred tax asset has been recognised	17,484
Potential tax benefit @ 27.5%	4,808
(c) Deferred tax assets	
The balance comprises temporary differences attributable to:	
Accruals	1,650
Business capital costs	2,200
Tax losses	8,257
Total deferred tax assets	12,107
Set-off of deferred tax liabilities pursuant to set off provisions	(7,299)
Net adjustment to deferred tax assets for tax benefits not recognised in equity	(4,808)
Net deferred tax assets	-
(d) Deferred tax liabilities	
The balance comprises temporary differences attributable to:	
Exploration and evaluation asset	7,299
Set-off of deferred tax liabilities pursuant to set off provisions	(7,299)
Net deferred tax liabilities	-

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

(i) the group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;

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

(iii) no changes in tax legislation adversely affect the group in realising the losses.

NOTE 4 KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to key management personnel (KMP) of the company during the year are as follows:

	2017
	$
Share based payments	-

Other KMP transactions

For details of other transactions and loans with KMP, refer to Note 15.

NOTE 5 AUDITOR'S REMUNERATION

		2017
		$
Remuneration of the auditor:		
–	auditing or reviewing the financial report	6,000
–	taxation services	-
		6,000

NOTE 6 CASH AND CASH EQUIVALENTS

	2017
	$
Cash at bank and on hand	500,208
	500,208

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash at bank and on hand	500,208
	500,208

NOTE 7 TRADE AND OTHER RECEIVABLES

	2017
	$
CURRENT	
Prepayments	11,925
Other receivables	9,319
Total current trade and other receivables	21,244

Credit risk

The company has no significant concentration of credit risk with respect to any counterparties or on a geographical basis.

NOTE 8 EXPLORATION AND EVALUATION ASSETS

	2017
	$
Exploration and evaluation assets	1,815,293

Reconciliation of the carrying amount	
Acquisition costs (refer note 12)	1,354,623
Additions	32,701
Rehabilitation asset	427,969
Carrying amount at 30 June 2017	1,815,293

Capitalised exploration and evaluation assets include initial acquisition costs (valued as per note 12), capitalised costs and a rehabilitation asset (refer note 10).

NOTE 9 TRADE AND OTHER PAYABLES

	Note	2017
		$
CURRENT		
Unsecured liabilities:		
Trade payables		49,957
Other payables		16,000
Loan from related party		5,581
		71,538

NOTE 10 PROVISIONS

Provision for rehabilitation	427,969

Reconciliation of the carrying amount	**$**
Opening balance	-
Additions	427,969
Unwinding of the discount	-
Carrying amount at 30 June 2017	427,969

Rehabilitation provision

The rehabilitation provision relates to the Reid’s Dome production license PL231 (located in Bowen Basin, Queensland). Under the terms of the Joint Venture Agreement relating to PL231, State Gas Pty Ltd is liable to pay rehabilitation as follows:

- 100% of the rehabilitation costs relating to the Primero-1 Well – estimated at $290,717;
- 66.6% of the rehabilitation costs relating to five historic wells – estimated to be $40,368; and
- 100% of the rehabilitation costs of four Aldinga wells – estimated to be $96,884.

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

NOTE 11 ISSUED CAPITAL

		2017 $	2017 No.
a.	**Fully paid ordinary shares**		
	At the beginning of the reporting period	-	-
	Shares issued for cash	500,100	25,000,000
	Share issue expenses	(36,346)	-
	At the end of the reporting period	463,754	25,000,000

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

		2017 $	2017 No.
b.	**Class B shares**		
	At the beginning of the reporting period	-	-
	Shares issued for other than cash (refer note 12)	1,354,623	10,000,000
	At the end of the reporting period	1,354,623	10,000,000

c. **Capital management**

Management controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholders with adequate return and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

NOTE 12 SHARE-BASED PAYMENTS

Issue of Class B Shares

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

Class B shares has 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. The Class B shares will 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 16).

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

NOTE 12 SHARE-BASED PAYMENTS (CONTINUED)

Issue of Incentive Options

During the year, 2,750,000 options to acquire unissued shares in State Gas Pty Ltd 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. Refer to Note 15(e). 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.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2017 are set out in the table below. The fair value at grant date is independently determined using the Cox, Ross & Rubinstein model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

All options are granted for no consideration. Other model inputs for the options granted during the year ended 30 June 2017 included:

Exercise price	$0.04
Grant date	15/03/2017
Expiry date	28/02/2020
Share price at grant date	$0.02
Volatility	101.40%
Dividend yield	0%
Risk-free interest rate	2.83%
Fair value at grant date	0.96 cents

The expected price volatility is based on the historic volatility of comparable companies share transactions over the same period of time as the expected life of the option.

NOTE 13 CONTINGENT LIABILITIES

State Gas Limited has notice of the existence of a potential royalty payable in respect of petroleum produced from PL 231, being an overriding royalty interest in seven percent (7%) of the gross production of oil, gas and associated hydrocarbons produced and saved pursuant to the terms of the authority to prospectus (ATP 333-P, as it was at the time), calculated on the arm's length sale price of petroleum less: (i) all costs and expenses incurred in or attributable to the treating, processing dehydrating, compressing and transporting such petroleum; (ii) levies and other taxes on production; and (iii) all fuel oil and gas used in conducting exploration, drilling, completion, equipping, producing, and other operations pursuant to the authority (Override). The royalty interest appears to have been established as part of a transfer of ATP 333-P in 1983. It requires each subsequent assignor of the authority to make the conveyance subject to the assignee covenanting to pay the Override and the assignor remains obliged to pay the Override until such agreement has been consented to by the Override holder. Given the time that has passed since the Override was created, and the fact that State Gas Limited does not have records evidencing each transfer of the authority, State Gas Limited is unable to determine if the Override remains on-foot.

