



INTERIM REPORT
31 DECEMBER 2019

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STATE GAS LIMITED

ACN 617 322 488

Interim Report – 31 December 2019

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CORPORATE DIRECTORY

Directors	R Cottee G A J Baynton A Bellas R Towner I Paton
Secretary	S M Yeates
Principal Place of Business	Level 8, 46 Edward Street Brisbane QLD 4000
Registered Office	Level 8, 46 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

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DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2019.

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:

R Cottee
Gregory Baynton
Anthony Bellas
Ian Paton
Rob Towner

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

July to December 2019 (the Period) has been a very important period in your Company's evolution, with new leadership and strategy, successful resolution of ownership of its flagship PL231 Reid's Dome Project, and significant progress in confirming the commercial opportunity for State Gas at Reid's Dome.

In line with the stage of the Reid's Dome Project's development, the net operating loss after income tax for the half-year was \$1,748,529 (2018: \$1,054,672). The half-year result reflected the drilling and testing activities underway at site that are aimed at confirming significant gas resources and fulfilling the Company's early gas-to-market plans.

Just prior to the commencement of the period and the 2019 field season, the Company was very pleased to secure industry leader Mr Richard Cottee as Executive Chairman, with previous Chairman Mr Tony Bellas continuing on the Board as Deputy Chair. Following his appointment, Mr Cottee led the Company in developing Target 2021, a targeted strategy to bring gas to market from PL 231 at lowest cost, as soon as possible to meet the shortfalls forecast in the East Coast gas market.

Since then the Company has actively progressed its workplan to appraise the gas production potential of the coals and sands in the Reid's Dome Beds.

The potential for a significant gas project at PL 231 was established by the drilling of the Nyanda-4 corehole in late 2018. Nyanda-4 provided a data suite on the coals in the southern area of the permit; during the Period the Company drilled the Aldinga East-1A corehole in the north and Serocold-1 in the centre to extend its knowledge across the spine of PL 231. In addition, Nyanda-4 was re-entered and completed during the December Quarter, and is currently producing gas.

The results of the field activities during the Period have been very encouraging. Drilling at Aldinga East-1A and Serocold-1 has confirmed the presence of the Reid's Dome coal measures throughout the spine of PL 231 with gas content on a par with Nyanda-4.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019 (continued)**

In signs which are extremely positive for the commerciality of the Project, sustained gas production commenced at Nyanda-4 after only five days of dewatering and with water production at the lowest end of the range for coal seam gas. Gas flows consistently increased as the water level (and hence downhole pressure) lowered, recorded at 227 mscf per day prior to dropping back when technical problems with the pump led to water levels rising. Gas was also observed at Serocold-1 within five days of commencement of dewatering. In a further positive for the Project's commerciality, a new conventional gas pool has been discovered in the shallow Cattle Creek Formation at Aldinga East-1A.

Weather events in early 2020 have been challenging the Company's efforts to accelerate the assessment of the Project, with repeated heavy rain preventing access during February. Re-establishing full production at Nyanda-4, and production of Serocold-1 are of highest priority, and options to complete and produce from Aldinga East-1A are also being explored. The production results will enable the Company to progress development planning, including infrastructure development and partnering options, in tandem with undertaking more comprehensive testing.

A further important development during the period has been the successful resolution of the ownership of the Project. At the end of 2018 the Company initiated a process to increase its Participating Interest in the Project from 80% to 100% in accordance with the provisions of the Joint Operating Agreement (JOA) for the Project. The Company's joint venturer, Dome Petroleum Resources, Plc (Dome), resisted the process, and in February 2019 State Gas commenced action in the Supreme Court of Queensland to enforce the terms of the JOA.

The matter progressed to trial in September 2019, resulting in judgement in favour of the Company. Dome appealed, however its appeal was struck out at a preliminary appeal hearing. With the ownership issues resolved, your Company is now fully focused on implementing its gas-to-market Target 2021 Strategy and progressing the development of the Project to achieve first gas sales from Reid's Dome.

Your Company looks forward to the 2020 year with considerable excitement as we work to de-risk the Project, take advantage of the buoyant gas market, and pursue early commercialisation and initial gas sales.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the half year period, State Gas's entitlement to the remaining 20% Participating Interest in PL 231 from its Joint Venture partner Dome Petroleum Resources Plc was confirmed by the Supreme Court of Queensland and the Court of Appeal of the Supreme Court of Queensland. The registration of the transfer of the interest is currently being processed by the Queensland Government.

