ANNUAL REPORT

2021

STATE GAS LIMITED

ACN 617 322 488

Annual Report – 30 June 2021

Corporate directory

Directors	R Cottee *BA, LLB (Hons)* A Bellas *B.Econ, DipEd, MBA, FAICD, FCPA, FGS* G 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	Level 8, 46 Edward Street Brisbane QLD 4000
Share register	Link Market Services Limited Level 21 10 Eagle Street, Brisbane, QLD, 4000, Australia www.linkmarketservices.com.au
Auditor	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au
Solicitors	Allens Linklaters Level 26, 480 Queen Street Brisbane QLD 4000 www.allens.com.au
Bankers	Westpac Banking Corporation
Stock exchange listing	State Gas Limited shares are listed on the Australian Securities Exchange (ASX: GAS).
Website address	www.stategas.com

Chairman's letter

Dear Fellow Shareholders,

The last financial year has been the year in which the Company marched towards reserve certification. Production testing at Nyanda-4 (coupled with production log testing) corroborated our theory that seams as deep as 1,100 metres were contributing to our gas flows. We prognosed that as a result of the geological disturbance which created the Dome there would be pathways for the high content gas to migrate to the well bore. This may lead to pockets of gas being trapped in the "cracks", which with concentric drawing down would become interconnected over time. It was pleasing to see flow rates of 700,000 cubic feet /day occur as our first "crack" was encountered.

The production testing at Serocold-1 was showing impressive build-up when the well sanded up. This occurrence is not unusual in coal seam gas and is generally remedied by "sleeving" the well. With the recent over-subscribed and cut-back fundraising completed, the Company intends to instal the "sleeve" at Serocold-1 and re-commence production testing this quarter. The results at Nyanda-7 & 8 initially showed promise but the production climb arrested. The Company believes this is a "skin" issue near well-bore and therefore jetting the requisite seams should restore the production climb. This is being trialled at Nyanda-8 this quarter.

Provided production tests at Serocold-1 and Nyanda-8 produce as expected, the Company should then be in a position to seek reserve certification - the next step to development - heralding our first Gas Sale Contract at a time of an extremely tight market. This Gas Sales Contract will underpin the development funding options.

Your Company believed that the market would tighten significantly in 2023 with price being the market clearing mechanism. Frankly, it is unbelievable that in a market shoulder period the JKM - the Asian LNG spot market indicator - has exceeded A$37/GJ for an extended period, causing the ACCC's Domestic Gas LNG Netback price to exceed A$22/GJ. The Price is Right for State Gas to come on down.

The core holes at Rougemont have been successfully completed. The results at Rougemont-2 were more than exciting with one seam of 2.4 metres showing permeability of 395mD with 96% methane. Just what the Doctor ordered! We intend to put Rougemont-2 into production testing with results expected in the first quarter next year.

As Rougemont is located between Reid's Dome and the gas trunklines to Wallumbilla (the domestic gas pricing point) to the South and Gladstone (the LNG export port) to the North, Rougemont will share infrastructure built for Reid's Dome- economically converting the Rougemont development into a brownfield development.

Exciting times!

Yours faithfully

Richard Cottee
Chairman
State Gas Limited

Directors' report

Your Directors present their report on the Company for the year ended 30 June 2021.

Directors and Company Secretary

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

R Cottee
G Baynton
A Bellas
I Paton
R Towner

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

Principal activities

The principal activity of the company during the financial year was the exploration and development of PL231 ('Reid's Dome') and ATP 2062 ('Rolleston West').

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

Dividends

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

Covid 19 Impact

Covid 19 has not had a significant effect on the operations of the Company. Restrictions on the movement of personnel have not affected operations, and the impacts of disrupted supply chains have been minimal.

Review of operations

The 2021 Financial Year has been one like no other, but while the pandemic has dominated the air waves, the year has provided some particularly good outcomes for State Gas.

The Company has made real progress towards its objective of bringing Reid's Dome gas to market in time to meet the opportunities presented by the shortfalls forecast for 2023-25. In addition, the Company expanded its holdings eight-fold by winning the adjacent, highly prospective ATP 2062, and has moved quickly to establish the coal seam gas potential of the eastern area of the new permit with two highly successful coreholes.

Reid's Dome Project (PL 231)

The Company's focus for most of the 2021 Financial Year has been confirming the potential of its Reid's Dome Project at PL 231 by expanding the confirmed gas resource and establishing the gas production parameters necessary to enable commercial development.

The Nyanda-4 coal seam gas well, drilled in 2018 in the southern domain of the permit, has performed strongly, justifying the Company's confidence in its potential. In a series of production tests it consistently produced above the commercially viable rate of 100,000 cubic feet per day, augmented by surges approaching 500,000 cubic feet per day, and separately, over 700,000 cubic feet a day. The well showed itself to be much less sensitive to production interruptions than is typical for coal seam gas wells, returning strongly to production after any break. This characteristic suggests potential for the well to be to be used to respond to fluctuations in gas demand, enabling the Company to take advantage of price peaks when they occur in a volatile market.

State Gas also took the opportunity to undertake a production log test of the well, establishing beyond reasonable doubt that good gas production is occurring from the very deepest zones of the well, down to 1100 metres, a depth much lower than usually considered viable for coal seam gas.

The confirmation of gas production at greater depths is commercially important in confirming not just more productive zones in the Reid's Dome Beds, but also a much larger productive area. This means significantly more gas reserves will be available to the Project than if the coals were limited to typical CSG depths.

Production tests were also undertaken at the Serocold-1 well in the centre of PL 231 (drilled in late 2019). Technical difficulties with the design of this well (originally optimised for exploration, not production) has caused challenges, but good gas production was observed, providing strong encouragement that with some modifications commercial production will ensue.

With the promising results at Nyanda-4 the Company turned to appraisal, drilling "step out" wells to confirm an initial development area. Nyanda-7 was drilled to the north of Nyanda-4 (approaching the central Serocold area), and Nyanda-8 was drilled to the south-west, before the significant La Nina weather event intervened. These wells confirmed the presence of the coal formations observed at Nyanda-4, with every indication that similar results could be anticipated.

The subsequent production tests of the new wells have produced gas but the rates have proved the adage that different fields require different techniques. The Company, drawing on the experience of its personnel with CSG across the world, has developed strategies to increase the well productivity.

The Company has estimated gas resources for the Reid's Dome CSG of 1C: 74PJ, 53 PJ, 2C: 126 PJ, and 3C: 223 PJ. This is in addition to the conventional gas which has been confirmed in the northern area of the permit.

