INTERIM REPORT

31 DECEMBER 2022

STATE GAS LIMITED

ACN 617 322 488

Interim Report – 31 December 2022

CORPORATE DIRECTORY

Directors	R Cottee G A J Baynton A Bellas R Towner J Stretch P St Baker
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
Auditor	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au
Solicitors	Allens Level 26, 480 Queen Street Brisbane QLD 4000 www.allens.com.au
Bankers	Westpac Banking Corporation
Website address	www.stategas.com

Competent Person 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

In the last half year, State Gas embarked on its journey towards revenues by commencing construction of its innovative CNG trucking project. We will should reach our destination in this half year. It is anticipated that operating cashflow generated from successful execution of this project will underwrite a significant portion of the Company's overhead and exploration plans over coming years. The catalyst for this decision by the Board was to assist in alleviating the substantial domestic gas shortage, long foreshadowed by the ACCC, which is causing elevated gas prices. These domestic market dynamics have been further exacerbated by the Ukrainian situation. Despite the Federal Government's belief that by lowering prices you curtail demand, the national predicament of gas shortage continues unabated.

The latest ACCC Report (January 2023) finds that the domestic shortfall even with optimistic assumptions of gas consumption being replaced by renewables) will be around 300PJ in 2027. Increased levels of domestic gas reservation creates a risk that Australia defaults on its government sanctioned LNG export contracts and would threaten the security of the nation's most important and closest North Asian allies in an extremely challenging geopolitical climate.

State Gas is presently production testing its Rougemont lateral well set-up with very encouraging early signs. Despite dewatering being only about 240 metres in depth (70% of the way to go before we begin uncovering the top coals).

Despite the Bandanna coal seams still being covered by 120 metres of water, daily gas production at Rougemont 2/3 is now exceeding 100,000 cubic feet of gas per day. The rapid increase in daily gas production, continues to indicate the excellent permeability of Rougemont's coals and the possibility of extremely high gas production levels from the pilot well.

The importance of this CSG province was highlighted with the recent announcement of federal environmental approval for 116 new CSG wells in the Bandanna Coal Formation within the neighbouring Arcadia Valley gas field. The Company is now planning the evaluation of the area surrounding the Rougemont 2/3 well set-up for the purposes of establishing a substantial gas reserve. Successful commercialisation of the area surrounding Rougemont will support the delivery of new gas into the ACCC's predicted significant forecast east coast gas shortfall.

What a half year awaits us!

Yours faithfully

Richard Cottee
Executive Chairman

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2022.

DIRECTORS

The following persons were directors of State Gas Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

Richard Cottee
Gregory Baynton
Anthony Bellas
Rob Towner
Jon Stretch – appointed 10 October 2022
Philip St Baker – appointed 10 October 2022
Ian Paton – ceased 15 November 2022

PRINCIPAL ACTIVITIES

State Gas is a gas exploration and development company with operations in the southern Bowen Basin in Central Queensland. State Gas Limited's mission is to support east coast 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 prospective areas that are well located in proximity to gas pipeline infrastructure.

Pleasingly, the Company achieved a number of important milestones, in respect of its flagship projects PL231 ("Reid's Dome") and ATP 2062 ("Rolleston West'") during the reporting period.

REVIEW OF OPERATIONS

Reid's Dome Project (100% State Gas)

The Reid's Dome Project is targeting conventional and coal seam gas 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 gas pipeline infrastructure. The area was sporadically explored over the ensuing decades, until State Gas acquired PL231 as its first project in 2017.

State Gas' activities have identified in excess of 30 m 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. The Company continues to evaluate a range of techniques to successfully liberate gas from the deeper formations. 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.

In response to an expectation of gas supply shortages in the East Coast market, the Company announced its intention to compress and truck the conventional gas to a location where it can decant into existing pipeline infrastructure ("the CNG Project"). This will allow gas production to commence in advance of construction of a dedicated pipeline and begin to generate modest operating cashflows for the Company at a cost substantially below the temporary price cap of $12/GJ imposed by the Federal Government. All critical equipment for the CNG Project has now been ordered and engineering design is well progressed to allow in-field construction and commissioning to commence in early calendar 2023. The Company has also completed baseline environmental and other studies necessary as part of the development approval process.

