

STATE GAS

INTERIM REPORT
31 DECEMBER 2024

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STATE GAS LIMITED

ACN 617 322 488

Interim Report – 31 December 2024

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CORPORATE DIRECTORY

Directors	P St Baker G A J Baynton A Bellas D McAlpine J Stretch
Secretary	S M Yeates
Principal Place of Business	Suite 4, Level 1, 40 Edward Street Brisbane, QLD 4000
Registered Office	Suite 4, Level 1, 40 Edward Street Brisbane, QLD 4000
Auditor	BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 www.bdo.com.au
Solicitors	HWL Ebsworth Lawyers Level 19, 480 Queen Street Brisbane QLD 4000 https://hwlebsworth.com.au/
Bankers	Westpac Banking Corporation
Website address	www.stategas.com

Competent Person Statement

The estimate of Reserves and Contingent Resources for the Reid's Dome and Rougemont Gas Projects provided in this Presentation, is based on, and fairly represents, information and supporting documentation prepared by Mr James Crowley in accordance with Petroleum Resource Management System guidelines.

Mr Crowley is a qualified person as defined under the ASX Listing Rule 5.42. Mr Crowley holds a Bachelor of Science (Honours) from Macquarie University, Sydney and has over 36 years' experience in the industry. He is a member of The Petroleum Exploration Society of Australia and The Society of Petroleum Engineers. Mr Crowley has consented to the publication of the Contingent Resource estimates for the Reid's Dome and Rougemont Gas Projects in the form and context in which they appear in this Presentation.

The Contingent Resource estimates for the Reid's Dome and Rougemont Gas Projects, of which State Gas holds 100%, were estimated utilising the probabilistic method and have not been adjusted for commercial risk.

Chairman's Letter

Since taking on the role of Non-Executive Chairman in November 2024, my immediate priorities have been to work with the Executive to support our exploration and gas production activities. Pleasingly the Company has been able to recommence exploration and gas production activities and has commenced field work for its two-well exploration program.

Exploration

In calendar 2024, the Company has secured \$5.5 million of exploration grant funding through the Queensland Government's Frontier Gas Exploration Program. The Grant will assist the Company to finance the drilling and completion of two new vertical wells which are close to Rougemont 2/3 in an area that has proven gas content and good permeability. These activities will further delineate gas resources and reserves within the Rolleston West Project area. The Company's HDNG plant will enable it to immediately capture and commercialise production testing gas from these new wells. In March 2025, the Company mobilised personnel and equipment to undertake this two well drilling program.

Successful results from the drilling program will enable the Company to convert a substantial portion of its contingent resources into 2P reserves, which will support further investment in the Rolleston West Project. 2P reserves will support engagement with potential end customers and infrastructure providers that can connect the Rolleston West Project to the Gladstone to Wallumbilla pipeline network.

High Density Natural Gas (HDNG)

During the six-month period to 31 December 2024, we completed the HDNG plant – the first of its kind in Australia - and commenced initial gas sales supporting a mine-truck hybrid engine trial ("the Trial") at a coal mine in the Bowen Basin. The Trial demonstrated favourable results with gas for diesel substitution rates and carbon emission reduction in line with expectations. State Gas and its partners are now working with the customer to deliver improvements to the gas supply process and support further expansion of the trial to six mining haul trucks.

The mining industry remains one of the largest industrial emitters of CO₂ globally. Emission reduction or (offset) obligations for large emitters is now increasing every year in Australia which is driving the mining industry to seek operational solutions to manage emissions. Diesel substitution with HDNG has great potential to deliver significant emission reductions, quickly and at low cost for existing fleets of equipment.

The company is committed to the alternative fuels opportunity and continues to invest financial and human resources to increase its capability in this area. The Company's Board and management have significant experience in developing and scaling new technologies in the energy sector. We believe that our HDNG technology and gas supply capability will create substantial opportunities for natural gas, which is an environmentally superior fuel source to diesel, to be used in a range of commercial applications which support lower carbon emissions. The initial opportunity, being the use of HDNG as a diesel substitute for large mining haul trucks, is significant and capable of generating substantial revenues and cash operating profit for the Company simply from targeting mine truck fleets which are prolific in the Bowen Basin in Queensland.

Outlook

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

While we continue to enjoy great support from the Qld Government, there is no doubt it is a difficult environment for early-stage gas companies to raise capital. In this context we are thankful for the support of new and existing shareholders who continue to support the Company.

Pricing and sourcing capital remains challenging, notwithstanding a macro-overlay of increasing gas demand. Prices for natural gas remain strong, reflecting continuing tightening of demand on the Eastern Seaboard. The stabilisation of Federal Government energy policy and the more public recognition that natural gas remains a critical part of the country's energy mix for longer are all encouraging macroeconomic drivers for the Company.

