



INTERIM REPORT
31 DECEMBER 2023

STATE GAS LIMITED

ACN 617 322 488

Interim Report – 31 December 2023

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CORPORATE DIRECTORY

Directors	R Cottee G A J Baynton A Bellas 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	HWL Ebsworth Lawyers Level 19, 480 Queen Street Brisbane QLD 4000 https://hwlebsworth.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

Since the beginning of this fiscal year, the company has been singularly focussed on bringing online the world's first, in situ CSG to CNG pilot plant ("the Plant") at its Rolleston West Project, close to the Rougemont 2/3 dual lateral well. The Plant will allow State Gas to compress appraisal gas from the Rougemont 2/3 well and ship it to customers in specifically designed gas trailers. This process is generally referred to as a virtual pipeline. I am pleased to report that the CNG plant is now complete and in advanced stages of commissioning.

In January, we restarted the production testing of the Rougemont 2/3 lateral which had been shut-in following the completion of initial testing in June last year. We had expected a degree of re-charge given the high inherent permeability of the coals. The amount of water being produced exceeds the initial water production when the well was shut-in. This indicates that Rougemont 2/3 is draining a greater amount of coals. When de-watering is completed, this should result in even higher production than forecast.

The Company expects to shortly sign a formal initial offtake agreement for delivery of CNG. While initial volumes will be small, this will support an orderly ramp up of production in the plant. As previously reported, initial cargoes of CNG will be used by a local coal mine as part of its ongoing trial of hybrid engine technology in its mining trucks. The provision of CNG using virtual pipeline gas trailers is a bundled gas supply solution, which reflects significant added value when compared to raw gas from the traditional pipeline network.

The Plant will have substantial available capacity (total processing capacity 1.7TJ/day) and the Company is now actively following up incremental sales leads for its CNG. The revenue from initial CNG sales will be very welcomed and contribute to the capital needed to bring Rougemont into full scale production in time for 2025/26, the year in which the forecast gas shortfall in the east coast market is most dire.

Capital management will remain a key focus of management as the company enters into the exciting production phase of its existence. State Gas is confident that its CNG can support Queensland's coal industry in its efforts to reduce its own emissions by converting its heavy vehicle fleet and other plant from diesel to gas. The Company is now working to identify other use cases for CNG which would be incremental to supporting the large potential customer base in the Queensland coal industry.

The Company has a highly prospective portfolio of gas acreage in the Southern Bowen Basin, which is in close proximity to productive gas projects which are targeting similar coal measures. These exploration areas are close to critical pipeline infrastructure and in conjunction with initial revenues from CNG sales, positions the Company well for continued exploration, appraisal and development.

Yours faithfully



Richard Cottee
Executive Chairman

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2023.

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
Jon Stretch
Philip St Baker
Rob Towner – ceased 30 November 2023

PRINCIPAL ACTIVITIES

Principal Activities

State Gas Limited ("State Gas" or the "Company") is a natural gas exploration and development company with operations in the southern Bowen Basin in Central Queensland. The Company's existing 100% owned exploration projects at PL231 and ATP 2062, in conjunction with joint venture interests over substantial adjoining areas, means that it has exposure to a highly prospective gas producing region in the southern Bowen Basin.

State Gas' strategy is to support energy markets through the efficient commercialisation of previously undeveloped gas resources. It does this by applying an innovative, sustainable but low-cost development approach and opportunistically expanding its acreage into areas that can either apply the Company's compressed natural gas ("CNG") technology or gain efficient access to traditional gas pipeline infrastructure.

Application of this newly developed CNG technology to coal seam gas ("CSG"), provides an environmentally favourable method for capturing and commercialising production testing gas which would otherwise be vented into the atmosphere. State Gas believes that its "first-of-its-kind" in Australia CNG technology will create substantial opportunities for natural gas (an environmentally superior fuel source to diesel) to be used in a range of commercial applications which support lower carbon emissions. The CNG technology developed by State Gas will support the development of its existing gas exploration projects, but also provides the Company with first mover advantage to support other early-stage gas projects that are seeking to reduce emissions and more critically gas users who are seeking access to smaller, flexible quantities of natural gas, but don't have access to traditional pipeline infrastructure.

