ANNUAL REPORT

2023

STATE GAS LIMITED

ACN 617 322 488

Annual Report – 30 June 2023

Corporate directory

Directors	R Cottee A Bellas G Baynton P St Baker J Stretch R Towner
Company Secretary	S M Yeates
Principal Place of Business	Suite 4, Level 1, 40 Edward Street, Brisbane QLD 4000
Registered Office	Suite 4, Level 1, 40 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	HWL Ebsworth Lawyers Level 19, 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

Competent Persons Statement
The estimate of Reserves and Contingent Resources for the Reid's Dome and Rougemont Gas Projects provided in this Presentation, is based on, and fairly represents, information and supporting documentation prepared by Mr James Crowley in accordance with Petroleum Resource Management System guidelines.

Mr Crowley is a qualified person as defined under the ASX Listing Rule 5.42. Mr Crowley holds a Bachelor of Science (Honours) from Macquarie University, Sydney and has over 36 years' experience in the industry. He is a member of The Petroleum Exploration Society of Australia and The Society of Petroleum Engineers. Mr Crowley has consented to the publication of the Contingent Resource estimates for the Reid's Dome and Rougemont Gas Projects in the form and context in which they appear in this Presentation.

The Contingent Resource estimates for the Reid's Dome and Rougemont Gas Projects, of which State Gas holds 100%, were estimated utilising the probabilistic method and have not been adjusted for commercial risk.

Chairman's letter

Dear Fellow Shareholders,

This year your Company made important progress with its Rolleston West Project, creating a solution to generate initial operating cashflow while continuing with necessary exploration production testing. The timing of this transition was unfortunately delayed by the turmoil in the market occasioned by the government policy to overturn the laws of supply and demand where price is the market clearing mechanism.

The hesitancy of the market saw a curtailment of much needed investment in the sector. With demand for natural gas still growing, this investment hesitancy, particularly in Bass Strait saw production from those fields – traditionally the bedrock of domestic supply with an historic 70 % market share – continue to decline, albeit at a faster rate.

State Gas was fundamentally unaffected by this government intervention and may indeed become a nett beneficiary over time as those interventions have the unintended consequence of putting a high price floor on domestic gas. This has made our CNG Project even more economic, particularly outside of the demand "shoulder "periods.

The major short-term impact of the uncertainty following the government intervention was to delay the project and make capital accumulation more difficult. In this climate, the fact that State Gas was able to successfully raise capital off the back of the excellent production testing results from the Rougemont Project became a company making event.

Before the end of this year, we will be selling our first cargoes of CNG of approximately 250 TJ/Day creating positive cash flow. The first sales will be to a gas end user, focussed on converting part of its diesel truck fleet to dual fuel.

This will be the first time a CSG production well has been the source of CNG capturing good economic synergies and giving the Company not only valuable intellectual property but also an incredible first mover advantage in a growing market.

The environmental benefits of gas aiding the de-carbonisation of the future should be undisputed but still requires a higher degree of public acknowledgement.

Planning is underway to increase production early in the new year with additional drilling being earmarked for after the wet season. If successful, this should result in a sufficient reserve upgrade to underwrite the capital for development of long-term pipeline infrastructure which would commence after the award of a Petroleum Lease for the project.

We are grateful for the continued backing of our shareholders and investors who have supported the company through to this important stage in its development. The Board also acknowledges the dedication of the Company's small executive team who have applied their expertise and knowledge in progressing our CNG development.

Yours faithfully

Richard Cottee
Chairman
State Gas Limited

Directors' report

Your Directors present their report on the Company for the year ended 30 June 2023.

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
R Towner

Jon Stretch and Philip St Baker were appointed directors on 10 October 2022 and continue in office at the date of this report.

Ian Paton was a director from the beginning of the financial year until his resignation on 15 November 2022.

The Company Secretary, Suzanne Yeates, was appointed to the position 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 evaluation 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.

Review of operations

Highlights

- Excellent initial production testing results from Rougemont 2/3 dual lateral well configuration at the Rolleston-West Project
- Pre-commissioning activities for individual components of the CNG facility finished and on-site construction and commissioning scheduled to be completed in November 2023
- Gas offtake arrangements established and initial sales expected before the end of 2023

Corporate

- Total capital from share placement in October 2022 raised $7 million, with a further $6.3 million raised post year end enabling construction of the CNG facility and the funding of additional exploration activity
- Underlying accounting loss after tax of $1.2 million (2022: profit $1.3 million)
- $7.2 million invested in exploration and development activities during the year
- Cash balance of $0.5 million at 30 June 2023.

Company Overview

State Gas Limited ("State Gas" or the "Company") is a gas exploration and development company with operations in the southern Bowen Basin in Central Queensland. The Company's mission is to support energy markets through the efficient commercialisation of previously undeveloped gas resources. It will do this by applying an agile, sustainable but low-cost development approach and opportunistically expanding its acreage in highly prospective areas that can either apply the Company's compressed natural gas ("CNG") trucking approach or have access to traditional gas pipeline infrastructure.

The Company's existing 100% owned projects at PL231 and ATP 2062, in conjunction with joint venture interests over substantial adjoining areas, means that the Company has exposure to a highly prospective gas producing region in the southern Bowen Basin. In addition to supporting substantial 2C gas resources, the Company believes there are significant opportunities for synergistic and coordinated development of this important gas region over time.

The Company has continued to refine its strategy of delivering early-stage production using its CNG trucking approach. During the year, the Company completing a range of planning and pre-commissioning activities, to enable the commencement of construction of the compressed natural gas facility ("CNG Facility") and begin production and sale of gas ("the CNG Project").

Pursuant to the successful completion of capital raising transactions post year end, funding is now in place to allow construction of the CNG Facility. It is the Company's intention to immediately install and commission the CNG assets and commence selling compressed natural gas using its CNG trucking solution.

The Company's CNG trucking solution (or a Virtual Pipeline) draws on the North American experience in the cost-effective development of this option, to commercialise gas production in infrastructure remote areas. The Company has studied this technology and, in conjunction with its engineering partners, developed a unique application for coal seam gas ("CSG"). When completed, the Company's CNG facility will intake, dehydrate and compress CSG provided from Rougemont 2/3. The CNG is then filled into safe, specially designed gas tube trailers that will transport the gas to end users or an existing pipeline tie-in location. The existing ATP 2062 instrument and associated environmental approval allow the operation of the compression facility at that location during production testing.

Successful execution of the CNG strategy will begin to demonstrate the Company's credentials as an innovator in the junior energy sector and provide a pathway to realise the significant value inherent in the Company's asset base. It will allow the Company to generate modest operating cashflows which will see it significantly reduce its reliance on new equity capital to finance its exploration activities and other operating costs.

Rolleston West – Rougemont Production Testing

During the year, the Company drilled and achieved excellent initial production testing results from a dual lateral well at its Rolleston West Project. In line with the Company's strategy, the Rougemont 2/3 dual lateral well ("Rougemont 2/3") is targeting the Bandanna coal measures already producing coal seam gas at Arcadia Valley to the south-east and under development at Mahalo to the North.

Gas production rates from Rougemont 2/3 rose steadily during the production testing period from November 2022 to May 2023 and State Gas is confident that sustainable daily gas production of 0.5TJ per day is achievable from this well. At these volumes, the well is economically viable on a standalone basis and provides a platform for the evaluation of a small gas pilot project in the area. The Company shut the well in May 2023 to conduct additional pressure build-up testing and gain a more comprehensive understanding of reservoir dynamics. This decision has the additional environmental benefit of preserving the high-quality production testing gas until it can be captured for sale.
The Rougemont production test has been highly successful, in that it:

- proved the effectiveness of the lateral well drilling technique in this area;
- confirmed excellent permeability within the target Bandanna coal seams; and
- has delivered an excellent stable economic gas flow rate (approximately 0.5 TJ/day of pipeline quality gas), with further improvement possible from further de-watering.

Production testing results from Rougemont are extremely encouraging when compared with other high performance CSG projects (both the Surat Basin and Bowen Basin) at a similar stage of production testing. Gas production levels observed during the Rougemont production test provides an excellent foundation for establishing a substantial gas reserve and the ongoing development of a gas project in the region.

The CNG Project

In response to the strong production testing results from Rougemont 2/3, State Gas has elected to develop its CNG Facility as part of ongoing testing and appraisal of the Rolleston West Project on ATP 2062. This allows the Company to compress and sell a restricted amount of gas generated from production testing of Rougemont 2/3 thereby accelerating the move to operating cashflow while we obtain a permanent production license. This strategy delivers significant environmental benefit, as it captures the production testing gas from Rougemont which would otherwise be flared. Locating CNG Facility on the eastern side of ATP 2062 also provides a range of longer term operating and capital cost efficiencies for the CNG Project:

- better supports the ramp up of daily gas production to the CNG Facility maximum compression limit of 1.7 TJ/day;
- provides efficient trucking distance to pipeline tie-in locations and CNG end users; and
- enables immediate access to all weather roads thereby reducing the risk of weather-related interruption to the shipping of CNG cargoes by truck.

