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Chairman's Letter to Shareholders

Dear Fellow Shareholder,

With the successful drilling of the Nyanda area at Reid's Dome (PL 231) completed late last year, production testing during 2021 has already begun to deliver results for State Gas.

As our production test results to date have outperformed my expectations, I have taken this opportunity to write to shareholders to convey my increasing confidence based on this recent progress.

The true potential of Reid's Dome, in which your board had strong faith, is now beginning to be revealed. Despite the best efforts of the COVID-19 pandemic and a La Nina induced wet season, the Company's progress over recent months has been remarkable, particularly with the addition of ATP 2062 ("Rolleston West") which was awarded to State Gas by the Queensland Government in only September 2020. The new acreage is contiguous with Reid's Dome/PL231 and adds substantially to the critical mass and upside potential of State Gas' coal seam gas (CSG) acreage.

As with any new CSG province, a large amount of effort is required initially to "crack the code" of the new coals. Reid's Dome was no different. We now have confidence that we have settled on the fundamentals of the right completion technique for the Reid's Dome coal beds. Our pumps are now designed for the temperature, pressure and coal quality regime we are encountering, culminating in instantaneous gas flow rates approaching 500,000 scft/day. A truly encouraging result: the indicative threshold for an economic well is commonly taken as 100,000 cubic feet per day.

During the half year, the Company commenced Phase 2 of exploration and appraisal of the Reid's Dome Project. The aim of this phase was to establish the Nyanda area as one capable of early economic development as well as to prove that economic CSG acreage extends from the Nyanda area in the South, to the north of PL231. Phase 2 consists of drilling and completion of Nyanda 7 and 8 and Aldinga East 2, as well as bringing on-stream Serocold 1 and Nyanda 4, following their work-over and implementation of the learnings of the new completion techniques derived from Phase 1.

Importantly, Phase 2 also incorporates two core holes to the North East of Reid's Dome in ATP 2062 at Rougemont to confirm the CSG potential of the Bandanna coals which, in economic terms, would be an extension of the Aldinga/Reid's Dome discovery. "Cracking

the code” of the Bandanna coals in ATP 2062 should be relatively straightforward given the well-known analogues at nearby Mahalo and Arcadia. The team is keen to validate this new Bandanna CSG field at ATP 2062 via the results of the Rougemont core holes. To ensure a seamless development path, a Pipeline Survey Licence 2049 has been obtained, allowing the Company to explore both the northern and southern route for a roughly 50 kilometre pipeline required to connect our Reid’s Dome and Rolleston West acreage to the nearest gas trunkline.

We expect to have all necessary approvals to commence the Rougemont boreholes in ATP 2062 by the last week of April. By the end of the current financial year, the Company is aiming to achieve a properly appraised PL 231 and confirmation of potential at Rougemont, establishing the prospect of being able to confirm a single, wide-scale economic development of our contiguous acreage, including ATP 2062.

This timing could not be more propitious in the light of the ACCC Gas Inquiry of January 2021 confirming the urgent need for new gas supplies in 2023, which is predicted to become critical in 2024. The fact that the Federal ALP draft policy platform also confirms the criticality of gas in a world transitioning towards a lower carbon future is a promising sign of bi-partisanship on this issue. The Federal Government has already named gas as one of its five economic planks to ensure Australia has a robust economic pathway out of the COVID-induced recession.

It would be an understatement to say that the results of our Phase 2 programme have been encouraging: at the time of writing (10 March) with de-watering still underway, Nyanda-4 is producing 252,000 cubic feet per day, Nyanda-7 is producing 6,000 cubic feet per day, and Nyanda-8 producing 26,000 cubic feet day. The gas flow rates are steadily increasing as the de-watering continues.

I look forward to updating you again soon as our gas production tests continue at Reid’s Dome and the drilling commences in the Bandanna coals at our nearby Rolleston West CSG project.

Yours faithfully,



Richard Cottee
Executive Chairman
STATE GAS LIMITED

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

FOR FURTHER INFORMATION

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