

ASX RELEASE

30 July 2021

QUARTERLY ACTIVITIES REPORT

1st April 2021 – 30th June 2021

Highlights

- Nyanda 4 well produces gas at close to 700,000 cft/day before stabilising at 140,000 cft.day
- Production Log Test at Nyanda 4 confirms production of gas from 1150 metres depth, increasing potential Project reserves
- Infrastructure providers willing to build, own and operate pipeline and facilities, reducing the capital requirements of State Gas
- First drilling at the Company's 100% Rolleston-West Project (ATP 2062) confirms a viable coal seam gas play
- Rougemont 1 and Rougemont 2 wells intersect 8 metres net coal, with seams up to 2.8 metres thick and laterally continuous over many kilometres
- Exceptional permeability at Rougemont 2 bodes well for gas production.

Reid's Dome

This Quarter has been a defining period for State Gas in its march towards commercial production from its 100% owned Reid's Dome Project (PL231) in 2023. The Quarter saw ongoing production testing in the southern Nyanda focus area and the re-establishment of testing at the central Serocold 1 as the Company progresses appraisal of the permit for development.

Production testing at Nyanda 4 saw gas flows from the well surge towards 700,000 cubic feet/day before settling back to a rate around 140,000 cubic feet/day with an ongoing steady increase¹. These results have been very encouraging and have confirmed the simple and cost-effective completion technique employed for this well.

Data obtained from the production test at Nyanda 4 has indicated that gas is being produced from zones much deeper in the well than is traditional for coal seam gas, and during the Quarter the Company undertook a Production Log Test ("PLT") of the well to confirm this. The results of the PLT have clearly confirmed three prime production zones, of which the most productive are the top zone, at depths between 400 and 600 metres, and in addition, the



Production testing at Nyanda-4, June 2021

¹ Announcements on 30 April, 17 May, & 9 June 2021

lower zone at around 1000 to 1200 metres.² The confirmation of gas production at these lower depths will be critically important as it not only confirms more productive zones in the Reid's Dome Beds, but also increases the area from which production can be expected, both of which should translate to greater reserves.

Production testing also continued during the Quarter at the Nyanda 7 & 8 wells (approximately 2.5km to the north and south west of Nyanda 4 respectively). Gas production from these wells was constrained by what we believe is higher "skin" at the interface between the coal and the wellbore and lower permeabilities, but nonetheless amounted to 40,000 to 50,000 cubic feet per day at Nyanda 8³. Your Company believes that substantially higher rates can be achieved from this well with jetting of the higher productive zones, thereby exposing more of the productive coals. We hope to confirm this enhanced completion technique this Quarter.

The highest productive zones in Nyanda 8 will be identified by a PLT, which is expected to confirm production at depth is also a feature in this well. A PLT at each of Nyanda 4 and Nyanda 8 will provide invaluable information towards our understanding of the Reid's Dome coals, however should not be further required as a standard practice.

Serocold 1, returned to gas production, surged over 60,000 cubic feet/day, stabilising at approximately 36,000 cubic feet/day⁴ and increasing, before solids in the wellbore caused the pumps to seize. This influx of solids can be prevented by foam squeezing or sleeving (both of which are standard techniques) with little material incremental cost. The Company plans to implement a foam squeeze in this well during the current Quarter to confirm this central area of the permit as commercially productive.

With good results from these works we anticipate obtaining a reserves certification next Quarter.

Infrastructure Financing

Encouraged by the results so far at Reid's Dome we are actively engaged with infrastructure providers for the export pipeline and processing plant. These providers have indicated their willingness to proceed on a Build Own Operate ("BOO") or rental model, reducing our capital requirement for development.

Rolleston-West

During the Quarter the Company drilled the first two wells in its new Rolleston-West Project (ATP 2062), granted in October 2020. These two coreholes, Rougemont 1 and 2, provided the Company's most exciting results for the period.

Both wells intersected 8 metres of net coal⁵, with the thickest seam 2.8 metres thick and laterally continuous over many kilometres. Coal was intersected at Rougemont 1 at 495 metres and at Rougemont 2 at around 295 metres. Pleasingly the core samples showed methane content of 92.8% and 94.4% respectively. The permeability at Rougemont 2 ranged from 25 millidarcies to a staggering 395 millidarcies. These results warrant production testing at Rougemont 2, for which planning is currently underway.

The impact of a successful Rougemont production test cannot be over-stated. Rougemont is located on the northern route option for the export pipeline from Reid's Dome, providing the potential for Rougemont to become a brownfield development in economic terms. The

² Results of Nyanda-4 PLT announced on 24 June 2021

³ Announced on 17 May and 9 June 2021

⁴ Announced on 9 June 2021

⁵ The information in this paragraph was announced in releases on 24 May, 7 and 9 June, and 16 July 2021.

Company's aim is to progress the Rougemont opportunity as quickly as possible to harness the efficiencies from its complementary Reid's Dome development.

The Market

The market for gas in the Eastern Seaboard continues to tighten. The all-important Domestic Gas Netback Price (an ACCC calculated benchmark issued to inform domestic contract pricing, but is unaffected by domestic demand gyrations) has been well over 10% above the \$8-\$10/GJ range. It is expected that the market will tighten further in the next 2 years as a result of the twin effects of delayed new LNG projects (affecting the Domestic Gas Netback Price) and the ongoing decline in Bass Strait production, which is not offset by new supplies. The Company's view remains that 2023 onwards is indeed the right time to bring on new production

Financial Position

At the end of the Quarter the Company had cash at bank of \$3.16m, after expending \$2.8m in Project development costs, and \$0.3m in other costs.

