



**State Gas Limited (ACN 617 322 488)**

**Interim report – 31 December 2017**

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# State Gas Limited (ACN 617 322 488)

## Corporate Directory

<b>Directors</b>	G A J Baynton A Bellas R Towner I Paton
<b>Secretary</b>	S M Yeates
<b>Principal Place of Business</b>	Level 8, 46 Edward Street Brisbane QLD 4000
<b>Registered Office</b>	C/- McCullough Robertson Central Plaza Two Level 11, 66 Eagle Street Brisbane QLD 4000
<b>Auditor</b>	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 <a href="http://www.bdo.com.au">www.bdo.com.au</a>
<b>Solicitors</b>	McCullough Roberson Level 11, Central Plaza Two 66 Eagle Street Brisbane QLD 4000 <a href="http://www.mccullough.com.au">www.mccullough.com.au</a>
<b>Bankers</b>	Westpac Banking Corporation
<b>Website address</b>	<a href="http://www.stategas.com">www.stategas.com</a>

# State Gas Limited (ACN 617 322 488)

## Directors' Report

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2017.

### 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

Gregory Baynton  
Anthony Bellas  
Ian Paton (Appointed 16 August 2017)  
Rob Towner

### PRINCIPAL ACTIVITIES

During the financial half-year the principal activity of the Company was the development of PL231.

### REVIEW OF OPERATIONS

The net operating loss after income tax for the half-year was \$314,462.

The Company was incorporated on 10 February 2017 and as such no comparative information is reported.

### HIGHLIGHTS

- Initial Public Offering (IPO) Completed, raising \$5.25 million (prior to Issue costs), with trading commencing on the Australian Securities Exchange (ASX) on 10 October 2017.
- Successful flow-testing and gas sampling and analysis of existing gas wells at Reid's Dome – Cattle Creek conventional gas project (PL 231) undertaken during December 2017.
- Cattle Creek gas samples confirmed by analysis at PetroLab as pipeline-quality gas, with an average Methane (C1) content of approximately 96%, average Carbon Dioxide (CO2) content of approximately 1.5% and very low levels of interts.
- Reprocessing of historical seismic survey data for the Reid's Dome – Cattle Creek project commenced during November.
- Engagement of a drilling and completions co-ordinator during December to source long-lead items and co-ordinate the 2018 drilling and completion program.
- Lucy Snelling LLB, BA, G.Dip Finance and Investment was appointed as inaugural CEO on 22 February. Lucy was formerly Manager Gas Development for AGL Energy Limited and comes from a specialist background as a commercial and legal advisor in the oil and gas sector and as the former Partner and head of oil and gas in a Queensland-headquartered law firm.

Brisbane-based conventional gas developer **State Gas Limited (ASX: GAS)** is pleased to provide its inaugural Half-Yearly Operations Report for the half-year ended December, 2017.

### *Background*

State Gas Limited (State Gas or the Company) has a 60% interest in, and is operator of, a petroleum lease (PL 231) in central eastern Queensland, approximately 545 km northwest of Brisbane and 50 km southwest of Rolleston, in the Bowen Basin Central Queensland.

PL 231 hosts a conventional gas project located in the Denison Trough, first discovered in the 1950s. PL 231 is not a coal seam gas target. The initial area of focus for State Gas is the shallow, conventional gas target in the Cattle Creek Formation, a marine sandstone source rock, followed by a major secondary target in the underlying Reid's Dome beds. Both targets have produced gas during the drilling of exploration and appraisal wells on PL 231. A number of historical wells have flowed gas from the Cattle Creek Formation, which was reached at depths of as shallow as 130 meters.

# State Gas Limited (ACN 617 322 488)

## Directors' Report

### Completion of IPO

Following conversion of the Company to Public Company status in August 2017, State Gas lodged a Prospectus with ASIC on 4 September in relation to its IPO to raise \$5.25 million through the issue of 26,250,000 Ordinary Shares. The IPO closed early, with trading commencing on ASX on 10 October.