With the HDNG plant commissioned and expansion of gas volumes underway through execution of the current exploration program, many of the challenges during 2024 are behind us. I believe the right foundations are in place to allow us to restore the recently impacted share price and leverage the Company's diversified business model to begin to deliver long term shareholder value.

Yours faithfully



Phil St Baker
Non-Executive Chairman

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DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

Your directors present their report on State Gas Limited (the Company) for the half-year ended 31 December 2024.

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
Jon Stretch
Philip St Baker

Doug McAlpine was appointed a Director on 10 September 2024 and continues in office at the date of this report.

Richard Cottee was a director from the beginning of the financial period until his resignation on 21 November 2024.

PRINCIPAL ACTIVITIES

Principal Activities

State Gas Limited ("State Gas" or the "Company") is a natural gas exploration and development company with operations in the southern Bowen Basin in Central Queensland. The Company's existing 100% owned exploration projects, when considered in conjunction with joint venture interests over adjoining areas, means State Gas has a highly prospective and substantial portfolio of natural gas assets with substantial gas resources and likely reserves.

In addition to the long-term value created through its traditional exploration and development activities, the Company now owns and operates a strategic asset and related IP. During calendar 2024, the Company completed construction and commissioning of a "first-of-its-kind" in Australia, High Density Natural Gas ("HDNG") production plant ("the HDNG Plant"). The Plant sources raw gas feed-stock from the Company's Rougemont 2/3 dual lateral well system ("Rougemont 2/3") within ATP 2062. In conjunction with virtual pipeline ("VP") trailer technology, enables State Gas to deliver up to 1.7TJ/day of pipeline quality natural gas to end users in the Southern Bowen Basin and surrounding areas.

State Gas believes that the HDNG technology will create substantial opportunities for natural gas (an environmentally superior fuel source to diesel) to be used in a range of commercial applications which support lower carbon emissions. In addition to the environmental benefits which arise from capturing production testing gas, the HDNG production plant will allow State Gas to grow an organic revenue stream which will enable it to self-fund an increasing share of its ongoing exploration and development activities.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2024 (continued)

In conjunction with the Company's ongoing exploration and development strategy for its underlying natural gas projects within PL231 and ATP 2062, State Gas is now in a stronger position to deliver its vision and create sustainable value for shareholders.

Access Challenges

During the period, State Gas resolved access issues at its Rolleston West Project which arose as part of a dispute under the Conduct and Compensation Agreement ("CCA") with the Landowner. Actions taken by the Landholder impacted our access to the property during the period and temporarily halted HDNG production and pushed out the timing of the Company's two well exploration program. Although a settlement was reached between the parties in late November 2024 which allowed site access to resume, the Company took the conservative position of deferring the two well exploration program until calendar 2025 when favourable weather conditions would be more certain.

The Company mobilised personnel and equipment to commence exploration activities on 11 March 2025 and expects the exploration field work to be completed by the end of May 2025.

Exploration Activities

The Company anticipates that successful drilling and production testing results from the two new exploration/appraisal wells will enable State Gas to seek accreditation for a maiden 2P reserve of 30-50PJs for the Rolleston West Project. Establishing an initial 2P reserve is a critical next step in demonstrating the commercial viability of a substantial gas project at Rougemont West and supporting an application for a petroleum lease over a substantial portion of ATP 2062. A 2P reserve will also allow discussions with potential end users and pipeline infrastructure providers who can connect the Rolleston West Project to the Gladstone to Wallumbilla pipeline network. As previously reported, two new exploration/appraisal wells will be funded from a \$5.5 million exploration grant provided by the Queensland Government's Frontier Gas Exploration Program ("the Grant").

The two new vertical wells are located close to Rougemont 2/3 in an area that has proven gas content and good permeability. The Company is in the unique position that its HDNG plant enables it to immediately capture and commercialise production testing gas from these new wells, reducing the Company's fugitive emission profile while simultaneously enhancing its revenue generating capacity.

HDNG Sales

During the six-month period to 31 December 2024, the Company commenced the regular supply of HDNG in accordance with its initial offtake agreement with a local coal mine. State Gas' customer was using HDNG as part of the ongoing trial of hybrid (diesel/natural gas) mine-truck engine technology that can assist in reducing carbon emissions. The objective of the Trial was to demonstrate that large mine trucks can operate efficiently on a dual fuel engine with consistent operating performance and a significantly reduced emission profile.

