

QUARTERLY ACTIVITIES REPORT

1 July 2023 – 30 September 2023

HIGHLIGHTS:

- Successful capital raise enables the Company to complete the construction and commissioning of its Compressed Natural Gas Facility
- Construction of the Compressed Natural Gas Facility post the end of the quarter and the Company remains on target for commissioning and initial gas production in December 2023

State Gas Limited (ASX: GAS) (“State Gas or “the Company”) is pleased to provide this update for the quarter ended 30 September 2023 (“the Quarter”). Following the successful capital raising transaction completed during the quarter, State Gas was able to complete the assembly of critical components of the Compressed Natural Gas (“CNG”) Facility in its Brisbane construction yard. Civil works including the laying of foundations for the facility are currently being carried out. The compressor and dehydrator will be transported to site over the coming weeks in time for commissioning of the CNG Plant to commence in late November 2023.

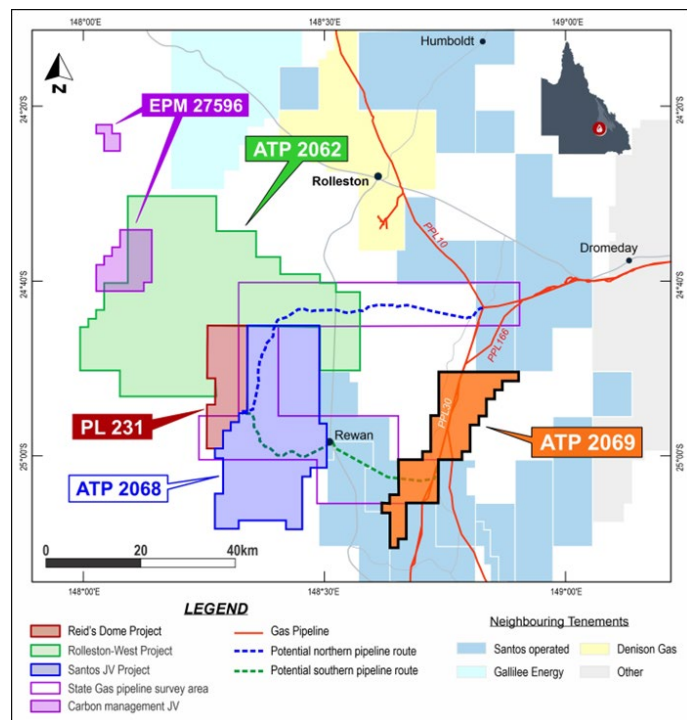


Figure 1: Exploration and development projects in the Southern Bowen Basin

By December 2023 the Company should be shipping initial cargoes of CNG. This revenue will be applied to fund the drilling necessary for reserve certification sufficient to underwrite the financing of the long-term pipeline infrastructure which will enable further scaling of the Rolleston West Project.

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Successful capital raise

During the quarter, the Company raised \$6.9 million (net of fees and transaction costs) from the issuance of shares to new and existing shareholders at \$0.15 per share. This transaction, structured as an institutional share placement followed by a retail share purchase plan, received strong support from new and existing shareholders. It also allowed the Company to welcome a number of new institutional shareholders who share the Company's vision of opportunities in the gas sector and how the Company's CNG Project can deliver long term value.

Capital raised from the Placement and SPP will primarily be used to fund the construction and commissioning of the Company's CNG Facility as part of the Rolleston West Project (ATP 2062). Upon completion, the CNG Facility will allow the Company to sell CNG produced from the Company's Rougemont 2/3 dual lateral well ("Rougemont 2/3") as well as supporting further expansion of that exploration project. The Company expects to increase daily CNG production from an initial 0.5TJ/day to 1.5TJ/day through the compression and sale of production testing gas generated from additional exploration wells the Company will drill early in calendar 2024. The Company commenced in-field construction activities for the CNG Facility in October 2023 and remains on-schedule for plant commissioning in December 2023.

What is the CNG Project?

State Gas' CNG Project reflects a new stage of innovation in the coal seam gas ("CSG") industry, as it provides a reliable method for capturing and commercialising production testing gas which would otherwise be vented into the atmosphere. It simultaneously provides a new path to market for pipeline quality natural gas which the Company believes will become increasingly important across a range of industry, including critical minerals, while the economy continues its long-term transition to renewable energy sources. The CNG technology developed by State Gas has commercial application for supporting the development of the Company's existing gas projects, other early-stage gas projects that are seeking to reduce emissions, but most importantly end users who are seeking access to smaller, flexible quantities of natural gas, but don't have access to traditional pipeline infrastructure. In addition to the environmental benefits which arise from capturing production testing gas, the CNG Facility will allow State Gas to generate modest initial gas sales thereby reducing the reliance on new equity capital to finance its ongoing activities.

