



State Gas Limited
(ACN 617 322 488)
C/- GPO Box 525
BRISBANE QLD 4001

ASX RELEASE

30 April 2021

QUARTERLY ACTIVITIES REPORT

1st January 2021 – 31st March 2021

Quarter Highlights:

- Production testing commenced at Nyanda-7 and Nyanda-8 wells, and recommenced at Nyanda-4
- Nyanda-4 achieving up to 700,000 standard cubic feet of gas production per day
- Encouraging gas production levels at Nyanda-7 and Nyanda-8
- Commencement of civil works for drilling of Rougemont wells on new Rolleston-West Project (ATP2062)

Activities

The March 2021 Quarter saw the beginning of a defining half-year for State Gas.

In January we commenced production testing the newly drilled Nyanda-7 & Nyanda-8 wells, and re-established production testing at Nyanda-4¹.

Logs of the Nyanda-7 provide further positive data for future gas production, with approximately 38.2 metres of net coal confirmed (compared with 30.9 metres at Nyanda-4²), with numerous open fractures apparent through the coal seams. Since the commencement of production testing the well has produced nearly twice as much water as did Nyanda-4 during the same period of its initial testing, with the pathways through the coals created by the open fractures the likely explanation for this enhanced production. These fractures are expected to enhance permeability and future gas production. With no offset wells to help the de-watering process (as is common for early-stage production tests) we expect Nyanda-7 will take longer for significant gas flows to eventuate. Nonetheless, it is currently producing approximately 5,000 cubic feet(cft) /day. As de-watering commonly takes between 3-6 months, we are anticipating that the well will begin to show its worth by the end of this financial year.

Gas production at Nyanda-8 is increasing and currently approaching 50,000 cft/day, and likewise, should pass the expected economic threshold by the end of this financial year.

The corehole drilling undertaken by the Company at its Reid's Dome Project has shown exceptional gas contents in deep coals³. The dome structure in the geology of the area indicates natural uplift, and as a result, fracturing, of the formations. These fractures (evident in the image logs obtained to date in the wells), suggest the potential in these deep coals for not

¹ Announced on 27 January 2021 and 3 February 2021

² Announced on 24 December 2020

³ Announced 5 December 2018, & 4 November 2019

just enhanced production pathways, but also “free gas” in the fractures available to be liberated during production. This potential has been corroborated by the production behaviour of Nyanda-4. In this regard, where natural fractures were intersected in the well, production reached over 700,000 cft/day, after which production resumed at the economic rate of around 100,000 cft/day. This production pattern suggested that the free gas in the intersected fractures had been drained. We prognose that this is the rate at which gas is produced from the natural matrix of the coal. Over time, the coal should shrink through production of gas and water, enhancing permeability by connecting an increasing number of fractures. When this occurs we expect to see sustained higher production rates.

On April 7 we re-commenced production testing of Serocold-1, reducing the water level and pressure through pumping to enable gas production. The well has commenced producing measurable volumes of gas even though the water level has not yet reduced below the top of the coal - an extremely positive sign.

Whilst fully appraising PL231 is important, particularly given the urgent need for more east coast gas in 2023 (as the ACCC has observed⁴), the additional contribution from the Company’s new Rolleston-West Project (ATP 2062) could define State Gas as a meaningful participant in the Australian Gas Market.

On April 29, the civil works within ATP 2062 necessary to provide access to the Company’s two proposed Rougemont wells commenced. The target formation for the Rougemont wells is the Bandanna Coals, which have proved economic (even without the geological advantages of plunging noses⁵) to the north and south of our acreage. The Rougemont wells will be logged and tested to determine the thickness and permeability of the coal seams, and cores will be taken to assess gas content.

Within Rolleston West we have sizeable acreage of over 1400 square kilometres (nearly 8 times the area of PL 231). Accordingly, should the core-holes prove successful ATP 2062, the Rolleston West Project will be developed as part of the development of Reid’s Dome/PL 231, sharing certain infrastructure and benefits from economies of scale. We are anticipating meaningful results at Rougemont in June. What a transformation this may prove.

Financial Position

At the end of the Quarter the Company had cash at bank of \$6.27m, after expending \$6.14m in Project development costs, and \$0.07m in other costs.

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

⁴ ACCC Gas Inquiry Interim Report January 2021

⁵ The stress fractures created by “plunging noses”, that is bent and dipping formations, should enhance permeability in the coals