In addition, during the half year period the Company:

- a) raised \$1.5m through the issue of 2,307,691 fully paid ordinary shares at \$0.65 per share.
- b) raised \$100,000 through the issue of 500,000 fully paid ordinary shares on the exercise of 500,000 options at \$0.20

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019 (continued)****EVENTS OCCURRING AFTER THE REPORTING DATE**

On 25 February 2020 the Court ordered Dome to pay the Company's costs in the amount of \$644,553 against which the consideration paid into court by the Company of \$233,333 may be offset. State Gas expects to receive reimbursement of \$233,333, being equal to the amount of consideration paid by the Company for the acquisition of the final 20% interest in PL231, and held by the Court, however it does not expect to recover the balance of the costs payable by Dome.

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.

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 6.

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



R Cottee
Chairman

Brisbane
5 March 2020

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

As lead auditor of State Gas Limited for the half-year ended 31 December 2019, 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, 5 March 2020

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-year	
	2019	2018
	\$	\$
Continuing operations		
Other income	3,913	45,059
Administrative and other expenses	(247,694)	(211,533)
Legal fees	(495,121)	(24,754)
Share based payment expense	(687,436)	(552,821)
Employee benefits expense	(153,171)	(302,800)
Financing costs	(169,020)	(7,823)
	<hr/>	<hr/>
Loss before income tax expense	(1,748,529)	(1,054,672)
Income tax expense	-	-
	<hr/>	<hr/>
Loss from continuing operations	(1,748,529)	(1,054,672)
Other comprehensive income for the period, net of tax	-	-
	<hr/>	<hr/>
Total comprehensive income for the period	(1,748,529)	(1,054,672)
	<hr/>	<hr/>
	Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	(1.22)	(0.78)
Diluted earnings per share	(1.22)	(0.78)

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

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**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019 \$	30 June 2019 \$
ASSETS			
Current assets			
Cash and cash equivalents		3,938,909	6,344,568
Trade and other receivables		483,516	49,407
Total current assets		4,422,425	6,393,975
Non-current assets			
Property, plant and equipment		1,844	1,844
Exploration and evaluation assets	3	10,665,353	5,985,990
Other assets		35,000	35,000
Total non-current assets		10,702,197	6,022,834
Total assets		15,124,622	12,416,809
LIABILITIES			
Current liabilities			
Trade and other payables		2,399,087	577,220
Total current liabilities		2,399,087	577,220
Non-current liabilities			
Provisions	4	905,125	505,467
Total non-current liabilities		905,125	505,467
Total liabilities		3,304,212	1,082,687
Net assets		11,820,410	11,334,122
EQUITY			
Contributed equity	5	14,749,351	13,201,970
Reserves		1,512,457	825,021
Accumulated losses		(4,441,398)	(2,692,869)
Total equity		11,820,410	11,334,122

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 2019**

	Contributed equity \$	Share based payments reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2018	6,972,646	123,718	(709,514)	6,386,850
Loss for the period	-	-	(1,054,672)	(1,054,672)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(1,054,672)	(1,054,672)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	-	-	-	-
Share-based payments	-	552,822	-	552,822
Balance at 31 December 2018	6,972,646	676,540	(1,764,186)	5,885,000
Balance at 1 July 2019	13,201,970	825,021	(2,692,869)	11,334,122
Loss for the period	-	-	(1,748,529)	(1,748,529)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(1,748,529)	(1,748,529)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,547,381	-	-	1,547,381
Share-based payments	-	687,436	-	687,436
Balance at 31 December 2019	14,749,351	1,512,457	(4,441,398)	11,820,410

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 2019**

	Half-year	
	2019	2018
	\$	\$
Cash flows from operating activities		
Receipts from customers (GST inclusive)	128,627	4,156
Payments to suppliers and employees (GST inclusive)	(1,564,724)	(581,886)
Interest received	3,913	10,189
Income taxes paid	-	-
Net cash outflow from operating activities	<u>(1,432,184)</u>	<u>(567,541)</u>
Cash flows from investing activities		
Payments for exploration expenditure	(2,520,856)	(2,620,609)
Payments for security deposits	-	-
Net cash outflow from investing activities	<u>(2,520,856)</u>	<u>(2,620,609)</u>
Cash flows from financing activities		
Proceeds on issue of shares	1,599,999	-
Payments for capital raising costs	(52,618)	-
Net cash inflow from financing activities	<u>1,547,381</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(2,405,659)	(3,188,150)
Cash and cash equivalents at the beginning of the year	<u>6,344,568</u>	<u>4,537,398</u>
Cash and cash equivalents at the end of the year	<u><u>3,938,909</u></u>	<u><u>1,349,248</u></u>

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 2019

Note 1 Summary of significant accounting policies

These general purpose interim financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these 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 and amended standards adopted by the group

AASB 16 *Leases* became effective for the current reporting period however there were no retrospective adjustments or current period adjustments resulting from adopting the standard as there are no material leases in place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 1 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 incurred a net loss of \$1,748,529 and net operating cash outflows of \$1,432,184 for the half-year ended 31 December 2019. As at 31 December 2019 the Company had a cash balance of \$3,938,909.