### Flow-Testing and Sampling of Historical Wells at PL 231

State Gas was also pleased to announce it had successfully completed gas flow-testing, sampling and analysis from the existing gas wells at its PL 231 project in the Bowen Basin Central Queensland. The three wells flow-tested and sampled were Primero 1, Aldinga North 1 and Reid's Dome-4. Drilled between 11 and 37 years ago, these existing wells are located within the northern half of PL 231.

The flow-testing found that, despite the wells being shut-in for such an extended period, all wells flowed significant gas, at lowest recorded stabilized rates of between 357,000 cf/d and 658,000 cf/d using a 0.500" orifice plate.

### FLOW TEST RESULTS – CATTLE CREEK CONVENTIONAL GAS PROJECT

Well Tested	Spud Date	Orifice Plate Size	Lowest Recorded Stabilized Flow Rate	Shut-in Pressure
<b>Primero-1</b>	11 Jun 2006	0.500"	534,000 cf/day	166 psig
		0.375"	380,000 cf/day	
<b>Aldinga North-1</b>	27-Oct-1993	0.500"	658,000 cf/day	167 psig
		0.375"	455,000 cf/day	
<b>Reid's Dome 4</b>	23-Mar-1980	0.500"	347,000 cf/day	167 psig
		0.375"	288,000 cf/day	

Two gas samples per well were taken from each of these wells and sent to Petrolab in South Australia for analysis. Gas composition results indicate the produced gas represents a similar composition in its natural form to that of pipeline-quality gas, with an average Methane (C1) content of approximately 96%, average Carbon Dioxide (CO2) content of approximately 1.5% and very low levels of inerts.

The similar reservoir pressure (166 – 167psig) and gas composition results for all the wells also implies that the reservoir is connected between each of the wells tested, providing a positive indicator for future gas production.

The gas flow-testing and sampling conducted in mid-December related to the shallow Cattle Creek Formation, which commences at approximately 130 metres from surface and does not include the much larger gas targets within the deeper Reid's Dome Beds situated beneath the Cattle Creek horizon.

### GAS COMPOSITION RESULTS – CATTLE CREEK CONVENTIONAL GAS PROJECT

		Primero-1		Aldinga North-1		Reid's Dome 4	
		Sample 1 (Mol %)	Sample 2 (Mol %)	Sample 1 (Mol %)	Sample 2 (Mol %)	Sample 1 (Mol %)	Sample 2 (Mol %)
<b>Methane</b>	<i>C1</i>	96.71	96.70	95.27	96.57	96.94	92.97
<b>Carbon Dioxide</b>	<i>CO2</i>	1.60	1.61	1.51	1.50	1.54	1.49
<b>Hydrogen Sulphide</b>	<i>H2S</i>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Nitrogen</b>	<i>N2</i>	1.37	1.37	3.10	1.78	1.42	5.44
<b>Ethane</b>	<i>C2</i>	0.19	0.19	0.08	0.08	0.09	0.10
<b>Propane</b>	<i>C3</i>	0.05	0.05	0.00	0.01	0.01	0.00

# State Gas Limited (ACN 617 322 488)

## Directors' Report

### *Seismic Reprocessing and Interpretation*

During November, DownUnder GeoSolutions was engaged to reprocess historical seismic survey data relating to PL 231. The reprocessing and interpretation is currently continuing, with the initial package of outcomes expected to be available in the coming weeks. Upon finalisation of the reprocessing and interpretation, opportunities for drilling will be considered based on access arrangements and the results of the seismic re-interpretation, along with the flow-testing and gas composition results received in recent months.

### *Key Personnel*

As planning and preparations for the 2018 drilling program continue, the Company engaged key personnel to oversee its operational and commercial activities.

During December, the Company engaged an experienced drilling and completion co-ordinator on a part-time basis to plan and co-ordinate the 2018 drilling program, identify appropriate and available contractors, and to source and commence ordering of critical long-lead items for the drilling program.