In addition to the environmental benefits which arise from capturing production testing gas, the CNG Facility will allow State Gas to generate modest initial gas sales thereby reducing the reliance on new equity capital to finance its ongoing exploration and development activities.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2023 (continued)

The CNG Project

The application of existing gas industry know-how to capture and compress CSG close to the well-head is unique and never been attempted before at scale in Australia. The physical properties of CSG (being generally high in moisture and originating from relatively low formation pressure coal environments) has required State Gas to develop a unique processing approach and adapt traditional dehydration and compression methods to achieve safe, reliable and economically sustainable CNG production volumes. Compressed CSG will be delivered to end users using specially designed gas tube trailers, which in conjunction with the Company's CNG technology creates a virtual gas pipeline ("VP"). VPs are used extensively in the United States, but have never been commercialised at scale in Australia or using CSG as feedstock. State Gas has made a substantial investment to solve the technical challenges associated with achieving dehydration and compression of CSG at levels which make a VP solution commercially sustainable.

CNG Plant Construction and Commissioning

State Gas has elected to develop its CNG Pilot Plant fed with production testing gas from the Rougemont 2/3 within the Rolleston West Project located on ATP 2062. This allows the Company to compress and sell a restricted amount of gas generated from ongoing production testing of Rougemont 2/3 thereby accelerating the move to operating cashflow while we pursue a permanent production license. This strategy delivers significant environmental benefit, as it captures the production testing gas from Rougemont which would otherwise be flared.

After finalising conceptual and detailed design early in the six-month period, State Gas and its contractors moved quickly into construction, given the small, modular nature of the plant design. Construction of the CNG Pilot Plant commenced on 19 October 2023 and experienced approximately forty-five weather interrupted days during the construction program, caused largely by extreme rain events associated with Cyclones Jasper and Kirrily. Although challenging site conditions have impacted the Company's original commissioning timetable and project costs, ninety-two uninterrupted construction days to achieve mechanical completion for a project of this type is an excellent outcome and generally in line with original time estimates. Through the discipline and collaboration of its construction teams, the landholder and other stakeholder groups, the construction phase was completed with no reportable incidents and no lost time injuries.

Mechanical completion of the CNG Pilot Plant occurred in late February 2024 and plant commissioning is now being undertaken in conjunction with State Gas' initial offtake customer, to ensure timetables are aligned and the customer is operationally ready to receive CNG shipments via the VP.

The first cargoes of CNG will be sold to a local coal mine, that is in advanced stages of trialing diesel/gas hybrid mining truck engines, as part of wider strategies to reduce the emissions profile of its operations. Due to the high operational value of flexible quantities of natural gas being delivered without access to traditional pipeline infrastructure, State Gas expects to be able to price its CNG at a sustainable premium to the spot gas price.

Exploration Activities

Notwithstanding the Company's improved liquidity position after the successful capital raising in September 2023, it remains focused on enhancing the value of its gas resources with limited fixed overheads. Due to State Gas' focus on the CNG project during the half, minimal direct expenditure was incurred in respect of the Company's exploration areas. State Gas has already established a substantial

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2023 (continued)

resource base across its portfolio of acreage in the Southern Bowen Basin. As such, the Company is focused on investment in activities which will support conversion of those existing resources into 2P reserves, which will support further project development.

State Gas plans to hold the conventional gas accumulation at Reid's Dome in reserve for later delivery through construction of a small pipeline system, connected directly to the CNG Facility.

Post commissioning of the CNG Pilot Plant, the Company intends to drill at least two new exploration and appraisal wells within ATP 2062, which if successful, will assist in further geological delineation of the Rolleston West Project resource base and provide additional production testing gas which can be processed through the CNG Pilot Plant. The Company is evaluating whether it is in shareholders' interests that these activities are accelerated by pursuing a farm-out strategy.

Changes to Board and Management

Mr Rob Towner did not offer himself for re-election to the Board of State Gas at the November 2023 Annual General Meeting of Shareholders. The Company thanks Mr Towner for his outstanding dedication to the progress of State Gas since before its listing on the ASX.