The CNG Project will initially produce up to 1TJ of gas per day, which State Gas intends to sell into the spot market.

Rolleston-West Project (100% State Gas)

The Rolleston West Project (ATP 2062), directly adjacent to Reid's Dome, enables the Company to build on its existing knowledge of the area and develop its projects synergistically to optimise efficiencies, optionality and scale. The Company is targeting the Bandanna Formation coals, which are extensive across large areas of the permit. The potential of these areas is underpinned by Santos' commercial production of gas from the Bandanna formation at the Arcadia Valley field to the south-east, and Comet Ridge's progress towards commercial production at Mahalo to the north-east.

Drilling undertaken in 2021 intersected approximately 8 metres of net coals with the thickest seams in each well laterally continuous over many kilometres. The gas content of the coals was as predicted, at between 5 and 6 m3/tonne dry ash free. Gas is at or near pipeline quality, between 93.8% and 96% methane. The permeability of the two primary seams was excellent, ranging from a good 26 millidarcies to a particularly impressive 395 millidarcies.

During the period, the Company drilled and commenced production testing on a combined horizontal - vertical well pair to further determine flow rates and inform future development. De-watering activities have commenced with water production exceeding expectations. Water and early initial gas production has exceeded initial expectations.. The Company is confident of encouraging gas production results as testing activities continue over the coming months.

Santos JV Project (Stage Gas 35% and Santos 65%)

State Gas, in joint venture with Santos QNT Pty Ltd (State Gas 35%, Santos 65%), was announced preferred tenderer for two new exploration permits, ATP 2068 and ATP 2069. ATP 2068 was granted to the joint venturers in July 2022, with ATP 2069 formally granted subsequent to the end of the reporting period.

The two new areas are adjacent or in close proximity to both State Gas' existing Reid's Dome and Rolleston-West Projects. These ATPs provideacreage connectivity between State Gas' Reid's Dome and the Santos interests to the east. They also provide potential access to markets (bisected by two high pressure export pipelines) and connectivity to the Santos operated Arcadia Valley project to the east.

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. During the period, seismic reprocessing was completed on both tenements and exploration plans for the upcoming year are currently being approved by the joint venture operating committee.

Carbon Management Joint Venture

The Company has entered into a Memorandum of Understanding (MoU) with minerals company Rockminsolutions Pty Ltd ("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 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 contain the characteristics needed for permanently immobilising CO2 through the formation of carbonate minerals (eg calcium carbonate (limestone) and magnesium carbonate). The Buckland Tableland basalts in EPM 27596, a relatively unusual form of basalt likely to be particularly suitable for reaction with CO2. 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 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 manufacture of low-carbon cements. This initial work will also assist in evaluating the potential of the deposit for in-situ mineral carbonation.

Impact of regulatory intervention

As previously reported, we believe that the federal government's proposal to intervene in the operation of the gas market, in particular regulating the gas price, will have a negative impact on investor sentiment in the energy sector and perversely exacerbate the existing challenges of reliable energy supply. The Company strongly believes it is supply-side factors that are driving the price of domestic gas and the implementation of pricing caps will not alleviate that situation. State Gas will continue to work with the industry to provide feedback on the proposed regulation and will keep its shareholders updated on the impact of the regulatory intervention as detail becomes clearer over the coming quarter.

The Company's Board of Directors and management believe that its CNG Project is not directly affected by the $12/GJ gas price cap and its underlying project economics remain attractive. The Company's CNG production is currently planned to be sold into the spot market – which is not governed by the announced price cap and, moreover, project operating costs are estimated to be less than $12/GJ. Given the close proximity of Rougemont to infrastructure and its initial indicative gas quality, if the production test proves the flow rates to be commercial, the Rougemont development should also be low cost.

Capital Management

In October 2022, the Company attracted new strategic investment capital from leading energy sector experts that has allowed it to progress the evaluation and development of its gas projects. The Company raised $7 million of additional equity capital through the allotment of 25 million new shares. The Company continues to operate with limited fixed overheads and will endeavour to adjust expenses to better align with the timing of gas sales from the CNG Project. It is also exploring other financing options to free up working capital.

