



State Gas Limited  
ACN 617 322 488  
PO Box 10348  
BRISBANE QLD 4000

## ASX RELEASE

30 April 2020

### QUARTERLY ACTIVITIES REPORT

1<sup>st</sup> January 2020 – 31<sup>st</sup> March 2020

#### HIGHLIGHTS:

- Very encouraging gas flow rate and low water make from Nyanda-4 production test.
- Encouraging early signs from Serocold-1 production test.
- Desktop study confirms viable export pipeline route from the gas field to connect with the east coast gas pipeline network (approximately 45km to the east of the field).
- State Gas in a good position to weather the COVID-19 storm and advance our commercial aims.

#### 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 approximately 45 km from the high pressure gas pipeline network in Queensland.

In August 2018 Pipeline Survey Licence 2028 was issued to the Company, enabling investigations to commence for a pipeline route to market. 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. 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 by State Gas.<sup>1</sup>

State Gas has adopted a strategy to bring gas to market from PL 231 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 market<sup>2</sup>.

The rationale for the strategy was supported by the Australian Energy Market Operator's Gas Statement of Opportunities 2020, released in late March, which warns that the southern states of Australia could face gas shortfalls by 2024 and as early as 2023<sup>3</sup>. While this report pre-dates the

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<sup>1</sup> The background information in this paragraph was previously announced on 31 October 2018 and 5 December 2018.

<sup>2</sup> Previously announced on 21 August 2019

<sup>3</sup> 'Additional east-coast gas supply required by 2024', AEMO, 27 March 2020, <https://aemo.com.au/news/gsoo-vgpr-2020>

current COVID-19 crisis your Board believes it remains essentially valid: while COVID-19 may depress gas demand, the oil price crash may well lead to equal or greater reductions in domestic supply. The development of the Queensland LNG projects has caused the linkage of the east coast domestic gas and international LNG markets, particularly in Asia, with surplus Queensland produced gas moving between each. Asian LNG demand has been severely impacted by COVID-19, but is showing signs of recovery, particularly in China. At the same time we have seen several major new LNG projects cancelled or deferred, and it can be anticipated that US LNG supply will also reduce, as gas is no longer so freely produced as a by-product of oil shale. If these reductions in supply outweigh the recovered demand we can anticipate Australian gas moving to meet the international market, and a commensurate reduction of gas available to meet Australian shortfalls.<sup>4</sup>

The drilling of the Aldinga East-1A and Serocold-1 wells during the December 19 Quarter confirmed the extension in the northern and central areas of the permit of the Reid's Dome coal measures previously identified in the south by Nyanda-4. The objective of the March Quarter was to confirm producibility of the gas through production testing of the Nyanda-4 and Serocold-1 wells.

## PROJECT ACTIVITIES

The March 2020 Quarter commenced extremely well, with production of gas from Nyanda-4 commencing on 9 December 2019, after just 5 days of dewatering. The gas rate and increased consistently as the water level (and hence downhole pressure) was lowered. A gas rate of 227 mscf/d was recorded on 23 January 2020. However, at that point the pump shut down with technical problems. Frustratingly, widespread heavy rain and floods in late January to March washed out site roads and prevented access to enable remediation of the pump.<sup>5</sup> Gas continued to flow from the well at reducing rates as down hole pressures gradually increased with the recharging water. The slow water recharge is consistent with the low water make during pumping from the well, suggesting water management costs (a large component of CSG operating costs) will be at the lower end of the range for coal seam gas projects.

*Gas flare at Nyanda-4 on 9 January 2020*



Production testing commenced at Serocold-1 in the central area of the permit on 17 January 2020 and early signs of gas production were also seen within a week. However as with Nyanda-4, pump problems and wet weather intervened and dewatering was shut down<sup>6</sup>.

Access to site was re-established in April 2020 and works to recommence dewatering undertaken after Easter. While pumping issues are currently being addressed the high gas flow rates and low water discharge proved in this campaign augur well for future production.