The commencement of initial field activities in early October 2023 reflects the culmination of significant research, design and experimentation by State Gas and its partners to create a new path to market for CSG. The application of existing gas industry know-how and techniques to capture and compress CSG close to the well-head is unique and has never been attempted in Australia. The physical properties of CSG (being generally high in moisture and originating from relatively low formation pressure coal environments) has required the Company to develop a unique processing approach and traditional dehydration and compression methods to achieve safe, reliable and economically sustainable CNG production volumes. When implemented in conjunction with virtual pipeline ("VP") trailer technology, State

Gas will be able to deliver up to 1.7TJ/day of pipeline quality natural gas to end users in the Southern Bowen Basin and surrounding areas.

The compression facility will intake and dehydrate gas provided by the gathering system connected in the first instance to State Gas' Rougemont 2/3 CSG well. Gas will be dehydrated then compressed enabling it to be loaded into specifically designed trailers. These virtual pipeline ("VP") trailers are safe, specially designed gas tube trailers that will transport the CNG from the CNG Facility to end users or existing pipeline tie-in points. The VP trailers are mounted on a standard trailer base and pulled by a traditional prime mover. They have low visual impact and have been designed and engineered to Australian Standards for the safe haulage of heavy and dangerous goods. In the absence of easily accessible traditional pipelines, VPs have become a cost-effective solution in North America to commercialise gas production in infrastructure remote areas.

State Gas believes that there are a range of commercial applications for CNG delivered to end users by VP, beginning in the first instance with coal mines in the Bowen Basin. Coal mining operators are currently trialling diesel/gas hybrid mining truck engines that require natural gas as part of wider strategies to reduce emissions. While these engine conversion projects are in their early stage, State Gas believes that the superior environmental outcomes from substituting natural gas for diesel and the need for those projects to access small cargoes of CNG per truck, creates a unique opportunity for the Company. The need for environmentally superior bridging fuel sources (such as natural gas) will be required as the wider economy makes the long-term transition to renewables. The CNG technology developed by State Gas provides it with significant first mover advantage to support increased demand for natural gas to support decarbonisation of the domestic economy in an orderly way.

CNG Project Construction Update

During the quarter, the Company executed a construction contract for the CNG facility and associated gathering system works and obtained landholder agreement, environmental and cultural heritage clearances for all construction areas including pipeline alignments. Initial ground conditions have proven to be slightly more challenging than initially expected, with preparation of the pipeline corridor requiring slightly more civil preparatory work and the CNG Facility pad needing a greater level stabilisation to ensure safe and reliable operation of the plant. Notwithstanding, the Company and its construction partners are endeavouring to maintain the construction schedule and commence plant commissioning in December 2023.



Figure 1: Enabling civil works – construction of tracks, laydown area and longer term access road



Figure 2: Installation of gathering system

Other Exploration Activities

Due to the Company's focus on the CNG project during the quarter, negligible direct expenditure was incurred in respect of the Company's other exploration areas. Limited planning work continues in respect of the State Gas' other exploration opportunities, but the Company's resources are being primarily focussed on delivery of the CNG Project. The Company plans to hold the conventional gas accumulation at Reid's Dome in reserve for later delivery through construction of a small pipeline system, connected directly to the CNG Facility.

Notwithstanding the Company's improved liquidity position after the successful capital raise in September 2023, it remains focussed on enhancing the value of the Company's gas resources with limited fixed overheads.

Outlook

The Company remains in the strong position that its permits are not restricted by domestic gas reservation requirements or other pricing controls. Its strategy is to sell its CNG either directly to end users or into the gas network at prices at least equal to spot. The early sale of gas from Rougemont 2/3 will enable the Company to demonstrate that the Rolleston West Project has the hallmarks of a world class development asset and importantly begins to unlock part of the substantial value inherent in the Company's asset base. State Gas is confident that it is on the path to delivering improved returns to shareholders on its existing assets, but also is increasingly well positioned to meet increasing demand for gas over the short to medium term.

Initial CNG production will support the external verification of a maiden 2P reserve for the Rolleston West Project and ultimately support the financing of pipeline infrastructure to the CNG facility, enabling substantial future expansion to production. State Gas has shown itself to be at the forefront of innovation with its CNG Project being the first time CSG from the field is being sold as Compressed Natural Gas. The Company has developed an initial path to market for its initial cargoes of CNG, in addition to a longer-term solution which will provide a pathway for much greater volumes of CNG to be processed and sold into domestic and export gas markets.

