



State Gas Limited
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ASX RELEASE

31 July 2020

QUARTERLY ACTIVITIES REPORT

1st April 2020 – 31st June 2020

HIGHLIGHTS:

- Customised pumps manufactured and imported from Canada
- Dewatering activities recommenced at Reid's Dome
- All three wells (Serocold-1, Aldinga East-1A and Nyanda-4) at Reid's Dome have produced gas, with continuing production at Serocold-1 and Nyanda-4
- Streamlining of management structure towards production focus
- Costs of \$233,000 received from successful outcome in legal appeal

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.

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).¹ The locations of the wells are shown in Figure 1.

State Gas is implementing its strategic plan 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 market².

While the current COVID-19 crisis is impacting energy markets in Australia and internationally in the short-term, your Board believes its corporate strategy is increasingly compelling. The imbalance between gas supply and demand in southern Australia continues to grow as Bass Strait production inexorably declines. With Asian demand low Queensland gas has been redirected to meet the southern demand. However, short-term instability in markets has impacted investment decisions, with several major projects being cancelled or deferred. Demand will accelerate as economies recover but major projects can be slow to regenerate. Australian gas volumes and pricing will move to meet the international market, with commensurate impacts on

¹ The background information in this paragraph was previously announced on 31 October 2018, 5 December 2018 and 31 January 2020.

² Strategy announced on 21 August 2019

the volumes available to meet Australian shortfalls.³

State Gas' current focus is to confirm the producibility of the gas through production testing of the wells. Production testing of the Nyanda-4 and Serocold-1 wells commenced in prior Quarters, and after early encouraging results (consistent gas production at Nyanda-4 after just 5 days, reaching 227mscf/d after 6 weeks, low water make; early signs of gas at Serocold-1 after 5 days) the pumps failed and the tests were suspended. The heavy wet season then prevented access until early April⁴.

PROJECT ACTIVITIES

The June 2020 Quarter has seen major advances in the Company's understanding of the conditions of the Reid's Dome coals in order to achieve successful gas production. The Company undertook extensive investigations of the pump failures in the wells, and arranged for the Canadian manufacture of replacement pumps designed for the conditions. On arrival in Australia in early July, the pumps were installed in the Nyanda-4 and Serocold-1 wells and production testing recommenced, with gas flowing within days in each well.

Nyanda-4

Constant gas flows have again commenced quickly within 5 days of dewatering. The gas rate is building as the water level reduces, with the current rate (after less than three weeks) approximately 50 mscf/d. The water production rate has again been very low, indicating a water management task at the lowest end of the spectrum. A gas flare has also been re-established at Nyanda-4.

Serocold-1

Constant gas flows have also commenced early at Serocold-1, after one week of dewatering. A gas flare was established at Serocold-1 after ten days of dewatering (refer photograph below). As at Nyanda-4, low levels of water are being produced at Serocold-1.



Gas flare at Serocold-1 on 27 July 2020 after de-watering for ten pumping days.

³ See further State Gas Executive Chairman's Letter to Shareholders 16 April 2020

⁴ Announced 30 April 2020

Aldinga East-1A

As announced on 13 November 2019, a new conventional gas pool was discovered during the drilling of the Aldinga East-1A well. Subsequent tests of the gas sand failed to achieve gas flow, suggesting a water block (caused by the drilling fluid) had impeded flow. The Company has been monitoring a pressure build up at the well for several months and has now conducted a productivity test. This test has produced gas, with a flare installed (see below), indicating some dissipation of the water block and confirming the gas pool. A sample of the gas was taken and the Company is currently awaiting the results of analysis. The well will continue to be monitored for ongoing gas pressure build up and further testing will be considered.



Flare at Aldinga East-1A on 20 July 2020

Export Pipeline

In conjunction with proving the potential of the resource, State Gas is progressing the planning of an export pipeline. In 2018, the Company obtained Pipeline Survey Licence 2028 and a desktop study completed during the prior Quarter has identified two viable routes from the gas field to the high pressure east coast gas pipeline network⁵. Further work in the field, including discussions with landholders, will be progressed as COVID-19 constraints permit.

CORPORATE

As announced on 2 June 2020, the Company has streamlined its management structure to focus on the coming year. Mike Herrington is now Chief Operating Officer reporting directly to the Executive Chairman, Richard Cottee. Mike has spent most of his nearly four decades of petroleum operations experience bringing new coal seam gas fields into production, and will lead the Company's efforts in this regard at Reid's Dome. Lucy Snelling has moved to Head, Corporate and Commercial, to focus on commercial, legal, finance and government relations issues, while James Crowley, as Executive General Manager, Exploration and Development continues his role analysing and guiding geological decisions and reviewing new opportunities.

⁵ Announced 30 April 2020

FINANCIAL POSITON

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.

At the end of the Quarter the Company had cash at bank of \$0.875m, after expending \$0.655m in Project development costs, and \$62,000 in other costs; \$50,000 of equity was raised through the exercise of options. Costs of \$233,000 relating to a successful legal appeal regarding the former Reid's Dome Joint Venture were refunded to State Gas during the quarter.

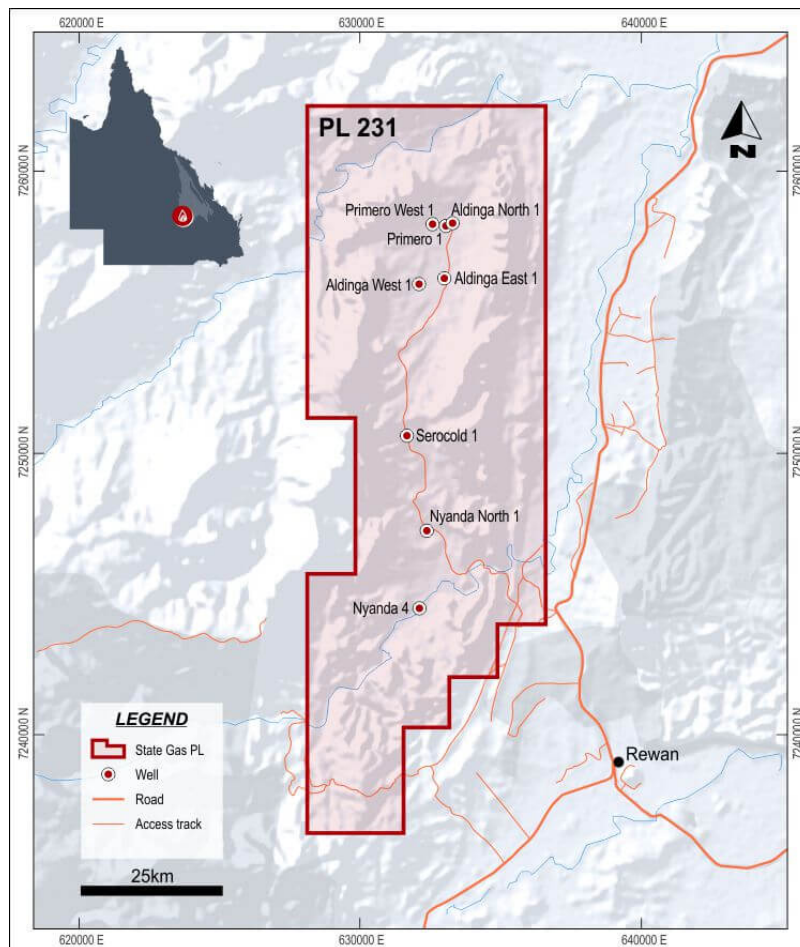


Figure 1: Location of wells on PL 231

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

FOR FURTHER INFORMATION

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