The Company also commenced its search for an appropriately experienced and qualified CEO during the period. This resulted in the appointment of Lucy Snelling LLB, BA, G.Dip Finance and Investment as inaugural CEO on 22 February 2018. Lucy was formerly Manager Gas Development for AGL Energy Limited and comes from a specialist background as a commercial and legal advisor in the oil and gas sector and as the former Partner and head of oil and gas in a Queensland-headquartered law firm.

### *Additional Corporate Matters*

During the period, the Company also held preliminary meetings with representatives of potential future gas customers and development partners and monitored projects, opportunities and dynamics in the east coast gas market. Offers of oil and gas projects also were received during 2017 and in early 2018 from parties seeking to divest assets.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

During the financial period the Company completed its Initial Public Offering (IPO), raising \$5.25 million (prior to Issue costs), with trading commencing on the Australian Securities Exchange (ASX) on 10 October 2017.

There were no other significant changes in the state of affairs of the Company during the financial half-year.

## **EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Since 31 December 2017 the company has issued 2,000,000 options over ordinary shares to Lucy Snelling, the newly appointed CEO of the Company. 1,000,000 of the options are exercisable at \$0.40 and 1,000,000 of the options are exercisable at \$0.60. The options have vesting conditions that are linked to performance milestones, and all options expire on 22 March 2020.

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.

**State Gas Limited (ACN 617 322 488)**

## **Directors' Report**

### **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 7.

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

A handwritten signature in black ink, appearing to read 'A Bellas', written in a cursive style.

A Bellas

Chairman

Brisbane

2 March 2018

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

As lead auditor for the review of State Gas Limited for the half-year ended 31 December 2017, 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.



**R M Swaby**  
Director

**BDO Audit Pty Ltd**

Brisbane, 2 March 2018

**State Gas Limited (ACN 617 322 488)**

**Statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017**

	<b>Note</b>	<b>Half-year December 2017 \$</b>
<b>Revenue</b>		
Other revenue		7,064
		<u>7,064</u>
<b>Expenses</b>		
Listing expenses		(141,356)
General and administrative expenses		(180,170)
		<u>(314,462)</u>
<b>Loss before income tax</b>		(314,462)
Tax expense		-
		<u>(314,462)</u>
<b>Loss after income tax</b>		<u>(314,462)</u>
<b>Other comprehensive income (net of tax)</b>		<u>-</u>
<b>Total comprehensive loss</b>		<u>(314,462)</u>
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>		
		Cents
Basic earnings per share		(0.27)
Diluted earnings per share		(0.27)

The accompanying notes form part of these financial statements.



**State Gas Limited (ACN 617 322 488)**

**Statement of financial position as at 31 December 2017**

		31 December 2017	30 June 2017
	Note	\$	\$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents		5,105,649	500,208
Trade and other receivables		177,015	21,244
<b>TOTAL CURRENT ASSETS</b>		<b>5,282,664</b>	<b>521,452</b>
NON-CURRENT ASSETS			
Exploration and evaluation assets	4	2,196,134	1,815,293
Trade and other receivables		35,000	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,231,134</b>	<b>1,815,293</b>
<b>TOTAL ASSETS</b>		<b>7,513,798</b>	<b>2,336,745</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables		407,574	71,538
<b>TOTAL CURRENT LIABILITIES</b>		<b>407,574</b>	<b>71,538</b>
NON-CURRENT LIABILITIES			
Provisions	5	427,969	427,969
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>427,969</b>	<b>427,969</b>
<b>TOTAL LIABILITIES</b>		<b>835,543</b>	<b>499,507</b>
<b>NET ASSETS</b>		<b>6,678,255</b>	<b>1,837,238</b>
<b>EQUITY</b>			
Issued capital	6	6,972,646	463,754
Share based payments reserve		27,555	1,380,968
Retained earnings		(321,946)	(7,484)
<b>TOTAL EQUITY</b>		<b>6,678,255</b>	<b>1,837,238</b>

The accompanying notes form part of these financial statements.