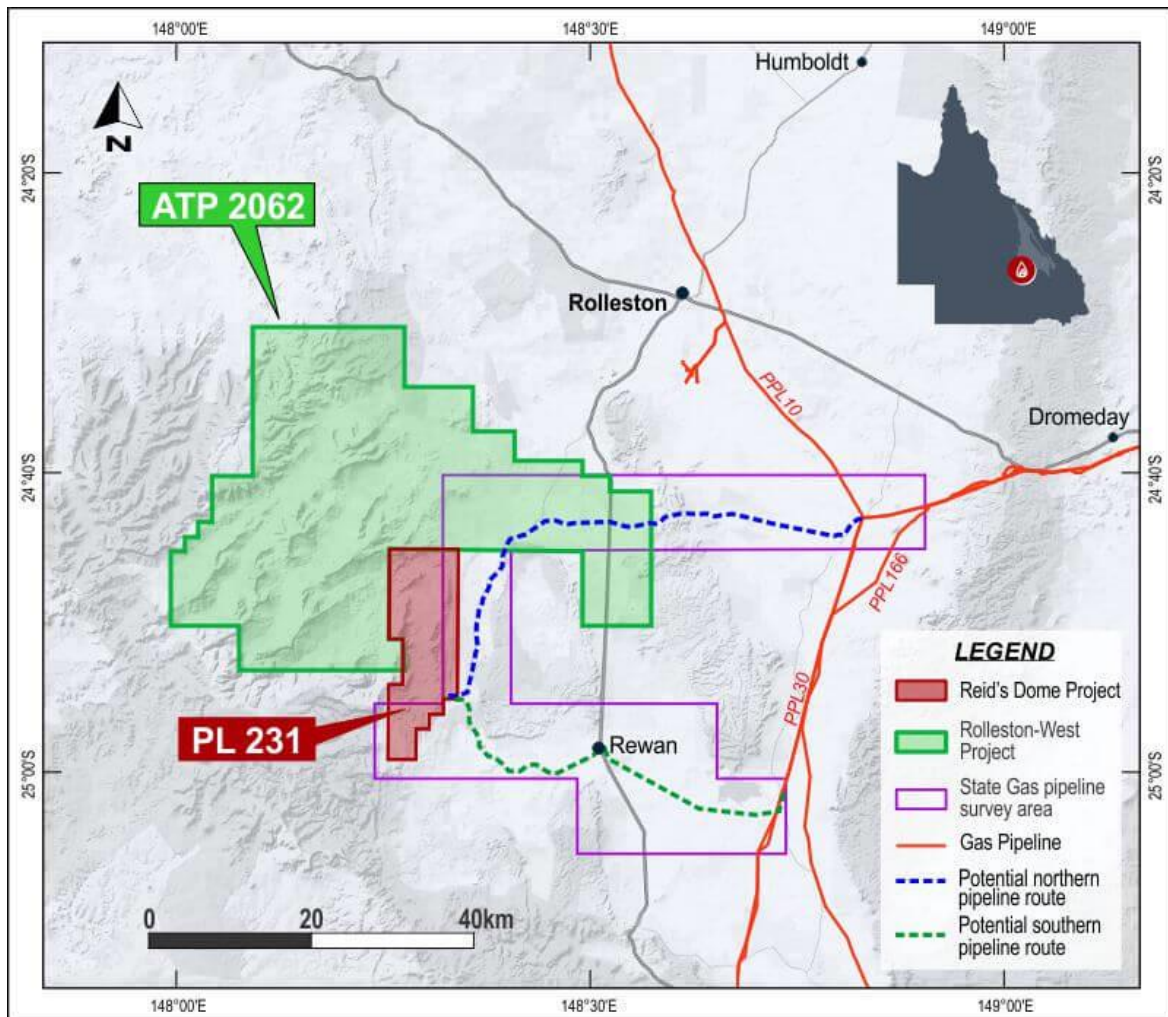


Figure 1: Map showing Reid's Dome, Rolleston-West, and State Gas' Pipeline Survey area

FOR FURTHER INFORMATION

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ABOUT STATE GAS

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 less than 50 km from the high pressure gas pipeline network in Queensland (see Figure-1).

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).⁶

State Gas is implementing its strategic plan to bring gas to market from Reid's Dome and Rolleston-West 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 market⁷. State Gas' current focus has been to confirm the producibility of the gas through production testing of the wells.

⁶ The information in this paragraph was previously announced on 31 October 2018, 5 December 2018 and 31 January 2020.

⁷ Strategy announced on 21 August 2019

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")

31 MARCH 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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	(149)	(449)
(e) administration and corporate costs	(245)	(923)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	140
1.8 Other (provide details if material)		
- GST refunds	331	435
1.9 Net cash from / (used in) operating activities	(63)	(795)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	(696)	(954)
(d) exploration & evaluation (if capitalised)	(5,442)	(6,936)
(e) investments	-	-
(f) other non-current assets	-	(343)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(6,138)	(8,233)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	14,397
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	100
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(7)	(78)
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	(7)	14,419

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	12,474	875
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(63)	(795)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,138)	(8,233)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(7)	14,419

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 (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	6,266	6,266

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	236	14
5.2	Call deposits	6,030	12,460
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)	6,266	12,474

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	81
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)	(63)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(5,442)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(5,505)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	6,266
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	6,266
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1.1

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 June 2021 quarter is expected to be circa \$3.25M.

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 development funding are currently being considered, including strategic partnering and pre-sales, along with 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: 30 April 2021

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.