Capital Management

Post year-end, State Gas raised \$7.4 million through a placement of 26,000,000 new shares to sophisticated investors, 7,333,334 new shares to Directors and the allotment of 15,900,675 million new shares to existing eligible shareholders pursuant to a Share Purchase Plan.

Due to the high level of risk and technical complexity associated with applying a CNG solution to CSG, the Company qualifies for research and development grant funding. Cashflow from grant funding of approximately \$1.0 million was received subsequent to the end of the period.

State Gas continues to operate with limited fixed overheads and continues to carefully align its activities with the timing of first gas sales. It continues to explore a range of financing options to free up working capital, including refinancing of the CNG Facility post commissioning. The Company's reliance on additional equity capital will significantly reduce once operating cashflow from CNG sales commences.

Outlook

It is the Company's view, consistent with that shared by many energy sector experts, that natural gas remains an important fuel source for base and peaking electricity production. From an environmental standpoint, natural gas remains a superior fuel source to coal and diesel and is essential to an orderly transition of Australia's energy grid to greater reliance on renewable energy sources.

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.

The Company remains in the strong position that its permits are not restricted by domestic gas reservation requirements or other pricing controls. The early sale of gas from Rougemont 2/3 will demonstrate the efficacy and commercial application for CNG technology in the CSG industry and emphasise that the Rolleston West Project has the hallmarks of a world class gas development asset.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023
(continued)**

Financial Position

During the half-year ended 31 December 2023, the Company expended approximately \$5.1 million on the CNG Project, including engineering, fabrication and construction costs. Company overheads were consistent with the previous corresponding period. The quantum of civil and construction cost variations has exceeded original cost estimates for the project but, in conjunction with existing cash reserves and access to grant funding (including R & D incentives), the Company has sufficient funding to complete and commission the CNG Pilot and continue to finance the Company's operations while revenue from CNG sales ramps up.

The Company is currently evaluating a range of alternatives to finance additional appraisal drilling for the Rolleston West Project. Once the CNG Facility is commissioned, the Company will begin generating revenue and will be capable of funding further drilling and development activity from operating cashflows over time.

The Board of Directors continues to evolve the Company's strategy with the imminent commissioning of the CNG Facility and the risks and opportunities arising from continued rapid changes in the energy sector. The CNG Facility and its ability to generate short term cashflow, in conjunction with the long-term development potential of its high quality, strategically well located CSG asset base provides the Company with significant optionality.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the matters described in this report, there have been no other significant changes in the state of affairs of the Company.

EVENTS OCCURRING AFTER THE REPORTING DATE

Other than the matters discussed below, no other matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

The Company achieved mechanical completion and commenced commissioning in late February 2024. The Rougemont 2/3 dual lateral coal seams gas well ("Rougemont 2/3") has been connected to the new surface processing equipment and gathering system and dewatering has recommenced in preparation for first gas production and sales. Initial observations since recommencing the monitoring of Rougemont 2/3 productivity is that intersected coal seams continue to have good lateral continuity and permeability and potential for gas flow greater than the previous 474,000 cubic feet per day. The wells are being continuously monitored and a program is in place to accelerate the desorption process while preserving the integrity of the underlying coal seams.

The Company entered into a short-term loan agreements with Loch Explorations Pty Ltd (a related party of Director Tony Bellas), Monte Vista Holdings Pty Ltd (a related party of Director Philip St Baker), Allegro Capital Nominees Pty Ltd (a related party of Director Greg Baynton) and Jon Stretch for \$200,000 each. The loans are unsecured and accrue interest at 15% 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.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023
(continued)**

Tenements and Resources

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		1,957	274	534	1,266

*State Gas estimate as at 12/09/2022

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
14 March 2024



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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 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of State Gas Limited and the entities it controlled during the period.