At Aldinga East-1A the Company has also observed a build up in wellhead pressure commensurate with the reservoir pressure

<sup>4</sup> See further State Gas Executive Chairman's Letter to Shareholders 16 April 2020

<sup>5</sup> Gas production data, pump shut down and weather impacts previously announced on 16 December 2019, 31 January 2020 and 1 April 2020

<sup>6</sup> Announced 31 January 2020

measured during logging operations, suggesting that access to the conventional gas discovered in the Cattle Creek Formation has been re-established. The Company continues to monitor this pressure and has commenced planning for a short-term flow rate test of Aldinga East-1A.

### Export Pipeline

While field activities were restricted during the wet season, State Gas has also progressed plans for an export pipeline from the Reid’s Dome gas field. A desktop study of potential options has been undertaken and has confirmed a viable route from the gas field to the high pressure east coast gas pipeline network, via the Queensland Gas Pipeline (approximately 45km to the east of the field)<sup>7</sup>.

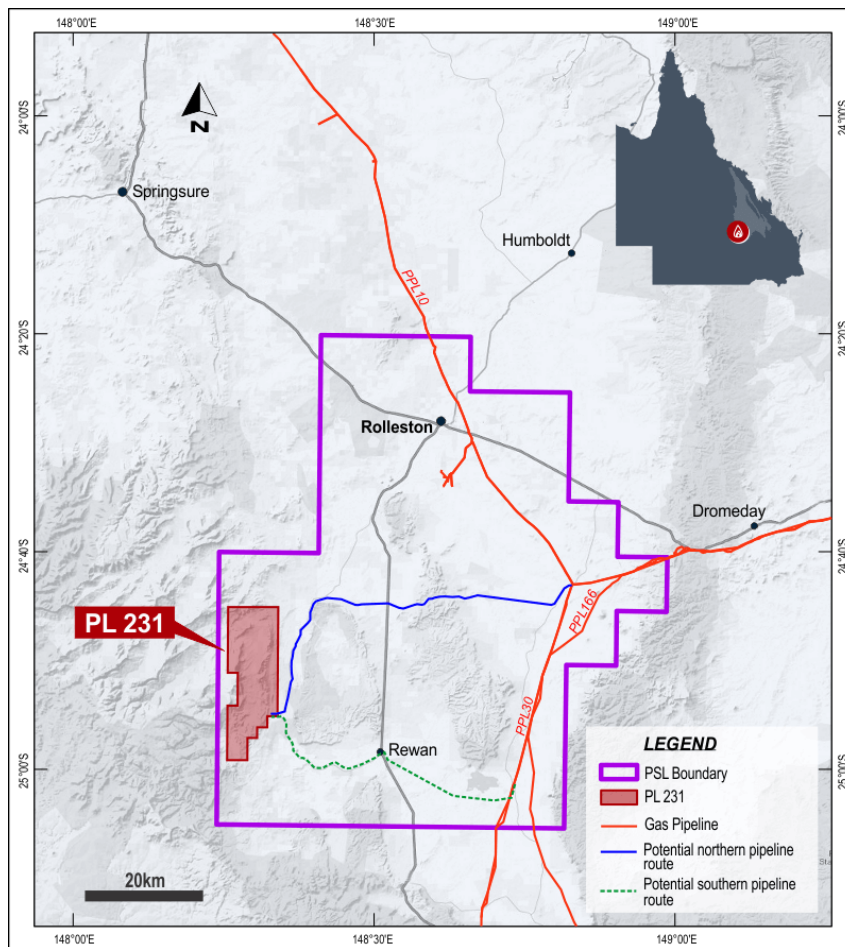


Figure 1: Potential export pipeline routes and area of Pipeline Survey Licence (PSL)

### Financial Position

As noted above, your Board believes the mid-term outlook for gas from Reid’s Dome remains strong, and accordingly we continue to move the Company towards achieving gas to market as soon as possible, while at the same time focussing tightly on near term activities most likely to build reserves and hence company value. Board and management remuneration has been restructured, and reductions from suppliers negotiated where possible.

<sup>7</sup> Previously announced 1 April 2020

Options for future development funding are being considered, including strategic partnering and pre-sales, along with debt and equity. At the end of the Quarter the Company had cash at bank of \$1.54m, after expending \$2.26m in Project development costs, and \$0.14m in other costs. The Company is in a good position not only to weather the COVID-19 storm, but also to advance our commercial aims.

