



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

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.

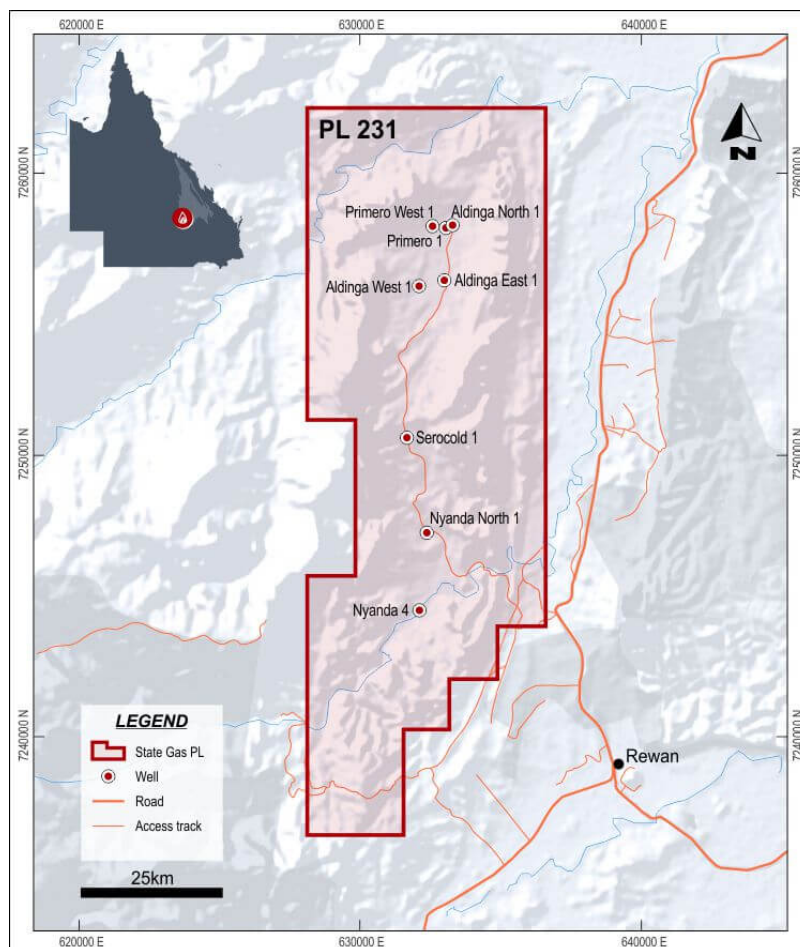


Figure 1: Location of wells on PL 231

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

FOR FURTHER INFORMATION

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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")

30 JUNE 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		-
1.2 Payments for		
(a) exploration & evaluation (if expensed)	-	-
(b) development	-	-
(c) production	-	-
(d) staff costs	(153)	(842)
(e) administration and corporate costs	(169)	(1,879)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	80	80
1.8 Other (provide details if material)		
- GST refunds	56	584
- Costs of legal appeal awarded	233	233
1.9 Net cash from / (used in) operating activities	48	(1,819)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	(765)	(5,249)
(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 (12 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)	-	-
2.6	Net cash from / (used in) investing activities	(765)	(5,249)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	50	1,650
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	-	(51)
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)	-	-
3.10	Net cash from / (used in) financing activities	50	1,599

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,542	6,344
4.2	Net cash from / (used in) operating activities (item 1.9 above)	48	(1,819)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(765)	(5,249)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	50	1,599

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 (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	875	875

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	97	334
5.2	Call deposits	778	1,208
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	875	1,542

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	45
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter
\$A'000**

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>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 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
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.	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	48
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(765)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(717)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	875
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	875
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1.2
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 September 2020 quarter is expected to be circa \$600k.
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 funding are currently being considered, including strategic partnering and pre-sales, along with Director loans and other 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: 31 July 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.