During the year, the Company successfully complete pre-commissioning works on the compressor, dehydrator and associated equipment (the individual components of the CNG Facility). As well, the various hazard and safety risk evaluations for construction and operation of the CNG Facility have been completed. Subsequent to year end, the Company has entered into a construction contract for the CNG facility and associated works with Wasco (Australia) Pty Ltd ("Wasco").

State Gas and Wasco have been working together over the last eight months to design and engineer the CNG facility to support the compression of up to 1.7TJ/day of gas. The Company expects that, when connected to the CNG facility, Rougemont 2/3 well on a standalone basis could produce up to 0.75TJ/day of CNG which will support modest initial revenues and cashflows for the Company.

The level of civil work required to construct the CNG Facility pad and implement the gas gathering system is relatively minor. Due to the pre-commissioning work already completed, the timetable for compliance and commissioning the CNG Assets on site has been significantly reduced. As such, first gas is expected to be produced for sale in late November 2023.

The Company has simultaneously entered into a Memorandum of Understanding ("MOU") with Mine Energy Solutions Pty Ltd ("MES") to supply CNG immediately from commissioning of the CNG Facility. MES is working with a number of organisations to implement dual fuel (diesel/gas) engines in mining trucks as part of de-carbonisation initiatives currently underway in the coal sector. The dual fuel engines require CNG. The majority of these potential gas end users are remote from traditional gas infrastructure and consequently State Gas's CNG trucking solution uniquely positions it to provide CNG to these projects. Under the terms of the MOU, State Gas is the exclusive supplier of CNG to MES.

To support future production volumes up to the maximum compression capacity of the CNG Facility of 1.7TJ/day and beyond, State Gas has also entered into an MOU with Denison Gas Queensland Pty Ltd ("Denison") under which it will jointly develop a CNG intake facility ("the Intake Facility") at Denison's Rolleston Gas Plant. State Gas and Denison have been working to jointly develop the relevant engineering solutions which will allow the Intake Facility to efficiently receive CNG delivered using State Gas' virtual pipeline trucking solution for processing at the Rolleston Plant. As part of this arrangement, Denison will purchase up to 1.0TJ/day from State Gas for on-sale into the domestic gas market in conjunction with its existing daily spot capacity.

The Company has simultaneously commenced the relevant initial studies and analysis to support application for the required environmental approvals, petroleum leases and a permanent pipeline corridor. In conjunction with the establishment of the 2P reserve, it is the Company's intention to progressively increase daily gas production to a level that will support the construction of a 35km gas pipeline that will connect the CNG Facility to the Gladstone - Wallumbilla Pipeline system.

Changes to Board and Management

In conjunction with the October 2022 equity raise, the Company strengthened its Board through the appointment of Mr Philip St Baker and Mr Jon Stretch, who both bring significant additional energy sector expertise. Mr Ian Paton retired as a Director during the year and the Company thanks him for his service and contribution over many years.

The Company also restructured its executive team during the period with the objective of maintaining a low overhead cost structure but retaining the core skills necessary to accelerate delivery of its projects and developing the appropriate people, systems and processes necessary to run the business when it moves into production.

The Company's Board and Management have the experience and capability to expedite the commercialisation of its projects with a philosophy of low capital and operating costs. The acceleration of the Company's activities to development and early-stage production is now its priority.

Capital Management

In October 2022, the Company raised $7 million of additional equity capital through the allotment of 25 million new shares to sophisticated investors. This capital allowed it to fund ongoing exploration and appraisal activity at Rolleston West (primarily the development and production testing of Rougemont 2/3) and complete engineering and initial procurement activities for the CNG Project. During the year, the Company continued to operate with limited fixed overheads and curtailed project expenses to align with its capital constraints.

To improve the Company's short term liquidity position, the Directors provided additional financial accommodation by way of short-term loans totalling $0.4 million, half of which was received before 30 June 2023 and the remainder in early July 2023. The loans are on arm's length terms and attract an annual interest rate of 13% payable at maturity. The loans are repayable from funds received from the capital raising in late September 2023. This additional liquidity was essential to ensure the Company could maintain pre-commissioning activities in respect of the CNG Project and be able to mobilise and commence construction quickly.

Post year-end, the Company raised a further $6.3 million through a placement of 26,000,000 shares to sophisticated investors and the allotment of 15,900,675 million shares to existing eligible shareholders pursuant to a Share Purchase Plan. These funds will allow the Company to complete construction of the CNG Facility and undertake some additional exploration activity. The Company's reliance on additional equity capital will significantly reduce once operating cashflow from CNG sales commence in November 2023.

The Company continues to explore other avenues to free up working capital, including refinancing of the CNG Facility post commissioning.

Outlook

Recent Federal Government intervention into traditional gas and energy market operations has created an environment of increased investment uncertainty. A number of substantial gas projects that were integral to medium term domestic supply forecasts are in doubt and investment capital continues to be redirected to gas projects offshore by larger gas sector participants. While State Gas is supportive of accelerating the implementation of renewable energy solutions, the delivery of projects at an effective cost and scale is complex and likely take longer than currently anticipated.

It is the Company's view, in line with that shared by many energy sector experts, that gas remains the only reliable source of base and peaking electricity production and remains preferable to thermal coal from an emissions standpoint. Reliable ongoing gas supply is required to meet both domestic and export energy supply obligations over the short to medium term and to ensure that sustainable electricity prices are maintained for both domestic consumer and commercial users.

As the Company moves into initial production, the Directors believe that the Company's assets are well positioned to address (in part) the substantial gas shortfall which the ACCC currently forecasts to arise by 2027 and continue to support both an orderly transition to renewables and a sustainable energy security policy for Australia. The Company's portfolio of gas projects possess the relevant characteristics to underpin long term shareholder value:

1) substantial deposits of pipeline quality gas with a low carbon emission profile sourced from a known gas production region;
2) comparable gas projects, targeting similar coal measures, suggest that the State Gas projects will be low on the cost curve;
3) gas assets are strategically located to existing transmission infrastructure and the cost of additional infrastructure to support production is modest; and
4) the Company's CNG trucking solution enables it to commercialise its gas asset more quickly and reduce reliance on new equity capital to support its operations.

State Gas will not be impacted by the Gas Mandatory Code of Conduct, as it will be producing less than 100PJ of gas per annum for some time. In addition, the Company remains in the strong position that its permits are not restricted by domestic gas reservation requirements, and therefore, can be sold to either local customers or export markets without the direct imposition of pricing controls.

The Company's intention remains to sell its CNG either directly to end users or into the gas network at prices at least equal to spot. Over the last quarter, the spot price of gas at the Wallumbilla Gas Hub was as high as $19.50/GJ. Low initial volumes, the delivery flexibility provided by the Company's CNG trucking solution and the commercial terms of the Company's offtake arrangements support this strategy. Importantly, these offtake arrangements will not convey a fixed delivery obligation on State Gas, which is important during the commissioning and ramp-up phase of the CNG Facility.

State Gas tenement interests

State Gas' projects are underpinned by the following tenure:

Project	*Permit*	*State Gas Interest*	*Area (km2) [at 100%]*
Reid's Dome	PL 231	100%	181
Rolleston-West	ATP 2062	100%	1,414
Santos JV	ATP 2068	35%	727
Santos JV	ATP 2069	35%	308
Carbon Management JV	EPM 27596	Note [1]	140

[1] State Gas is farming-in to EPM 27596 in a staged farmin, the first stage of which is to earn 25%. The tenement is currently held 100% by Rockminsolutions Pty Ltd

The contingent and prospective gas resources established by State Gas in respect of each of its areas of interest are:

Year	*Asset*	*Net Acreage (km^2) (State Gas share)*	*Estimated Contingent Resources* (PJ's Net to State Gas)*		
			1C	*2C*	*3C*
2017	*PL231 Reid's Dome (unconventional)*	*181*	*84*	*192*	*660*
	PL231 Reid's Dome (conventional)		*1.7*	*3.6*	*7.9*
2020	*ATP 2062 Rolleston-West (unconventional)*	*1,414*	*145*	*261*	*454*
	ATP 2062 Rolleston-West (conventional)		*6*	*18*	*52*
2022	*ATP 2068 (unconventional)*	*254*	*25*	*43*	*68*
2022-23	*ATP 2069 (unconventional)*	*108*	*12*	*17*	*24*
Total		***1957***	***274***	***534***	***1266***

Year	*Asset*		*Estimated Prospective Resources* (PJ's Net to State Gas)*		
			P10	*P50*	*P10*
2020	*ATP 2062 Rolleston-West (conventional)*		*1.0*	*4.7*	*22.7*
2022	*ATP 2069 (conventional)*		*0.7*	*3.0*	*12.8*
Total			***2***	***8***	***35***

*State Gas estimate as at 12/09/2022

ABOUT STATE GAS' PROJECTS

Reid's Dome Project (100% State Gas)

The Reid's Dome Project is targeting conventional and coal seam gas assets associated with the Reid's Dome anticline, an area of sharply uplifted coals, shales and sandstone formations within the southern Bowen Basin in Queensland. Gas was first discovered in the area during early exploration in 1955, prior to the development of the currently extensive pipeline infrastructure. The area was sporadically explored over the ensuing decades, until State Gas acquired PL231 as its first project in 2017.