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**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024
(continued)**

During the trial period, the HDNG plant and the Virtual Pipeline (“VP”) trailers operated efficiently, and State Gas was able to deliver increasing daily volumes of HDNG. This reflects improved operating practices at the HDNG Plant and more stable performance from the Rougemont 2/3 well system. On an overall basis, the hybrid engine trial (reliant on HDNG) is also demonstrating favourable results with gas for diesel substitution rates in line with expectations.

Post end the trial ending in December 2024, State Gas and its partners have continued to optimise the gas supply chain and in preparation for increasing the scope of the HDNG supply arrangement from two to six mining haul trucks.

The Company, in conjunction with its partners, continued discussions with a number of other coal mines in close proximity to Rolleston West regarding HDNG supply. Those discussions also include the broader application of the Company’s HDNG technology to capture fugitive emissions associated with de-gassing coal mine development. We remain optimistic that the HDNG technology will create substantial opportunities for natural gas (an environmentally superior fuel source to diesel) to be used as a fuel source, in particular as a diesel substitute. The HDNG plant provides direct environmental benefits from capturing production testing gas which would traditionally be flared, while simultaneously allowing State Gas to grow an organic revenue stream which will enable it to self-fund an increasing share of its ongoing exploration and development activities.

Changes to Board Composition

During the period, the Company’s Non-executive Chairman, Richard Cottee, indicated his intention not to stand for re-election as a Director at the Company’s upcoming Annual General Meeting. The Company thanks Mr Cottee for his valuable contribution to the development of State Gas over the last five years. This has been a time of significant industry disruption and change for the business and Mr Cottee’s experience has been critical to the successful navigation of a range of challenges.

Financial Position

State Gas raised \$5.3 million through a placement and entitlement offer of 105,071,959 new shares to sophisticated investors and existing shareholders. The Company applied part of the funds from this capital raise to meet costs associated with the completion and commissioning of the HDNG plant.

Given the unanticipated costs arising from the access dispute and the resulting interruption to HDNG sales during the period, the Company is currently working on a range of strategies to mitigate these costs. While the Company is confident of a successful outcome in this regard, these processes are ongoing.

Post 31 December 2025, the Company’s cash position was improved through receipt of grant funding arising from the Company’s R & D expenditure incurred in developing the HDNG plant. In conjunction with the Frontier Gas Exploration Program funding for the two new wells, the Company is expected to have sufficient capital to support its current plans over the medium term.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2024 (continued)

Along with the upcoming drilling program, the Company is focused on recommencing HDNG supply and is evaluating a range of strategies to accelerate and expand its HDNG supply capabilities. A successful ramp-up in operating cashflow from HDNG sales directly reduces the Company's reliance on additional equity capital. The Company has conducted another review of its overhead costs and is operating on a cost structure only necessary to support the execution of its short to medium term strategy.

Outlook

The Company is focused, in the short term, on completing its two well drilling program and continuing to increase its HDNG supply volume in order to support the expansion of the HDNG supply trial with its initial customer from two to six trucks.

Anticipated successful drilling and production testing results from the two new wells will enable State Gas to seek accreditation for a maiden 2P reserve of 30-50PJs. Establishing an initial 2P reserve is a critical next step in demonstrating the commercial viability of a substantial gas project at Rougemont West and supporting an application for a petroleum lease over a substantial portion of ATP 2062.

It is the Company's view, in line with that shared by many energy sector experts, that natural gas remains the only reliable source of base and peaking electricity production and remains preferable to thermal coal and diesel from an emissions standpoint. Reliable ongoing gas supply is required to meet both domestic and export energy supply obligations over the short to medium term and to ensure that sustainable electricity prices are maintained for both domestic consumer and commercial users.

Application of this newly developed HDNG technology to coal seam gas, provides an environmentally favourable method for capturing and commercialising production testing gas which would traditionally be vented into the atmosphere as part of the exploration and appraisal process. The HDNG technology developed by State Gas provides it with significant first mover advantage to support increased demand for natural gas to support the ongoing orderly de-carbonisation of industrial activities, such as coal mining.

Successful commissioning of the HDNG production plant provides immediate revenues and uniquely positions State Gas to meet the increasing demand for diesel fuel substitutes from miners in the Bowen Basin. It simultaneously supports the proposition that the Rolleston West Project has the hallmarks of a world class development project and, importantly, begins to unlock part of the substantial value inherent in the Company's asset base.