From an environmental standpoint, natural gas remains a superior fuel source than coal and diesel and in the Company's view, remains essential to an orderly transition of Australia's energy grid to greater reliance on renewable energy sources. Reduced reliance on coal and the adoption of new hybrid engine technologies with a lower demand for diesel, requires investment today and natural gas is the only reliable, available bridging fuel source to support this transition, particular for energy intensive industrial applications such as critical mineral processing.

Financial Position

During the quarter, the Company expended \$2.3 million on the CNG Project, including engineering, fabrication and pre-commissioning costs. Company overheads were consistent with the run-rate observed in previous quarters. Post the capital raise, the Company ended the quarter with significantly improved cash reserves of \$4.9 million. These funds are sufficient to complete the construction and commissioning of the CNG Facility and also undertake additional exploratory drilling for the Rolleston West Project in early calendar 2024. Once the CNG Facility is commissioned, the Company will be capable of funding further drilling and development activity from operating cashflows over time.

Tenements and Resources

Year	Asset	Net Acreage (km ²)	Estimated Contingent Resources* (PJ's Net to State Gas)		
			1C	2C	3C
2017	PL231 Reid's Dome (unconventional)	181	84	192	660
	PL231 Reid's Dome (conventional)		1.7	3.6	7.9
2020	ATP 2062 Rolleston-West (unconventional)	1,414	145	261	454
	ATP 2062 Rolleston-West (conventional)		6	18	52
2022	ATP 2068 (unconventional)	254	25	43	68

Year	Asset	Net Acreage (km ²)	Estimated Contingent Resources* (PJ's Net to State Gas)		
			1C	2C	3C
2022-23	ATP 2069 (unconventional)	108	12	17	24
Total		1,957	274	534	1,266

*State Gas estimate as at 12/09/2022

Payments to Related Parties

A total of \$117,000 was paid to Directors and their associates for salaries, director fees and superannuation during the quarter ended 30 September 2023.

Shareholder Engagement

We encourage shareholders and other interested parties to visit the Company's updated website: www.stategas.com to access information about the Company's projects. State Gas will continue to keep the market informed of its activities through regular Company updates and third-party publications, particularly as it executes the next critical stage of its strategy of moving to production and initial operating cashflows. New independent research reports were published during the quarter and can be found in the investor section of the website.

Post the end of the quarter, Mr Rob Towner has indicated that he does not intend to offer himself for re-election to the Board of State Gas at the Company's upcoming AGM. On behalf the Board I would like to thank Rob Towner for his outstanding dedication to the progress of State Gas. He has been a director of State Gas from before its listing on the ASX. We wish him well in any future endeavours on which he may embark.

The Company also advises that its 2023 Annual General Meeting has been rescheduled and will now be held on Friday 30 November 2023 at 11:00am (AEST). Details relating to the meeting will be advised in the Notice of Meeting, which will be distributed to shareholders shortly.

This announcement was approved for release by the Board of Directors.

FOR FURTHER INFORMATION

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ABOUT STATE GAS LIMITED

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based gas exploration and development company with highly prospective gas exploration assets located in the southern Bowen Basin. State Gas Limited's mission is to support east coast energy markets through the efficient identification and development of new high quality gas assets. It will do this by applying an agile, sustainable but low-cost development approach and opportunistically expanding its portfolio in areas that are well located to gas pipeline infrastructure.

State Gas is 100%-owner of the contiguous Reid's Dome (PL-231) and Rolleston-West (ATP 2062) gas projects, both of which contain CSG and conventional gas. The Projects, together some 1,595km², are located south of Rolleston, approximately 50 and 30 kilometres respectively from the Queensland Gas Pipeline and interconnected east coast gas network. State Gas intends to accelerate commercialisation of these assets through the application of an innovative virtual pipeline ("VP") solution which will see the Company transport compressed gas by truck to existing pipeline infrastructure or to an end user.

State Gas also holds a 35% interest in ATP 2068 and ATP 2069 in joint venture with Santos QNT Pty Ltd (65%). These two new areas lie adjacent to or in the near vicinity of State Gas and Santos' existing interests in the region, providing for the potential of an alignment in ownership interests across the region over time and enabling synergies in operations and development.

State Gas is also participating in a carbon capture and sequestration initiative with minerals explorer Rockminolutions Pty Ltd in respect of EPM 27596 which is located on the western border of ATP 2062. This project is investigating the potential of the unique basalts located in the Buckland Basaltic Sequence (located in EPM 27596) to provide a variety of in-situ and ex-situ carbon capture applications.

ABOUT THE ROLLESTON WEST PROJECT

The Rolleston West Project (ATP 2062), is 100% owned by State Gas Limited and is focussed on evaluating the viability of conventional and coal seam gas (CSG) production from Bandanna Formation coals, which are extensive across large areas of this and adjoining permits. The capability to produce CSG at commercial levels has already been established at the Arcadia Valley field to the south-east, and at Mahalo to the north-east.