Moving to commercial development - permitting and export pipeline

During the previous financial year the Company had identified two potential routes for an export pipeline to take Reid's Dome gas to market and obtained Pipeline Survey Licence 2049 to enable on-the-ground investigations of the options. The promising results of the Rougemont wells, located on the northern route option approximately 30km from the export pipeline network, provides a strong argument for the northern option.

State Gas has accordingly recommenced discussions with infrastructure providers on this basis. Several providers have indicated their interest in funding the infrastructure capex, thereby minimising the capital requirements of State Gas. These discussions are ongoing.

The Company has also turned its attention to the permitting required for PL 231 to move to commercial development. During the period it completed the first stage of the environmental studies for the full field development.

Rolleston-West

In October 2020 the Company was granted new exploration permit ATP 2062 over an area of approximately 1415 km^2 surrounding the northern half of PL 231. This new area, which the Company has termed "Rolleston-West", contains the highly prospective Bandanna Formation coal measures (producing commercially at the Santos operated Arcadia Valley project, and awaiting development at the APLNG operated Mahalo project, to the south- and north- east respectively), as well as promising conventional gas targets. Its proximity to Reid's Dome is significant and will enable synergistic development of the two projects, with shared infrastructure, optimised operations, and economies of scale.

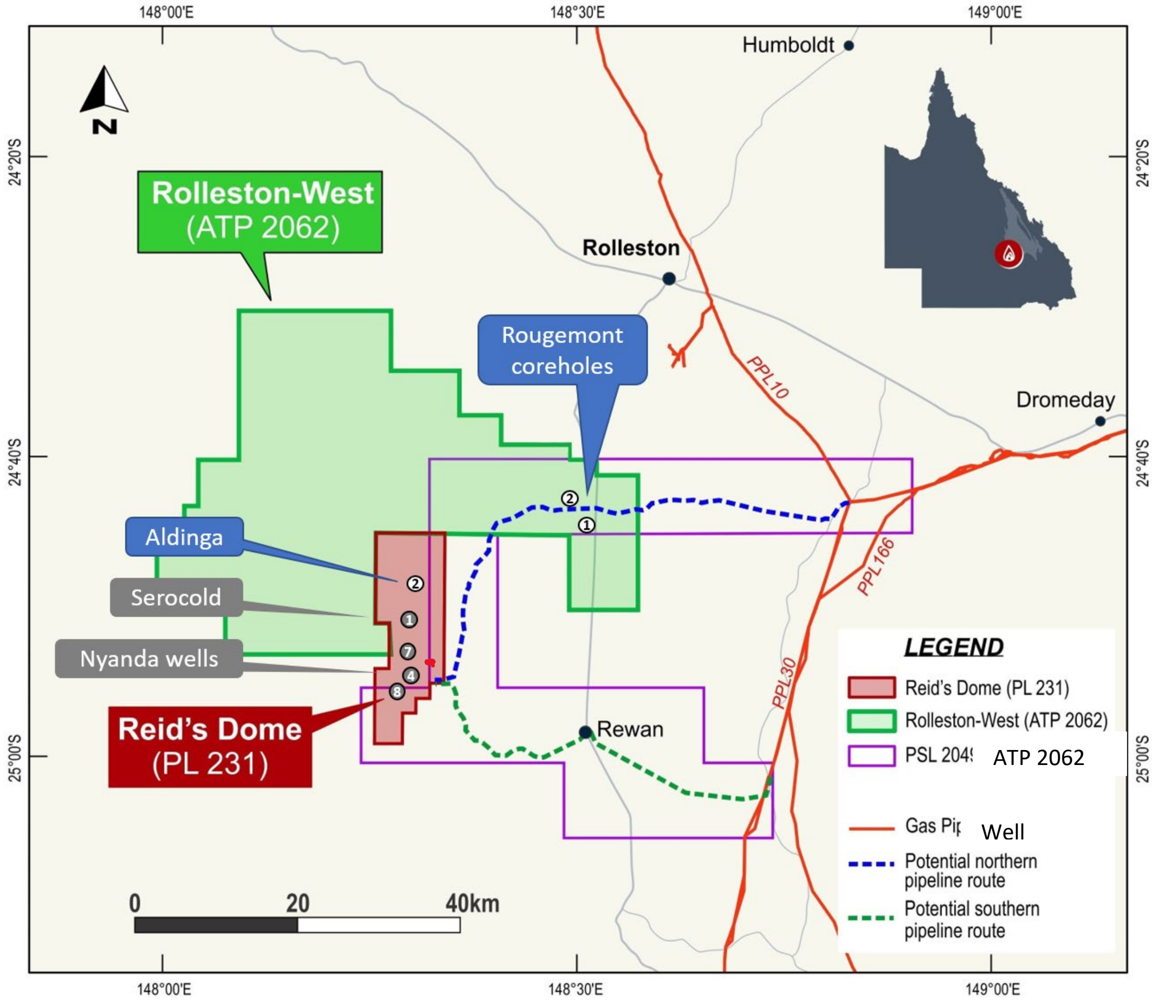
Existing historical seismic data in the eastern area of the permit and good engagement with landowners enabled the Company to move directly to drilling. Two new coreholes, Rougemont-1 and -2, were drilled, cored, logged and permeability tested before the end of the Financial Year.

The results of the Rougemont wells have been encouraging, with the correlation between results indicating good continuity of gas bearing coals across the area, and confirming the validity of the Arcadia Valley and Mahalo analogues. Both wells hosted approximately 8 metres of net coal, with two primary seams greater than 2m thick, gas contents of both were a solid 5.7 – 6.2 cubic meters per tonne, and the compositions of gas from both wells was very similar and of pipeline quality (after dehydration). The permeability of the Rougemont-2 coals was simply outstanding: the two primary seams in the well have kh – an industry metric for the gas flow potential of the seam – of 2,654 millidarcie-metres (mD-m) and 62.4 mD-m respectively. For context, a kh of 50 mD-m is generally regarded as the commercial cutoff.

In other words, the Rougemont-2 well has every indication of being a very commercial well, providing strong promise of an excellent project.

Based on these results the Company has estimated gas resources for this Eastern Bandanna CSG Fairway of 1C: 53 PJ, 2C: 91 PJ, and 3C: 161PJ (this does not include conventional gas also expected to be present based on historical wells drilled in the area, or any coal seam gas in the Bandanna formation in the western area of the permit).

