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ASX RELEASE

31 January 2020

QUARTERLY ACTIVITIES REPORT

1st October 2019 – 31st December 2019

HIGHLIGHTS:

- Significant steps taken to advance the Company's Target 2021 gas-to-market strategy for the Reid's Dome Project with drilling and commencement of production testing.
- In the southern area of PL 231, encouraging Nyanda-4 production testing results received with early commencement of gas flows, and recorded gas rates of 227 mscf/d (expected to increase with further dewatering).
- Coal seam gas potential also confirmed in northern and central areas of permit with positive results from drilling new Aldinga East-1A and Serocold-1 wells.
- New conventional gas pool also discovered at Aldinga East-1A (northern PL 231).
- Commencement of activities to production test Serocold-1 well (central PL 231).

Background

State Gas Limited (ASX: GAS) (State Gas or the Company) is owner and operator of the Reid's Dome Gas Project (PL 231) in central eastern Queensland, approximately 545 km northwest of Brisbane and 50 km southwest of Rolleston, in the Bowen Basin Central Queensland. The permit hosts both conventional and unconventional gas and is less than 50 km from the high pressure gas pipeline network in Queensland (see Figure-1).

In late 2018 State Gas drilled the first coal seam gas well in the region into the Reid's Dome Beds and established the potential for a significant coal seam gas project in PL 231.

In August 2018 Pipeline Survey Licence 2028 was issued to the Company, enabling investigations to commence for a pipeline route to market. Permian coal measures within the Reid's Dome Beds are extensive across the entire permit but the area had not been explored for coal seam gas prior to the drilling program undertaken in November-December 2019.

During the previous Quarter State Gas adopted "Target 2021", a strategy to bring gas to market from PL 231 to meet forecast shortfalls in the east coast domestic gas market as early as 2021. Outlined in its announcement of 21 August 2019 and presentations dated 8 and 22 October 2019, the strategy involves progressing a phased appraisal program in parallel with permitting for an export pipeline and development facilities to facilitate the fastest possible delivery of gas to market.

PROJECT ACTIVITIES

The December 2019 Quarter has been a period during which the Company has significantly advanced its Target 2021 gas-to-market strategy. Having established the potential for a significant coal seam gas project in PL 231 with the 2018 drilling of Nyanda-4, the Company is now appraising that potential with drilling and the commencement of production testing during the Quarter.

The Nyanda-4 corehole provided a suite of data about the southern area of the permit which has been extended during the Quarter with promising results from production testing. In addition, the Company drilled the Aldinga East-1A corehole approximately 12km to the north of Nyanda-4 and the Serocold-1 well approximately half way between these wells (see Figure 1), to provide data about the nature and extent of the coals across the permit.

Nyanda-4 Production Testing¹

Nyanda-4 was the first coal seam gas (CSG) well within the Reid's Dome project. Located in the southern region of the permit, the well intersected 40m net coal and a further 25m of carbonaceous shales, as well as a number of conventional tight gas sands. The average gas content measured by desorption of the coal cores acquired from the well was 13.75 m³/t.

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, with water production at the lowest end of the range for coal seam gas. Gas flows have consistently increased as the water level (and hence downhole pressure) has lowered, recording at 227 mscf/d prior to dropping back when technical problems with the pump led to water levels rising. Further increases in the gas flow rate are likely once dewatering resumes. A sample of the produced gas has been obtained and is currently undergoing analysis to determine composition.

Water production from the well has been minimal suggesting the water management task for this project will be at the lowest end of the range for CSG projects.

Both the gas flow and low water make are highly encouraging indicators for a commercial project.



Gas flare at Nyanda-4 9 January 2020



TDC Rig 4 at Nyanda-4 27.11.2020

¹ Previous announcements dated 21 January 2019, 4 November 2019, and 16 December 2019 relate.

Aldinga East-1A²

Aldinga East-1A has confirmed the presence of coal measures, similar to those at Nyanda-4, in the northern domain of the permit (approximately 12km north of Nyanda-4 within PL 231). The well was spudded on 4 October 2019, and drilled to a total depth of 884m, with 86m of core samples taken, and the well was logged and permeability tested. The well encountered 14.6m of coal between 563m and its total depth (a percentage on a par with Nyanda-4), with thick coal seams located in the shallowest sections of the Reid's Dome Beds. The best permeabilities in the well appear to occur between 592m and 753m. Approximately 9m of gas sands were also encountered in the Reid's Dome Beds between 732m and 802m.

In a surprise development likely to benefit the commerciality of the field, the well discovered a new conventional gas pool located in approximately 9m of gas sand at a depth of 292m in the Cattle Creek Formation. A well-head gas sample taken from the well contained 97.88% methane (i.e. pipeline quality gas). More work is required to establish the extent and quality of this new gas pool.

Serocold-1³

Serocold-1 was spudded on 6 December. It reached its planned total depth of 1200m on 13 December, following which it was logged and permeability tested. Wireline logs indicated 27m net coal between the depths of 515 m and 1185m in seams of up to 4.5 m thick. The well also contains two gas sands of ~3m thick each in the Reid's Dome Beds.

Permeability testing was undertaken of 13 seams and one gas sand. A significant number of the seams have shown promising permeability, justifying a production test of the well.