There are a series of significant value catalysts ahead for the Company in the coming year:

1. growth in HDNG sales and development of a sustainable alternative fuels business;
2. external verification of a maiden 2P reserve for the Rolleston West Project and ultimately support the financing of pipeline infrastructure to the HDNG production plant; and
3. wider application of HDNG technology to support increased future production, but also to commercialises the significant intellectual property and know-how the Company has created through developing the production plant.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024
(continued)**

Notwithstanding the short-term challenges experienced in recent months, calendar 2025 will be an important and productive year for the Company. Delivery of these value catalysts will continue to justify the Company's strategy but also return value to the Company's share price.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

EVENTS OCCURRING AFTER THE REPORTING DATE

Since 31 December 2024 the Company has:

- Entered into a unsecured short-term loan agreement with an unrelated party for \$250,000 at an interest rate of 1.33% per month. The loan is a period of 91 days. In addition to the interest payable under the Agreement, the lender will be issued 250,000 ordinary shares in State Gas Limited, prior to the expiry of the loan, and has the first right of refusal to provide drilling rig hire, and associated services, in respect of the next stage of drilling activities, subject to the price and terms of those services being in line with market practice.
- Entered into a loan agreement with RH Capital Finance Co., LLC for \$800,000 that is secured against the Company's FY2024 R&D tax incentive claim. The loan is for a term of at least 91 days and accrues interest at 16% per annum.

No other matters or circumstances have arisen since 31 December 2024 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' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024
(continued)**

Tenements and Resources

Year	Asset	Net Acreage (km ²)	Estimated Contingent Resources* (PJ's Net to State Gas)		
			1C	2C	3C
2017	PL231 Reid's Dome (unconventional)	181	84	192	660
	PL231 Reid's Dome (conventional)		1.7	3.6	7.9
2020	ATP 2062 Rolleston-West (unconventional)	1,414	145	261	454
	ATP 2062 Rolleston-West (conventional)		6	18	52
2022	ATP 2068 (unconventional)	254	25	43	68
2022-23	ATP 2069 (unconventional)	108	12	17	24
Total		1,957	274	534	1,266

*State Gas estimate as at 12/09/2022

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 11.

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

P St Baker
Chairman

Brisbane
14 March 2025

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AUDITOR'S INDEPENDENCE DECLARATION

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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF STATE GAS LIMITED

As lead auditor for the review of State Gas Limited for the half-year ended 31 December 2024, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 14 March 2025

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

	Note	Half-year	
		2024	2023
		\$	\$
Other income	3	111,728	20,244
Administrative and other expenses	4	(1,181,883)	(483,637)
Employee benefits expense		(277,452)	(250,348)
Exploration expensed		(493,838)	-
Capital work in progress written off	4	-	(553,935)
Share based payments expense	13	(47,520)	(95,335)
Financing costs		(154,224)	(78,210)
Loss before income tax expense		(2,043,189)	(1,441,221)
Income tax expense		-	-
Loss after income tax expense		(2,043,189)	(1,441,221)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(2,043,189)	(1,441,221)
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company:			
Basic earnings per share	12	(0.65)	(0.56)
Diluted earnings per share	12	(0.65)	(0.56)

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 2024**

	Notes	31 December 2024 \$	30 June 2024 \$
ASSETS			
Current assets			
Cash and cash equivalents		49,354	31,751
Trade and other receivables	5	750,560	164,306
Total current assets		799,914	196,057
Non-current assets			
Exploration and evaluation assets	6	39,074,740	37,289,188
Property, plant and equipment	7	9,961,481	10,432,973
Security deposits		402,471	402,471
Total non-current assets		49,438,692	48,124,632
Total assets		50,238,606	48,320,689
LIABILITIES			
Current liabilities			
Trade and other payables	8	1,738,557	2,765,014
Borrowings	9	1,588,219	2,137,042
Total current liabilities		3,326,776	4,902,056
Non-current liabilities			
Provisions	10	3,108,148	3,103,041
Total non-current liabilities		3,108,148	3,103,041
Total liabilities		6,434,924	8,005,097
Net assets		43,803,682	40,315,592
EQUITY			
Contributed equity	11	55,493,597	50,009,838
Reserves		3,023,083	2,975,563
Accumulated losses		(14,712,998)	(12,669,809)
Total equity		43,803,682	40,315,592

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 2024**

	Contributed equity \$	Share based payments reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2023	42,917,843	2,729,132	(9,039,213)	36,607,762
Loss for the period	-	-	(1,441,221)	(1,441,221)
Other comprehensive loss	-	-	-	-
Total comprehensive loss	-	-	(1,441,221)	(1,441,221)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	7,091,996	-	-	7,091,996
Share-based payments	-	220,335	-	220,335
Balance at 31 December 2023	50,009,839	2,949,467	(10,480,434)	42,478,872
Balance at 1 July 2024	50,009,838	2,975,563	(12,669,809)	40,315,592
Loss for the period	-	-	(2,043,189)	(2,043,189)
Other comprehensive loss	-	-	-	-
Total comprehensive loss	-	-	(2,043,189)	(2,043,189)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 11)	5,483,759	-	-	5,483,759
Share-based payments (note 14)	-	47,520	-	47,520
Balance at 31 December 2024	55,493,597	3,023,083	(14,712,998)	43,803,682