The Company's activities have established in excess of 30 metres of net coals in the producible zones in the beds (proven to extend below 1100m), with gas contents averaging a very high 13.75m3/tonne dry ash free. Commercial levels of production have been established at the Nyanda-4 well, with stabilised rates of 140mscf/d, punctuated by peaks of up to 700mscf/d. Wells drilled during the 2019-20 and 2020-21 financial years confirmed the continuity of the Reid's Dome coal seams across the majority of the permit, as well as discovering additional conventional gas in the northern area of the tenement.

The Company continues to evaluate a range of techniques to successfully liberate gas from the deeper formations and establish a resource base and cost structure which would enable the project to be successfully advanced.

ATP 2062: Rolleston-West Project (100% State Gas)

ATP 2062, containing highly prospective Bandanna coals (currently under production by Santos in the southeast) and conventional gas targets, was issued to State Gas in October 2020. Directly adjacent to Reid's Dome, the Rolleston-West project enables the Company to build on its existing knowledge of the area, achieve economies of scale and operations, and develop the projects synergistically to optimise efficiencies, optionality and scale.

The Company has drilled wells which intersected approximately 8 metres of net coals with the thickest seams in each well (~2.4m and ~2.8m) laterally continuous over many kilometres. The gas content of the coals was, as predicted, at between 5 and 6 m^3/tonne dry ash free. Gas is at or near pipeline quality, between 93.8% and 96% methane with excellent permeability ranging from a good 26 millidarcies to a particularly impressive 395 millidarcies.

A significant 2C contingent resource has already been established for the wider Rolleston West Project, and in conjunction with commencing initial production, the Company is seeking to establish an initial 2P reserve in the range of 20-30PJ in the short to medium term (for the area surrounding Rougemont 2/3 on the eastern extremity of ATP 2062).

Santos JV Project

State Gas, in joint venture with Santos QNT Pty Ltd (State Gas 35%, Santos 65%), is undertaking initial exploration activities on two new exploration permits, ATP 2068 and ATP 2069 which are adjacent or in close proximity to both State Gas' existing Reid's Dome and Rolleston-West Projects.

These areas are adjacent to the Arcadia Valley gas field and consequently present significant development synergies for the area in respect of capital investment, operational efficiencies and off-take. ATP 2069 is also bisected by two high pressure export pipelines.

Both blocks are highly prospective for coal seam gas in the Bandanna Formation as indicated by commercial production on adjacent acreage. The blocks also contain targets for conventional gas. The Joint Venture is now planning early-stage exploration activities in the most prospective areas of the tenements.

Carbon Management
State Gas is in joint venture with minerals explorer Rockminsolutions Pty Ltd ("Rockminsolutions"), holder of minerals exploration permit EPM 27596 over the Buckland Basaltic Sequence on the western border of ATP 2062. The Company has entered into a Memorandum of Understanding (MoU) with Rockminsolutions to investigate the feasibility of carbon sequestration through carbon mineralisation in basalt formations on the western border of the Rolleston-West Project area. Through jointly conducting successful exploration and appraisal activities in this area, State Gas has the ability to acquire a farm-in interest in Rockminsolutions' EPM 27595 tenement.

Basalt rocks are highly reactive and contain the elements needed for permanently immobilising CO_2 through the formation of carbonate minerals (eg calcium carbonate (limestone) and magnesium carbonate). The Buckland Tableland basalts in EPM 27596 are non-welded ignimbrites, a relatively unusual form of basalt likely to be particularly suitable for reaction with CO_2. The size and thickness of the basalts provides the potential for very significant quantities of carbon to be mineralised. Projects of this nature have been undertaken successfully for some years by Carbfix in Iceland, and now by Rio Tinto in Minnesota, USA.

Planning is now underway for a round of initial testing activities that investigate the potential of the Buckland basaltic ignimbrite for a range of ex-situ mineral carbonation purposes such as soil mineral carbonation and the manufacture of low-carbon cements. This initial work will also assist in evaluating the potential of the deposit for in-situ mineral carbonation.

MATERIAL BUSINESS RISKS
The material business risks for State Gas at 30 June 2023 are outlined in this section. These risks may materialise independently, concurrently or in combination. The active management of these risks through our risk management framework is imperative to State Gas meeting strategic objectives and delivering shareholder value. This summary is neither an exhaustive list of risks that may affect State Gas, nor are the risks listed in order of importance. It reflects a cross section of risks which users of this financial report may find relevant in understanding the Company's operating environment and the scope of risk management considerations which the Company undertakes on a regular basis. Specific financial risks are addressed at Note 25 to the Financial Statements.

Operational Risks
Exploration and development
The growth of State Gas is dependent on the Company's ability to successfully discover, develop and deliver new resources and reserves. Exploration and drilling activities are highly uncertain and dependent on capital funding and the acquisition and analysis of data. State Gas's ability to deliver its strategy may be impacted by the success of its exploration and development efforts. To ensure the highest possibility of success and therefore confidence of investors, State Gas seeks to employ the most technically capable staff, who analyse existing acreage for drilling prospects by applying best-in-class technologies and process for exploration and development. Partnering and farm-in arrangements represent opportunities to diversify risk.

Land Access
Land access is critical for the success of State Gas's exploration and development activities. State Gas relies on being able to negotiate mutually satisfactory access arrangements with landholders and other stakeholders for lands on which State Gas' exploration and production activities are conducted. The Company's exploration operations and profitability may be adversely impacted or delayed in the event of a dispute with a landowner or user that delays or prevents the Company carrying out its projects. State Gas seeks to work closely and respectfully with landholders and other stakeholders. The Company engages with them as early as possible to ensure that they are kept appraised of the Company's proposed activities and seek to develop mutually beneficial working partnerships with these parties wherever possible.

Business Interruption

Pandemic-type restrictions, natural disaster impacts, or cyber attack may prevent or disrupt ongoing operations as planned. State Gas' exploration operations and profitability may be adversely impacted or delayed. The Company closely monitors threats and seeks to respond accordingly. The Company would seek to minimise operations in likely affected areas when necessary, scheduling activities to avoid periods of highest risk. The State Gas office is set up to transition easily to remote operations. Information technology mitigations are in place to minimise cyber threats.

Strategic Financial Risks

Access to Funding

Volatility, uncertainty or adverse sentiment in capital markets could restrict the willingness of investors and financiers to provide additional capital. State Gas's growth aspirations require the investment of significant capital to generate returns. State Gas' proposed CNG "virtual pipeline" to enable gas sales will provide revenues which will offset external funding requirements. In addition, the Company retains optionality on expenditure. The Company has prudent expenditure monitoring and management within a Board approved budget. The Company develops relationships with relevant stakeholders and develop strategies to minimise dependence on capital markets. Where appropriate, the Company seeks partnering opportunities to help fund key activities on a project-by-project basis.

Safety, Environmental and Sustainability Risks

Climate Change

Government and community expectations about carbon emissions and how companies are managing the impacts of climate change are increasing. State Gas's growth may be impacted by increasing regulation and costs associated with climate change and the management of carbon emissions. State Gas actively monitors current and emerging areas of climate change risk and associated regulation. The Company has initiated a decarbonisation project to help address carbon management. The Company continuously focuses on improving energy efficiency and emissions management in delivering cost efficiencies.

Health and safety

Our activities are subject to operating hazards which could result in harm to our people or our communities. In addition to injury or negative effects to the health or wellbeing of affected people, impacts may include reputational damage and financial penalties. The identification, effective control and overall management of health and safety risks are the highest priority for State Gas. The Company has developed detailed health and safety management plans, as well as rigorous processes to ensure it operates at the highest standards of safety management.

Political Risks

Significant regulatory change

Changes in government policy, legislation, regulations and/or policy can result from changes in community expectations, changes in market conditions, or compliance with international treaties or other obligations. These changes may impact on exploration and development of the Company's assets as well as the energy markets in which it operates. In turn, such changes may impact on sustainable returns for investors, through profit erosion and loss of company value. Retrospective or unexpected regulatory changes potentially may impact the longer-term viability of projects. The Company actively monitor regulatory and public policy developments and constructively engages with government, regulators and industry bodies.