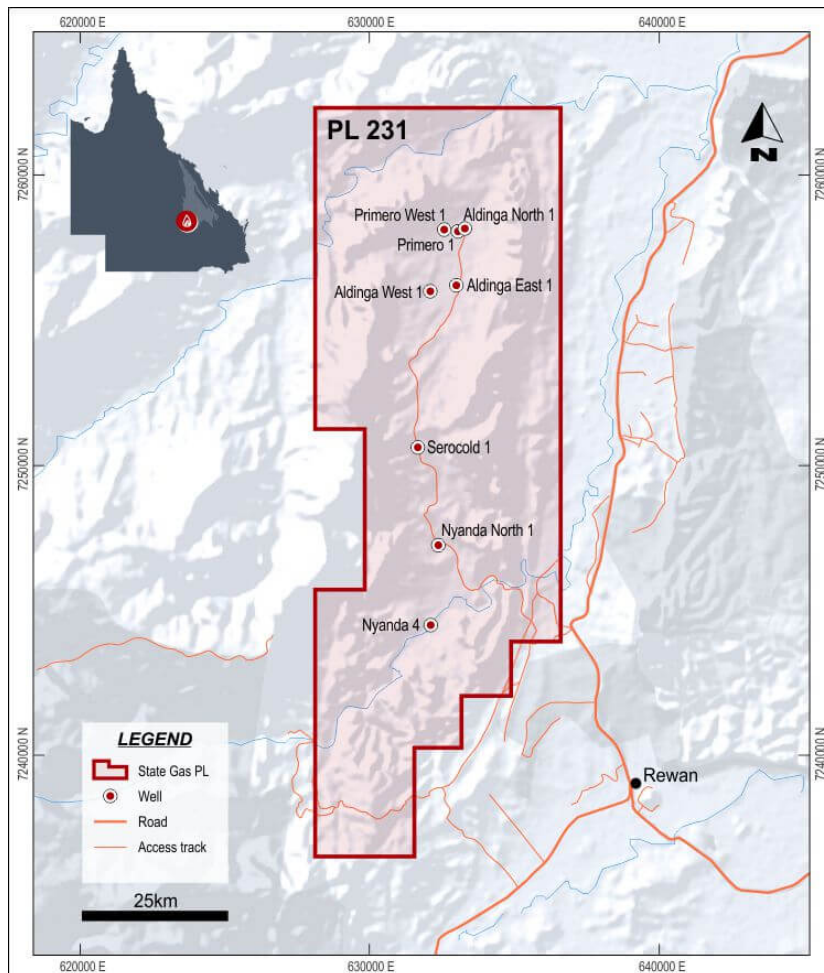


Figure 2: Location of wells on PL 231

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

**FOR FURTHER INFORMATION**

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## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

STATE GAS LIMITED

ABN

49 617 322 488

Quarter ended ("current quarter")

31 MARCH 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers		-
1.2 Payments for		
(a) exploration & evaluation (if expensed)	-	-
(b) development	-	-
(c) production	-	-
(d) staff costs	(331)	(723)
(e) administration and corporate costs	(206)	(1,379)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
- GST refunds	399	528
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(138)</b>	<b>(1,570)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	(2,258)	(4,779)
(e) investments	-	-
(f) other non-current assets	-	-

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(2,258)</b>	<b>(4,779)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	1,600
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(53)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>(1,547)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,938	6,344
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(138)	(1,570)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,258)	(4,779)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,547

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,542</b>	<b>1,542</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	334	98
5.2	Call deposits	1,208	3,840
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,542</b>	<b>3,938</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

<b>Current quarter \$A'000</b>
81
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments to directors include salaries, director fees and superannuation guarantee.

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-
7.5 <b>Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(138)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(2,258)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(2,396)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	1,542
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	1,542
8.7 <b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b>	0.6

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: No. As is the case for all exploration companies, expenditure levels are not consistent quarter on quarter. Exploration and evaluation spend for the June 2020 quarter is expected to be circa \$550k.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The Company has not taken any steps to raise further cash at this stage. Options for future development funding are currently being considered, including strategic partnering and pre-sales, along with debt and equity. The Company has no reason to believe any steps taken in this regard won't be successful.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The Directors believe there is sufficient cash available for the company to continue operating until further development funding is obtained.

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2020

Authorised by: By the Board  
(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.