The next step for the Project is production testing of the Rougemont-2 well, which the Company is currently planning.



Tenement list

Tenement	Permit Holder	Grant date	GAS Rights	Expiry date
PL 231	State Gas Limited	15/12/2005	100%	14/12/2035
ATP 2062	State Gas Limited	01/10/2020	100%	30/09/2026

Significant changes in the state of affairs

During the financial year the Company:

a) raised $9,500,001 through the issue of 17,272,730 fully paid ordinary shares at $0.55 per share to sophisticated investors;
b) raised $4,896,409 through the issue of 8,902,561 fully paid ordinary shares at $0.55 per share under a Securities Purchase Plan;
c) raised $100,000 through the issue of 500,000 fully paid ordinary shares on the exercise of 500,000 options at $0.20.
d) was issued new Authority to Prospect 2062.

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 Company:

(a) announced a capital raising to institutional and sophisticated investors raising $8,000,000 (excluding costs of the raise). 25,000,000 ordinary shares will be issued at $0.32 per share from the capital raising which completed on 29 September 2021; and

(b) issued 1,800,000 fully paid ordinary shares on the exercise of 1,800,000 vested performance rights. These performance rights were held by KMP (1,500,000 Richard Cottee and 300,000 Mike Herrington).

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

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

Environmental regulation

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

Information on Directors

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

R Cottee. *Chair – Executive Chairman*	
Experience and expertise	Mr Cottee is internationally renowned for his energy experience, commercial strategy and acumen within the energy and utilities sector. As former Managing Director of the Queensland Gas Company (QGC) from 2002 to 2008, he took the company from an early stage explorer to a major non-conventional gas supplier building the market value from $20 million to $5.7 billion and facilitating the sale of QGC to Britain's BG Group. During his extensive career, he has also been CEO of Queensland Government-owned electricity generator CS Energy, NRG Europe and Managing Director of petroleum explorer-producers Nexus Energy Limited and Central Petroleum Limited.
Other current directorships	Chairman of Elixir Petroleum Limited (ASX: EXR).

Former listed directorships in last 3 years	Managing Director of Central Petroleum Limited (ASX: CTP) (2012 – 2019)
Special responsibilities	Chairman of the Board. Chairman of the Nomination Committee. Member of the Risk Committee.
Interests in shares, options and performance rights	1,531,181 ordinary shares 3,500,000 performance rights

A Bellas. *Non-Executive Deputy Chairman*	
Experience and expertise	Mr Bellas brings over 30 years of experience in the public and private sectors. Tony was previously CEO of the Seymour Company, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Company, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company, operating over 3,500 MW of gas-fired and coal-fired plant at four locations. Tony had a long career with Queensland Treasury, achieving the position of Deputy Under Treasurer.
Other current directorships	Chairman of NOVONIX Limited (ASX: NVX) and intelliHR Limited (ASX: IHR).
Former listed directorships in last 3 years	Chairman of Corporate Travel Management Limited (ASX: CTD)(2010 - 2019) and ERM Power Limited (ASX: EPW) (2009 - 2019) and Shine Justice Limited (ASX: SHJ)(2013-2020)
Special responsibilities	Deputy Chairman of the Board Chair of the Audit Committee. Member of the Remuneration Committee, Nomination Committee and Risk Committee.
Interests in shares, options and performance rights	4,572,193 ordinary shares.

G Baynton. *Executive Director*	
Experience and expertise	Mr Baynton has been a Director of Australian exploration companies for over 20 years. He is founder and Executive Director of investment and advisory firm, Orbit Capital Pty Ltd. Mr Baynton has experience in investment banking, infrastructure investment, IPOs, public company directorships, Queensland Treasury and the Department of Mines and Energy. He is a Fellow of the Geological Society of London.
Other current directorships	Non-executive Director of intelliHR Limited (ASX: IHR) and NOVONIX Limited (ASX: NVX).
Former listed directorships in last 3 years	Non-executive Director of Superloop Limited (ASX: SLC)(ceased 2020).
Special responsibilities	Executive Director. Member of the Remuneration Committee.
Interests in shares, options and performance rights	28,613,860 ordinary shares.

I Paton. *Non-Executive Director*	
Experience and expertise	Mr Paton is a geophysicist and petroleum engineer with substantial experience in the oil and gas industry having held senior technical and management roles in both exploration and development with companies such as Santos, Conoco, Coogee Resources, New Standard Energy and PTTEP. Among other roles, he was Exploration and Development Manager for Santos. He has been instrumental in many oil and gas discoveries in Australia and South East Asia over the last 30 years.
Other current directorships	None.
Former listed directorships in last 3 years	None.
Special responsibilities	Chairman of the Risk Committee. Member of the Nomination Committee and Audit Committee.
Interests in shares, options and performance rights	900,000 ordinary shares

R Towner. *Non-Executive Director*	
Experience and expertise	Mr Towner has over 20 years of experience in the corporate advisory and finance sectors. He was appointed Managing Director & CEO of Triangle Energy (Global) Ltd in July 2014 and managed the Company's transition from operating Indonesian based assets to establishing a portfolio of Australian oil and gas projects, including the producing Cliff Head Oil Field and associated infrastructure in the Perth Basin, Western Australia. 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 27.67% interest on the board of State Gas Ltd as a non-executive Director.
Other current directorships	Managing Director of Triangle Energy (Global) Limited (ASX: TEG) .
Former listed directorships in last 3 years	Non-Executive director of Botanix Pharmaceuticals Limited (ASX: BOT)(ceased 2020).
Special responsibilities	Chair of the Remuneration Committee. Member of the Audit Committee, Risk Committee and Nomination Committee.
Interests in shares, options and performance rights	None.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee		Meetings of Risk Committee		Meetings of Remuneration Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
A Bellas	12	12	2	2	2	2	1	1
G Baynton	12	12	N/A	N/A	N/A	N/A	1	1
R Cottee	12	12	N/A	N/A	2	2	N/A	N/A
R Towner	11	12	2	2	2	2	1	1
I Paton	11	12	2	2	2	2	N/A	N/A

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 2021 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

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

(a) Key management personnel covered in this report

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

Other key management personnel

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

Changes since the end of the reporting period
No changes.