Significant changes in the state of affairs

During the financial year the Company:

a) raised $7 million through the issue of 25,000,000 fully paid ordinary shares at $0.28 per share through a strategic investment and associated placement;
b) issued 2,500,000 performance rights to the CEO as the equity-based component of his remuneration.
c) spent over $3 million acquiring and pre-commissioning the compressor, dehydrator and associated equipment (the individual components of the CNG Facility).

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 30 June 2023 the Company has:

(a) entered into short-term loan agreements with two directors of the Company, Tony Bellas and Jon Stretch, for $100,000 each. The loans are unsecured and accrue interest at 13% pa from the date of drawdown, compounding monthly. Interest on the loans will capitalise and be paid in full at the time the principal is repaid;
(b) issued 26,000,000 fully paid ordinary shares at $0.15 per share to sophisticated and professional investors, representing gross proceeds of $3.9 million; and
(c) issued 15,900,675 fully paid ordinary shares at $0.15 per share under a Share Purchase Plan, representing gross proceeds of a further $2.385 million.
(d) entered into a construction contract for the CNG Facility.

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

Environmental regulation

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

Information on Directors

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

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	None.
Special responsibilities	Chairman of the Board. Chairman of the Nomination Committee. Member of the Risk Committee.
Interests in shares, options and performance rights	1,566,896 ordinary shares

A Bellas. *Non-Executive Deputy Chairman*	
Experience and expertise	Mr Bellas brings over 35 years of experience in the public and private sectors. Tony was previously CEO of the Seymour Group, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Group, 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. He is a Fellow of the Geological Society of London.
Other current directorships	Deputy Chairman of NOVONIX Limited (ASX: NVX).
Former listed directorships in last 3 years	intelliHR Limited (ASX: IHR)(ceased 2023) Shine Justice Limited (ASX: SHJ)(ceased 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	4,750,765 ordinary shares.

G Baynton. *Non-Executive Director (formerly an Executive Director until 30 November 2022)*	
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	None.
Former listed directorships in last 3 years	Non-executive Director of Superloop Limited (ASX: SLC)(ceased 2020). Non-executive Director of intelliHR Limited (ASX: IHR)(ceased 2021). Non-executive Director of NOVONIX Limited (ASX: NVX) (ceased 2021).
Special responsibilities	Executive Director until 30 November 2022. Member of the Remuneration Committee.
Interests in shares, options and performance rights	29,060,289 ordinary shares.

P St Baker. *Non-Executive Director*	
Experience and expertise	Mr St Baker is an experienced entrepreneur, investor, director and executive, with over twenty years' experience in technology, energy, and resources sectors. He experienced at leading large, medium, small, and startup companies, in private and public companies, domestic and international.
Other current directorships	None.
Former listed directorships in last 3 years	Managing Director of NOVONIX Limited (ceased 2020)
Special responsibilities	Member of the Risk Committee.
Interests in shares, options and performance rights	9,039,153 ordinary shares.

J Stretch. *Non-Executive Director*	
Experience and expertise	Mr Stretch has broad international experience in the information technology (IT), telecommunications and energy sectors. He was formerly Managing Director of ERM Power Limited, an ASX-listed electricity generator and retailer. Prior to that Mr Stretch was Executive Vice President and Member of the Management Board of Landis + Gyr, the global leader in smart gas and electricity metering based in Zug, Switzerland.
Other current directorships	Non-Executive Director, Fast Cities Australia Non-Executive Director, Set Metrics Pty Ltd Chair, The Blueshore Charitable Trust
Former listed directorships in last 3 years	None
Special responsibilities	Chair of the Risk Committee
Interests in shares, options and performance rights	829,336 Shares

R Towner. *Non-Executive Director*	
Experience and expertise	Mr Towner has 25 years in Executive Management and Corporate Advisory positions in the energy, biotech and wine industries. Most recently he was Managing Director and CEO of ASX listed Triangle Energy (Global) Ltd for 8 years until his resignation in February 2022. Prior to Triangle, engagements included Sydney Gas Ltd, Sunshine Gas Ltd, New Guinea Energy Ltd, bioMD Ltd and Botanix Pharmaceuticals Ltd.
Other current directorships	None.
Former listed directorships in last 3 years	Managing Director of Triangle Energy (Global) Limited (ASX: TEG)(ceased 2022).
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 2023, and the number of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee		Meetings of Risk Committee		Meetings of Nomination Committee		Meetings of Remuneration Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
A Bellas	15	16	2	2	1	2	1	1	1	1
G Baynton	16	16	1	1	-	-	-	-	1	1
R Cottee	16	16	-	-	-	1	-	-	-	-
P St Baker	9	11	1	1	2	2	-	-	-	-
J Stretch	11	11	-	-	2	2	-	-	-	-
R Towner	15	16	1	1	2	2	1	1	1	1
I Paton	6	6	1	1	-	-	1	1	-	-

A = Number of meetings attended

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

Remuneration report (Audited)

The Directors present the State Gas Limited 2023 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 (Non-Executive Director) – Ceased being an Executive Director on 30 November 2022 P St Baker (Non-Executive Director) – Appointed 10 October 2022 J Stretch (Non-Executive Director) – Appointed 10 October 2022 R Towner (Non-Executive Director) I Paton (Non-Executive Director) – Ceased 15 November 2022

Other key management personnel

Name	*Position*
D McAlpine	Chief Executive Officer (appointed 30 November 2022)
M Herrington	Chief Operating Officer
J Crowley	Executive General Manager – Exploration and Development (ceased 2 November 2022)
L Snelling	Head, Corporate and Commercial (ceased 23 December 2022)

Changes since the end of the reporting period
No changes.

(b) Remuneration policy and link to performance

The Remuneration 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

Remuneration report (Audited) (continued)

- transparent and easily understood, and
- align with shareholder interests and are acceptable to shareholders.

Element	Purpose	Performance metrics	Potential value	Changes for FY 2023
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 FY2023.

Superannuation is included in FR for executives.

(ii) Short term incentives

No short-term incentive plans were in place for FY 2023.

(iii) Long-term incentives

Executive KMP participate, at the board's discretion, in the Long-term Incentive Program ("LTIP") comprising one off grants of shares, 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 2023. No options affected remuneration during FY 2023.

Remuneration report (Audited) (continued)

Performance Rights

The following performance rights were granted to KMP during the current financial year.

Executive	Grant Date	Number of rights	Expiry date	Vesting date*	Vesting Conditions
Doug McAlpine	30/11/2022	375,000	05/12/2027	30/09/2023	First commercial delivery of gas from any of the Group's producing assets.
	30/11/2022	375,000	05/12/2027	30/06/2026	Final investment decision to proceed with construction of a physical pipeline.
	30/11/2022	375,000	05/12/2027	30/06/2024	Securing minimum annual gas sales of 2PJ per annum.
	30/11/2022	375,000	05/12/2027	03/02/2027	VWAP over 20 consecutive trading days of not less than $0.70.
	30/11/2022	1,000,000	05/12/2027	N/A	Board recommending a corporate transaction, whether by takeover bid, scheme of arrangement or otherwise, that results in a change of control of the Company.

*The vesting dates in the table represent the current estimate of when the vesting conditions will be met.

Refer to the tables on page 26 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 fluctuations 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 and profits (losses) reported are as follows:

	Share price	**Profit (loss) after income tax**
Year end 30 June 2023	18.0 cents	(1,188,144)
Year end 30 June 2022	17.0 cents	1,342,263
Year end 30 June 2021	50.0 cents	(2,947,133)
Year end 30 June 2020	37.0 cents	(3,553,330)
Year end 30 June 2019	65.0 cents	(1,983,355)

(e) Remuneration expenses for KMP

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

Remuneration report (Audited) (continued)

Name	Year	Fixed remuneration			Variable remuneration			Total	Performance related remuneration %
		Cash salary (Short term benefit)	Annual leave	Post-employment benefits	Cash Bonus (Short term benefit)	Performance/ Share Rights*	Reversal of Performance Rights**		
Executive Directors									
R Cottee	**2023**	90,498	-	9,502	-	-	-	100,000	-
	2022	90,909	-	9,091	-	-	(1,900,264)	(1,800,264)	-106%
Other key management personnel (Company)									
D McAlpine (appointed 30/11/2022)	**2023**	177,308	10,178	14,948	-	161,866	-	364,300	44%
J Crowley (ceased 2/12/22)	**2023**	138,450	(9,832)	12,010	-	-	-	140,628	-
	2022	306,432	(9,141)	27,500	-	-	-	324,791	-
L Snelling (ceased 23/12/22)	**2023**	76,923	(32,716)	8,077	40,000		(24,533)	67,751	23%
	2022	154,545	4,353	15,455	-	14,528	-	188,881	8%
M Herrington	**2023**	120,221	8,064	12,623	-	-	(278,635)	(137,727)	-202%
	2022	60,606	4,651	6,061	-	43,649	(897,962)	(782,995)	-109%
Non-Executive Directors									
G Baynton[1]	**2023**	54,992	-	5,799	-	-	-	60,791	-
	2022	76,182	-	7,618	-	-	-	83,800	-
A Bellas	**2023**	50,000	-	5,282	-	-	-	55,282	-
	2022	50,000	-	5,000	-	-	-	55,000	-
R Towner	**2023**	40,000	-	4,226	-	-	-	44,226	-
	2022	40,000	-	4,000	-	-	-	44,000	-
I Paton (ceased 15/11/22)	**2023**	15,000	-	-	-	-	-	15,000	-
	2022	41,818	-	-	-	-	-	41,818	-
P St Baker (appointed 10/10/22)	**2023**	29,096	-	3,080	-	-	-	32,176	-
J Stretch (appointed 10/10/22)	**2023**	29,096	-	3,080	-	-	-	32,176	-
Total KMP remuneration expensed	**2023**	821,584	(24,306)	78,627	40,000	161,866	(303,168)	774,603	-13%
	2022	820,492	(137)	74,725	-	58,177	(2,798,226)	(1,844,969)	-149%

* 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.