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Note 3 Non-current assets – exploration and evaluation assets

	31 December 2019	30 June 2019
	\$	\$
Exploration and evaluation assets – at cost	10,665,353	5,985,990

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

Balance at the beginning of the year	5,985,990	2,588,428
Expenditure incurred during the period	4,448,725	3,350,823
Rehabilitation asset*	230,638	46,739
Balance at the end of the half-year	10,665,353	5,985,990

Capitalised exploration and evaluation assets include initial acquisition costs, capitalised costs and a rehabilitation asset (refer note 4).

The Directors have assessed that for the exploration and evaluation assets recognised at 31 December 2019, 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 4 Non-current liabilities – Provisions

	31 December 2019	30 June 2019
	\$	\$
Provision for rehabilitation	905,125	505,467
Reconciliation of carrying amount:		
Opening balance	505,467	443,082
Additions*	230,638	46,739
Unwinding of discount	169,020	15,646
Balance at the end of the half-year	905,125	505,467

* Increase in provision for rehabilitation due to additional wells drilled during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 4 Non-current liabilities – Provisions (continued)

Rehabilitation provision

The rehabilitation provision relates to the Reid's Dome production license PL231 (located in Bowen Basin, Queensland). State Gas Pty Ltd is liable to pay 100% of rehabilitation costs for all 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 5 Contributed equity

	31 Dec 2019 Shares	30 June 2019 Shares	31 Dec 2019 \$	30 June 2019 \$
(a) Share capital				
Fully paid ordinary shares	146,232,014	143,424,323	14,749,351	13,201,970

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2019	Balance		143,424,323		13,201,970
6 Nov 2019	Exercise of options	(c)	500,000	\$0.20	100,000
19 Dec 2019	Placement shares	(d)	1,538,461	\$0.65	1,000,000
30 Dec 2019	Placement shares	(d)	769,230	\$0.65	499,999
	Share issue costs		-		(52,618)
31 Dec 2019	Balance		146,232,014		14,749,351

(c) Exercise of options

The issue of 500,000 fully paid ordinary shares to director, Ian Paton, on the exercise of options.

(d) Issue to sophisticated investors

The issue of a total of 2,307,691 fully paid ordinary shares to sophisticated investors at an issue price of \$0.65 cash.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 6 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 7 Commitments

Later Development Plan

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

The LDP commitment is calculated at \$12,000,000 (taking into account expenditure under the LDP to date) on the assumption that the current LDP will continue until its expiry in 2020.

The Company believes the current LDP is not appropriate for the development of PL231 and has been in discussions the Department of Natural Resources, Mines and Energy to that effect. With the Department's agreement, the Company is currently finalising a revised LDP to replace the current LDP, which will propose a commitment of approximately \$6.6m for the period until 14 December 2022.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Note 8 Earnings per share

	2019	2018
	\$	\$
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of State Gas Limited	(1,748,529)	(1,054,672)
	<hr/>	<hr/>
	Number	Number
Weighted average number of shares used in calculating basic and diluted earnings per share	143,693,554	134,812,500
	<hr/>	<hr/>
	Cents	Cents
Basic earnings per share	(1.22)	(0.78)
Diluted earnings per share	(1.22)	(0.78)

Information concerning the classification of securities

Options

Options on issue are not included in the calculation of diluted earnings per share because the company has generated losses, hence they are antidilutive for the half-year ended 31 December 2019.

Note 9 Events occurring after the reporting period

On 25 February 2020 the Court ordered Dome to pay the Company's costs in the amount of \$644,553 against which the consideration paid into court by the Company of \$233,333 may be offset. State Gas expects to receive reimbursement of \$233,333, being equal to the amount of consideration paid by the Company for the acquisition of the final 20% interest in PL231, and held by the Court, however it does not expect to recover the balance of the costs payable by Dome.

No other matters or circumstances have arisen since 31 December 2019 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 2019 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

5 March 2020
Brisbane

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 2019, 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 2019 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*.

Emphasis of matter - 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.

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 2019 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

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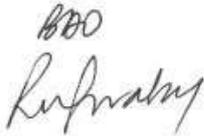
requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



R M Swaby
Director

Brisbane, 5 March 2020

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