NOTE 14 COMMITMENTS

(a) License Development Plan

So as to maintain current rights to tenure of PL231, the Company will be required to outlay amounts in respect of the License 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.

(b) Back cost reimbursement

In consideration of Triangle Energy Limited keeping PL231 in good Standing, State Gas Limited agrees to pay its back costs capped at $267,840 (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 reflecting the strategy described in the IPO prospectus.

NOTE 15 RELATED PARTY TRANSACTIONS

Related Parties

The company's main related parties are as follows:

a. **Entities exercising control over the company**

The ultimate parent entity, which exercises control over the company, is Triangle Energy (Global) Limited.

b. **Key management personnel**

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

For details of disclosures relating to key management personnel, refer to Note 4.

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.

e. **Transactions with related parties**

During the financial year, a related entity of Mr Greg Baynton, Allegro Capital Nominees Pty Ltd, paid expenses on behalf of State Gas Pty Ltd. At 30 June 2017 $5,581 is owing to Mr Greg Baynton. These amounts are unsecured and at call.

During the financial year, the Company incurred a seed capital raising fee of $10,000 cash payable to a related entity of Mr Greg Baynton, Orbit Capital Pty Ltd and the issue of 2,750,000 options over ordinary shares, in accordance with a Mandate Agreement. The options have an exercise price of $0.04 and expire on 21 June 2020.

NOTE 16 EVENTS AFTER THE REPORTING PERIOD

On 10 August 2017, the Company has completed a 3 for 1 subdivision of capital resulting in each share on issue converting into 3 shares on issue.

On 16 August 2017, the Company issued 2,000,000 options to a director, Ian Paton. 1,000,000 of the options are exercisable at $0.20 with a vesting period of 1 year from issue. The remaining 1,000,000 options have an exercise price of $0.40 with a vesting period of 2 years from issue. All options expire on the date that is 36 months after the admission of the Company to the official list of ASX.

On 1 September 2017, the Company issued 8,250,000 fully paid ordinary shares at an issue price of $0.01333 per share for cash. 4,125,000 of these shares were issued to a director related entity of Mr Greg Baynton.

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 17 CASH FLOW INFORMATION

		2017
		$
a.	**Reconciliation of cash flows from operating activities with profit after income tax**	
	Loss after income tax	(7,484)
	Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:	
	– (increase)/decrease in trade and other receivables	(4,416)
	– increase/(decrease) in trade and other payables	12,008
	Net cash flows from operating activities	108

b. Non-cash financing and investing activities

(i) During the year, 10,000,000 Class B Shares were issued to Triangle Energy (Global) Limited as consideration for the transfer of PL231 to State Gas Pty Ltd (refer note 12).

(ii) During the year, 2,750,000 options to acquire unissued shares in State Gas Pty Ltd 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 (refer note 12).

(iii) During the year, 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 Pty Ltd is liable to pay rehabilitation (refer note 10).

NOTE 18 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:

	Note	2017
		$
Financial assets measured at amortised cost		
Cash and cash equivalents		500,208
Loans and receivables		4,416
Total financial assets		504,624
Financial liabilities measured at amortised cost		
– trade and other payables		55,538
Total financial liabilities		55,538

The Board has overall responsibility for the determination of the Group'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 Group's competitiveness and flexibility.

a. **Credit risk**

Credit risk is managed on a Group 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 'AAA' are accepted.

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

Note 18 FINANCIAL RISK MANAGEMENT (continued)

b. **Liquidity risk**

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

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

All financial assets and financial liabilities mature within one year.

c. Cash flow and fair value interest rate risk

As the Group has interest-bearing cash assets, the Company's income and operating cash flows are exposed to changes in market interest rates. At 30 June 2017, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $5,002 lower/higher, as a result of higher/lower interest income from cash and cash equivalents.

d. Fair Value

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

NOTE 19 EARNINGS PER SHARE

	2017
	Cents
Basic earnings per share	
Total basic earnings per share attributable to the ordinary equity holders of the Company	(3.3)
Diluted earnings per share	
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(3.3)

Reconciliation of earnings used in calculated earnings per share	**2017**
	$
Basic earnings per share	
Profit attributable to the ordinary equity holders of the Company used in calculating based earnings per share	(7,484)
Diluted earnings per share	
Profit attributable to the ordinary equity holders of the Company used in calculated diluted earnings per share	(7,484)

Weighted average number of shares used as the denominator	**2017**
	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	2,250,100

Information concerning the classification of securities

Options

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 2017. These option could potentially dilute basic earnings per share in the future. Details relating to options are set out in note 12.

Directors' Declaration

In accordance with a resolution of the directors of State Gas Pty Ltd, the directors declare that:

1. The financial statements and notes, as set out on pages 6 to 23, are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and

    b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the company.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

A Bellas
Chairman
Brisbane, 1 September 2017

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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 which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period 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 2017 and of its financial performance for the period 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 Company's ability to continue as a going concern and therefore the Company 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.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Corporate Directory and Directors' Report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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/ar3.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO
Damian Wright

D P Wright
Director

Brisbane, 1 September 2017