** The credits relate to the reversal of share-based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to expiry of the performance rights. The tranches in question relate to the delivery and completion of a change-of-control transaction for State Gas that is recommended to shareholders by the Board of Directors, the completion of a material strategic acquisition by State Gas, and delivery of the phase 2 work program by 1 November 2022.

[1] Ceased being an executive director on 30 November 2022

Remuneration report (Audited) (continued)

(f) Contractual arrangements with executive KMP's

Component	Executive Chairman description	Chief Executive Officer description	COO description
Fixed remuneration	$100,000 per annum on a part time basis, inclusive of superannuation	$300,000 per annum on a full-time basis, inclusive of superannuation.	$240,000 per annum on a part time basis, inclusive of superannuation (increased from $66,667 effective 1 March 2023)
Contract duration	Ongoing	Ongoing	Ongoing
Notice by the individual / company	3 months	6 months	3 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 2023. 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 forfeited $*	*Value granted $*	*Value exercised* $*	*Value forfeited** $*
2023						
R Cottee	-	-	-	-	-	-
D McAlpine	-	-	-	640,488	-	-
M Herrington	-	-	-	-	-	1,778,000
L Snelling	-	-	-	-	-	61,875

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

** The value forfeited has been calculated by reference to the value at grant date.

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

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	Expiry date	Grant date value
Doug McAlpine	30/11/2022	30/09/2023	05/12/2027	$0.265
Doug McAlpine	30/11/2022	30/06/2026	05/12/2027	$0.265
Doug McAlpine	30/11/2022	30/06/2024	05/12/2027	$0.265
Doug McAlpine	30/11/2022	05/12/2027	05/12/2027	$0.206
L Snelling	27/04/2021	13/04/2024	27/04/2024	$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 26. The performance rights carry no dividend or voting rights. See page 21 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.

Share Rights

Under Doug McAlpine's employment agreement he is entitled to be issued shares to the aggregate value of $50,000, 12 months after his commencement date, being 28 November 2023. The number of rights is calculated using the 14-day VWAP ($0.31) of the Company's Shares traded on the ASX in the 14 days prior to the execution of his employment agreement (30 November 2022).

If an executive ceases employment before 28 November 2023, 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 FY2023.

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	Forfeited	Vested and exercisable	Unvested
J Crowley Granted 2/07/2018	-	3,000,000	-	-	-	-	(3,000,000)	-	-

Performance Rights

The table below shows how many performance rights were granted and vested during the year.

Name	Year granted	Balance at the start of the year		Granted as compensation	Vested during the year		Forfeited during the year	Expired during the year	Balance at the end of the year		Maximum value yet to vest*
		Unvested	Vested		Number	%	Number	Number	Vested and exercisable	Unvested	
R Cottee	2019	-	-	-	-	0%	-	-	-	-	-
D McAlpine	2023	-	-	2,500,000	-	0%	-	-	-	2,500,000	242,959
M Herrington	2020	2,800,000	-	-	-	0%	-	(2,800,000)	-	-	-
L Snelling	2021	150,000	-	-	-	0%	(150,000)	-	-	-	-

* 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 performance rights yet to vest is nil, as the performance rights 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
2023				
Ordinary shares				
A Bellas	4,572,193	-	178,572[3]	4,750,765
G Baynton	28,613,860	-	446,429[3]	29,060,289
R Cottee	1,531,181	-	35,715[3]	1,566,896
J Crowley	-	-	-	-
M Herrington	300,000	-	-	300,000
I Paton	900,000	-	(900,000)[2]	-
L Snelling	125,000	-	(125,000) [2]	-
P St Baker	-	-	9,039,153[1]	9,039,153
J Stretch	-	-	829,336[1]	829,336
R Towner	-	-	-	-

[1] Shareholding at date of appointment.

[2] Shareholding at date of ceasing to be KMP.

[3] Placement shares approved by Shareholders at the 2022 Annual General Meeting.

(iv) Other transactions with key management personnel

On 30 June 2023 the Company entered into short-term loan agreements with the Allegro Capital Nominees Pty Ltd, a company of which Mr Greg Baynton controls, and Philip and Peta St Baker St Baker for $100,000 each. The loans are unsecured and accrue interest at 13% pa from the date of drawdown, compounding monthly. Interest on the loans will capitalise and be paid in full at the time the principal is repaid.

During the prior financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid $1,818 in consulting fees. Consulting services were provided on normal commercial terms and conditions. No such services were provided during the current financial year.

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 (2022: 6,000,000):

Date options granted	Expiry date	Issue price of Shares	Number under option
17/09/2021	29/09/2023	$0.42	3,000,000

Unissued ordinary shares of State Gas Limited under performance right at the date of this report are as follows 5,150,000 (2022: 5,600,000):

Date rights granted	Expiry date	Number under performance right
12/02/2019	Termination of agreement	2,500,000
27/04/2021	27/04/2024	150,000
30/11/2022	05/12/2027	2,500,000

Details of the performance rights granted to key management personnel are disclosed on page 25 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.

No options or performance rights have been exercised 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 $155,000 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 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 30.

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

R Cottee
Chairman

Brisbane
28 September 2023

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

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

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

As lead auditor of State Gas Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

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

D P Wright
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2023

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 2023 Corporate Governance Statement is dated as at 30 June 2023 and reflects the corporate governance practices in place throughout the 2023 financial year. The 2023 Corporate Governance Statement was approved by the board on 28 September 2023. 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 2023

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
Suite 4, Level 1, 40 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 2023

	Notes	2023 $	2022 $
Other income	2	45,436	368
Administrative and other expenses	3	(873,202)	(752,283)
Employee benefits expense		(419,848)	(604,319)
Financing costs	3	(108,155)	(27,024)
Share based payment expense		167,625	2,725,521
Profit / (loss) before income tax expense		(1,188,144)	1,342,263
Income tax benefit	4	-	-
Profit / (loss) after income tax expense		(1,188,144)	1,342,263
Other comprehensive income / (loss) for the period, net of tax		-	-
Total comprehensive income / (loss) for the period		(1,188,144)	1,342,263
		Cents	Cents
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	7	(0.6)	0.7
Diluted earnings per share	7	(0.6)	0.7

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 2023

	Notes	2023 $	2022 $
ASSETS			
Current assets			
Cash and cash equivalents	8	453,347	3,225,443
Trade and other receivables	9	126,910	128,543
Total current assets		580,257	3,353,986
Non-current assets			
Exploration and evaluation assets	10	36,092,523	29,385,879
Plant and equipment	11	3,841,324	741,691
Other assets	12	400,171	400,171
Total non-current assets		40,334,018	30,527,741
Total assets		40,914,275	33,881,727
LIABILITIES			
Current liabilities			
Trade and other payables	13	1,167,831	262,006
Borrowings	14	200,000	-
Total current liabilities		1,367,831	262,006
Non-current liabilities			
Provisions	15	2,938,682	2,321,878
Total non-current liabilities		2,938,682	2,321,878
Total liabilities		4,306,513	2,583,884
Net assets		36,607,762	31,297,843
EQUITY			
Contributed equity	16	42,917,843	36,252,155
Reserves	17	2,729,132	2,896,757
Accumulated losses		(9,039,213)	(7,851,069)
Total equity		36,607,762	31,297,843