(b) Remuneration policy and link to performance

The remuneration committee was formed during the financial year. The Committee reviews and determines the remuneration policy and structure to ensure it remains aligned to business needs and meets our remuneration principles. This review is conducted annually and recommendations provided to the full Board of Directors for consideration. In undertaking its review, the Committee 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 2021
Fixed remuneration (FR)	Provide competitive market salary including superannuation and non-monetary benefits	Nil	Positioned at median market rate	No changes
LTI	Alignment to long-term shareholder value	Performance vesting conditions	Variable subject to share price.	No changes

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

Assessing performance

The Remuneration Committee is responsible for assessing performance against KPIs and recommending to the board 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 FY2021.

Superannuation is included in FR for executives.

(ii) Short term incentives

No short term incentive plans were in place for FY 2021.

(iii) Long-term incentives

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

Options

No options were granted during FY 2021. Refer to the tables on pages 18-19 of this report for details of options on issue affecting remuneration.

Remuneration report (Audited) (continued)

Performance Rights

During the current financial year 150,000 performance rights were awarded to Head of Corporate and Commercial, Ms Lucy Snelling. The performance rights expire on 27 April 2024.

The performance rights vest as follows:

Number of rights	Vesting date	Vesting condition	% Vested
37,500	30/06/2021	Completion of the Phase 2 exploration program before 30 June 2021.	0%
112,500	03/06/2022	Board approval of a successful corporate transaction being a substantial merger or acquisition, or change of control transaction.	0%

Performance rights yet to vest are subject to the following vesting conditions:

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

Refer to the tables on page 18-19 of this report for details of performance rights on issue affecting remuneration.

Remuneration report (Audited) (continued)

(d) Link between remuneration and performance

During the year, the Company has generated losses from its principal activity of exploring and developing PL231 and ATP 2062. 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 2021	50.0 cents
Year end 30 June 2020	37.0 cents
Year end 30 June 2019	65.0 cents
Year end 30 June 2018	15.5 cents
On admission to ASX	20.0 cents

(e) Remuneration expenses for KMP

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

Remuneration report (Audited) (continued)

Name	Year	Fixed remuneration		Variable remuneration			Total	
		Cash salary** (Short term benefit)	Post-employment benefits**	Cash Bonus (Short term benefit)	Options*	Performance Rights*		Performance related remuneration %
Executive Directors								
G Baynton	**2021**	76,531	7,270	-	-	-	83,801	-
	2020	76,528	7,270	-	-	-	83,798	-
R Cottee	**2021**	92,021	8,676	-	-	1,267,207	1,367,904	93%
	2020	91,322	8,676	-	-	1,657,185	1,757,183	94%
Other key management personnel (Company)								
J Crowley	**2021**	309,738	23,569	-	-	-	333,307	-
	2020	304,999	25,000	-	-	-	329,999	-
L Snelling	**2021**	155,249	14,749	-	-	10,005	179,733	6%
	2020	155,253	14,749	50,000	61,822	-	281,824	40%
M Herrington (from 1 November 2019)	**2021**	62,847	5,784	-	-	742,410	811,041	92%
	2020	40,590	3,856	-	-	581,039	625,485	93%
Non-Executive Directors								
A Bellas	**2021**	50,000	4,750	-	-	-	54,750	-
	2020	50,000	4,750	-	-	-	54,750	-
R Towner	**2021**	40,000	3,800	-	-	-	43,800	-
	2020	40,000	3,800	-	-	-	43,800	-
I Paton	**2021**	40,000	-	-	-	-	40,000	-
	2020	40,000	-	-	-	-	40,000	-
Total KMP remuneration expensed	**2021**	826,386	68,598	-	-	2,019,622	2,914,606	69%
	2020	798,692	68,101	50,000	61,822	2,238,224	3,216,839	73%

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

***Effective 1 April 2020 until 30 September 2020 all Directors and KMP deferred 50% or 20% (respectively) of their remuneration. The component of remuneration that was deferred was included in the remuneration report and was recorded in other payables in the Balance Sheet.*

Remuneration report (Audited) (continued)

(f) Contractual arrangements with executive KMP's

Component	Executive Chairman description	Executive Directors description	Head, Corporate and Commercial description	COO description	Executive General Manager description
Fixed remuneration	$100,000 per annum on a part time basis, inclusive of superannuation	$83,800 per annum on a part time basis, inclusive of superannuation	$170,000 per annum on a part time basis, inclusive of superannuation	$66,667 per annum on a part time basis, inclusive of superannuation	$330,000 per annum, inclusive of superannuation
Contract duration	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Notice by the individual / company	3 months	3 months	3 months	3 months	2 months

The contracts do not provide for any early termination payments.

(g) Non-Executive Director arrangements

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

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

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

(h) Additional statutory information

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

The table below shows for each KMP the value of options and performance rights that were granted, exercised and forfeited during FY 2021. The number of options and performance rights and percentages vested / forfeited for each grant are disclosed in section (iii) below.

	LTI Options		*LTI Performance Rights*	
	Value granted $*	*Value exercised* $**	*Value granted* $*	*Value exercised* $
2021				
L Snelling	-	-	82,500	-

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

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

Remuneration report (Audited) (continued)

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

Options

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

Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% vested
02/07/2018	Performance conditions	02/07/2028	$0.40	$0.173814	100%	100%
02/07/2018	Performance conditions	02/07/2028	$0.60	$0.168180	100%	100%
02/07/2018	Performance conditions	02/07/2028	$0.80	$0.163223	100%	100%

The number of options over ordinary shares in the Company provided as remuneration to key management personnel is shown in the table below on page 21. The options carry no dividend or voting rights.

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

Performance Rights

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

	Grant date	Vesting date	Grant date value
R Cottee	13/11/2019	03/06/2021	$0.75
R Cottee	13/11/2019	03/06/2022	$0.75
R Cottee	13/11/2019	31/10/2020	$0.75
R Cottee	13/11/2019	31/12/2021	$0.75
M Herrington	23/01/2020	31/10/2020	$0.635
M Herrington	23/01/2020	31/12/2020	$0.635
M Herrington	23/01/2020	31/12/2021	$0.635
M Herrington	23/01/2020	03/06/2022	$0.635
L Snelling	27/04/2021	30/06/2021	$0.55
L Snelling	27/04/2021	03/06/2022	$0.55

The number of performance rights over ordinary shares in the Company provided as remuneration to key management personnel is shown in the table below on page 21. The performance rights carry no dividend or voting rights. See page 14 above for conditions that must be satisfied for the performance rights to vest.

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

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

Remuneration report (Audited) (continued)

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

Options

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY2021. No options were forfeited during the year.

