

QUARTERLY ACTIVITIES REPORT

1st July 2020 – 30th September 2020

HIGHLIGHTS:

- Flow rates at the Nyanda-4 production test approach the highly commercial rate of 500,000 scf/d
- Award and grant of ATP 2062, comprising over 1400km² of new acreage, including highly prospective and well understood Bandanna Coals
- Successful fundraising of \$14.5m, including SPP completed since the quarter's end
- Gas prioritised by Federal Government for a "gas-led economic recovery".

ACTIVITIES

This quarter may well be seen as the quarter in which State Gas laid the foundation stones on its journey to become a truly significant player in the Eastern Seaboard Gas Market. Four major events occurred, each of which has assisted in expanding the commercial opportunity, contributing enormously to State Gas' potential to significantly increase its shareholder value.

Production Testing at Nyanda-4

Production testing re-commenced at Nyanda 4 with the installation of the new pumps designed specifically for the conditions the Company encounters at Reid's Dome. The results have been very exciting, with Nyanda 4 reaching close to 500,000 scf/day after two months of production testing.¹

This is a stellar result and bodes extremely well for the future of the field.

Award and Grant of ATP 2062

In September State Gas was successful in its application for over 1400 square kilometres of new acreage contiguous to PL231, in what we now call Rolleston-West¹. The new block, ATP 2062, contains the highly prospective Bandanna Coals, which have shown good CSG potential to the north at Mahalo and to the south at Acadia. Our analysis of previously



Gas flare at Nyanda-4, 15 September 2020

¹ Announced on 23 September 2020 in release *State Gas Wins New Contiguous Acreage Creating Super Gas Region*

acquired seismic and the results of coal sampling by coal companies exploring in the area has accelerated our planning, enabling us to commence drilling in the eastern part of the block without preliminary exploration. Interestingly, the eastern area of Rolleston-West has two ‘noses’ plunging together, which often create stresses beneficial for CSG. As Executive Chairman, my experience at QGC with the Undalla Nose makes me particularly partial to geological noses. The depths of the coals in the target area of Rolleston-West also fall within the geological CSG sweet spot, being between 300 metres and 650 metres in depth.

Rolleston-West was granted ATP status (ATP 2062) in late September in what must be close to record time². This rapid grant will enable the first couple of exploration holes to be added to the next phase of development at the adjoining Reid’s Dome project.

Fund Raising

Following the excellent results at Nyanda-4 and the award of Rolleston-West, the Company undertook a \$9.5 million placement to sophisticated investors in late September³. The Board followed up this placement with a Share Purchase Plan (“SPP”) to enable all eligible shareholders to participate at the same price. Over one-third of our fellow shareholders elected to participate in the SPP with the average participation being close to \$20,000⁴. The Board appreciates this enthusiastic backing by the Company’s Owners.

The combined total from the fundraising was \$14.5 million which enables the Company to simultaneously appraise Reid’s Dome and explore Rolleston-West. The Company envisages that both Reid’s Dome and Rolleston-West will be developed as one economic region.

Gas as a Priority Area in Covid Recovery

The Federal Government recently announced Gas as one of the six Priority Areas to power the nation’s economic recovery from the Covid-induced recession. The requirement for new gas supplies from 2023 onwards is now a national priority. State Gas, with its large Bowen Basin acreage position and \$14.5 million of funding, stands in an enviable position to help meet our Nation’s needs.

The Next Phase

The objective of the next phase is to establish the Nyanda Area at Reid’s Dome as the initial production hub whilst establishing possible future hubs in the Serocold and Aldinga areas. The productivity of the Bandanna Coals in the adjoining Rolleston-West acreage will also be investigated, with two new wells (to be named Rougemont 1 and 2) to be drilled on the geological noses.

In addition, the export pipeline will be progressed, with further work to be undertaken to select between a northern route (which will pass through Rolleston-West) and a direct route to the south.

State Gas is progressing at pace in ensuring all necessary approvals are in place to start this programme as soon as possible. The physical inspections to provide environmental and Cultural Heritage clearances of proposed wells sites have now commenced, following several days delay from rain. All necessary long lead time items have been sourced, and rigs have already been secured.