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

Statement of changes in equity
For the year ended 30 June 2023

	Contributed equity $	Accumulated losses $	Share based payments reserve $	Total $
Balance as at 1 July 2021	29,219,955	(9,193,332)	5,154,691	25,181,314
Loss for the period	-	1,342,263	-	1,342,263
Other comprehensive income	-	-	-	-
Total comprehensive income	-	1,342,263	-	1,342,263
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	7,032,200	-	-	7,032,200
Share-based payments	-	-	(2,257,934)	(2,257,934)
Balance as at 30 June 2022	36,252,155	(7,851,069)	2,896,757	31,297,843
Profit for the period	-	(1,188,144)	-	(1,188,144)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(1,188,144)	-	(1,188,144)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	6,665,688	-	-	6,665,688
Share-based payments	-	-	(167,625)	(167,625)
Balance as at 30 June 2023	42,917,843	(9,039,213)	2,729,132	36,607,762

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 2023

	Notes	**2023** $	2022 $
Cash flows from operating activities			
Receipts from customers (GST inclusive)		828,644	587,347
Payments to suppliers and employees (GST inclusive)		(2,205,106)	(1,785,409)
Interest received		21,158	368
Government incentives received		24,279	-
Net cash outflow from operating activities	19	(1,331,025)	(1,197,694)
Cash flows from investing activities			
Payments for exploration assets		(5,976,064)	(6,210,376)
Payments for property plant and equipment	11	(3,284,140)	(4,161)
Government incentives received		953,445	
Payments for security deposits		-	(22,142)
Net cash outflow from investing activities		(8,306,759)	(6,236,679)
Cash flows from financing activities			
Proceeds on issue of shares	16(b)	7,000,000	8,000,000
Payment of capital raising costs and listing expenses	16(b)	(334,312)	(500,213)
Proceeds from borrowings	14	200,000	-
Net cash inflow from financing activities		6,865,688	7,499,787
Net increase (decrease) in cash and cash equivalents		(2,772,096)	65,414
Cash and cash equivalents at the beginning of the year		3,225,443	3,160,029
Cash and cash equivalents at the end of the year	8	453,347	3,225,443

Non-cash financing and investing activities 19(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 2023

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 28 September 2023. 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 $1,188,144 and net operating cash outflows of $1,331,025 for the year ended 30 June 2023. As at 30 June 2023, the Company had cash of $453,347 and a net current liability position of $787,574.

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

- the ability of the Group to successfully raise capital, as and when necessary; and
- the ability to complete successful development and commercialisation of its projects, namely Reid's Dome (PL231) and Rolleston-West (ATP2062).

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

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

- the proven track record of capital raising, including the recent placement and share purchase plan that raised $6.3M in August 2023; 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 2023

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 2023

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 2023

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 2023

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 2023

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.

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 2023

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. The adoption of these new and amended accounting standards will not have a material impact to the financial statements on adoption date.

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. Key judgements are applied in determining that the technical feasibility and commercial viability of extracting a mineral resource have not yet been demonstrated, and the projects remain within the scope of AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Notes to the financial statements for the year ended 30 June 2023

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 15 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 20 for further details of share-based payments.

Notes to the financial statements for the year ended 30 June 2023

Note 2 Other income

	2023 $	2022 $
Other income		
Interest received from unrelated parties	21,157	368
Government incentives	24,279	-
Total other income	45,436	368

Note 3 Loss for the year

Loss before income tax includes the following specific expenses:

	2023 $	2022 $
Finance costs		
Provisions: Unwinding of discount (Note 15)	108,155	27,024
Superannuation expense	100,734	98,525
Administration and other expenses		
Insurance expense	197,649	247,216
Depreciation expense	1,736	692
Director remuneration	160,318	140,818
Auditor remuneration	88,521	49,700
Compliance costs	94,261	80,448
Other	330,717	233,409
	873,202	752,283
Share based payments expense		
Performance rights expensed	160,076	72,705
Reversal of share-based payments expense *	(327,701)	(2,798,226)
Total share-based compensation expense	(167,625)	(2,725,521)

* The credits relate to the reversal of share-based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to expiry of the performance rights. In the prior year the tranches in question related to the delivery and completion of a change-of-control transaction for State Gas that is recommended to shareholders by the Board of Directors and the completion of a material strategic acquisition by State Gas. In the current year the tranches in question related to the delivery of the phase 2 work program and associated testing at PL231 and completion of a corporate transaction.

Notes to the financial statements for the year ended 30 June 2023

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.

	2023 **$**	2022 $
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(1,188,144)	1,342,263
Tax at the Australian tax rate of 30% (2022: 30%)	(356,443)	402,679
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	(50,288)	(817,656)
Research and development tax incentive	(7,284)	-
Other	32,447	8,186
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	381,568	406,791
Income tax expense / (benefit)	-	-
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	7,456,919	5,792,619
Potential tax benefit @ 30% (2022: 30%)	2,237,076	1,737,786

Notes to the financial statements for the year ended 30 June 2023

Note 4 Income tax expense

	2023 $	2022 $
(c) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses	11,626,370	9,276,047
Rehabilitation provision	881,605	696,564
Share issue costs	182,642	142,567
Employee leave provisions	11,077	19,984
Accrued expenses	21,003	12,001
Total deferred tax assets	12,722,697	10,147,163
Set-off of deferred tax liabilities pursuant to set-off provisions	(10,485,621)	(8,409,377)
Deferred tax assets not recognised	(2,237,076)	(1,737,786)
Net deferred tax assets	-	-
(d) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Exploration and evaluation assets	10,485,621	8,409,377
Total deferred tax liabilities	10,485,621	8,409,377
Set-off of deferred tax liabilities pursuant to set-off provisions	(10,485,621)	(8,409,377)
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.

Note 5 Key Management Personnel Compensation

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

	2023	2022
	$	$
Short-term employee benefits	837,278	820,492
Post-employment benefits	78,627	74,588
Share-based compensation		
Performance rights and shares expensed	161,866	58,177
Reversal of performance rights expensed	(303,168)	(2,798,226)
Total KMP compensation	774,603	(1,844,969)

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.

In the current year a credit of $303,168 relates to the reversal of share based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to expiry of the performance rights. The tranches in question relate to the delivery of the phase 2 work program and associated testing at PL231 and completion of a corporate transaction.

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

Note 6 Auditor's Remuneration

	2023	2022
	$	$
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	88,521	49,700
	88,521	49,700

Notes to the financial statements for the year ended 30 June 2023

Note 7 Earnings per share

	2023	2022
	Cents	Cents
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.6 cents)	0.7 cents
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.6 cents)	0.7 cents

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

	2023	2022
	$	$
Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(1,188,144)	1,342,263
Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	(1,188,144)	1,342,263

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

	2023	2022
	Number	Number
Weighted average number of shares used in calculating basic earnings per share	217,524,673	193,150,661
Weighted average number of shares used in calculating diluted earnings per share	217,524,673	207,051,483

(e) Information concerning the classification of securities

(i) Options and performance rights

Options and performance rights on issue in the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2023. Options and performance rights on issued during the prior financial year were included in the calculation of diluted earnings per share for the year ended 30 June 2022. Details relating to options and performance rights are set out in note 20.

Notes to the financial statements for the year ended 30 June 2023

Note 8 Cash and cash equivalents

	2023	2022
	$	$
Cash at bank and on hand	453,347	3,225,443
	453,347	3,225,443

Note 9 Trade and other receivables

	2023	2022
	$	$
Prepayments	61,671	428
Other receivables	65,239	128,115
Total current trade and other receivables	126,910	128,543

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

Note 10 Exploration and evaluation assets

	2023	2022
	$	$
Exploration and evaluation assets – at cost	36,092,523	29,385,879
The capitalised exploration and evaluation assets carried forward above have been determined as follows:		
Balance at the beginning of the year	29,385,879	24,829,466
Expenditure incurred during the year	7,151,440	4,039,470
Research and development tax incentive received	(953,445)	-
Rehabilitation asset increment (refer to note 15)	508,649	516,943
Balance at the end of the year	36,092,523	29,385,879

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2023, 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*.

Note 11 Plant and equipment

	Plant and equipment $	Field assets $	Total $
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
Year ended 30 June 2022			
Opening net book amount	-	919,425	919,425
Additions	4,162	-	4,162
Depreciation charge	(692)	(181,204)	(181,896)
Closing book amount	3,470	738,221	741,691
At 30 June 2022			
Cost	6,006	990,353	996,359
Accumulated depreciation	(2,536)	(252,132)	(254,668)
Net book amount	3,470	738,221	741,691
Year ended 30 June 2023			
Opening net book amount	3,470	738,221	741,691
Additions	1,406	3,282,734	3,284,140
Depreciation charge	(1,736)	(182,771)[1]	(184,507)
Closing book amount	3,140	3,838,184	3,841,324
At 30 June 2023			
Cost	7,412	4,273,087	4,280,499
Accumulated depreciation	(4,272)	(434,903)	(439,175)
Net book amount	3,140	3,838,184	3,841,324

[1]Depreciation expense relating to field assets has been charged to exploration and evaluation assets.