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 2024**

	Note	Half-year	
		2024	2023
		\$	\$
Cash flows from operating activities			
Receipts from customers (GST inclusive)		423,766	539,469
Payments to suppliers and employees (GST inclusive)		(1,273,591)	(1,319,606)
Payments for exploration and expenditure expensed		(377,449)	-
Interest paid		(7,227)	(20,612)
Interest received		653	20,244
Net cash outflow from operating activities		(1,233,848)	(780,505)
Cash flows from investing activities			
Payments for exploration expenditure		(1,689,257)	(806,892)
Payments for plant and equipment		(1,878,737)	(4,521,349)
Net cash outflow from investing activities		(3,567,994)	(5,328,241)
Cash flows from financing activities			
Proceeds on issue of shares	11	4,372,739	7,385,101
Payments for capital raising costs	11	(411,387)	(168,105)
Proceeds from borrowings		933,875	399,261
Repayment of borrowings		(75,782)	(436,229)
Net cash inflow from financing activities		4,819,445	7,180,028
Net increase (decrease) in cash and cash equivalents		17,603	1,071,282
Cash and cash equivalents at the beginning of the year		31,751	453,347
Cash and cash equivalents at the end of the year		49,354	1,524,629

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 2024

Note 1 Summary of material accounting policies

These general purpose interim financial statements for the half-year reporting period ended 31 December 2024 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities.

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

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

Historical cost convention

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

New standards, interpretations and amendments adopted by the group

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

Note 1 Summary of material accounting policies (continued)

Going Concern

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

As disclosed in the financial statements, the Company incurred a net loss of \$2,043,189 and net operating cash outflows of \$1,233,848 for the half-year ended 31 December 2024. As at 31 December 2024 the Company had a cash balance of \$49,354.

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

- the ability of the Company to successfully raise capital, as and when necessary;
- the ability to complete successful development and commercialisation of its projects, namely Reid's Dome (PL231) and Rolleston-West (ATP2062);
- the ability to successfully resolve the landowner dispute;
- the receipt of R&D tax incentive claims; and
- the ability to successfully conclude ongoing negotiations with a potential customer for gas sales.

These conditions give rise to a material uncertainty, which may cast significant doubt over the company's ability to continue as a going concern.

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

- the proven track record of capital raising, including the placement and entitlement offer that raised \$5,913,969 in 2024;
- the Directors believe that successful execution of the conditions set out above will provide sufficient cash for the company to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Further to the above, the Company's reliance on new capital to fund its ongoing operations will reduce overtime as cash inflows HDNG sales increase.

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 2024**

Note 2 Segment information

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

Note 3 Other income

	31 December 2024	31 December 2023
	\$	\$
Other income		
HDNG gas sales	111,075	-
Interest received from unrelated parties	653	20,244
	<u>111,728</u>	<u>20,244</u>

Note 4 Loss for the period

Loss before income tax includes the following specific items:

	31 December 2024	31 December 2023
	\$	\$
Administration and other expenses		
Insurance expense	108,591	91,551
Auditors remuneration	105,195	4,909
Depreciation expense	559,565	47,775
Director remuneration	103,339	99,646
Compliance costs	58,309	61,408
Legal fees	137,523	20,049
Other	109,361	158,299
	<u>1,181,883</u>	<u>483,637</u>
Share based payments expense	47,520	95,335
Total share-based payments expense	<u>47,520</u>	<u>95,335</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 5 Current assets – trade and other receivables

Loss before income tax includes the following specific items:

	31 December 2024	30 June 2024
	\$	\$
Trade receivable	-	19,152
Prepayments	715,421	111,863
Other receivables	35,139	33,291
	<hr/>	<hr/>
Total trade and other receivables	750,560	164,306

Prepayments consists primarily of \$550,000 of prepaid costs relating to the 2025 exploration program (30 June 2024: nil) and prepaid insurance premiums of \$156,311 (30 June 2024 \$108,709).