D P Wright
Director

BDO Audit Pty Ltd

Brisbane, 14 March 2024

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

	Note	Half-year	
		2023 \$	2022 \$
Other income	3	20,244	10,706
Administrative and other expenses	4	(483,637)	(465,196)
Employee benefits expense		(250,348)	(259,086)
Capital work in progress written off	4	(553,935)	-
Share based payments expense	12	(95,335)	296,714
Financing costs		(78,210)	(5,233)
Loss before income tax expense		(1,441,221)	(422,095)
Income tax expense		-	-
Loss after income tax expense		(1,441,221)	(422,095)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(1,441,221)	(422,095)
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company:			
Basic earnings per share	11	(0.56)	(0.20)
Diluted earnings per share	11	(0.56)	(0.20)

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	31 December 2023 \$	30 June 2023 \$
ASSETS			
Current assets			
Cash and cash equivalents		1,524,629	453,347
Other receivables		1,470,524	126,910
Total current assets		2,995,153	580,257
Non-current assets			
Exploration and evaluation assets	5	36,203,565	36,092,523
Property, plant and equipment	6	7,763,079	3,841,324
Security deposits		400,171	400,171
Total non-current assets		44,366,815	40,334,018
Total assets		47,361,968	40,914,275
LIABILITIES			
Current liabilities			
Trade and other payables	7	1,723,784	1,167,831
Borrowings		163,032	200,000
Total current liabilities		1,886,816	1,367,831
Non-current liabilities			
Provisions	8	2,996,280	2,938,682
Total non-current liabilities		2,996,280	2,938,682
Total liabilities		4,883,096	4,306,513
Net assets		42,478,872	36,607,762
EQUITY			
Contributed equity	9	50,009,839	42,917,843
Reserves		2,949,467	2,729,132
Accumulated losses		(10,480,434)	(9,039,213)
Total equity		42,478,872	36,607,762

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023**

	Contributed equity \$	Share based payments reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2022	36,252,155	2,896,757	(7,851,069)	31,297,843
Loss for the period	-	-	(422,095)	(422,095)
Other comprehensive loss	-	-	-	-
Total comprehensive loss	-	-	(422,095)	(422,095)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 9)	6,665,688	-	-	6,665,688
Share-based payments (note 12)	-	(296,714)	-	(296,714)
Balance at 31 December 2022	42,917,843	2,600,043	(8,273,164)	37,244,722
Balance at 1 July 2023	42,917,843	2,729,132	(9,039,213)	36,607,762
Loss for the period	-	-	(1,441,221)	(1,441,221)
Other comprehensive loss	-	-	-	-
Total comprehensive loss	-	-	(1,441,221)	(1,441,221)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 9)	7,091,996	-	-	7,091,996
Share-based payments (note 12)	-	220,335	-	220,335
Balance at 31 December 2023	50,009,839	2,949,467	(10,480,434)	42,478,872

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

STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

		Half-year	
		2023	2022
	Note	\$	\$
Cash flows from operating activities			
Receipts of GST from ATO		539,469	546,082
Payments to suppliers and employees (GST inclusive)		(1,319,606)	(1,448,640)
Interest paid		(20,612)	-
Interest received		20,244	10,706
Net cash outflow from operating activities		(780,505)	(891,852)
Cash flows from investing activities			
Payments for exploration expenditure		(806,892)	(5,504,563)
Payments for plant and equipment		(4,521,349)	(700,851)
Net cash outflow from investing activities		(5,328,241)	(6,205,414)
Cash flows from financing activities			
Proceeds on issue of shares	9	7,385,101	7,000,000
Payments for capital raising costs	9	(168,105)	(334,312)
Proceeds from borrowings		399,261	-
Repayment of borrowings		(436,229)	-
Net cash inflow from financing activities		7,180,028	6,665,688
Net increase (decrease) in cash and cash equivalents		1,071,282	(431,578)
Cash and cash equivalents at the beginning of the year		453,347	3,225,443
Cash and cash equivalents at the end of the year		1,524,629	2,793,865

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 1 Summary of significant accounting policies

These general purpose interim financial statements for the half-year reporting period ended 31 December 2023 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

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 incurred a net loss of \$1,441,221 and net operating cash outflows of \$780,505 for the half-year ended 31 December 2023. As at 31 December 2023 the Company had a cash balance of \$1,524,629.