Notes to the financial statements for the year ended 30 June 2023

Note 12 Other assets

	2023	2022
	$	$
Security deposits	400,171	400,171
	400,171	400,171

Note 13 Trade and other payables

	2023	2022
	$	$
Unsecured liabilities:		
Trade payables	603,315	93,465
Sundry payables and accrued expenses	528,594	101,926
Provision for annual leave	36,922	66,615
	1,167,831	262,006

Note 14 Borrowings

	2023	2022
	$	$
Director loans	200,000	-
	200,000	-

During the financial year, the Company's directors entered into short term loan agreements collectively for $200,000. The loan funds were drawn down on 30 June 2023. The loans are unsecured and accrue interest at 13% pa from the date of drawdown, compounding monthly. Interest on the loan will capitalise and be paid in full at the time the principal is repaid. Loans are repayable within 30 days after completion of capital raising announced in August 2023.

Note 15 Provisions

	2023	2022
	$	$
Provision for rehabilitation	2,938,682	2,321,878
Reconciliation of carrying amount:		
Opening balance	2,321,878	1,777,911
Additions (refer to note 10)	508,649	516,943
Unwinding of discount (refer to note 3)	108,155	27,024
	2,938,682	2,321,878

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 16 Contributed equity

		2023 Shares	2022 Shares	2023 $	2022 $
(a)	**Share capital**				
	Fully paid ordinary shares	224,832,305	199,832,305	42,917,843	36,252,155

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	$
1 July 2021	Balance		173,032,305		29,219,955
29 Sept 2021	Placement shares	(c)	25,000,000	$0.32	8,000,000
29 Sept 2021	Exercise of performance rights	(d)	1,800,000	-	-
	Share issue costs	(f)	-	-	(967,800)
30 Jun 2022	**Balance**		**199,832,305**		**36,252,155**
13 Oct 2022	Placement shares	(e)	24,339,284	$0.28	6,815,000
16 Dec 2022	Director placement shares	(e)	660,716	$0.28	185,000
	Share issue costs	(f)	-	-	(334,312)
30 June 2023	Balance		224,832,305		42,917,843

(c) Issue to sophisticated investors

The issue of a total of 25,000,000 fully paid ordinary shares to sophisticated investors at an issue price of $0.32 cash.

(d) Exercise of performance rights

The issue of 1,800,000 fully paid ordinary shares to Key Management Personnel (Richard Cottee 1,500,000; Mike Herrington 300,000), on the vesting and exercise of performance rights.

(e) Placement shares

The issue of 25,000,000 shares (24,339,284 on 13 October 2022 and 660,716 on 16 December 2022) under a strategic investment and associated placement to strategic investments and sophisticated investors (including Directors Greg Baynton 446,429 shares, Tony Bellas 178,572 shares and Richard Cottee 35,715 shares).

(f) Share issue costs

Share issue costs in the current financial year consists of cash costs of $334,312.

Notes to the financial statements for the year ended 30 June 2023

Note 16 Contributed equity (continued)

(g) 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 17 Reserves

	2023	2022
	$	$
Share-based payment reserve	2,729,132	2,896,757
Movements:		
Opening balance	2,896,757	5,154,691
Share based payments expensed	161,866	72,705
Reversal of share-based payments expense*	(329,491)	(2,798,226)
Joint lead manager options (refer note 16(h))	-	467,587
Closing balance	2,729,132	2,896,757

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

* The credits relate to the reversal of share-based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to expiry of the performance rights. In the prior year the tranches in question related to the delivery and completion of a change-of-control transaction for State Gas that is recommended to shareholders by the Board of Directors and the completion of a material strategic acquisition by State Gas. In the current year the tranches in question related to the delivery of the phase 2 work program and associated testing at PL231 and completion of a corporate transaction.

Notes to the financial statements for the year ended 30 June 2023

Note 18 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 19 Cash flow information

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

	2023	2022
	$	$
Profit / (loss) for the year	(1,188,144)	1,342,263
Adjustments for		
Share based payments	(167,625)	(2,725,521)
Depreciation expense	1,736	692
Financing costs	108,155	27,024
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(31,134)	160,044
Increase/(decrease) in trade creditors and other payables	(54,013)	(2,196)
Net cash inflow (outflow) from operating activities	(1,331,025)	(1,197,694)

(b) Non-cash financing and investing activities

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

i. Provision for rehabilitation – note 15
ii. Options and shares issued to employees – note 20
iii. Depreciation of field assets capitalised to exploration and evaluation assets – note 11

Note 19 Cash flow information (continued)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each period presented.

Net debt

	30 June 2023 **$**	30 June 2022 $
Cash and cash equivalents	453,347	3,225,443
Borrowings – repayable within one year	(200,000)	-
Net cash (debt)	253,347	3,225,443
Cash and cash equivalents	453,347	3,225,443
Gross debt – fixed interest rates	(200,000)	-
Net cash (debt)	253,347	3,225,443

		Liabilities from financing activities		
	Cash **$**	**Borrowings due within 1 year** **$**	**Borrowings due after 1 year** **$**	**Total** **$**
Net debt as at 1 July 2021	**3,160,029**	**-**	**-**	**3,160,029**
Cash flows	65,414	-	-	65,414
Other non-cash movements	-	-	-	-
Net cash as at 30 June 2022	**3,225,443**	**-**	**-**	**3,225,443**
Cash flows	(2,772,096)	(200,000)	-	(2,972,096)
Other non-cash movements	-	-	-	-
Net cash as at 30 June 2023	**453,347**	**(200,000)**	**-**	**253,347**

Notes to the financial statements for the year ended 30 June 2023

Note 20 Share-based payments

Share based payments expense for the year is derived as follows:

	2023	2022
	$	$
Share rights granted in current year	29,338	-
Performance rights granted in current year	132,528	-
Performance rights granted in prior years	(329,491)	(2,725,521)
Share based payment expense	(167,625)	(2,725,521)

OPTIONS

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

	Number	Weighted Average Exercise Price
Options outstanding as at 1 July 2021	**3,000,000**	**$0.60**
Options exercisable as at 1 July 2021	**3,000,000**	**$0.60**
Granted	3,000,000	$0.42
Exercised	-	-
Forfeited	-	-
Expired	-	-
Options outstanding as at 30 June 2022	**6,000,000**	**$0.51**
Options exercisable as at 30 June 2022	**6,000,000**	**$0.51**
Granted	-	-
Exercised	-	-
Forfeited	(3,000,000)	$0.60
Expired	-	-
Options outstanding as at 30 June 2023	**3,000,000**	**$0.42**
Options exercisable as at 30 June 2023	**3,000,000**	**$0.42**

The weighted average remaining contractual life of options outstanding at year end was 0.25 years (2022: 4 years).

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

3,000,000 options were granted to the Joint Lead Managers on 15 September 2021 and subsequently issued on 17 December 2021. The options are exercisable at $0.42 each and expire on 29 September 2023. The options have no voting or dividend rights and are not transferable.

Note 20 Share-based payments (continued)

The fair value of these options at grant date was $467,587. This value was calculated using a Blac Scholes option pricing model applying the following inputs:

Number of options	3,000,000
Exercise price	$0.42
Grant date	29/09/2021
Expiry date	29/09/2023
Volatility	61%
Dividend yield	0%
Risk-free interest rate	5%
Weighted average fair value at grant date	$0.1559

SHARE RIGHTS

Under Doug McAlpine's employment agreement, he is entitled to $50,000 of shares on the 1 year anniversary of his commencement with the Company. The number of shares to be issued will be calculated using the 14 day volume weighted average price of the Company's Shares traded on the ASX in the 14 days prior to the execution of his employment agreement. For the current financial year an expense of $29,339 has been recognised in respect of these.

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 2021	**10,900,000**	**-**
Performance rights exercisable as at 30 June 2021	**1,800,000**	**-**
Granted	-	
Exercised	(1,800,000)	-
Forfeited	(3,500,000)	-
Expired	-	-
Performance rights outstanding as at 30 June 2022	**5,600,000**	**-**
Performance rights exercisable as at 30 June 2022	**-**	**-**
Granted	2,500,000	-
Exercised	-	
Forfeited	(2,950,000)	-
Expired	-	-
Performance rights outstanding as at 30 June 2023	**5,150,000**	**-**
Performance rights exercisable as at 30 June 2023	**-**	**-**

The weighted average remaining contractual life of performance rights outstanding at year end was 2.2 years (2022: 0.3 years).

Notes to the financial statements for the year ended 30 June 2023

Note 20 Share-based payments (continued)

2,500,000 performance rights were granted to Doug McAlpine on 30 November 2022. The fair value of these performance rights was $640,488. For the performance rights with non-market based vesting conditions, the value has calculated based on the share price at the date the performance rights were granted. For the performance rights with market based vesting conditions, the value has been calculated using the Monte Carlo Simulation Methodology. The share-based payment expense is being recognised on the basis that all performance rights will vest.