Note 6 Non-current assets – exploration and evaluation assets

	31 December 2024	30 June 2024
	\$	\$
Exploration and evaluation assets – at cost	39,074,740	37,289,188

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

Balance at the beginning of the period	37,289,188
Expenditure incurred during the period	1,785,552
	<hr/>
Balance at the end of the period	39,074,740

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

The Directors have assessed that for the exploration and evaluation assets recognised at 31 December 2024, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this, the Directors have had regard to the facts and circumstances that indicate a need for an impairment as noted in Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 7 Non-current assets – Property, plant and equipment

	31 December 2024	30 June 2024
	\$	\$
Property, plant and equipment	9,961,481	10,432,973

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

	Plant and equipment	HDNG asset	Field assets	Total
	\$	\$	\$	\$
At 31 December 2024				
Cost	7,414	10,539,535	767,244	11,314,193
Accumulated depreciation	(7,414)	(754,230)	(591,068)	(1,352,712)
Net book amount	-	9,785,305	176,176	9,961,481
Period ended 31 December 2024				
Opening net book amount	1,050	9,593,931	837,992	10,432,973
Additions	-	165,464	-	165,464
Transfers	-	584,425	(584,425)	-
Depreciation charge	(1,050)	(558,515)	(77,391)	(636,956)
Closing book amount	-	9,785,305	176,176	9,961,481

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

At 31 December 2024, the HDNG plant was not operating as the Company is yet to complete the negotiations for the extension of gas supply arrangements. As a result, the Company performed impairment testing on its HDNG facility included within property, plant and equipment. For the purposes of impairment testing, the cash generating unit has been defined as the business to which the property plant and equipment relates where individual cash flows can be ascertained for the purpose of discounting future cash flows.

	31 December 2024	30 June 2024
	\$	\$
The carrying amount of property, plant and equipment allocated to the cash generating unit:		
HDNG facility	9,785,305	10,432,973

For the 31 December 2024 impairment test, the recoverable amount of the Cash Generation Unit (“CGU”) was determined based on a ‘Value in Use’ (“VIU”) calculation, based on the current HDNG Project Plan. The calculation of VIU involves the use of significant estimates and assumptions which include GJ delivered per day, sales price and operating costs used to calculate project future cash flows. The present value of the expected cash flows is determined by applying an appropriate discount rate, which reflects the assessment of current market conditions of the time value of money.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

Note 7 Non-current assets – Property, plant and equipment (continued)

The recoverable amount of the HDNG CGU is deemed to be in excess of the carrying value of the HDNG CGU, and therefore no impairment has been recognised as of 31 December 2024.

The calculation use cashflow projections based on financial budgets approved by management and the Board covering a 5-year period which management has determined is appropriate to reflect the ramp up in production and normalisation of the business operations.

The key assumptions used in the value in use calculations are: (i) post-tax discount rate of 25%, (ii) revenue sales prices set at the energy equivalent diesel price in line with the Group's previously disclosed estimates for production economics, with inflationary and other expected pricing increases assumed thereafter, (iii) sales volume growth rates are based on current and expected customer demand, reflecting the ramp up of production available for sale with no incremental production volume growth expected after full production capacity of 1,250 gigajoule (GJ) per day is reached; and (iv) operating costs of \$6/GJ, based on the current HDNG Project Plan and adjusted for inflationary increases.

Management recognizes that there are various reasons that estimates used in these assumptions may vary. Management does not believe that there are reasonably possible changes in any one key assumption that would result in the carrying amount of the HDNG CGU to exceed its recoverable amount.

Note 8 Current liabilities – Trade and other payables

	31 December 2024 \$	30 June 2024 \$
Unsecured liabilities:		
Trade payables	1,441,655	2,599,915
Sundry payables and accrued expenses	200,042	101,804
Provision for annual leave	96,860	63,295
	1,738,557	2,765,014

Note 9 Current liabilities – Borrowings

	31 December 2024 \$	30 June 2024 \$
Director loans (principal and interest)	1,398,933	2,039,319
Insurance premium funding	189,286	97,723
	1,588,219	2,137,042

During the financial year, the Company's directors entered into short term loan agreements as set out in the table below. The loan funds were drawn down at 31 December 2024. The loans are unsecured and accrue interest at 15% pa from the date of drawdown, compounding monthly. Interest on the loan will capitalise and be paid in full at the time the principal is repaid. Details of loan movements during the half year period are set out in the table below:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 9 Current liabilities – Borrowings (continued)

Director related entity	AG Super Pty Ltd	Loch Explorations Pty Ltd	Jon Stretch	Allegro Capital Nominees Pty Ltd	Monte Vista Holdings Pty Ltd	The P&P St Baker Family Trust	Richard Cottee	Total
<i>Director</i>	<i>Tony Bellas</i>	<i>Tony Bellas</i>	<i>Jon Stretch</i>	<i>Greg Baynton</i>	<i>Philip St Baker</i>	<i>Philip St Baker</i>	<i>Richard Cottee</i>	
Loan balance 1 July 2024	-	259,510	259,773	259,402	208,597	1,052,037	-	2,039,319
Loan funds advanced	175,000	-	175,000	175,000		175,000	60,000	760,000
Loan funds repaid*	(152,102)	-	(182,532)	(175,000)		(1,000,000)	(39,172)	(1,548,806)
Interest charged	3,401	20,252	27,804	22,074	16,279	56,734	1,876	148,420
Loan balance 31 December 2024	26,299	279,762	280,045	281,476	224,876	283,771	22,704	1,398,933