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

- the ability of the Company 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, including the placement and share purchase plan that raised \$7.4M in August 2023;
- subsequent to year end the company has received financial support through Director loans to the value of \$800,000; 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 3 Other income

	31 December 2023 \$	31 December 2022 \$
Other income		
Interest received from unrelated parties	20,244	10,706
	<u>20,244</u>	<u>10,706</u>

Note 4 Loss for the period

Loss before income tax includes the following specific items:

	31 December 2023 \$	31 December 2022 \$
Administration and other expenses		
Insurance expense	91,551	105,877
Director remuneration	99,646	81,405
Compliance costs	61,408	102,899
Other	231,032	175,015
	<u>483,637</u>	<u>465,196</u>
Share based payments expense		
Performance rights expensed (note 12)	95,335	30,987
Reversal of share-based payments expense	-	(327,701)
Total share-based payments expense	<u>95,335</u>	<u>(296,714)</u>

Refer to note 11 for information relating to the reversal of share based payment expense.

Capital work in progress written off	<u>553,935</u>	<u>-</u>
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Capital work in progress write-off relates to costs previously capitalised to capital work in progress relating to engineering and design costs associated with the CSG project.

Note 5 Non-current assets – exploration and evaluation assets

	31 December 2023 \$	30 June 2023 \$
Exploration and evaluation assets – at cost	36,203,565	36,092,523

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

Balance at the beginning of the period	36,092,523
Expenditure incurred during the period	818,911
Research and development tax incentive	(707,869)
	-
Balance at the end of the period	36,203,565

Capitalised exploration and evaluation assets include initial acquisition costs, capitalised costs and a rehabilitation asset (refer note 8).

The Directors have assessed that for the exploration and evaluation assets recognised at 31 December 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 Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Note 6 Non-current assets – Property, plant and equipment

	31 December 2023 \$	30 June 2023 \$
Property, plant and equipment	7,763,079	3,841,324

The capitalised property, plant and equipment carried forward above have been determined as follows:

Balance at the beginning of the period	3,841,324
Additions during the period	5,137,018
Depreciation charge	(139,660) ¹
Write-off	(553,935)
R&D receivable	(521,668)
	-
Balance at the end of the period	7,763,079

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 7 Current liabilities – Trade and other payables

	31 December 2023 \$	30 June 2023 \$
Unsecured liabilities:		
Trade payables	582,453	603,315
Sundry payables and accrued expenses	1,081,500	527,594
Provision for annual leave	59,831	36,922
	<u>1,723,784</u>	<u>1,167,831</u>

Note 8 Non-current liabilities – Provisions

	31 December 2023 \$	30 June 2023 \$
Provision for rehabilitation	<u>2,996,280</u>	<u>2,938,682</u>
Reconciliation of carrying amount:		
Opening balance	2,938,682	
Unwinding of discount	<u>57,598</u>	
Balance at the end of the half-year	<u>2,996,280</u>	

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 9 Contributed equity

	31 Dec 2023 Shares	30 June 2023 Shares	31 Dec 2023 \$	30 June 2023 \$
(a) Share capital				
Fully paid ordinary shares	274,226,789	224,832,305	50,009,839	42,917,843

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2023	Balance		224,832,305		42,917,843
16 Aug 2023	Placement shares	(c)	26,000,000	\$0.15	3,900,000
6 Sept 2023	Share purchase plan		15,900,675	\$0.15	2,385,101
3 Oct 2023	Director placement shares	(c)	7,333,334	\$0.15	1,100,000
22 Dec 2023	CEO shares	(d)	160,475	\$0.31	-
	Share issue costs		-	-	(293,105)
31 Dec 2023	Balance		274,226,789		50,009,839

(c) Placement shares

The issue of 33,333,334 shares (26,000,000 on 16 August 2023 and 7,333,334 on 3 October 2023) under a placement to sophisticated investors (including Directors Greg Baynton 2,333,334 shares, Philip St Baker 2,333,334 shares, Tony Bellas 1,333,333 shares and Jon Stretch 1,333,333 shares).

(d) CEO shares

The issue of Shares to the aggregate value of \$50,000 to CEO, Doug McAlpine, in accordance with his executive services agreement. The number of shares issued was based on the an issue price per Share calculated using the 14 day volume weighted average price (VWAP) of the Company's Shares traded on ASX in the 14 days prior to the execution of the CEO Executive Services Agreement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 10 Contingent liabilities & Commitments

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.

