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ASX RELEASE

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RESTART OF PRODUCTION TESTING WITH STREAMLINED MANAGEMENT

Highlights:

- Replacement of pumps to recommence production and resolve site-specific production issues
- Streamlining of management team, with a focus on production
- Aim to significantly progress negotiations with a preferred pipeline owner/operator

Project Activities

As has been previously announced¹ **State Gas Limited (ASX:GAS)** has been pleased and excited by the results of its appraisal program conducted late-2019/early-2020 at the **Reid's Dome Gas Project (PL-231)** in the Bowen Basin.

In particular, the Aldinga East-1A core hole (in the northern area of PL 231) has produced results at the better end of the Company's prognosis, Serocold-1 confirmed the presence of coal seams with promising permeability in the central area of the permit, and the production test at Nyanda-4 flowed gas at rates well above expectations for a single well.

While providing very promising early results, the production tests at Nyanda-4 and Serocold-1 have also faced challenges with failing pumps². Each new coal seam gas field presents its own set of conditions, the "code" for which needs to be "cracked" for successful production. At Reid's Dome the conditions include high number of producing seams, with some productive seams at greater than average depths at other CSG fields.

The Company believes it has made significant steps in "cracking the code" over the last few weeks. Head of Operations Mike Herrington has led a process to investigate the pump failures at PL 231. With the assistance of industry experts he has established the cause (abnormal swelling of the elastomer in the stators Asian-sourced pumps, likely the result of downhole temperature and pressures). With this knowledge, new pumps designed for these conditions are now being manufactured in Canada prior to air freighting to Australia. The pumps are expected at site in approximately 4 weeks, at which time workovers to install them will be undertaken and the production tests will restart. Management expects to be flowing gas again by mid-to-late July. All related costs are within the Company's budget.

The focus for 2020 is completion of the current appraisal program and design of the next phase of appraisal, building on the learnings from the present activities. In addition, building on pipeline studies already undertaken, State Gas is aiming to significantly progress its negotiations with a preferred pipeline owner/operator, establishing the basis on which a pipeline to existing

¹ ASX Announcements dated 31 January 2020, and 1 April, 2020 and 30 April, 2020.

² ASX Announcements dated 1 April, 2020 and 30 April, 2020.

infrastructure networks might be financed and constructed.

In order to increase efficiency and focus on what should prove to be an exciting year ahead for shareholders, the Board is streamlining the management structure. Mike Herrington will now report directly to the Executive Chairman as Chief Operating Officer. He will be responsible for completing the present program as well as implementation of the next phase. James Crowley will continue his role analysing and guiding geological decisions, also reporting directly to the Executive Chairman. Lucy Snelling will be responsible for all areas of the Company not otherwise covered (ie commercial, legal, finance and government relations) and report to the Executive Chairman. Her title will change to Head, Corporate and Commercial from CEO.

State Gas Executive Chairman Richard Cottee said he was looking forward to the next phase of the Company's development.

"I have been very encouraged by the progress to date at Reid's Dome. CSG production involves a "code", which needs to be cracked, and I am confident we have the right team to do that. Mike Herrington has really unparalleled experience in bringing new CSG fields to development, in the US, Europe and Mongolia, well as Australia. James Crowley's geological work has been outstanding; the accuracy of his prognoses to date has been excellent. And Lucy Snelling has done an outstanding job in implementing the Board's objective to achieve 100% ownership of PL 231 and finalise a new development plan recognising the PL-231 permit as a CSG play. I am very pleased to have her with us to lead negotiations with pipeline developers and others."

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

FOR FURTHER INFORMATION

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*Gas flare at
Nyanda-4,
Reid's Dome
Gas Project,
on 9
January
2020*



ABOUT STATE GAS

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based developer of the Reid's Dome gas field, originally discovered during drilling in 1955, located in the Bowen Basin in Central Queensland. State Gas is 100%-owner of the Reid's Dome Gas Project (PL-231) a CSG and conventional gas play, which is well-located 30 kilometres southwest of Rolleston, approximately 50 kilometres from the Queensland Gas Pipeline and interconnected east coast gas network.