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ASX RELEASE

29 January 2021

QUARTERLY ACTIVITIES REPORT

1st October 2020 – 31st December 2020

QUARTER HIGHLIGHTS:

- Award of Authority to Prospect (ATP) 2062 for 1,414 square kilometres of new coal seam gas (CSG) acreage adjacent to existing Reid's Dome Project
- Successful completion of heavily oversubscribed Share Purchase Plan accepting approximately \$4.9m, resulting in almost \$14.5m funds raised when combined with the immediately preceding private placement
- Two wells (Nyanda-7 and Nyanda-8) drilled to appraise Nyanda Area at Reid's Dome
- Three wells in the Nyanda area (Nyanda-4, Nyanda-7 and Nyanda-8) currently undergoing production testing
- Phase 2 drilling campaign divided into two parts to minimise impact from La Nina weather pattern on remainder of Phase 2.

ACTIVITIES DURING Q4 2020

This December Quarter was a highly productive period for State Gas.

Award of ATP 2062 – Rolleston-West

The Quarter started with the award to the Company of new ATP 2062 on 1 October 2020 in what must be close to record time, for 1,414 square kilometres of new acreage contiguous to PL231 (see Figure 1 below). The new block (which we are calling "Rolleston-West") contains the highly prospective Bandanna Coals which have shown good CSG potential to the north at Mahalo and to the south at Acadia, as well as previously identified conventional gas targets. Interestingly, the geology of the block includes two plunging noses, with the coals in the target area at depths within the CSG sweet spot, that is between 300 metres and 650 metres. It is planned to explore and develop Rolleston-West in conjunction with neighbouring Reid's Dome, as a single integrated project¹.

Seismic has been previously acquired over the eastern area of the permit and this, together with the results of sampling by coal companies exploring in the area, enables us to move to drilling in the block without preliminary exploration. We are currently preparing to drill two wells in the permit, to be undertaken in conjunction with the Phase 2 Campaign at Reid's Dome.

¹ The information in this paragraph was announced on 23 September, and 2 and 31 October 2020

\$14.5m capital raised

The end of September Quarter saw the Company raise \$9.5m through a private placement, and this was immediately followed by a Share Purchase Plan extending the same terms to the Company's eligible shareholders, namely the purchase of a maximum of 27,272 shares at \$0.55 per share. The Plan was heavily oversubscribed, with subscriptions of nearly 250% of the \$2m target sum. Nearly \$4.9m was raised, bringing the combined equity raisings to nearly \$14.5m, enabling the Company to move rapidly into its Phase 2 exploration and appraisal campaign².

The Phase 2 Campaign

The Phase 2 exploration and appraisal campaign for the Reid's Dome Project aims to provide additional data to secure a significant certified reserves booking and enable field development planning and infrastructure design for commercialisation of the Nyanda area.

Two "step out" wells from the successful Nyanda-4 well were drilled during the Quarter, Nyanda-7 approximately 2.5km to the north, and Nyanda-8 approximately 2.2km to the south-west of Nyanda-4 (see Figure 1 below). The new drilling has confirmed confidence in the extent of the resource in the Nyanda area, with both wells intersecting good quality, gassy coals with seams of similar thicknesses and depths to Nyanda-4, and in a promising sign for producibility, evidence of open fractures³.

CURRENT QUARTER UPDATE

Since the end of the Quarter production testing has commenced at Nyanda-4 and Nyanda-7 (on 19 and 25 January respectively)⁴, while the Services Rig has just completed installation of the pump at Nyanda-8 and the surface facilities are currently being connected. The flow data to be provided from these tests will be a key input into development planning for the field.

The results so far from Nyanda-4 and Nyanda-7 are looking so promising that the Company is starting base-line environmental studies for the development (including Central Processing Facilities), thus ensuring our aspirational timetable in Target 2023 remains on track.

The forecasted La Nina weather pattern has led State Gas to bi-furcate its drilling programme, and the remaining wells (on both PL231 and Rolleston-West) will be drilled once the wet season weather risks have abated. This has proved to be a wise decision as more than 12 inches (300 mm) of rain fell at site in the 3 weeks after Christmas alone⁴. We expect that this wet weather should abate by mid to late March in which case we will re-commence the programme to drill and test production at the central (Serocold) and northern (Aldinga) areas of the project. Excitingly, as part of the Phase 2 re-commencement, State Gas will embark on the first work at Rolleston-West.