* Loan funds were applied against subscription amounts payable by Directors under the entitlement offer completed during the half year period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 10 Non-current liabilities – Provisions

	31 December 2024 \$	30 June 2024 \$
Provision for rehabilitation	<u>3,108,148</u>	<u>3,103,041</u>
Reconciliation of carrying amount:		
Opening balance	3,103,041	
Unwinding of discount	<u>5,107</u>	
Balance at the end of the half-year	<u>3,108,148</u>	

Rehabilitation provision

The rehabilitation provision relates to the Reid’s Dome production lease PL231 (located in Bowen Basin, Queensland) and ATP2062 ‘Rolleston West’. State Gas Limited is liable to pay 100% of rehabilitation liability for wells and infrastructure on the lease.

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 11 Contributed equity

	31 Dec 2024 Shares	30 June 2024 Shares	31 Dec 2024 \$	30 June 2024 \$
(a) Share capital				
Fully paid ordinary shares	392,600,869	274,226,789	55,493,597	50,009,838

(b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2024	Balance		274,226,789	-	50,009,838
9 August 2024	Placement shares	(c)	27,742,051	\$0.05	1,387,103
9 August 2024	Entitlement offer shares	(d)	59,228,221	\$0.05	2,961,411
12 Sept 2024	Entitlement offer shares	(d)	18,101,687	\$0.05	905,084
8 Oct 2024	Options exercised		94,700	\$0.08	7,576
22 Nov 2024	Entitlement offer shares	(d)	13,207,421	\$0.05	660,371
	Share issue costs		-	-	(437,786)
31 Dec 2024	Balance		392,600,869		55,493,597

(c) Placement shares

The issue of 27,742,051 shares to sophisticated and institutional investors at \$0.05 per share with one attaching option for every 2 placement shares. Options are exercisable at \$0.08 per share and expire 30 August 2025.

(d) Entitlement offer shares

The issue of 90,537,329 shares under a 1 for 2 accelerated non-renounceable entitlement offer with one attaching option for every 2 placement shares. The total amount raised under the entitlement offer was \$5,913,969 of which \$4,365,163 was received in cash, and \$1,548,806 was offset against existing Director loans.

Of the 90,537,329 shares issued, 59,228,221 shares were issued under the institutional component of the entitlement offer, 18,101,687 were issued under the retail component of the entitlement offer, and 13,207,421 shares were issued to Directors (Philip St Baker 10,288,756 shares; Jonathan Stretch 2,918,665 shares) following shareholder approval that was obtained on 21 November 2024.

Options are exercisable at \$0.08 per share and expire 30 August 2025.

(e) Options on issue

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

	Number	Weighted Average Exercise Price
Options outstanding as at 30 June 2024	8,400,000	\$0.31
Options exercisable as at 30 June 2024	8,400,000	\$0.31
Granted	59,139,715	\$0.08
Exercised	(94,700)	\$0.08
Options outstanding as at 31 December 2024	67,445,015	\$0.11
Options exercisable as at 31 December 2024	67,445,015	\$0.11

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

Note 12 Contingent liabilities & Commitments

Contingent liabilities

Landowner dispute

State Gas resolved access issues at its Rolleston West Project which arose as part of a dispute under the Conduct and Compensation Agreement (“CCA”) with the Landowner. Actions taken by the Landholder impacted our access to the property temporarily halting HDNG production and pushed back the Company’s two well exploration program. On November 18, 2024, a settlement was reached between the parties which allowed site access to resume, however the dispute with the landowner over compensation amounts is ongoing through a mediation process. The Company is currently working on a range of strategies to mitigate each parties alleged costs and losses arising from the dispute, including, inter alia, a negotiated outcome with the landowner and claims under the Company’s insurance policies.

Royalty

State Gas Limited has notice of the existence of a potential royalty payable in respect of petroleum produced from PL 231, being an overriding royalty interest in seven percent (7%) of the gross production of oil, gas and associated hydrocarbons produced and saved pursuant to the terms of the authority to prospect (ATP 333-P, as it was at the time), calculated on the arm’s length sale price of petroleum less: (i) all costs and expenses incurred in or attributable to the treating, processing dehydrating, compressing and transporting such petroleum; (ii) levies and other taxes on production; and (iii) all fuel oil and gas used in conducting exploration, drilling, completion, equipping, producing, and other operations pursuant to the authority (Override). The royalty interest appears to have been established as part of a transfer of ATP 333-P in 1983.

