

2019 Corporate Governance Statement

We are committed to achieving best practice across the Company in all that we do, which we believe is fundamental to the long-term performance and sustainability of the Company and the delivery of our strategic objectives.

State Gas Limited (the 'Company') believes corporate governance is central to its business objectives and a critical element contributing to the preservation of shareholder value.

The Board has adopted a suite of charters and key corporate governance documents which define the policies and procedures followed by the Company. These documents can be found in the Governance section of the Company's website and are reviewed regularly to address changes in governance practices and the law.

The Company's Corporate Governance Statement references the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (3rd Edition) (the "Principles").

The Principles are outlined on the following pages, with the corresponding section of this Corporate Governance Statement addressing the Company's practices.

This statement provides an outline of the main corporate governance policies and practices the Company had in place during FY19 and how the Company's framework aligns with the Principles (unless otherwise noted).

This statement has been approved by the Board of Directors of the Company and the information contained herein is correct as of 24 September 2019.

You can find further information on the structure of our business, our board and management team along with our policies and practices on our website.

Website Links:

Company information

www.stategas.com/about-state-gas/

Corporate governance

www.stategas.com/governance

Recommendations

Compliance with recommendations

Principle 1 – Lay solid foundations for management and oversight

1.1 Role of Board and management

The Board has established a clear distinction between the functions and responsibilities reserved for the Board and those delegated to management, which are set out in the Company's Corporate Governance Charter (Charter). The Charter also provides an overview of the roles of the Chairman, Directors and Executives.

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A copy of the Charter is available in the Governance section of the Company's website.

1.2 Information regarding election or re-election of Director candidates

The Company carefully considers the character, experience, education, skill set as well as interests and associations of potential candidates for appointment to the Board and conducts appropriate checks with assistance from board members to verify the suitability of the candidate prior to their election.

✓

Comprehensive biographical information is provided to shareholders in the notice of meetings to enable them to make an informed decision on whether to elect or re-elect a Director.

The Company has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in the Notice of Meeting provided to shareholders.

Principle 1 – Lay solid foundations for management and oversight (continued)

1.3 Written contracts of appointment

In addition to being set out in the Charter, all directors and senior executives have a written agreement which formalises the terms of their appointment. Each Director commits to a letter of appointment which specifies the term of their appointment, the envisaged time commitment, expectations and duties relating to the position, remuneration, disclosure and confidentiality obligations, insurance and indemnity entitlements, details of the Company’s corporate governance policies, and reporting lines.

✓

The Group has an Employment Agreement with the Executive Chairman, Richard Cottee, the key aspects of which are disclosed in the Remuneration Report contained within the Annual Report.

Each Senior Executive enters into an employment contract which sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements and termination rights and entitlements. Contract details of senior executives who are Key Management Personnel can be found in the 2019 Annual Report.

1.4 Company Secretary

The Company has a board-appointed company secretary. You can view their biographical details and qualifications in the 2019 Annual Report.

✓

The company secretary has overall responsibility for the company secretariat function and is directly accountable to the board, through the chairman, on all matters to do with the proper functioning of the board. This includes advising the board and its committees on governance matters, coordinating board business and providing a point of reference for dealings between the board and management.

All directors have access to the advice and services of the company secretary.

1.5 Diversity and inclusion

The Company’s Diversity Policy is disclosed on the Company’s website and sets out its objectives and reporting practices regarding diversity.

✓

The Board continues to review and monitor the Company’s diversity profile with a view to setting meaningful targets for the advancement of diversity within the Company.

Gender diversity statistics as at 30 June 2019 are outlined in the table below.

Item	Men	Women
Number of total employees	1	1
Percentage of total employees	50%	50%
Number of total Board members	5	-
Percentage of Board members	100%	0%

FY2019 Measure

Targets	Objective	Progress
Eliminate discrimination in the workplace.	Ensure equal opportunity training is offered.	Achieved
Support diversity, including gender diversity into leadership positions.	Ensuring recruitment and development programs aim for 50% female participation of executive positions.	Achieved

Recommendations	Compliance with recommendations
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Principle 1 – Lay solid foundations for management and oversight (continued)

1.6 Board reviews	The Board undertakes an evaluation process each year to assess its performance. The assessment is conducted by the Chairman who seeks Board and Management feedback on the performance of the Board and Committees as a whole, as well as feedback on individual directors and the Company’s reporting and governance practices. The next evaluation is scheduled to be completed in Q2 FY2020.	✓
1.7 Management reviews	The Chair of the Board is responsible for evaluating the performance of Management and Executive Directors. At least annually, the Board formally evaluates the performance of Management and the Executive Director.	✓

Principle 2 – Structure the board to add value

2.1 Nominations committee	The Board has not established a Nomination Committee. The responsibilities of assessing the skills and characteristics of any potential new Board appointment are currently overseen by the full Board.	×
2.2 Board skills matrix	The skills, knowledge and experience set out in the table below have been identified as those that are required for the effective management of the Company. The Board possesses broad coverage of these skills and attributes. Further details regarding the skills and experience of each Director are included in the 2019 Annual Report.	✓

Skills Matrix

The skills were determined by what is considered important for the management of a publicly listed company and specific to the industry in which the Company operates.