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

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

Exercise date	Amount paid per share
1 October 2020	$0.20

Performance Rights

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

Name	Year granted	Balance at the start of the year		Granted as compensation	Vested during the year			Balance at the end of the year		Maximum value yet to vest*
		Unvested	Vested		Number	%	Exercised during the year	Vested and exercisable	Unvested	
R Cottee	2019	4,000,000	1,000,000	-	500,000	30%	-	1,500,000	3,500,000	724,736
M Herrington	2020	2,950,000	150,000	-	150,000	5%	-	300,000	2,800,000	454,552
L Snelling	2021	-	-	150,000	-	0%	-	-	150,000	51,870

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

Remuneration report (Audited) (continued)

Shareholdings

Name	Balance at the start of the year	Issued on exercise of options or performance rights	Changes during the year	Balance at the end of the year
2021				
Ordinary shares				
A Bellas	4,517,648	-	54,545[2]	4,572,193
G Baynton	28,559,315	-	54,545[2]	28,613,860
R Cottee	13,000	-	18,181[2]	31,181
J Crowley	-	-	-	-
I Paton	500,000	500,000	(100,000)[1]	900,000
L Snelling	125,000	-	-	125,000
R Towner	-	-	-	-

[1] Shares sold on-market.

[2] Participation in share purchase plan

(iv) Other transactions with key management personnel

There have been no other transactions with key management personnel.

End of remuneration report (audited)

Shares under option and performance rights

Unissued ordinary shares

Unissued ordinary shares of State Gas Limited under option at the date of this report are as follows (2020: 4,500,000):

Date options granted	Expiry date	Issue price of Shares	Number under option
02/07/2018	Cessation of employment	$0.40	1,000,000
02/07/2018	Cessation of employment	$0.60	1,000,000
02/07/2018	Cessation of employment	$0.80	1,000,000

Unissued ordinary shares of State Gas Limited under performance rights at the date of this report total 9,100,000 (2020: 10,600,000). 150,000 of these performance rights were the performance rights granted to Ms Lucy Snelling in the current financial year, a further 150,000 were issued to a non-KMP employee during the current financial year. 3,500,000 of these performance rights were the performance rights granted to Mr Cottee in previous years. 2,800,000 of these performance rights were the performance rights granted to Mr Mike Herrington in the previous financial year. The remaining 2,500,000 were performance rights granted to an advisor in a previous year. Details of the performance rights granted to key management personnel are disclosed on pages 18-19 above.

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

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

Insurance of officers and indemnities

(a) Insurance of officers

During the financial year, State Gas Limited paid a premium of $132,180 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.

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

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

During the year, no fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 25.

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

R Cottee
Chairman

Brisbane
29 September 2021

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Australia

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

As lead auditor of State Gas Limited for the year ended 30 June 2021, 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, 29 September 2021

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 (4th edition) published by the ASX Corporate Governance Council.

The 2021 Corporate Governance Statement is dated as at 30 June 2021 and reflects the corporate governance practices in place throughout the 2021 financial year. The 2021 Corporate Governance Statement was approved by the board on 29 September 2021. A description of the Company's current corporate governance practices is set out in the Company's Corporate Governance Statement which can be viewed at https://www.stategas.com/corporate-governance/.

STATE GAS LIMITED

ACN 617 322 488

Annual financial report – 30 June 2021

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 2021

	Notes	2021 $	2020 $
Other income	2	145,742	84,539
Administrative and other expenses		(643,018)	(621,140)
Employee benefits expense		(2,517,841)	(2,837,445)
Financing costs	3	67,984	(179,284)
Loss before income tax expense		(2,947,133)	(3,553,330)
Income tax benefit	4	-	-
Loss after income tax expense		(2,947,133)	(3,553,330)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		(2,947,133)	(3,553,330)
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	7	(1.8)	(2.5)
Diluted earnings per share	7	(1.8)	(2.5)

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 2021

	Notes	2021 $	2020 $
ASSETS			
Current assets			
Cash and cash equivalents	8	3,160,029	875,048
Trade and other receivables	9	255,818	115,340
Total current assets		3,415,847	990,388
Non-current assets			
Exploration and evaluation assets	10	24,829,466	11,827,879
Plant and equipment	11	919,425	617
Other assets	12	378,029	35,000
Total non-current assets		26,126,920	11,863,496
Total assets		29,542,767	12,853,884
LIABILITIES			
Current liabilities			
Trade and other payables	13	2,583,542	258,354
Total current liabilities		2,583,542	258,354
Non-current liabilities			
Provisions	14	1,777,911	915,389
Total non-current liabilities		1,777,911	915,389
Total liabilities		4,361,453	1,173,743
Net assets		25,181,314	11,680,141
EQUITY			
Contributed equity	15	29,219,955	14,801,273
Reserves	16	5,154,691	3,125,067
Accumulated losses		(9,193,333)	(6,246,199)
Total equity		25,181,314	11,680,141

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

Statement of changes in equity
For the year ended 30 June 2021

	Contributed equity $	Accumulated losses $	Share based payments reserve $	Total $
Balance as at 1 July 2019	13,201,970	(2,692,869)	825,021	11,334,122
Loss for the period	-	(3,553,330)	-	(3,553,330)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(3,553,330)	-	(3,553,330)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,599,303	-	-	1,599,303
Share-based payments	-	-	2,300,046	2,300,046
Balance as at 30 June 2020	14,801,273	(6,246,199)	3,125,067	11,680,141
Loss for the period	-	(2,947,133)	-	(2,947,133)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(2,947,133)	-	(2,947,133)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	14,418,682	-	-	14,418,682
Share-based payments	-	-	2,029,624	2,029,624
Balance as at 30 June 2021	29,219,955	(9,193,333)	5,154,691	25,181,314

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 2021

	Notes	**2021** $	2020 $
Cash flows from operating activities			
Receipts from customers (GST inclusive)		1,151,911	583,825
Payments to suppliers and employees (GST inclusive)		(2,400,383)	(1,883,757)
Interest received		6,042	4,539
Government incentives received		139,700	80,000
Net cash outflow from operating activities	18	(1,102,730)	(1,215,393)
Cash flows from investing activities			
Payments for exploration assets		(9,697,589)	(5,853,430)
Payments for property plant and equipment	11	(990,353)	-
Payments for security deposits		(343,029)	-
Net cash outflow from investing activities		(11,030,971)	(5,853,430)
Cash flows from financing activities			
Proceeds on issue of shares	15(b)	14,496,410	1,649,999
Payment of capital raising costs and listing expenses	15(b)	(77,728)	(50,696)
Net cash inflow from financing activities		14,418,682	1,599,303
Net increase (decrease) in cash and cash equivalents		2,284,981	(5,469,520)
Cash and cash equivalents at the beginning of the year		875,048	6,344,568
Cash and cash equivalents at the end of the year	8	3,160,029	875,048

Non-cash financing and investing activities 18(b)

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 2021

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 29 September 2021. The Directors have the power to amend and reissue the financial statements.