Following the Christmas period the Serocold-1 well has been completed with downhole pumping equipment and dewatering commenced on 17 January 2020. Technical issues have affected the pump which the Company is currently seeking to resolve.

Ownership of PL 231⁴

In late 2018 the Company initiated a process to increase its Participating Interest in the Project from 80% to 100% in strict 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, however Dome failed to appear, and judgement was made in favour of State Gas. Dome lodged an appeal and again failed to appear in proceedings in the Court of Appeal, resulting in its appeal being struck out on 27 November 2019.

With the ownership issues resolved your Company is now positioned to focus fully on implementing its Target 2021 gas-to-market strategy and progressing the development of the Project.

CORPORATE

The Company conducted an equity raising during December 2020 raising \$1.5 million through private placements of new Ordinary shares at an issue price of \$0.65. In addition, a further

² Previous announcements on 4, 18, and 23 October 2019, and 13 November 2019 relate.

³ Announcements on 9 and 16 December relate.

⁴ Announcements on 5 December 2018, 8 February 2019, 16 and 24 September 2019, and 27 November 2019 relate.

\$100,000 was received from the exercise of options by a Director. The funds raised will be used to fully assess the outcomes of the recent drilling, conduct further production testing activities, plan the pilot program to be undertaken during 2020, as well as meet costs of the issue.

Financial Position

State Gas is well placed to complete the testing and planning activities to support a pilot program proposed to be undertaken during 2020. At the end of the Quarter the Company had cash at bank of \$3.94m, after raising new equity of \$1.55m (net of costs) and expending \$2.03m in Project development costs, and \$0.97m in other costs. The non-Project development expenditure was dominated by litigation costs associated with the successful increase in ownership of PL 231, which are expected to have been largely finalised. It is also anticipated that an amount of approximately \$0.23m of litigation costs will be recovered during the coming Quarter.

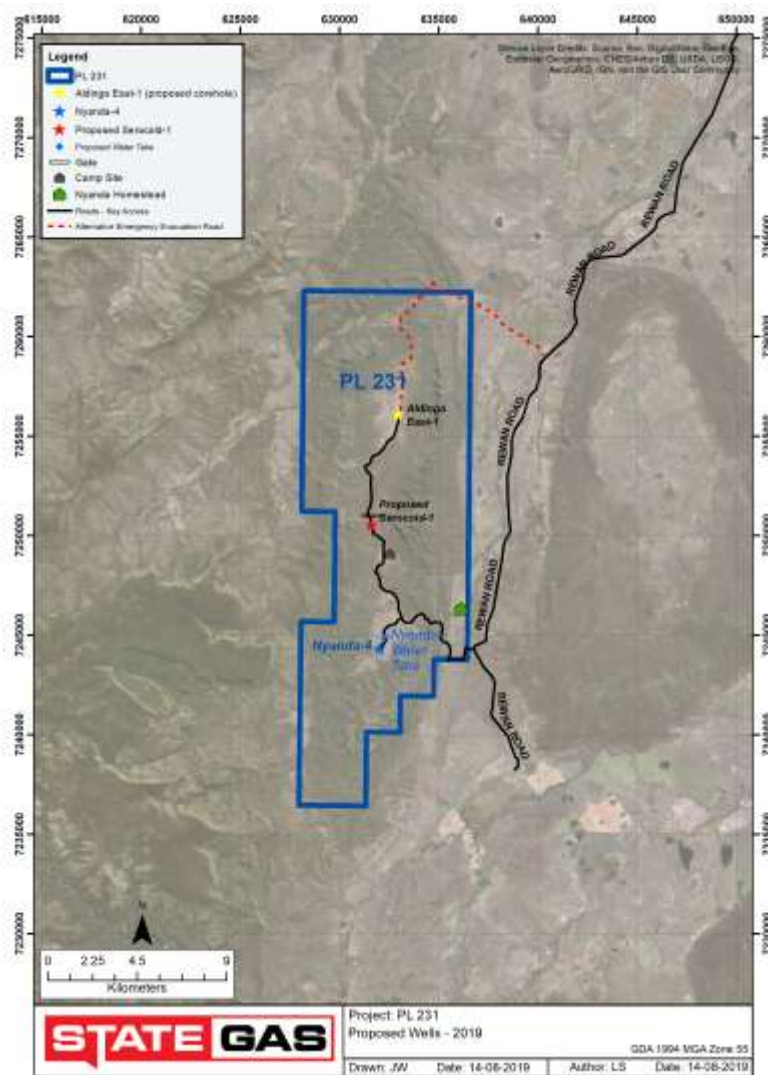


Figure 1: Location of Nyanda-4, Serocold-1 and Aldinga East-1A wells

This announcement was approved for release by Mr Richard Cottey, Executive Chairman.

FOR FURTHER INFORMATION

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ABOUT STATE GAS

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based developer of the Reid's Dome gas field (including both CSG and conventional gas). Originally discovered during oil drilling in 1955, Reid's Dome is located in the Bowen Basin in Central Queensland on the apex of the Springsure-Sericold Anticline. State Gas is sole Operator and 100%-owner of the Reid's Dome gas project, which is well-located 50 kilometres southwest of Rolleston, approximately 47 kilometres from the Queensland Gas Pipeline.

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