State Gas Limited (ACN 617 322 488)

Statement of changes in equity for the half-year ended 31 December 2017

Note	Issued Capital Ordinary \$	Share based payments reserve \$	Retained Earnings \$	Total \$
<b>Balance at 30 June 2017</b>	463,754	1,380,968	(7,484)	1,837,238
<b>Comprehensive income</b>				
Loss for the period	-	-	(314,462)	(314,462)
Other comprehensive income for the period	-	-	-	-
<b>Total comprehensive loss for the period attributable to members of the entity</b>	-	-	(314,462)	(314,462)
<b>Transactions with owners, in their capacity as owners</b>				
Share based payments	-	1,210	-	1,210
Shares issued (net of share issue expenses)	5,154,269	-	-	5,154,269
Transfer of Class B ordinary shares to equity	1,354,623	(1,354,623)	-	-
<b>Total transactions with owners and other transfers</b>	6,508,892	(1,353,413)	-	5,155,479
<b>Balance at 31 December 2017</b>	6,972,646	27,555	(321,946)	6,678,255

The accompanying notes form part of these financial statements.

# State Gas Limited (ACN 617 322 488)

## Statement of cash flows for the half-year ended 31 December 2017

	Note	Half-year December 2017 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers (including GST)		30,814
Payments to suppliers and employees (including GST)		(254,295)
Interest received		4,694
Net cash provided by operating activities		<u>(218,787)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration expenditure		(145,609)
(Payment)/refund of security deposits		(35,000)
Net cash used in investing activities		<u>(180,609)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues		5,350,000
Payment of capital raising costs		(345,163)
Net cash provided by financing activities		<u>5,004,837</u>
Net increase in cash held		4,605,441
Cash and cash equivalents at beginning of financial year		<u>500,208</u>
Cash and cash equivalents at end of financial year		<u><u>5,105,649</u></u>

The accompanying notes form part of these financial statements.

## State Gas Limited (ACN 617 322 488)

### Notes to the financial statements for the half-year ended 31 December 2017

#### **NOTE 1 CORPORATE INFORMATION**

State Gas Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia. The Company's shares are listed on the Australian Securities Exchange. State Gas Limited was incorporated on 10 February 2017.

The address of the registered office and principal place of business is set out in the Corporate Directory at the front of this report.

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The Group is a for-profit entity for the purpose of preparing this report.

This half-year financial report does not include all the notes of the type normally included in an Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as the Annual Financial Report. As a result, this report should be read in conjunction with the 30 June 2017 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The financial statements were approved and authorised for issue by the Directors on 2 March 2018.

##### **Basis of preparation**

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The accounting policies and methods of computation adopted in the preparation of the half-year financial statements are consistent with those of the previous financial year and corresponding interim reporting period.

##### **New, revised or amending Accounting Standards and Interpretations adopted**

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There has been no material impact on the financial statements by their adoption.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The potential financial impact of these changes is not yet possible to determine.

## Notes to the financial statements for the half-year ended 31 December 2017

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Going Concern

The 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 achieved a net loss of \$314,462 and net operating cash outflows of \$218,787 for the half-year ended 31 December 2017. As at 31 December 2017 the Company had a cash balance of \$5,105,649.

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 PL231.

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

- there is sufficient cash available at balance date for the Company to continue operating for a period of at least 12 months from the date of this report; and
- the Company has a proven history of successfully raising funds including its initial public offering completed on 5 October 2017.

#### Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

##### (a) Exploration and evaluation assets

Exploration and evaluation costs have been capitalised on the basis that the Group intend to commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised.

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

##### (b) Provision for restoration and rehabilitation

A provision for rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring affected areas.

The provision for future rehabilitation costs is the best estimate of the present value (including an appropriate discount rate relevant to the time value of money plus any risk premium associated with the liability) of the expenditure required to settle the restoration obligation at the reporting date. Future rehabilitation costs are reviewed annually and any changes in the estimate are reflected in the present value of the rehabilitation provision.