Going Concern

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 $2,947,133 and net operating cash outflows of $1,102,730 for the year ended 30 June 2021. As at 30 June 2021, the Company has cash of $3,160,029.

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:

- capital raising to institutional and sophisticated investors in September 2021 raising $8,000,000 (excluding costs of the raise); and
- the Directors believe there is sufficient cash available for the Company to continue operating until it can raise sufficient further capital to fund its ongoing activities.

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

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

a. Income tax

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

b. Income recognition

Interest

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

Grant revenue

Grants from government bodies are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Other income

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

c. Operating segments

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

d. Current and non-current classification

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

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

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

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

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

e. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

f. Trade and other receivables

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

g. Exploration and evaluation assets

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

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

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

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

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

h. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	5 years
Field assets	5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

i. 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.

j. 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.

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

k. Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

Equity-settled transactions are awards of shares, options or performance rights over shares, that are provided to employees and contractors 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.

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.

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

k. Employee benefits (continued)

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

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

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

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

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

l. 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.

m. 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.

Notes to the financial statements for the year ended 30 June 2021

Note 1 Summary of significant accounting policies (continued)

n. 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.

o. 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.

p. 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)

p. Critical accounting estimates and judgements (continued)

In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant petroleum interest. Factors that could impact the future commercial production at the project include the level of reserves and resources, future technology changes which could impact the cost of production, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made. Refer to Note 10 for further details of exploration and evaluation assets.

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. Refer to Note 14 for further details of provision for rehabilitation.

Share based payment transactions

The Company measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a Cox, Ross & Rubinstein Binomial Tree or Monte Carlo option pricing model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions, including share price volatility, interest rates and vesting periods would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the profit or loss and equity. Refer to Note 19 for further details of share-based payments.

Notes to the financial statements for the year ended 30 June 2021

Note 2 Other income

	2021 $	2020 $
Other income		
Interest received from unrelated parties	6,042	4,539
Government incentives	139,700	80,000
Total other income	145,742	84,539

Note 3 Loss for the year

Loss before income tax includes the following specific expenses:

	2021 $	2020 $
Finance costs		
Provisions: Unwinding of discount (Note 14)	(67,984)	179,284
Superannuation expense	93,019	72,024
Legal costs	6,951	499,272
Supreme court settlement*	-	(233,333)
Net legal costs expensed	6,951	265,939
Share based payments expense		
Options granted	-	61,822
Performance rights granted	2,029,624	2,238,224
Total share-based compensation expense	2,029,624	2,300,046

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

Notes to the financial statements for the year ended 30 June 2021

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.

	2021	2020
	$	$
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(2,947,133)	(3,553,330)
Tax at the Australian tax rate of 26% (2020: 27.5%)	(766,255)	(977,166)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	527,703	632,513
Legal fees	-	158,452
Other	(17,153)	46,480
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	255,705	139,721
Income tax expense / (benefit)	-	-
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	3,619,113	2,607,959
Potential tax benefit @ 26% (2020: 27.5%)	940,969	717,189

Notes to the financial statements for the year ended 30 June 2021

Note 4 Income tax expense

	2021 $	2020 $
(c) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses	6,545,997	3,349,932
Share issue costs	46,356	56,595
Accrued expenses	10,025	9,976
	6,602,378	3,416,503
Total deferred tax assets		
Set-off of deferred tax liabilities pursuant to set-off provisions	(5,661,409)	(2,699,314)
Deferred tax assets not recognised	(940,969)	(717,189)
Net deferred tax assets	-	-
(d) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Exploration and evaluation assets	5,661,409	2,686,175
Prepayments	-	13,139
Total deferred tax liabilities	5,661,409	2,699,314
Set-off of deferred tax liabilities pursuant to set-off provisions	(5,661,409)	(2,699,314)
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 2021

Note 5 Key Management Personnel Compensation

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

	2021	2020
	$	$
Short-term employee benefits	826,391	848,692
Post-employment benefits	68,598	68,101
Share-based compensation	2,019,622	2,300,046
Total KMP compensation	2,914,611	3,216,839

Short-term employee benefits

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

Post-employment benefits

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

Share-based payments

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

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

Note 6 Auditor's Remuneration

	2021	2020
	$	$
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	48,000	42,000
	48,000	42,000

Notes to the financial statements for the year ended 30 June 2021

Note 7 Earnings per share

	2021 **Cents**	2020 Cents
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	(1.8 cents)	(2.5 cents)
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(1.8 cents)	(2.5 cents)

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

	2021 **$**	2020 $
Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(2,947,133)	(3,553,330)
Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(2,947,133)	(3,553,330)

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

	2021 **Number**	2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	165,533,885	144,960,814

(e) Information concerning the classification of securities

(i) Options and performance rights

Options and performance rights on issue during the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2021. These options and performance rights could potentially dilute basic earnings per share in the future. Details relating to options and performance rights are set out in note 19.

(ii) Ordinary shares issued subsequent to year end

On 29 September 2021, the Company issued 25,000,000 fully paid ordinary shares at $0.32 per share. This share issue was not retrospectively adjusted in the calculation of earnings per share.

Notes to the financial statements for the year ended 30 June 2021

Note 8 Cash and cash equivalents

	2021	2020
	$	$
Cash at bank and on hand	3,160,029	875,048
	3,160,029	875,048

Note 9 Trade and other receivables

	2021	2020
	$	$
Prepayments	93,596	65,583
Other receivables	162,222	49,757
Total current trade and other receivables	255,818	115,340

Management has determined based on the assessment of expected credit loss associated with other receivables is immaterial.

Note 10 Exploration and evaluation assets

	2021	2020
	$	$
Exploration and evaluation assets – at cost	24,829,466	11,827,879

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

Balance at the beginning of the year	11,827,879	5,985,990
Expenditure incurred during the year	12,006,739	5,371,324
Consideration to acquire additional interest in PL231	-	239,927
Rehabilitation asset increment (refer to note 14)	994,848	230,638
Balance at the end of the year	24,829,466	11,827,879

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2021, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this, the Directors have had regard to the facts and circumstances that indicate a need for an impairment as noted in Accounting Standard AASB *6 Exploration for and Evaluation of Mineral Resources*.

