INTERIM REPORT

31 DECEMBER 2018

STATE GAS LIMITED

ACN 617 322 488

Interim Report – 31 December 2018

CORPORATE DIRECTORY

Directors	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

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2018.

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
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 $1,054,672.

The December 2018 half year (the Period) has been a particularly pleasing period for the Company. The period commenced with highly experienced exploration geologist, Mr James Crowley *BSc(Hons)* taking up his position as Chief Operating Officer with the Company. Upon commencement, Mr Crowley undertook a detailed review of the geology of its primary asset, its 60% holding in Petroleum Lease 231. Long recognised as hosting conventional gas targets, Mr Crowley identified the potential for the permit to also contain significant volumes of coal seam gas in the coal measures in the Reid's Dome Beds. The Reid's Dome Beds, a formation approximately 1500m thick, extends throughout the entire permit. The area of PL 231 has not previously been considered, let alone explored, for coal seam gas.

During the previous period, the Company had commenced planning for a drilling campaign to investigate shallow conventional targets identified by the reprocessing of historic seismic data. Following Mr Crowley's review, the Company refocussed its proposed campaign to drill a well to investigate both the coal seam gas and conventional potential of the Reid's Dome Beds, to follow an initial well appraising the Cattle Creek Formation in satisfaction of the Company's Joint Venture obligations.

Gas was first discovered in the area of PL 231 in the AOE-1 well, drilled in 1955. AOE-1 encountered gas in the shallow Cattle Creek Formation within PL 231, a formation containing 3-way dip closed structural and stratigraphic traps with over-pressure. State Gas' first well, Primero West-1, was located approximately 650m west-southwest of AOE-1 and was designed to test the southwestern extent of the Cattle Creek gas sand discovered by that early well, as well as satisfy the Company's obligations under the Joint Operating Agreement.

Primero-West-1 spudded on 10 November 2018, reached its planned total depth of 250m on 15 November, and the rig was released on 18 November. Operations were successfully conducted without safety or environmental incident. The well was plugged and abandoned, as any full-field development of the Cattle Creek Formation within PL 231 will require additional seismic testing to optimise the locations of production wells.

The Primero West-1 well encountered the "Primero" gas sand in the Cattle Creek Formation from 131.5m depth, in line with expectations. Analysis of wireline logs has indicated a net gas-bearing zone of up to 12.5m. Flow testing conducted on the well measured a maximum gas flow rate of 0.436 mmscf/d through a 48/64" choke, in line with expectations. Laboratory analysis has confirmed the gas composition to be 96.7% methane, a result similar to offset well data.

The well was 100% funded by State Gas and completed the Company's sole-funding obligations under the Joint Operating Agreement for PL 231.

Drilling of the Nyanda-4 corehole commenced following completion of drilling of Primero West-1. Nyanda-4 was designed to test the gas potential of the Reid's Dome coals and sandstone reservoirs. It is located approximately 13.5km south of the Primero West-1 well and 50m southwest of Nyanda-1 (drilled in 1987).

Nyanda-4 spudded on 22 November with a planned Total Depth of 1000m. However, as a result of the favourable results achieved from drilling and testing, the well was extended a further 200m to 1200m. Approximately 150m of core was obtained, commencing at 392m depth. The well was also logged, and drill stem tests conducted. The well reached the revised total depth on 30 November and the rig was released on 3 December. Because of the favourable results, the Nyanda-4 well has been suspended for future re-entry and testing, rather than plugged and abandoned as originally planned. As with Primero West-1, operations were conducted without serious safety or environmental incident.

The results from Nyanda-4 have been exciting. Gas was observed bubbling from the coal and hissing from sandstones in Nyanda-4 cores. Numerous gas shows were seen in the logs, associated with both coals and sandstones. Analysis has confirmed 40.4m of net coal in seams up to 4m thick, and a further 25m of carbonaceous shales and thinner coal seams (i.e. <0.3m), indicating 65m of coals and carbonaceous shales (excluding conventional sandstones). Correlation with AOE-1, located approximately 14 km north of Nyanda-4 within PL 231, supports the expectation of additional coals below TD of 1200m.