The initial estimate of the rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

# State Gas Limited (ACN 617 322 488)

## Notes to the financial statements for the half-year ended 31 December 2017

### NOTE 3 SEGMENT REPORTING

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

### NOTE 4 EXPLORATION AND EVALUATION ASSETS

	2017
	\$
Exploration and evaluation assets	<u>2,196,134</u>
<b>Reconciliation of the carrying amount</b>	
Opening balance 30 June 2017	1,815,293
Additions	<u>380,841</u>
<b>Carrying amount at 31 December 2017</b>	<u>2,196,134</u>

Capitalised exploration and evaluation assets include initial acquisition costs, capitalised costs and a rehabilitation asset (refer note 5).

### NOTE 5 PROVISIONS

Provision for rehabilitation	<u>427,969</u>
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#### *Rehabilitation provision*

The rehabilitation provision relates to the Reid's Dome production license PL231 (located in Bowen Basin, Queensland).

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

# State Gas Limited (ACN 617 322 488)

## Notes to the financial statements for the half-year ended 31 December 2017

### NOTE 6 CONTRIBUTED EQUITY

		31 December 2017	30 June 2017	31 December 2017	30 June 2017
<b>(a) Share capital</b>		<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
	Ordinary shares				
	Fully paid	134,812,500	25,000,000	5,618,023	463,754
<b>(b) Ordinary share capital</b>					
<b>Date</b>	<b>Details</b>	<b>Note</b>	<b>Number of Shares</b>	<b>Issue Price</b>	<b>\$</b>
1 Jul-16	Balance		-		-
10 Feb-17	Incorporation		100	\$1.00	100
21 Jun-17	Seed capital shares		24,999,900	\$0.02	500,000
	Share issue costs		-		(36,346)
30 Jun-17	Balance		25,000,000		463,754
10 Aug-17	Share split 3:1		50,000,000	-	-
1 Sep-17	Share issue		8,250,000	\$0.01333	110,000
2 Oct-17	Conversion of Class B shares	(c)	25,312,500	\$0.0535	1,354,623
5 Oct-17	IPO share issue	(d)	26,250,000	\$0.20	5,250,000
	Share issue costs		-		(205,731)
31 Dec-17	Balance		134,812,500		6,972,646

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

#### (c) Class B shares

During the previous financial year, 10,000,000 Class B Shares were issued to Triangle Energy (Global) Limited as non-cash consideration for the transfer of PL231 to State Gas Pty Ltd, to be converted to ordinary shares at the time of the Company's IPO. The conversion ration was to be 25% of the number of shares on issue post IPO, excluding the 8,250,000 shares issued in the interim capital raising in September 2017.

The Class B shares had the same rights as ordinary shares in all respects, including the right to vote at a general meeting of members, however the Class B shares also had value protection rights

The fair value of PL231 was not able to be estimated reliably. Instead, the Class B shares were valued at \$1,354,623 at the date of issue determined by reference to the proportion of shares held post IPO against the total cash expected to be received from seed capital investors, the interim capital raising and the IPO (18.78% of \$5,860,000). This amount was recorded in the Share Based Payments Reserve.

On 2 October 2017 the Class B shares were converted to 25,312,500 ordinary shares and the value transferred from the reserve to issued capital.

#### (d) IPO

Following conversion to public company status in August 2017, the Company lodged a prospectus with ASIC on 4 September 2017 in relation to its IPO to raise \$5.25 million through the issue of 26,250,000 ordinary shares. The Company was admitted to the official list of the ASX on 9 October 2017, with commencement of trading on 10 October 2017.

## State Gas Limited (ACN 617 322 488)

### Notes to the financial statements for the half-year ended 31 December 2017

#### NOTE 6 CONTRIBUTED EQUITY (continued)

##### (e) Share options

During the half-year, 1,000,000 options to acquire unissued shares in the Company were granted to Ian Paton, a director of the Company. These options have an exercise price of \$0.20 per option and expire 16 August 2020 (refer note 7).

During the half-year, 1,000,000 options to acquire unissued shares in the Company were granted to Ian Paton, a director of the Company. These options have an exercise price of \$0.40 per option and expire 16 August 2020 (refer note 7).

During the previous financial year, 2,750,000 options to acquire unissued shares in the Company were granted to Orbit Capital Pty Ltd, or Orbit Capital Pty Ltd's nominee. These options have an exercise price of \$0.04 per option and expire 21 June 2020

These options carry no dividend or voting rights.