Notes to the financial statements for the year ended 30 June 2021

Note 11 Plant and equipment

	Plant and equipment $	Field assets $	Total $
At 30 June 2019			
Cost	1,844	-	1,844
Accumulated depreciation	-	-	-
Net book amount	-	-	1,844
Year ended 30 June 2020			
Opening net book amount	1,844	-	1,844
Additions	-	-	-
Depreciation charge	(1,227)	-	(1,227)
Closing book amount	617	-	617
At 30 June 2020			
Cost	1,844	-	1,844
Accumulated depreciation	(1,227)	-	(1,227)
Net book amount	617	-	617
Year ended 30 June 2021			
Opening net book amount	617	-	617
Additions	-	990,353	990,353
Depreciation charge	(617)	(70,928)	(71,545)
Closing book amount	-	919,425	919,425
At 30 June 2021			
Cost	1,844	990,353	992,197
Accumulated depreciation	(1,844)	(70,928)	(72,772)
Net book amount	-	919,425	919,425

Notes to the financial statements for the year ended 30 June 2021

Note 12 Other assets

	2021 $	2020 $
Security deposits	378,029	35,000
	378,029	35,000

Note 13 Trade and other payables

	2021 $	2020 $
Unsecured liabilities:		
Trade payables	2,376,208	87,107
Sundry payables and accrued expenses	120,021	134,660
Provision for annual leave	87,313	36,587
	2,583,542	258,354

Note 14 Provisions

	2021 $	2020 $
Provision for rehabilitation	1,777,911	915,389
Reconciliation of carrying amount:		
Opening balance	915,389	505,467
Additions (refer to note 10)	994,848	230,638
Provisions reversed	(64,342)	-
Unwinding of discount (refer to note 3)	(67,984)	179,284
	1,777,911	915,389

Rehabilitation provision

The rehabilitation provision relates to the Reid's Dome production lease PL231 (located in Bowen Basin, Queensland) and ATP2062 'Rolleston West'. State Gas Limited is liable to pay 100% of rehabilitation liability for wells and infrastructure on the lease.

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

Note 15 Contributed equity

		2021 Shares	2020 Shares	2021 $	2020 $
(a)	**Share capital**				
	Fully paid ordinary shares	173,032,305	146,357,014	29,219,955	14,801,273

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	$
1 July 2019	Balance		143,424,323		13,201,970
6 Nov 2020	Exercise of options	(c)	500,000	$0.20	100,000
19 Dec 2019	Placement shares	(d)	1,538,461	$0.65	1,000,000
30 Dec 2019	Placement shares	(d)	769,230	$0.65	499,999
25 May 2020	Exercise of options	(e)	125,000	$0.40	50,000
	Share issue costs		-		(50,696)
30 Jun 2020	**Balance**		**146,357,014**		**14,801,273**
1 Oct 2020	Exercise of options	(f)	500,000	$0.20	100,000
2 Oct 2020	Placement shares	(g)	15,427,275	$0.55	8,485,001
6 Oct 2020	Placement shares	(g)	1,845,455	$0.55	1,015,000
28 Oct 2020	Placement shares	(h)	8,902,561	$0.55	4,896,409
	Share issue costs		-	-	(77,728)
30 Jun 2021	**Balance**		**173,032,305**		**29,219,955**

(c) Exercise of options

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

(d) Issue to sophisticated investors

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

(e) Exercise of options

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

(f) Exercise of options

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

(g) Issue to sophisticated investors

The issue of a total of 17,272,730 fully paid ordinary shares to sophisticated investors at an issue price of $0.55 cash.

(h) Securities Purchase Plan

The issue of 8,902,561 fully paid ordinary shares to Shareholders under a Securities Purchase Plan.

Note 15 Contributed equity (continued)

(i) Capital Management

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

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

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

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

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

Note 16 Share-based payment reserve

	2021	2020
	$	$
Share-based payment reserve	5,154,691	3,125,067
Movements:		
Opening balance	3,125,067	825,021
Share based payments	2,029,624	2,300,046
Closing balance	5,154,691	3,125,067

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

Notes to the financial statements for the year ended 30 June 2021

Note 17 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 18 Cash flow information

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

	2021 $	2020 $
Profit / (loss) for the year	(2,947,133)	(3,553,330)
Adjustments for		
Share based payments	2,029,624	2,300,047
Depreciation expense	617	1,227
Financing costs	(67,985)	179,284
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(158,282)	(48,127)
Increase/(decrease) in trade creditors and other payables	40,429	(94,494)
Net cash inflow (outflow) from operating activities	(1,102,730)	(1,215,393)

(b) Non-cash financing and investing activities

Non-cash investing and financing activities disclosed in other notes are:

i. Provision for rehabilitation – note 14
ii. Options and shares issued to employees – note 19
iii. Depreciation of field assets capitalised to exploration and evaluation assets – note 11

(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 2021

Note 19 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 2019	**7,000,000**	**$0.49**
Options exercisable as at 1 July 2019	**4,500,000**	**$0.50**
Granted	-	-
Exercised	(625,000)	$0.24
Expired	(1,875,000)	$0.51
Options outstanding as at 30 June 2020	**4,500,000**	**$0.51**
Options exercisable as at 30 June 2020	**4,500,000**	**$0.51**
Granted	-	-
Exercised	(500,000)	$0.20
Forfeited	-	-
Expired	(1,000,000)	$0.40
Options outstanding as at 30 June 2021	**3,000,000**	**$0.60**
Options exercisable as at 30 June 2021	**3,000,000**	**$0.60**

The weighted average remaining contractual life of options outstanding at year end was 7 years (2020: 5.4 years).

There were no options issued during the financial year.

Notes to the financial statements for the year ended 30 June 2021

Note 19 Share-based payments (continued)

PERFORMANCE RIGHTS

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

	Number	Weighted Average Exercise Price
Performance rights outstanding as at 30 June 2019	**7,500,000**	**-**
Granted	3,100,000	-
Forfeited	-	-
Expired	-	-
Performance rights outstanding as at 30 June 2020	**10,600,000**	**-**
Performance rights exercisable as at 30 June 2020	**150,000**	**-**
Granted	300,000	-
Forfeited	-	-
Expired	-	-
Performance rights outstanding as at 30 June 2021	**10,900,000**	**-**
Performance rights exercisable as at 30 June 2021	**1,800,000**	**-**

The weighted average remaining contractual life of performance rights outstanding at year end was 0.9 years (2020: 1.6 years).