The Board is conscious of the predictions of a La Nina weather event this storm season and is taking the appropriate steps to mitigate the potential impacts. The weather situation and its impact

² Announced 2 October 2020

³ Announced 23 September 2020

⁴ Announced 27 October 2020

on the timing of the programme will be assessed at the time at which all approvals have been obtained, taking into account the mitigation steps taken so far.

Financial Position

At the end of the Quarter the Company had cash at bank of \$8.535m, with most funds from the Placement received by 30 September. Following the close of the September Quarter, a further \$4.9m was received during October from the proceeds of the Share Purchase Plan. \$0.644m was expended during the Quarter in Project development costs, and \$0.167m in other costs.

CONCLUSION

With the substantial progress made during the September Quarter and the activities currently underway and funded, it has been an exciting time to be a Shareholder in State Gas. The vision outlined a little over a year ago is taking shape. We await with eager anticipation the results of the next phase's drilling and appraisal programme.

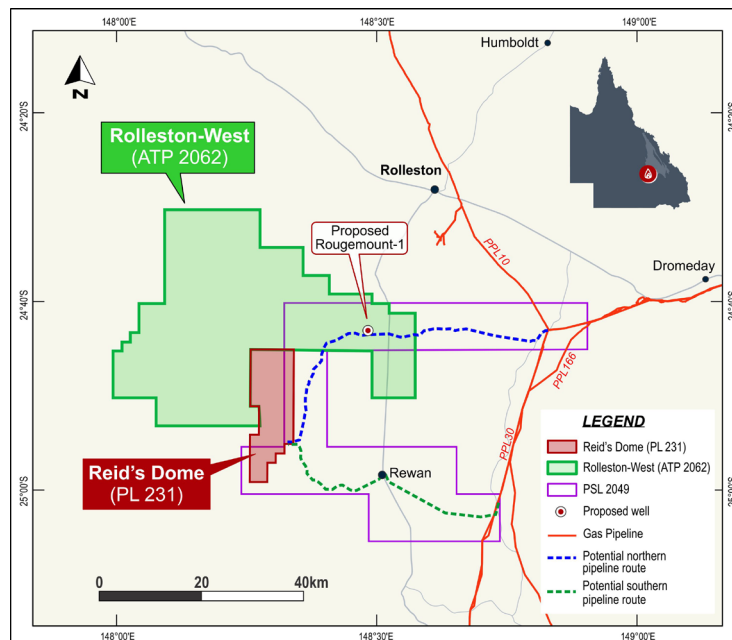
This announcement was approved for release by Mr Richard Cottee, Executive Chairman.

FOR FURTHER INFORMATION

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Map showing the area of Reids Dome, Rolleston-West, Petroleum Survey Licence 2049 and potential pipeline routes with approximate location of proposed Rougemont-1

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 SEPTEMBER 2020

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 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 | (139) | (139) |
| (e) administration and corporate costs | (168) | (168) |
| 1.3 Dividends received (see note 3) | | |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | 90 | 90 |
| 1.8 Other (provide details if material) | | |
| - GST refunds | 50 | 50 |
| 1.9 Net cash from / (used in) operating activities | (167) | (167) |
| 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) | (632) | (632) |
| (e) investments | - | - |
| (f) other non-current assets | (12) | (12) |

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 (3 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 | (644) | (644) |

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 8,371 | 8,371 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | 100 | 100 |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 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 | 8,471 | 8,471 |

| | | | |
|-----------|--|-------|-------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 875 | 875 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (167) | (167) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (644) | (644) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 8,471 | 8,471 |

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 (3 months) \$A'000 |
|---|---|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 8,535 | 8,535 |

| 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 | 57 | 97 |
| 5.2 | Call deposits | 8,478 | 778 |
| 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) | 8,535 | 875 |

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 | 107 |
| 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 accrued 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. 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) | (167) |
| 8.2 Capitalised exploration & evaluation (Item 2.1(d)) | (632) |
| 8.3 Total relevant outgoings (Item 8.1 + Item 8.2) | (799) |
| 8.4 Cash and cash equivalents at quarter end (Item 4.6) | 8,535 |
| 8.5 Unused finance facilities available at quarter end (Item 7.5) | - |
| 8.6 Total available funding (Item 8.4 + Item 8.5) | 8,535 |
| 8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3) | 10.7 |
| 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: N/A | |
| 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: N/A | |
| 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: N/A | |

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 October 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.