The market for gas is the most promising it has been for quite a while. The Asian LNG spot price is running at historically high levels⁵, and there is an expectation that the go-ahead for a major new gas-fired power station, part of the Federal Government's "gas led recovery", will be announced in March or April this year⁶. A new power station is likely to take at least two years before it is commissioned, adding to the strength of domestic demand in 2023. Target 2023 has never looked more prescient.

² Announced 27 October 2020

³ Announced 6 January 2021

⁴ Announced 27 January 2021

⁵ See article "Runaway LNG price sends warning to gas buyers" in *Australian Financial Review* 4 January 2021

⁶ See article "Taylor ready to build gas-fired power station" in *Australian Financial Review* 28 January 2021

The results to date show that the aspirational goal set out in Target 2023 has never looked closer to being a reality. The 6 months covering last quarter and the coming one are indeed critical to the beckoning future.

Financial Position

State Gas is well placed to complete its Phase 2 Campaign. At the end of the Quarter the Company had cash at bank of \$12.47m, after raising new equity of \$5.96m (net of costs) during the Quarter (\$14.43m including the preceding Quarter), and expending \$1.45m in Project development costs, and \$0.57m in other costs.

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

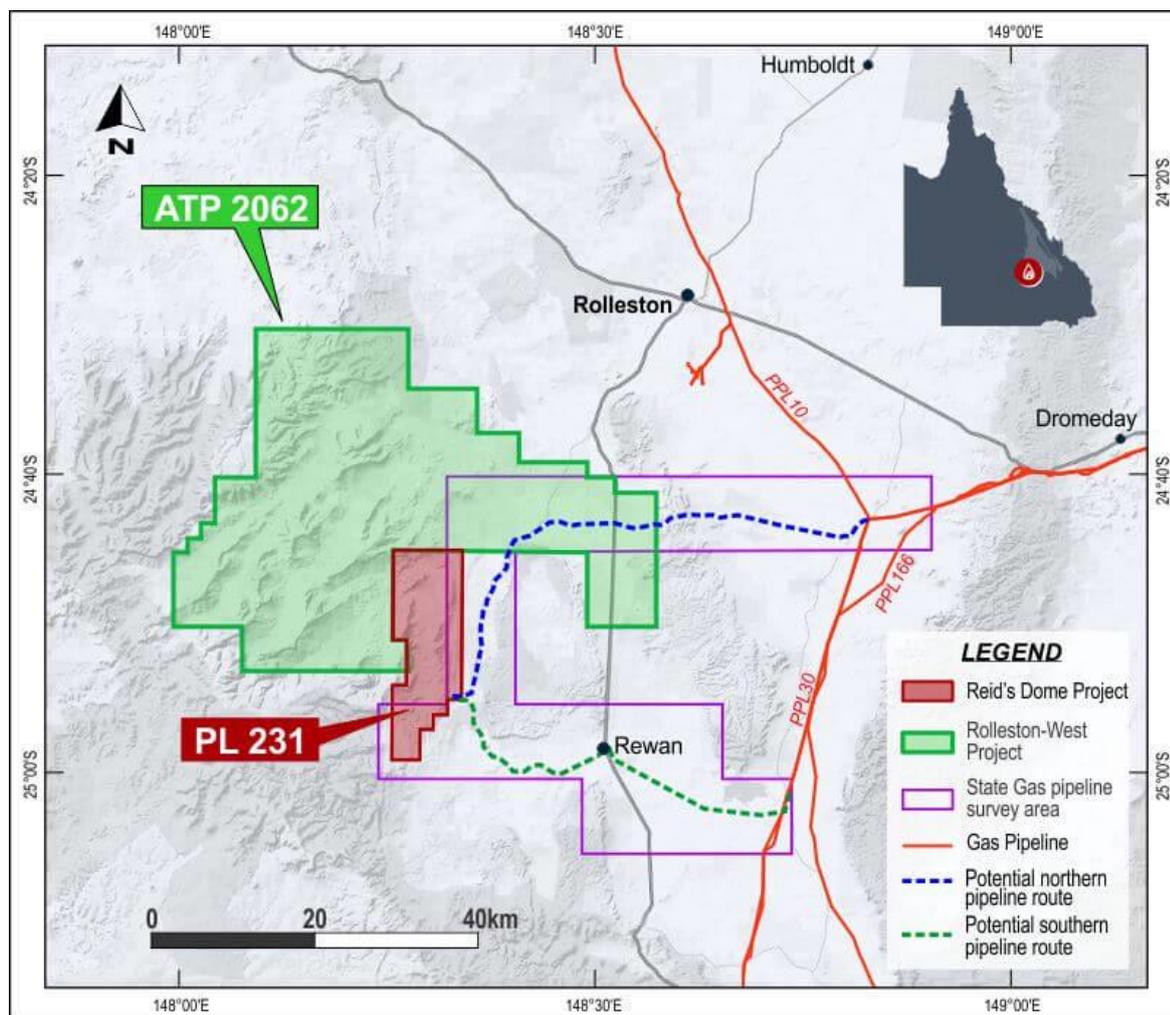


Figure 1: Map showing Reid's Dome, Rolleston-West, and State Gas' Pipeline Survey area