The coal cores obtained from the well are generally bright black, with good cleating. The cores show open fractures. DST data indicates permeability of the coals in the cored section of the well, and that the Reid's Dome Beds are ~100psi over-pressured compared to hydrostatic.

After 7 weeks' desorption the average gas content from cored samples is 11.6 m3/t, with gas content increasing with ongoing desorption in the laboratory. Gas content for the thickest seams is currently ~13 m3/t. Gas composition data of the latest desorption sample indicates a weighted average composition of 80% methane, with balance CO2. The thickest seam contains 87.6% methane. Within the cored interval, the CO2 content reduces with depth. In the greater permit area, as well as diminishing with depth, CO2 values decline to the north, with the CO2 of AOE-1 at 1,360m being 0.7%. Further analysis of the core samples from Nyanda-4 and well data from both wells is ongoing.

Also during the period, the Company was granted Pipeline Survey Licence 2028. Valid for a period of 2 years, the PSL entitles the Company to enter upon the land covered by the licence to investigate potential pipeline routes. The area of the licence covers a broad area encompassing route options to the Rolleston Gas Plant to the north east, and to the Queensland Gas Pipeline to the south east. The Company has commenced discussions with the owners of both facilities.

At the same time, the Company has increased its interest in PL 231. At commencement of the period, State Gas held a 60% interest in PL 231 and the associated Joint Venture. On 27 November 2018, the Company entered into an agreement to acquire a further 20% interest in the permit and Joint Venture, taking its interest to 80%, with the Joint Operating Agreement continuing in full force and effect. This transfer was registered by the Queensland Department of Natural Resources, Mines and Energy on 4 January 2019.

In addition, in early December 2018, State Gas elected under the provisions of the Joint Operating Agreement for the Joint Venture to acquire the remaining 20% and increase its interest in PL 231 to 100%. Offer and Acceptance Notices were issued on 4 December, and this process is anticipated to be completed in the first half of 2019.

Your Company is looking to maximise the benefit of these results for shareholders. It has received approaches and interest from experienced industry participants to progress the Reid's Dome Gas Project in both partnering (asset-level) and corporate (company-level) transactions. The Company aims to ensure that discussions include all qualified and interested counterparties to maximise the benefit for shareholders.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 27 November 2018 the Company entered into an agreement to acquire a further 20% interest in the permit and Joint Venture, taking its interest to 80%, with the Joint Operating Agreement continuing in full force and effect. This transfer was registered by the Queensland Department of Natural Resources, Mines and Energy on 4 January 2019.

In addition, in early December 2018 State Gas elected under the provisions of the Joint Operating Agreement for the Joint Venture to acquire the remaining 20% and increase its interest in PL 231 to 100%. Offer and Acceptance Notices were issued on 4 December, and this process is anticipated to be completed in the first half of 2019.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since the end of the financial period the Company has:

1) Appointed Highbury Partnership as financial advisor as the Company has received approaches and interest from a number of parties to progress the Reid's Dome Gas Project in both partnering (asset-level) and corporate (company-level) transactions. In line with the Board's aim to ensure that discussions include all qualified and interested counterparties, State Gas has appointed leading independent M&A/Advisory firm Highbury Partnership as financial advisor to help it assess and respond to inquiries from interested parties. Highbury Partnership and its principals have advised and financed a wide range of oil & gas clients over many years. Presentations, discussions and Q&As are continuing with parties under confidentiality arrangements.

2) Commenced a Security Purchase Plan which provides shareholders with the opportunity to invest up to $15,000 in fully paid ordinary shares at an issue price of $0.85.

3) Commenced proceedings in the Supreme Court of Queensland seeking specific performance by the Company's joint venture partner of its obligations under the Joint Operating Agreement to transfer the remaining 20% participating interest in PL 231 to the Company on terms set out in the Joint Operating Agreement.

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 7.