300,000 performance rights were granted to employees on 27 April 2021 (including 150,000 granted to Ms L Snelling). The fair value of these performance rights was $165,000. This value was calculated based on the share price at the date the performance rights were granted and the share based payment expense is being recognised on the basis that all performance rights will vest.

Grant date	Number of Rights	Vesting conditions	Vesting date	% Vested	Expiry date	Fair value at grant date per right
27/04/2021	75,000	Completion of the Phase 2 exploration program before 30 June 2021.	30/06/2021	0%	27/04/2024	$0.55
27/04/2021	225,000	Board approval of a successful corporate transaction being a substantial merger or acquisition, or change of control transaction.	03/06/2022	0%	27/04/2024	$0.55

Notes to the financial statements for the year ended 30 June 2021

Note 19 Share-based payments (continued)

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

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

Notes to the financial statements for the year ended 30 June 2021

Note 20 Events after the reporting date

Since the end of the financial year the Company:

(a) announced a capital raising to institutional and sophisticated investors raising $8,000,000 (excluding costs of the raise). 25,000,000 ordinary shares will be issued at $0.32 per share from the capital raising which completed on 29 September 2021; and
(b) issued 1,800,000 fully paid ordinary shares on the exercise of 1,800,000 vested performance rights. These performance rights were held by KMP (1,500,000 Richard Cottee and 300,000 Mike Herrington).

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

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

Note 21 Related party transactions

Related Parties

The company's main related parties are as follows:

a. **Ultimate parent entity**

The company does not have an ultimate parent entity.

b. **Key management personnel**

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

For details of disclosures relating to key management personnel, refer to Note 5.

c. **Other related parties**

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

d. **Transactions with related parties**

During the previous financial year, Triangle Energy Limited, a company of which Mr Robert Towner is a shareholder and director, was paid back costs of $267,840 for keeping PL231 in good standing (Back Cost Reimbursement). The Back Cost Reimbursement was payable by State Gas Limited as soon as practicable after the approval of an amended later development plan to be lodged by State Gas Limited. No such payments were made during the year ended 30 June 2021, and no further payment will be required under this arrangement.

Notes to the financial statements for the year ended 30 June 2021

Note 22 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 23 Commitments

Later Development Plan

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

The LDP commitment is calculated at $6,570,000 to be spent over the period 1 January 2020 through to the expiry of the LDP on 31 December 2022. To 30 June 2021, $8,946,332 has been spent on the LDP and therefore the Company has met its commitment.

Notes to the financial statements for the year ended 30 June 2021

Note 24 Financial risk management

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

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

	Notes	**2021** **$**	2020 $
Financial assets			
Cash and cash equivalents		3,160,029	875,048
Trade and other receivables		162,222	49,757
Other assets – security deposits		378,029	35,000
Total financial assets		3,700,280	959,805
Financial liabilities			
Trade and other payables		2,463,521	123,694
Total financial liabilities		2,463,521	123,694

The Board has established a risk committee to assist in management and oversight of risk but retains 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 and the Commonwealth Bank of Australia.

Liquidity risk

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

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

All financial assets and financial liabilities mature within one year, with the exception of security deposits.

Market risk

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

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

Note 24 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 2021, 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 $31,600 (2020: $8,750) lower/higher, as a result of higher/lower interest income from cash and cash equivalents.

Fair Value

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

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 27 to 57 are in accordance with the *Corporations Act 2001,* including:

  (I) complying with Australian 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 2021 and of its performance for the financial year ended on that date, and

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

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Executive Chairman and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

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

R Cottee
Director
Brisbane, 29 September 2021

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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 2021, 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 2021 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Material uncertainty related to going concern

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

Key audit matters

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

Recoverability of exploration and evaluation assets

Key audit matter	*How the matter was addressed in our audit*
Refer to note 10 of the financial statements. The Company carries exploration and evaluation assets as at 30 June 2021 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 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 20 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of State Gas Limited, for the year ended 30 June 2021, 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
Director

Brisbane, 29 September 2021

Shareholder information

The shareholder information set out below was applicable as at 22 September 2021.

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	97
1,001 – 5,000	172
5,001 – 10,000	152
10,001 – 100,000	386
100,001 and over	146
	953

There were 120 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	47,884,693	27.67
Allegro Capital Nominees Pty Ltd	14,000,000	8.09
Investment for Retirement Pty Ltd	9,000,000	5.20
HSBC Custody Nominees (Australia) Limited	5,313,696	3.07
Pherous Holdings Group Pty Ltd	4,910,750	2.84
Bond Street Custodians Limited	4,572,193	2.64
Immanuel Developments Pty Ltd	3,723,966	2.15
Sunset Power Pty Ltd	3,636,364	2.10
Physick SMSF Pty Ltd	2,628,622	1.52
Ms Amanda Elizabeth Kitson Collins	2,512,691	1.45
Citicorp Nominees Pty Limited	2,282,482	1.32
Mr Jamie Pherous	2,167,810	1.25
Graeme Eric Fielding & Noelle Lee Halpin	2,054,187	1.19
Allegro Capital Nominees Pty Ltd	1,916,668	1.11
Foligno Pty Limited	1,644,387	0.95
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd	1,589,728	0.92
Baynton Brothers Pty Ltd	1,500,000	0.87
HSBC Custody Nominees (Australia) Limited – A/c 2	1,467,307	0.85
Orbit Capital Pty Ltd	1,450,000	0.84
Green Ashlar Pty Ltd	1,400,000	0.81
Total	**115,655,544**	**66.84**

Unquoted equity securities

	Number on issue	Number of holders
Options	3,000,000	1
Performance rights	10,900,000	5

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

	Number held	% of total on issue
James Crowley	3,000,000	100%

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

	Number held	% of total on issue
Highbury Partnership Pty Ltd	2,500,000	22.9%
Richard Cottee	5,000,000	45.9%
Mike Herrington	3,100,000	28.4%

C Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Triangle Energy (Global) Limited	47,884,693	27.67%
Greg Alexander John Baynton, Allegro Capital Nominees Pty Ltd, Intercontinental Pty Ltd Investment for Retirement Pty Ltd and Baynton Brothers Pty Ltd	28,613,860	16.5%

D Voting rights

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

(a) Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Share options: No voting rights

(c) Performance rights: No voting rights