It requires each subsequent assignor of the authority to make the conveyance subject to the assignee covenanting to pay the Override and the assignor remains obliged to pay the Override until such agreement has been consented to by the Override holder. Given the time that has passed since the Override was created, and the fact that State Gas Limited does not have records evidencing each transfer of the authority, State Gas Limited is unable to determine if the Override remains on-foot.

Commitments

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 13 Earnings per share

	31 December 2024	31 December 2023
	\$	\$
<i>Earnings per share for loss from continuing operations</i>		
Profit (loss) after income tax attributable to the owners of State Gas Limited	(2,043,189)	(1,441,221)
	Number	Number
Weighted average number of shares used in calculating basic earnings per share	315,350,167	257,771,162
Weighted average number of shares used in calculating diluted earnings per share	315,350,167	257,771,162
	Cents	Cents
Basic earnings per share	(0.65)	(0.56)
Diluted earnings per share	(0.65)	(0.56)

Information concerning the classification of securities

Options and performance rights

Options and performance rights on issue are not included in the calculation of diluted earnings per share in the current period because the company had generated losses, hence they are antidilutive for the half-year ended 31 December 2024.

Note 14 Share-based payments

OPTIONS

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

The options are exercisable as follows:

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2024**

Note 14 Share-based payments (continued)

PERFORMANCE RIGHTS

1,000,000 performance rights were granted to Managing Director, Doug McAlpine, during the half year period. Details of the performance rights expensed during the year are set out in the table below:

Name	Grant date	Number	Vesting condition / date	Fair value at grant date	Expiry	Estimated (e) ² / Actual (A) vesting date	Expense recognised \$
D McAlpine	21/11/2024	1,000,000	Successful completion of the exploration program on Rougemont 4 and 5 on time and within budget; establishment of an initial 2P reserve for the Rolleston West Project; and achievement of business development objectives for the HDNG business.	\$0.044	21/11/2025	21/11/2025 (E)	4,823
D McAlpine	30/11/2022	375,000	First commercial delivery of gas from any of the Group's producing assets.	\$0.265	05/12/2027	20/08/2024 (A)	-
D McAlpine	30/11/2022	375,000	Final investment decision to proceed with construction of a physical pipeline.	\$0.265	05/12/2027	30/06/2026 (E)	13,979
D McAlpine	30/11/2022	375,000	Securing minimum annual gas sales of 2PJ per annum.	\$0.265	05/12/2027	30/06/2025 (E)	19,390
D McAlpine	30/11/2022	375,000	VWAP over 20 consecutive trading days of not less than \$0.70.	\$0.2063	05/12/2027	03/02/2027 (E)	9,328
D McAlpine	30/11/2022	1,000,000	Board recommending a corporate transaction, whether by takeover bid, scheme of arrangement or otherwise, that results in a change of control of the Company.	\$0.265	05/12/2027	N/A ¹	-
Total expense recognised							47,520

¹ Assumed that the vesting condition will not be achieved. This will be reassessed each reporting period.

² Estimated vesting date has been reassessed for the current financial year and reflects the current estimate of when the vesting condition will be satisfied. (A) was achieved on 20 May 2024, being the date the group achieved the first commercial gas sale.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2024

Note 15 Events occurring after the reporting period

Since 31 December 2024 the Company has:

- Entered into a unsecured short-term loan agreement with an unrelated party for \$250,000 at an interest rate of 1.33% per month. The loan is a period of 91 days. In addition to the interest payable under the Agreement, the lender will be issued 250,000 ordinary shares in State Gas Limited, prior to the expiry of the loan, and has the first right of refusal to provide drilling rig hire, and associated services, in respect of the next stage of drilling activities, subject to the price and terms of those services being in line with market practice.
- Entered into a loan agreement with RH Capital Finance Co., LLC for \$800,000 that is secured against the Company's FY2024 R&D tax incentive claim. The loan is for a term of at least 91 days and accrues interest at 16% per annum.

No other matters or circumstances have arisen since 31 December 2024 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.

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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 2024 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



Philip St Baker
Chairman

14 March 2025
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 2024, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, material accounting policy information and other explanatory information, and the directors' declaration.

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

- i. Giving a true and fair view of the company's financial position as at 31 December 2024 and of its financial performance for the half-year ended on that date; and
- ii. Complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty relating to going concern

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

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2024 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

BDO



T J Kendall

Director

Brisbane, 14 March 2025