Principle 2 – Structure the board to add value

2.2 Board skills matrix
(continued)

The following table sets out the experience and skills deemed necessary or desirable by the Board, in the Company’s Directors and whether they are represented on the Board. ✓

Competency	Representation of skills held by directors
Strategy Track record of developing and implementing a successful strategy (strategy development & strategy execution).	5 Directors
Gas industry expertise Experience in the oil and gas industry.	3 Directors
Financial Acumen Senior executive or equivalent experience in financial accounting and reporting, corporate finance, risk management, and internal financial controls, including an ability to probe the adequacies of financial and risk controls.	3 Directors
Corporate Governance Strong corporate governance experience with an understanding of publicly listed company obligations.	4 Directors
Capital Markets and/or Mergers and Acquisitions Experience in capital markets and/or experience in identifying, implementing or executing mergers and acquisitions.	4 Directors
External Communications Experience in using external communications to influence other business leaders, industry peak bodies, government, and financial market and investor stakeholders.	4 Directors
Executive Management Experience in evaluating performance of senior management and oversee strategic human capital planning. Experience in organisational change and management programs.	3 Directors

Principle 2 – Structure the board to add value (continued)

2.3 Disclose independence and length of service

The Company currently has a five-member Board, of which two are independent Non-executive Directors. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the Company and its business.

✓

Details of their individual skills and experience are set out in the 2019 Annual Report and on the Company’s website.

Board composition

Board	Audit Committee
Richard Cottee ¹ (Appointed 3 June 2019) Executive Chairman	A
Anthony Bellas ¹ (Appointed 16 June 2017) Independent Non-executive Deputy Chairman	M
Greg Baynton (Appointed 7 June 2017) Executive director	A
Robert Towner (Appointed 10 February 2017) Non-executive	M
Ian Paton (Appointed 16 August 2017) Independent Non-executive	C

C – Chairman, M – Member, A – Attendee

¹ On the appointment of Richard Cottee as Executive Chairman 3 June 2019, Anthony Bellas stepped down as Chairman and was appointed Deputy Chairman.

2.4 Majority of Directors independent

In accordance with the Board Charter which is contained within the Charter and available on the Company’s website, a Director is considered independent if the Director is independent of management and free of any business or other relationship that could materially interfere, or be perceived as interfering, with the exercise of an unfettered and independent judgment in relation to matters concerning the Company.

x

Two of the five Board members are considered to be independent – Anthony Bellas, and Ian Paton. Greg Baynton and Richard Cottee are executive directors and therefore not considered independent. Robert Towner is a director of Triangle Energy Limited, State Gas Limited’s largest member and a substantial shareholder and therefore is not considered independent. The Board considers that the size and scope of State Gas Limited’s activities does not justify the cost of appointing an additional independent director at this stage.

The decision as to whether a Director is independent is a decision made by the Board.

Recommendations	Compliance with recommendations
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Principle 2 – Structure the board to add value (continued)

2.5 Chair independent	<p>The newly appointed Executive Chairman, Richard Cottee, does not meet the ASX Corporate Governance assessment criteria for independence due to his role as an executive.</p> <p>Further details regarding the Chairman are set out in the 2019 Annual Report and also available on the Company's website.</p>	x
2.6 Induction and professional development	<p>An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.</p> <p>Directors are encouraged to undertake continuing professional development activities each year and to join appropriate professional associations in order to continually develop and enhance their respective levels of industry knowledge, technical knowledge and other skills required to discharge their role effectively.</p>	✓

Principle 3 – Act ethically and responsibly

3.1 Code of conduct	<p>The Company has a Code of Conduct for Directors, senior executives, employees, consultants and contractors, which set out the fundamental principles of business conduct expected by the Company. The Code of Conduct, as it relates to Directors, is contained within the Charter and available on the Company's website.</p>	✓
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Principle 4 – Safeguard integrity in corporate reporting

4.1 Audit committee	<p>The Company has established an Audit Committee which is comprised of three Non-executive Directors and is chaired by Independent Non-executive Director Ian Paton. Further details about the membership of the Audit Committee, including the names and qualifications of its members, are detailed in the Annual Report.</p> <p>The Audit Committee Charter is contained within the Charter and available on the Company's website, along with information on its members. The number of meetings held by the Committee and the Directors' attendance at meetings is disclosed each year in the Company's Annual Report.</p>	✓
4.2 CEO and CFO certification of financial statements	<p>The Chief Executive Officer and Chief Financial Officer provide a statement to the Board and Audit Committee in advance of seeking approval of any financial report to the effect that the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects. In accordance with the above, the Board has received a written assurance that the declaration provided under section 295A Corporations Act is based on a sound system of internal control and risk management, which is operating effectively in all respects in relation to material business risks and financial reporting.</p>	✓
4.3 External auditor attends AGM	<p>The Company's auditor, BDO Audit Pty Ltd ('BDO') attends the AGM each year and is available to answer questions.</p>	✓