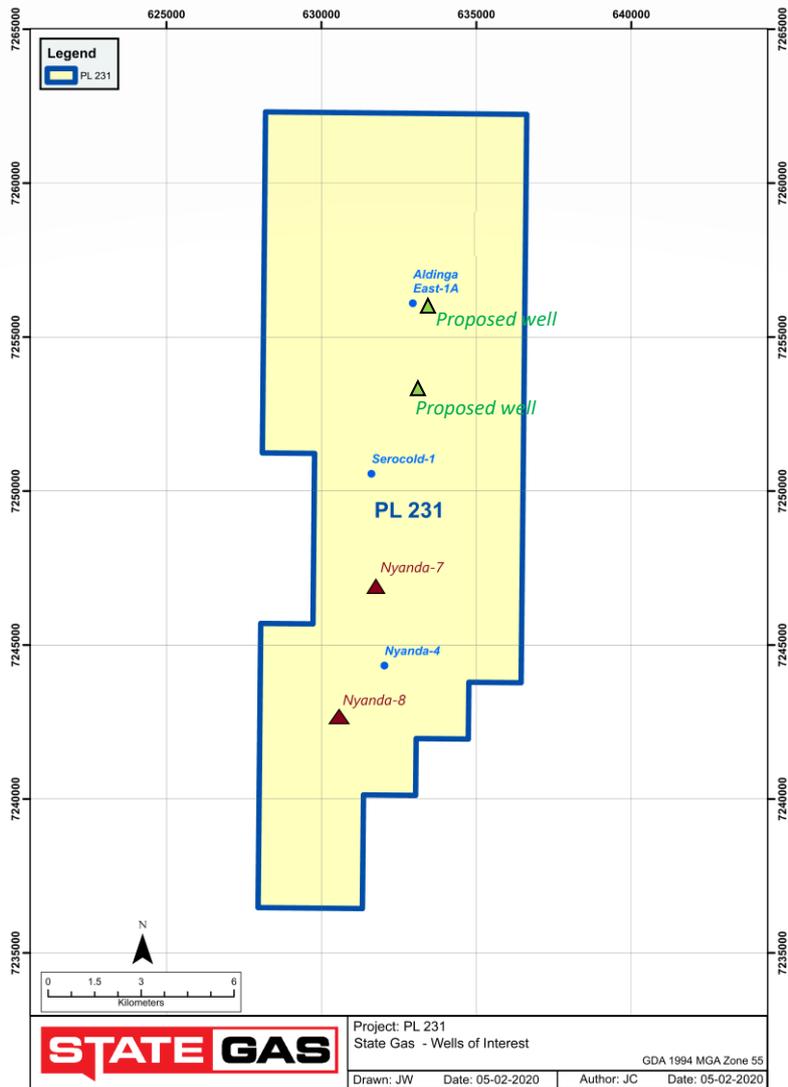


Figure 2: Map showing location of key wells in PL 231



Secure Well Services Rig at Nyanda-4, January 2021

FOR FURTHER INFORMATION

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ABOUT STATE GAS

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).

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 State Gas' ownership. In late 2018 State Gas drilled the first coal seam gas well in the region (Nyanda-4) into the Reid's Dome Beds and established the potential for a significant coal seam gas project in PL 231. The extension of the coal measures into the northern and central areas of the permit was confirmed in late 2019 by the Company's drilling of Aldinga East-1A (12 km north) and Serocold-1 (6 km to the north of Nyanda-4).⁷

State Gas is implementing its strategic plan to bring gas to market from Reid's Dome and Rolleston-West to meet near term forecast shortfalls in the east coast domestic gas market. 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 market⁸. State Gas' current focus has been to confirm the producibility of the gas through production testing of the wells.

⁷ The information in this paragraph was previously announced on 31 October 2018, 5 December 2018 and 31 January 2020.

⁸ Strategy announced on 21 August 2019