The fair value of these performance rights with market based vesting conditions, calculated using the

Monte Carlo Simulation Methodology, applied the following inputs:

Number of performance rights	375,000
Grant date	30/11/2022
Expiry date	03/02/2027
Volatility*	72.00%
Underlying share price	$0.265
Dividend yield	0%
Risk-free interest rate	3.277%
Fair value at grant date	$0.2063

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

During the year, the share-based payment expense reversed of $329,491 relates to the reversal of share-based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to the expiry of the options. The tranches in question relate to the delivery of the phase 2 work program and associated testing at PL231 and completion of a corporate transaction.

In addition, the expense reversed in the prior year of $2,798,226 relates to the reversal of share-based payments expense recognised in prior periods as a result of the reassessment of vesting conditions that the Directors consider are less likely to be satisfied prior to expiry of the performance rights. The tranches in question relate to the delivery and completion of a change-of-control transaction for State Gas that is recommended to shareholders by the Board of Directors and the completion of a material strategic acquisition by State Gas.

Notes to the financial statements for the year ended 30 June 2023

Note 20 Share-based payments (continued)

Further details of the performance rights expensed during the year are set out in the table below:

Name	Grant date	Number	Vesting condition / date	Fair value at grant date	Expiry	Estimated vesting date	Expense recognised $	Expense reversed $	Net expense (credit) $
D McAlpine	30/11/2022	375,000	Vest upon the first commercial delivery of gas from any of the Group's producing assets, either by truck or pipeline, at any time before the Expiry Date.	$0.265	05/12/2027	30/09/2023	69,301	-	69,301
D McAlpine	30/11/2022	375,000	Vest upon the Board making a FID to proceed with construction of a physical pipeline from any of the Group's producing assets.	$0.265	05/12/2027	30/06/2026	16,031	-	16,031
D McAlpine	30/11/2022	375,000	Vest upon the Group securing minimum annual gas sales of 2PJ per annum on terms acceptable to the Board.	$0.265	05/12/2027	30/06/2024	36,449	-	36,449
D McAlpine	30/11/2022	375,000	Vest if the volume weighted average market price of the Company's Shares on ASX over 20 consecutive trading days on which the Company's shares have actually traded on ASX, is not less than $0.70.	$0.2063	05/12/2027	03/02/2027	10,747	-	10,747
D McAlpine	30/11/2022	1,000,000	Vest upon the Board recommending a transaction, whether by takeover bid, scheme of arrangement or otherwise, that results in a change of control of the Company and the transaction becomes unconditional.	$0.265	05/12/2027	N/A[1]	-	-	-
M Herrington	23/01/2020	500,000	Deliver the Phase 2 Work Program and associated production testing within PL 231 – Did not vest	$0.635	01/11/2022	01/11/2022	-	(278,635)	(278,635)
L Snelling	27/04/2021	112,500	Successful corporate transaction that involves greater than 50% of the shares in GAS – Did not vest	$0.55	27/04/2024	27/04/2024	-	(24,533)	(24,533)
Non-KMP employees	27/04/2021	112,500	Successful corporate transaction that involves greater than 50% of the shares in GAS – Not expected to vest	$0.55	27/04/2024	27/04/2024	-	(26,323)	(26,323)
					Total expense recognised		**132,528**	**(329,491)**	**(196,963)**

[1] Assumed that the vesting condition will not be achieved. This will be reassessed each reporting period.

Notes to the financial statements for the year ended 30 June 2023

Note 21 Events after the reporting date

Since 30 June 2023 the Company has:

(a) entered into a short-term loan agreements with Tony Bellas and Jon Stretch for $100,000 each. The loans are unsecured and accrue interest at 13% pa from the date of drawdown, compounding monthly. Interest on the loan will capitalise and be paid in full at the time the principal is repaid;

(b) issued 26,000,000 fully paid ordinary shares at $0.15 per share to sophisticated and professional investors; and

(c) issued 15,900,675 fully paid ordinary shares at $0.15 per share under a Share Purchase Plan.

(d) entered into a construction contract for the CNG Facility.

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

Note 22 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**

On 30 June 2023 the Company entered into a short-term loan agreement with the Allegro Capital Nominees Pty Ltd, a company of which Mr Greg Baynton controls, and Philip and Peta St Baker St Baker for $100,000 each. The loans are unsecured and accrue interest at 13% pa from the date of drawdown, compounding monthly. Interest on the loan will capitalise and be paid in full at the time the principal is repaid. Loans are repayable within 30 days after completion of capital raising announced in August 2023.

Note 22 Related party transactions (continued)

During the prior financial year, Valmap Pty Ltd, a company of which Mr Ian Paton is a shareholder and director, was paid $1,818 in consulting fees. No such payments were made during the current financial year.

Note 23 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 24 Commitments

Exploration commitments

	30 June 2023	30 June 2022
	$	$
Commitments for payments under exploration permits in existence at the reporting date but not recognised as liabilities payable is as follows:		
- payable within one year	447,000	-
- payable between one year and five years	5,016,000	-
	5,463,000	-

So as to maintain current rights to tenure of various exploration tenements, the Group will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished.

Exploration commitments are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown not to be prospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, farm-outs, and new capital raisings.

Note 24 Commitments (continued)

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. As at 30 June 2023, the full LDP expenditure commitment had been met.

Note 25 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	**2023** **$**	2022 $
Financial assets			
Cash and cash equivalents		453,347	3,225,443
Trade and other receivables		126,910	128,115
Other assets – security deposits		400,171	400,171
Total financial assets		980,428	3,753,729
Financial liabilities			
Trade and other payables		1,130,909	160,080
Borrowings		200,000	-
Total financial liabilities		1,330,909	160,080

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.

Note 25 Financial risk management (continued)

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.

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 2023, 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 $4,533 (2022: $32,254) 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 32 to 66 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 2023 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, 28 September 2023

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

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

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 2023, 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 2023 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.

BDO

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 and classification 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 2023 in accordance with the Company's accounting policy for exploration and evaluation assets. The recoverability of exploration and evaluation assets 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 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 and future strategy of ongoing exploration programs in the respective areas of interest, and reviewed the Company's cash flow budget for the level of budgeted expenditure across the respective area of interest; • Reviewing the current commercial status of the asset to determine the classification of the asset as exploration and evaluation continues to be valid; and • 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 write-downs were 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 2023, 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 19 to 27 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of State Gas Limited, for the year ended 30 June 2023, 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

D P Wright
Director

Brisbane, 28 September 2023

Shareholder information

The shareholder information set out below was applicable as at 19 September 2023.

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	95
1,001 – 5,000	259
5,001 – 10,000	203
10,001 – 100,000	600
100,001 and over	303
	1,460

There were 259 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	24,884,693	9.33
Allegro Capital Nominees Pty Ltd	14,000,000	5.25
Sunset Power Pty Ltd	13,877,436	5.20
HSBC Custody Nominees (Australia) Limited	10,332,782	3.87
Investment for Retirement Pty Ltd	9,000,000	3.37
Immanuel Developments Pty Ltd	7,057,299	2.65
H&G Investment Management Ltd	6,350,000	2.38
National Nominees Limited	5,047,326	1.89
Bond Street Custodians Limited	4,750,765	1.78
Mr Jamie Pherous	4,537,601	1.70
Harrison St Baker & Sook Mun Chan	4,000,000	1.50
Timber Wolf Holdings Pty Ltd	4,000,000	1.50
Physick SMSF Pty Ltd	3,228,476	1.21
Geomar Two Pty Ltd	3,000,000	1.12
Australian Philanthropic & Services Foundation P/L	2,951,000	1.11
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd	2,574,728	0.97
Ms Amanda Elizabeth Kitson Collins	2,442,025	0.92
Allegro Capital Nominees Pty Ltd	2,363,097	0.89
Mr Anthony John Huntley	2,316,667	0.87
Mr Philip St Baker	2,113,840	0.79
Total	**114,950,299**	**48.30**

Unquoted equity securities

	Number on issue	Number of holders
Options	3,000,000	3
Performance rights	5,150,000	3

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

	Number held	% of total on issue
Celtic Capital Pty Ltd	986,395	32.8%
Bernie No 132 Nominees Pty Ltd	1,590,865	53.0%

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

	Number held	% of total on issue
Highbury Partnership Pty Ltd	2,500,000	48.5%
Doug McAlpine	2,500,000	48.5%

C Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Greg Alexander John Baynton, Allegro Capital Nominees Pty Ltd, Intercontinental Pty Ltd Investment for Retirement Pty Ltd and Baynton Brothers Pty Ltd	29,060,289	10.89%
Triangle Energy (Global) Limited	24,884,693	9.33%
Sunset Power Pty Ltd	13,877,436	5.20%

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