Payments to Related Parties

A total of \$81,000 was paid to directors and their associates for salaries, director fees and superannuation during the quarter ended 30 June 2021.

Tenements

The tenements held by State Gas are:

Project	Permit	State Gas Interest	Area (km ²)
Reid's Dome	PL 231	100%	181
Rolleston-West	ATP 2062	100%	1,414

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



Drilling at Rougemont 2, June 2021

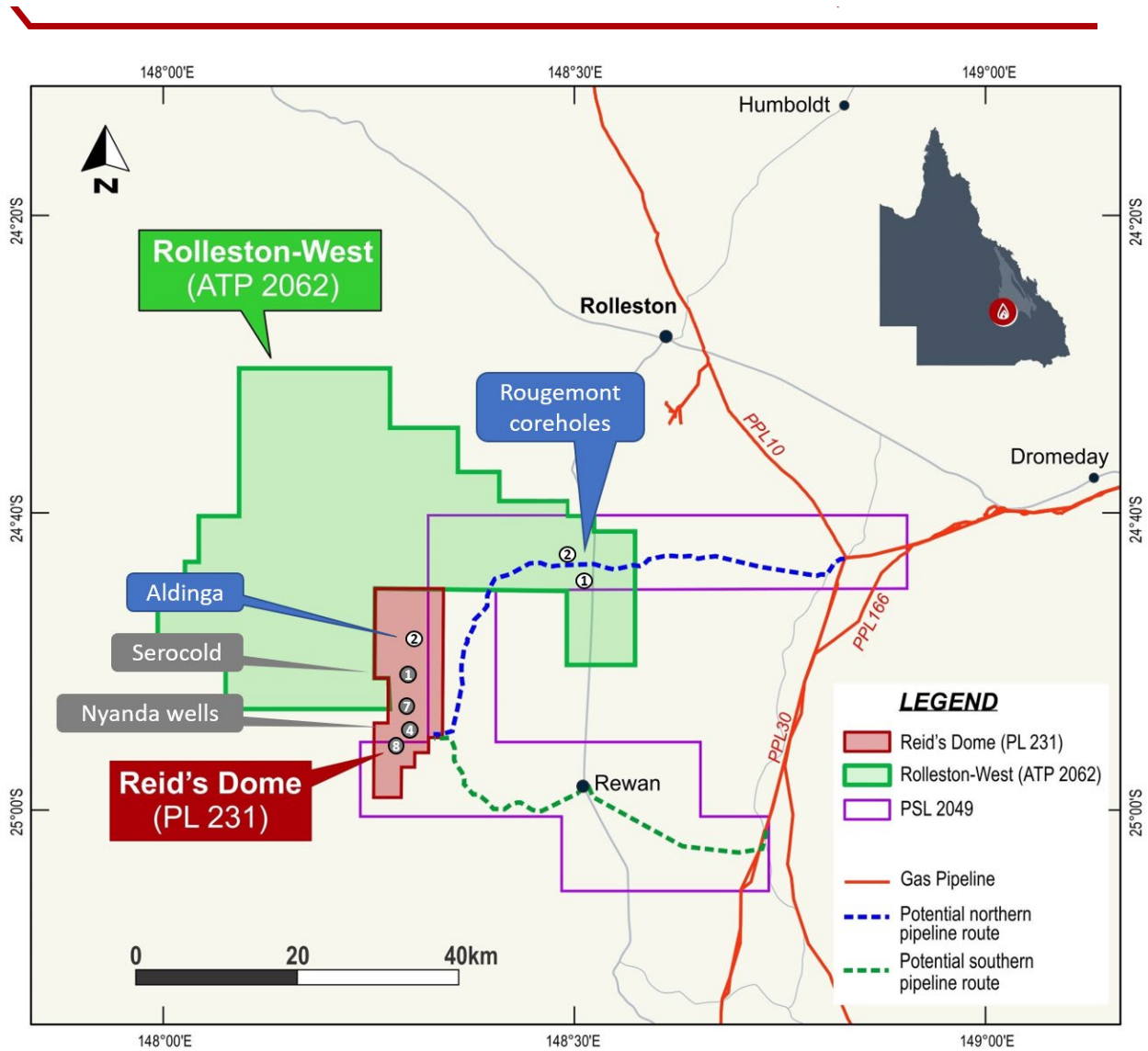


Figure 1: Map showing Project wells and the Reid's Dome, Rolleston-West, and State Gas' Pipeline Survey areas

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")

30 JUNE 2021

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	(188)	(637)
(e) administration and corporate costs	(841)	(1,764)
1.3 Dividends received (see note 3)		
1.4 Interest received	4	6
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	717	1,152
1.9 Net cash from / (used in) operating activities	(308)	(1,103)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	(36)	(990)
(d) exploration & evaluation (if capitalised)	(2,762)	(9,698)
(e) investments	-	-
(f) other non-current assets	-	(343)

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	(2,798)	(11,031)

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	-	(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	-	14,419

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,266	875
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(308)	(1,103)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,798)	(11,031)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	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 (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	3,160	3,160

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	1,850	236
5.2	Call deposits	1,310	6,030
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)	3,160	6,266

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)	(308)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(2,762)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(3,070)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	3,160
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	3,160
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1.03

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. The intensity of the exploration program will moderate from the end of August 2021.

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 is currently assessing options for fundraising. These include customer prepayments, project finance, third party infrastructure provision, equity and quasi-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 July 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.