Changes to Board and Management

The successful October 2022 equity raise also allowed the Company to strengthen its Board through the appointment of Mr Philip St Baker and Mr Jon Stretch, who both bring significant additional energy sector expertise. The Company also thanks Mr Ian Paton who retired as a Director during the half year.

The Company has 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 to production over the coming year.

Outlook

Despite the industry wide uncertainty caused by the recent federal government intervention in the gas sector, the Directors believe that the Company remains strategically well positioned. Stage Gas has highly prospective acreage located close to infrastructure in known gas producing areas. None of its projects are subject to domestic gas reservation. The Company has established a substantial contingent resource estimate and is optimistic of further positive exploration results across all of its projects:

Year	Asset	Net Acreage (km^2)	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**

The joint venture with Santos is significant as it establishes an alignment of interests with adjacent tenements across an extensive and highly prospective area of the southern Bowen Basin, providing opportunities for synergistic and coordinated ongoing development.

The Company's focus on securing market access for the Reid's Dome conventional gas has led to innovation through our proposed trucking solution in the CNG Project. A small-scale, low-cost pipeline is also under consideration and initial on-the-ground surveys of the pipeline route have been undertaken to identify the best route. The success of the Rougemont drilling program to date has provided strong arguments to prefer the Company's proposed northern route: construction of a pipeline through this area will facilitate early access to Rougemont test gas as well as the resource at Reid's Dome. The on-the-ground surveys have confirmed this option, with more detailed work to come.

As noted above, the Company is strongly of the view that the federal government regulatory intervention will result in increased uncertainty for both new and existing investors in the gas sector. The Company is cognisant of the need to conserve capital, but remains committed to its strategy of delivering conventional gas production from the CNG Project and proving strong gas production from Rolleston West. 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the half year period the Company:

a) raised $7,000,000 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 Doug McAlpine, CEO, as the equity-based component of his remuneration.

EVENTS OCCURRING AFTER THE REPORTING DATE

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 6.

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

R Cottee
Chairman

Brisbane
28 February 2023

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

As lead auditor for the review of State Gas Limited for the half-year ended 31 December 2022, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

D P Wright
Director

BDO Audit Pty Ltd

Brisbane, 28 February 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

	Note	Half-year 2022 $	Half-year 2021 $
Other income		10,706	147
Administrative and other expenses	3	(465,196)	(332,543)
Employee benefits expense		(259,086)	(359,531)
Share based payments expense	3	296,714	956,570
Financing costs	6	(5,233)	(93,019)
Profit (loss) before income tax expense		(422,095)	171,624
Income tax expense		-	-
Profit (loss) after income tax expense		(422,095)	171,624
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		(422,095)	171,624
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company:			
Basic earnings per share	9	(0.20)	0.09
Diluted earnings per share	9	(0.20)	0.09

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATE GAS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	31 December 2022 $	30 June 2022 $
ASSETS			
Current assets			
Cash and cash equivalents		2,793,865	3,225,443
Other receivables		258,522	128,543
Total current assets		3,052,387	3,353,986
Non-current assets			
Exploration and evaluation assets	4	35,876,738	29,385,879
Property, plant and equipment		1,349,705	741,691
Security deposits		400,171	400,171
Total non-current assets		37,626,614	30,527,741
Total assets		40,679,001	33,881,727
LIABILITIES			
Current liabilities			
Trade and other payables	5	641,574	262,006
Total current liabilities		641,574	262,006
Non-current liabilities			
Provisions	6	2,792,705	2,321,878
Total non-current liabilities		2,792,705	2,321,878
Total liabilities		3,434,279	2,583,884
Net assets		37,244,722	31,297,843
EQUITY			
Contributed equity	7	42,917,843	36,252,155
Reserves		2,600,043	2,896,757
Accumulated losses		(8,273,164)	(7,851,069)
Total equity		37,244,722	31,297,843

The above statement of financial position should be read in conjunction with the accompanying notes.