Principle 5 – Make timely and balanced disclosure

5.1 Disclosure policy	<p>The Company has adopted a Continuous Disclosure Policy which sets out the processes and practices to ensure compliance with the continuous disclosure requirements under the ASX Listing Rules and the Corporations Act. A copy of the policy and guidelines are available on the Company's website.</p>	✓
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Recommendations	Compliance with recommendations
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Principle 6 – Respect the rights of security holders

6.1 Publicly available information accessible on website	<p>The Company's website contains extensive information on the Company, its history and business activities and information relevant to investors as set out in the guidelines.</p> <p>Investors may access copies of ASX announcements, notices of meeting, investor presentations and annual reports, as well as general information about the Company, on the Company's website.</p>	✓
6.2 Investor relations programs	<p>Through its shareholder communications, the Company aims to provide information that will enable existing and potential shareholders and financial analysts to make informed decisions about the Company's value.</p> <p>The Board recognises the importance of regular and proactive interaction with the market in order to ensure the Company's investors remain fully informed about its activities. As well as market announcements, this interaction can be in the form of group or one-on-one briefings with investors and analysts, and presentations at industry conferences.</p>	✓
6.3 Facilitate participation at meetings of security holders	<p>Shareholders are encouraged to attend the Company's Annual General Meeting and to ask questions of Directors. The notice of meeting includes a process to enable shareholders to submit questions to the Board and the Company's auditor prior to the meeting.</p>	✓
6.4 Facilitate electronic communication	<p>The Company provides its investors the option to receive communications from, and send communications to, the Company and the share registry electronically.</p>	✓

Principle 7 - Recognise and manage risk

7.1 Risk committee	<p>Due to the size and nature of the Company, the Board had not established a separate Risk Committee. Currently the full Board performs this role.</p> <p>The Charter for the Audit & Risk Management Committee is included on the Company's website.</p> <p>The Board is responsible for ensuring that adequate policies in relation to risk management, compliance and internal controls are in place.</p>	x
7.2 Annual risk review	<p>The Board is responsible for the oversight and management of risk, including the identification of material business risks on an ongoing basis.</p> <p>A review of material business risks has been conducted in the current period, which concluded that controls over risk management processes were adequate and effective.</p>	✓
7.3 Internal audit	<p>The Company does not have a formal internal audit function. To ensure compliance with the Company's published policies and procedures and its legal and regulatory obligations, the Company continually review and refine processes and policies to enhance the effectiveness of the Company's internal controls. Any identified control and process issues are formally reported to the Audit Committee and formalised action plans are put in place to address the issues.</p>	✓

Recommendations	Compliance with recommendations
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Principle 7 - Recognise and manage risk (continued)

7.4 Sustainability risks	The Company has economic, environmental and social sustainability exposures typical for a small-cap petroleum company operating in a regional area. The Board considers sustainable and responsible business practices as an important long-term driver of performance and shareholder value and is committed to transparency, fair dealing, responsible treatment of employees and stakeholders and positive interaction with the community.	✓
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Principle 8 - Remunerate fairly and responsibly

8.1 Remuneration committee	The Board has not established a separate Remuneration Committee. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing such a committee. The role of the Remuneration Committee is carried out by the full Board with any members interested in the matters being discussed excusing themselves from the discussion.	x
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8.2 Disclosure of Executive and Non-Executive Director remuneration policy	<p>The Company seeks to attract and retain high performing Directors and Executives with appropriate skills, qualification's and experience to add value to the Company and fulfil the roles and responsibilities required. Further details of the Company's remuneration methodologies are set out in the 2019 Annual Report.</p> <p>Executive remuneration is to reflect performance and accordingly, remuneration is structured with a fixed component and performance-based component. Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by the Company to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect to Non-Executive Directors.</p> <p>The Company provides long term incentives to executives via its Employee Share Option Plan. The Plan is designed to focus executives on delivering long-term shareholder returns. Under the Plan, participants will be able to exercise their options subject to market vesting conditions being satisfied.</p> <p>Participation in the Plans are at the Board's absolute discretion and no individual has a contractual right to participate in the Plans.</p> <p>Further details regarding remuneration and share retention policies and the remuneration of Executive and Non-Executive Directors, are set out in the 2019 Annual Report and detailed in the Securities Trading Policy available from the Company's website.</p>	✓
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8.3 Policy on hedging equity incentive schemes	<p>Details of the Company's Employee Share Option Plan are set out in the Remuneration Report which can be found in the 2019 Annual Report.</p> <p>The Company's Employee Share Option Plan prohibits transactions which conflict with the Company's Securities Trading Policy (which prohibits Directors and executives from entering into margin lending arrangements or short-term dealings trading in relation to company securities). A copy of the Securities Trading Policy is available on the Company's website.</p>	✓
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