##### (f) Capital management

Management controls the capital of the Company in order to maintain a good debt to equity ratio, provide the shareholders with adequate return and ensure that the Company can fund its operations and continue as a going concern.

The Company's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

#### NOTE 7 SHARE-BASED PAYMENTS

##### Issue of Share Options

During the year, a total of 2,000,000 options to acquire unissued shares in State Gas Limited were granted to Ian Paton, a director of the Company for no consideration.

##### *Fair value of options granted*

The assessed fair value at grant date of options granted during the half-year ended 31 December 2017 is set out in the table below. The fair value at grant date is independently determined using the Cox, Ross & Rubinstein Binomial Tree model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.



## State Gas Limited (ACN 617 322 488)

### Notes to the financial statements for the half-year ended 31 December 2017

#### NOTE 7 SHARE-BASED PAYMENTS (continued)

	Tranche 1	Tranche 2
Number of options	1,000,000	1,000,000
Exercise price	\$0.20	\$0.40
Grant date	16/08/2017	16/08/2017
Expiry date	16/08/2020	16/08/2020
Vesting date	16/08/2018	16/08/2019
Vesting conditions	Remain a director	Remain a director
Share price at grant date	\$0.02	\$0.02
Volatility	110.2%	110.2%
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.69%	2.69%
Fair value at grant date	\$0.000786	\$0.000424
Total fair value	\$786	\$424

The expected price volatility is based on the historic volatility of comparable companies share transactions over the same period of time as the expected life of the option.

#### 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 prospectus (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 COMMITMENTS

##### *License Development Plan*

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

The LDP commitment is calculated at \$15,600,000 on the assumption that the current LDP will continue until its expiry in 2020 and that the Company will fund its share of commitments, being equal to its 60% working interest in PL231.

# State Gas Limited (ACN 617 322 488)

## Notes to the financial statements for the half-year ended 31 December 2017

### NOTE 10 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since 31 December 2017 the company has issued 2,000,000 options over ordinary shares to Lucy Snelling, the newly appointed CEO of the Company. 1,000,000 of the options are exercisable at \$0.40 and 1,000,000 of the options are exercisable at \$0.60. The options have vesting conditions that are linked to performance milestones, and all options expire on 22 March 2020.

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

### NOTE 11 EARNINGS PER SHARE

	<b>Half-year December 2017 Cents</b>
<b>Basic earnings per share</b>	
Total basic earnings per share attributable to the ordinary equity holders of the Company	<u>(0.27)</u>
<b>Diluted earnings per share</b>	
Total diluted earnings per share attributable to the ordinary equity holders of the Company	<u>(0.27)</u>

### Reconciliation of earnings used in calculated earnings per share

	<b>Half-year December 2017 \$</b>
<i>Basic earnings per share</i>	
Profit attributable to the ordinary equity holders of the Company used in calculating based earnings per share	<u>(314,462)</u>
<i>Diluted earnings per share</i>	
Profit attributable to the ordinary equity holders of the Company used in calculated diluted earnings per share	<u>(314,462)</u>

### Weighted average number of shares used as the denominator

	<b>Half-year December 2017 Number</b>
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>118,336,957</u>

### Information concerning the classification of securities

#### Options

Options on issue are not included in the calculation of diluted earnings per share because they are antidilutive for the half-year ended 31 December 2017 (refer note 6(e)).

## State Gas Limited (ACN 617 322 488)

### Directors' Declaration

In the directors' opinion

- (a) The financial statements and notes set out on pages 6 to 16 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



A Bellas  
Chairman

Brisbane  
2 March 2018

## 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 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement 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 half-year financial report of the Company is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Company's financial position as at 31 December 2017 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 *Corporations Regulations 2001*.

#### Directors' responsibility for the Half-Year 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 is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2017 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*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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.

#### **Independence**

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

**BDO Audit Pty Ltd**

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a faint, larger version of the signature.

**R M Swaby**  
Director

Brisbane, 2 March 2018