STATE GAS

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

	Contributed equity $	Share based payments reserve $	Accumulated losses $	Total $
Balance at 1 July 2021	29,219,955	5,154,691	(9,193,333)	25,181,314
Profit for the period	-	-	171,624	171,624
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	171,624	171,624
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	7,032,201	-	-	7,032,201
Share-based payments	-	(488,983)	-	(488,983)
Balance at 31 December 2021	36,252,156	4,665,708	(9,021,709)	31,896,155
Balance at 1 July 2022	36,252,155	2,896,757	(7,851,069)	31,297,843
Profit for the period	-	-	(422,095)	(422,095)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(422,095)	(422,095)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 7)	6,665,688	-	-	6,665,688
Share-based payments (note 3)	-	(296,714)	-	(296,714)
Balance at 31 December 2022	42,917,843	2,600,043	(8,273,164)	37,244,722

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATE GAS

STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

		Half-year	
	Note	**2022** **$**	2021 $
Cash flows from operating activities			
Receipts from customers (GST inclusive)		546,082	456,502
Payments to suppliers and employees (GST inclusive)		(1,448,640)	(1,260,003)
Interest received		10,706	147
Net cash outflow from operating activities		(891,852)	(803,354)
Cash flows from investing activities			
Payments for exploration expenditure		(5,504,563)	(3,794,576)
Payments for plant and equipment		(700,851)	-
Net cash outflow from investing activities		(6,205,414)	(3,794,576)
Cash flows from financing activities			
Proceeds on issue of shares	7	7,000,000	8,000,000
Payments for capital raising costs	7	(334,312)	(500,212)
Net cash inflow from financing activities		6,665,688	7,499,788
Net increase (decrease) in cash and cash equivalents		(431,578)	2,901,858
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		2,793,865	6,061,887

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1 Summary of significant accounting policies

These general purpose interim financial statements for the half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001,* as appropriate for for-profit oriented entities.

These general purpose interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

Historical cost convention
The financial statements have been prepared under the historical cost convention.

New standards, interpretations and amendments adopted by the group
There are no new standards, interpretations or amendments that have affected the current reporting period and neither has there been a retrospective adjustment or current period adjustment as a result of new standards, interpretations or amendments.

Note 1 Summary of significant accounting policies (continued)

Going Concern
The interim financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the Company earned a net loss of $422,095 and net operating cash outflows of $891,852 for the half-year ended 31 December 2022. As at 31 December 2022 the Company had a cash balance of $2,793,865.

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 a 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 and continued strong share price; 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.

Note 2 Segment information

The Company operates solely within one segment, being the gas exploration and development industry in Australia.

Note 3 Loss for the period

Loss before income tax includes the following specific items:

	31 December 2022 $	31 December 2021 $
Administration and other expenses		
Insurance expense	105,877	112,378
Director remuneration	81,405	69,275
Auditor remuneration	28,909	16,673
Compliance costs	102,899	59,987
Other	146,106	74,230
	465,196	332,543
Share based payments expense		
Performance rights expensed	30,987	533,195
Reversal of share-based payments expense	(327,701)	(1,489,765)
Total share-based payments expense	(296,714)	(956,570)

Refer to note 10 for information relating to the reversal of share based payment expense.

Note 4 Non-current assets – exploration and evaluation assets

	31 December 2022 $	30 June 2022 $
Exploration and evaluation assets – at cost	35,876,738	29,385,879

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

	31 December 2022 $	30 June 2022 $
Balance at the beginning of the year	29,385,879	24,829,466
Expenditure incurred during the period	6,025,265	4,039,470
Rehabilitation asset increment (refer note 5)	465,594	516,943
Balance at the end of the half-year	35,876,738	29,385,879

Capitalised exploration and evaluation assets include initial acquisition costs, capitalised costs and a rehabilitation asset (refer note 6).

The Directors have assessed that for the exploration and evaluation assets recognised at 31 December 2022, 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 5 Current liabilities – Trade and other payables

	31 December 2022 $	30 June 2022 $
Unsecured liabilities:		
Trade payables	542,400	93,465
Sundry payables and accrued expenses	74,624	101,926
Provision for annual leave	24,550	66,615
	641,574	262,006

Note 6 Non-current liabilities – Provisions

	31 December 2022 $	30 June 2022 $
Provision for rehabilitation	2,792,705	2,321,878
Reconciliation of carrying amount:		
Opening balance	2,321,878	1,777,911
Additions (refer to note 4)	465,594	516,943
Provisions reversed	-	-
Unwinding of discount	5,233	27,024
Balance at the end of the half-year	2,792,705	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 discounted to present value in accordance with the Company's accounting policy.