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

A Bellas

Chairman

Brisbane

14 March 2019

AUDITOR'S INDEPENDENCE DECLARATION

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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 2018, 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, 14 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Half-year	
	2018	2017
	$	$
Continuing operations		
Other income	45,059	7,064
Share issue expenses relating to IPO	-	(141,356)
Administrative and other expenses	(236,287)	(178,960)
Share based payment expense	(552,821)	(1,210)
Employee benefits expense	(302,800)	-
Financing costs	(7,823)	-
Loss before income tax expense	(1,054,672)	(314,462)
Income tax expense	-	-
Loss from continuing operations	(1,054,672)	(314,462)
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	(1,054,672)	(314,462)
	Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	(0.78)	(0.27)
Diluted earnings per share	(0.78)	(0.27)

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 2018

	Notes	**31 December 2018 $**	30 June 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		1,349,248	4,537,398
Trade and other receivables		113,895	71,321
Total current assets		1,463,143	4,608,719
Non-current assets			
Exploration and evaluation assets	3	5,301,664	2,588,428
Other assets		35,000	35,000
Total non-current assets		5,336,664	2,623,428
Total assets		6,799,807	7,232,147
LIABILITIES			
Current liabilities			
Trade and other payables		417,163	402,215
Total current liabilities		417,163	402,215
Non-current liabilities			
Provisions	4	497,644	443,082
Total non-current liabilities		497,644	443,082
Total liabilities		914,807	845,297
Net assets		5,885,000	6,386,850
EQUITY			
Contributed equity	5	6,972,646	6,972,646
Reserves		676,540	123,718
Accumulated losses		(1,764,186)	(709,514)
Total equity		5,885,000	6,386,850

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 2018

	Contributed equity $	Share based payments reserve $	Accumulated losses $	Total $
Balance at 1 July 2017	463,754	1,380,968	(7,484)	1,837,238
Loss for the period	-	-	(314,462)	(314,462)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(314,462)	-
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	5,154,269	-	-	5,154,269
Transfer of Class B ordinary shares to equity	1,354,623	(1,354,623)	-	-
Share-based payments	-	1,210	-	1,210
Balance at 31 December 2017	6,972,646	27,555	(321,946)	6,678,255
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

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 2018

	Half-year	
	2018	2017
	$	$
Cash flows from operating activities		
Receipts from customers (GST inclusive)	4,156	30,814
Payments to suppliers and employees (GST inclusive)	(581,886)	(254,295)
Interest received	10,189	-
Income taxes paid	-	4,694
Net cash outflow from operating activities	(567,541)	(218,787)
Cash flows from investing activities		
Payments for exploration expenditure	(2,620,609)	(145,609)
Payments for security deposits	-	(35,000)
Net cash outflow from investing activities	(2,620,609)	(180,609)
Cash flows from financing activities		
Proceeds on issue of shares	-	5,350,000
Payments for capital raising costs	-	(345,163)
Net cash inflow from financing activities	-	5,004,837
Net increase (decrease) in cash and cash equivalents	(3,188,150)	4,605,441
Cash and cash equivalents at the beginning of the year	4,537,398	500,208
Cash and cash equivalents at the end of the year	1,349,248	5,105,649

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 2018

Note 1 Summary of significant accounting policies

These general purpose interim financial statements for the interim half-year reporting period ended 31 December 2018 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 standard as set out below.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

New and amended standards adopted by the group
A number of new or amended standards became application for the current reporting period however there were no retrospective or current period adjustments resulting from adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*

Impact of standards issued but not yet applied by the entity

AASB 16 Leases
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

As the company does not have any leases there will be no impact of the financial statements from applying the new standard.

Note 1 Summary of significant accounting policies (continued)

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.

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.

Note 1 Summary of significant accounting policies (continued)

As disclosed in the financial statements, the Company achieved a net loss of $1,054,672 (2017: Loss $314,462) and net operating cash outflows of $567,541 (2017: outflow $218,787) for the half-year ended 31 December 2018. As at 31 December 2018 the Company had a cash balance of $1,349,248.