Commitments

State gas have an ongoing contract with WASCO (Australia) Pty Ltd to perform work to construct a CNG Facility at Rollerston west. The agreement may be cancelled by any party with 1 month notice.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 11 Earnings per share

	31 December 2023 \$	31 December 2022 \$
<i>Earnings per share for loss from continuing operations</i>		
Profit (loss) after income tax attributable to the owners of State Gas Limited	(1,441,221)	(422,095)
	Number	Number
Weighted average number of shares used in calculating basic earnings per share	257,771,162	210,336,186
Weighted average number of shares used in calculating diluted earnings per share	257,771,162	210,336,186
	Cents	Cents
Basic earnings per share	(0.56)	(0.20)
Diluted earnings per share	(0.56)	(0.20)

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 2023.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

Note 12 Share-based payments

OPTIONS

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

	Number	Weighted Average Exercise Price
Options outstanding as at 30 June 2023	3,000,000	\$0.42
Options exercisable as at 30 June 2023	3,000,000	\$0.42
Granted	8,400,000	\$0.31
Exercised	-	-
Forfeited	-	-
Expired	(3,000,000)	\$0.42
Options outstanding as at 31 December 2023	8,400,000	\$0.31
Options exercisable as at 31 December 2023	8,400,000	\$0.31

8,400,000 options were granted to Aitken Mount Capital Partners under and Option Deed, as part payment for lead manager services relating to the capital raising completed during the half year period. The issue of the options extinguished and discharged the Company's obligation to pay Aitken Mount Capital Partners the sum of \$125,000 pursuant to the mandate.

The options are exercisable as follows:

Tranche	Number	Exercise price	Expiry date
Tranche 1	1,600,000	\$0.20	31 August 2026
Tranche 2	4,000,000	\$0.30	31 August 2026
Tranche 3	2,800,000	\$0.40	31 August 2026

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. These shares were issued on 22 December 2023. The number of shares issued was 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 \$20,661 has been recognised in respect of these.

Note 12 Share-based payments (continued)

PERFORMANCE RIGHTS

There have been no performance rights granted, forfeited or expired during the half year period.

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 \$
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	19,732
D McAlpine	30/11/2022	375,000	Final investment decision to proceed with construction of a physical pipeline.	0%	\$0.265	05/12/2027	13,979
D McAlpine	30/11/2022	375,000	Securing minimum annual gas sales of 2PJ per annum.	0%	\$0.265	05/12/2027	31,635
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	9,328
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	-
Total expense recognised							74,674

Note 13 Events occurring after the reporting period

The Company achieved mechanical completion and commenced commissioning in late February 2024. The Rougemont 2/3 dual lateral coal seams gas well ("Rougemont 2/3") has been connected to the new surface processing equipment and gathering system and dewatering has recommenced in preparation for first gas production and sales. Initial observations since recommencing the monitoring of Rougemont 2/3 productivity is that intersected coal seams continue to have good lateral continuity and permeability and potential for gas flow greater than the previous 474,000 cubic feet per day. The wells are being continuously monitored and a program is in place to accelerate the desorption process while preserving the integrity of the underlying coal seams.

The Company entered into a short-term loan agreements with Loch Explorations Pty Ltd (a related party of Director Tony Bellas), Monte Vista Holdings Pty Ltd (a related party of Director Philip St Baker), Allegro Capital Nominees Pty Ltd (a related party of Director Greg Baynton) and Jon Stretch for \$200,000 each. The loans are unsecured and accrue interest at 15% 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.

No other matters or circumstances have arisen since 31 December 2023 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 2023 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

A handwritten signature in black ink, appearing to read "R. Cottee", written over a light blue horizontal line.

Richard Cottee
Chairman

14 March 2024
Brisbane

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Directors and Audit Committee 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 2023 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 2023 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 2023 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

A handwritten signature in black ink, appearing to read 'D P Wright', is written over a light blue horizontal line.

D P Wright
Director

Brisbane, 14 March 2024