Note 7 Contributed equity

		31 Dec 2022 Shares	30 June 2022 Shares	**31 Dec 2022 $**	30 June 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 2022	Balance		199,832,305		36,252,155
13 Oct 2022	Placement shares	(c)	24,339,284	$0.28	6,815,000
16 Dec 2022	Director placement shares	(c)	660,716	$0.28	185,000
	Share issue costs	(d)	-	-	(334,312)
31 Dec 2021	Balance		224,832,305		42,917,843

(c) 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).

Note 8 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 9 Earnings per share

	31 December 2022 $	31 December 2021 $
Earnings per share for loss from continuing operations		
Profit (loss) after income tax attributable to the owners of State Gas Limited	(422,095)	171,624

	Number	Number
Weighted average number of shares used in calculating basic earnings per share	210,336,186	186,577,957
Weighted average number of shares used in calculating diluted earnings per share	210,336,186	200,722,522

	Cents	Cents
Basic earnings per share	(0.20)	0.09
Diluted earnings per share	(0.20)	0.09

Information concerning the classification of securities

Options and performance rights

Options and performance rights on issue are not included in the calculation of diluted earnings per share in the current period because the company had generated losses, hence they are antidilutive for the half-year ended 31 December 2022.

Note 10 Share-based payments

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 2022	**5,600,000**	**-**
Performance rights exercisable as at 30 June 2022	**-**	**-**
Granted	2,500,000	-
Forfeited	(2,950,000)	-
Expired	-	-
Performance rights outstanding as at 31 December 2022	**5,150,000**	**-**
Performance rights exercisable as at 31 December 2022	-	**-**

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	05/12/2027
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.

Note 10 Share-based payments (continued)

During the half year period, the share based payment expense reversed of $278,636 relates to the reversal of share-based payments expense recognised in prior periods as a result of performance rights expiring without having satisfied the relevant vesting conditions. The tranche in question relates to the delivery of the phase 2 work program and associated testing at PL231.

In addition, the share-based payment expense reversed of $49,066 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 before 27 April 2024.

Note 10 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	% Vested	Fair value at grant date	Expiry	Expense recognised $	Expense reversed $	Net expense (credit) $
D McAlpine	30/11/2022	375,000	First commercial delivery of gas from any of the Group's producing assets.	0%	$0.265	05/12/2027	14,531	-	14,531
D McAlpine	30/11/2022	375,000	Final investment decision to proceed with construction of a physical pipeline.	0%	$0.265	05/12/2027	5,330	-	5,330
D McAlpine	30/11/2022	375,000	Securing minimum annual gas sales of 2PJ per annum.	0%	$0.265	05/12/2027	5,330	-	5,330
D McAlpine	30/11/2022	375,000	VWAP over 20 consecutive trading days of not less than $0.70.	0%	$0.2063	05/12/2027	1,310	-	1,310
D McAlpine	30/11/2022	1,000,000	Board recommending a corporate transaction, whether by takeover bid, scheme of arrangement or otherwise, that results in a change of control of the Company.	0%	$0.265	05/12/2027	4,487	-	4,487
M Herrington	23/01/2020	500,000	Deliver the Phase 2 Work Program and associated production testing within PL 231 - Estimated vesting date 1/11/2022	0%	$0.635	01/11/2022	-	(278,636)	(278,636)
L Snelling	27/04/2021	112,500	Successful corporate transaction that involves greater than 50% of the shares in GAS – Estimated vesting date 27/04/2024	0%	$0.55	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 – Estimated vesting date 27/04/2024	0%	$0.55	27/04/2024	-	(24,533)	(24,533)
						Total expense recognised	**30,988**	**(327,702)**	**(296,714)**

Note 11 Events occurring after the reporting period

No matters or circumstances have arisen since 31 December 2022 that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Company's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Richard Cottee
Chairman

28 February 2023
Brisbane

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of State Gas Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of State Gas Limited (the Company), which comprises the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Company does not comply with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the company's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

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

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 20XX and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

BDO

D P Wright

Director

Brisbane, 28 February 2023