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:

- completion of the placement of 588,240 fully paid ordinary shares at an issue price of $0.85 raising $500,000 on 8 March 2019;
- there is sufficient cash available at balance date for the Company to continue operating; and
- the Company has a proven history of successfully raising funds including its initial public offering completed on 5 October 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 2 Segment information

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

Note 3 Non-current assets – exploration and evaluation assets

	31 December 2018 $	30 June 2018 $
Exploration and evaluation assets – at cost	5,301,664	2,588,428

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

	31 December 2018 $	30 June 2018 $
Balance at the beginning of the year	2,588,428	1,815,293
Acquisition costs	308,925	-
Expenditure incurred during the period	2,357,572	773,135
Rehabilitation asset	46,739	-
Balance at the end of the half-year	5,301,664	2,588,428

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 2018, 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 2018 $	30 June 2018 $
Provision for rehabilitation	497,644	443,082

Reconciliation of carrying amount:

	31 December 2018 $	30 June 2018 $
Opening balance	443,082	427,969
Additions	46,739	-
Unwinding of discount	7,823	15,113
Balance at the end of the half-year	497,644	443,082

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). Under the terms of the Joint Venture Agreement relating to PL231, State Gas Pty Ltd is liable to pay 80% 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 2018 Shares	30 June 2018 Shares	**31 Dec 2018 $**	30 June 2018 $
(a) Share capital				
Fully paid ordinary shares	134,812,500	134,812,500	6,972,646	6,972,646

(b) Capital Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company includes equity attributable to equity holders, comprising of issued capital, reserves and accumulated losses. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the company.

The Company monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Company will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Company has no externally imposed capital requirements. The Company's strategy for capital risk management is unchanged from prior years.

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 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 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 $20,800,000 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 80% working interest in PL231.

The Company has applied to the Department of Natural Resources, Mines and Energy for a variation of the current LDP commitments, proposing a commitment of approximately $3m for the remaining term of the LDP until 14 December 2019.

Note 8 Earnings per share

	2018 $	2017 $
Earnings per share for loss from continuing operations		
Loss after income tax attributable to the owners of State Gas Limited	(1,054,672)	(314,462)

	Number	Number
Weighted average number of shares used in calculating basic and diluted earnings per share	134,812,500	118,336,957

	Cents	Cents
Basic earnings per share	(0.78)	(0.27)
Diluted earnings per share	(0.78)	(0.27)

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 2018.

Note 9 Events occurring after the balance sheet date

Since the end of the financial period the Company has:

1) Appointed Highbury Partnership as financial advisor as the Company has received approaches and interest from a number of parties to progress the Reid's Dome Gas Project in both partnering (asset-level) and corporate (company-level) transactions. In line with the Board's aim to ensure that discussions include all qualified and interested counterparties, State Gas has appointed leading independent M&A/Advisory firm Highbury Partnership as financial advisor to help it assess and respond to inquiries from interested parties. Highbury Partnership and its principals have advised and financed a wide range of oil & gas clients over many years. Presentations, discussions and Q&As are continuing with parties under confidentiality arrangements;

2) Completed the placement of 588,240 fully paid ordinary shares at $0.85 to raise $500,000 to sophisticated and professional investors;

3) Commenced a Security Purchase Plan which provides shareholders with the opportunity to invest up to $15,000 in fully paid ordinary shares at an issue price of $0.85.

4) Commenced proceedings in the Supreme Court of Queensland seeking specific performance by the Company's joint venture partner of its obligations under the Joint Operating Agreement to transfer the remaining 20% participating interest in PL 231 to the Company on terms set out in the Joint Operating Agreement.

No other matters or circumstances has arisen since 31 December 2018 that has 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 2018 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

Tony Bellas

Tony Bellas
Chairman

14 March 2019
Brisbane

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of State Gas Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of State Gas Limited (the Company), which comprises the statement of financial position as at 31 December 2018, 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 2018 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*.

(iii) Emphasis of matter – Material uncertainty relating to going concern

(iv) 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 2018 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

BDO

R M Swaby
Director

Brisbane, 14 March 2019