The recent drilling program undertaken in the eastern part of the tenement (Rougemont 1,2 and 3) has intersected approximately 8 metres of net coal, with the thickest seams laterally continuous over many kilometres. The gas content of the coals is between 5 and 6 m³/tonne dry ash free. Gas is at or near pipeline quality, between 93.8% and 96% methane.

Production testing has established sustainable commercial gas flow rates and confirmed excellent permeability within the targeted coal seams State Gas is seeking to expand the project ("Rougemont") and move to early-stage production. The Company is currently evaluating a further step-out drilling campaign to confirm the continuity and permeability of the coal down dip of Rougemont 1 and 2 and establish initial gas resource and reserve estimates for the project.

ABOUT THE REID'S DOME PROJECT

The Reid's Dome Project (PL 231) is targeting conventional and coal seam gas assets associated with the Reid's Dome anticline, an area of sharply uplifted coals, shales and sandstone formations.

State Gas' exploration activities have established in excess of 30 m of net coals, with gas contents averaging a very high 13.75m³/tonne dry ash free. Commercial levels of sustainable production of conventional gas have been established at the Nyanda-4 well and the Company continues to evaluate a range of techniques to successfully liberate gas from the deeper formations.

The Company is now evaluating how to best develop Reid's Dome in conjunction with Rolleston West to most efficiently leverage infrastructure and reduce operating costs.

ASX Listing Rules Chapter 5 - Reporting on Oil and Gas Activities

Additional Information about Contingent Resource Estimates

The Contingent Resource estimates for the Reid's Dome and Rougemont Gas Projects (State Gas 100%) and State Gas' 35% interest in ATP 2068 and PLR 2021-1-3, were estimated utilising the probabilistic method with totals summed arithmetically and have not been adjusted for commercial risk.

The Contingent Resource estimates are based on technical data for the permits, regional geologic and production interpretations, and in the case of the Reid's Dome and Rolleston-West Projects, data derived by State Gas from exploration activities on the permits, including reprocessing of seismic, drilling, core analyses, production testing and analyses of produced gas and water.

Additional exploration and appraisal is required to address the contingencies associated with these resources to confirm commercial viability and areal extent. If the contingencies are successfully addressed, some part of the Contingent Gas Resources may be reclassified as reserves. The estimates of Contingent Resources have not been risked to account for the possibility that the contingencies are not successfully addressed.

The estimates reported relate to unconventional petroleum reserves. The details of the project area, the method of extraction and number of wells that may be required are not yet finalised. The Contingent Resources estimated have been prepared in accordance with the definitions and guidelines set forth in the SPE-PRMS 2018. The estimates reported are not contingent on technology that remains under development.

Competent Persons Statement

The estimate of Contingent Resources for the Reid's Dome and Rolleston-West Gas Projects (of which State Gas holds 100%), and State Gas' 35% interest in ATP 2068 and PLR2021-1-3, provided in this document, is based on, and fairly represents, information and supporting documentation prepared by Mr James Crowley in accordance with Petroleum Resource Management System guidelines.

Mr Crowley is a qualified person as defined under the ASX Listing Rule 5.42. Mr Crowley holds a Bachelor of Science (Honours) from Macquarie University, Sydney and has over 36 years' experience in the industry. He is a member of The Petroleum Exploration Society of Australia and The Society of Petroleum Engineers. Mr Crowley has consented to the publication of the Contingent Resource estimates for the Reid's Dome and Rolleston-West Gas Projects, and ATP 2068 and PLR2021-1-3, in the form and context in which they appear in this Presentation.

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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 SEPTEMBER 2023

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	(172)	(172)
(e) administration and corporate costs	(415)	(415)
1.3 Dividends received (see note 3)		
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
- GST refunds	217	217
1.9 Net cash from / (used in) operating activities	(368)	(368)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	(2,010)	(2,010)
(d) exploration & evaluation (if capitalised)	(283)	(283)
(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 (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) Government grants and tax incentives	-	-
2.6	Net cash from / (used in) investing activities	(2,293)	(2,293)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	7,035	7,035
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	(143)	(143)
3.5	Proceeds from borrowings	200	200
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	7,092	7,092

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	454	454
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(368)	(68)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,293)	(2,293)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,092	7,092

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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	4,885	4,885

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	3,135	253
5.2	Call deposits	1,750	201
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)	4,885	454

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	117
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

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	400	400
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.

Unsecured loan facilities provided by the Company's Directors to support short-term working capital requirements. These loans are on arm's length terms and were repaid in full in October 2023 out of proceeds from the capital raise completed during September/October 2023.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(368)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(283)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(651)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	4,885
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	4,885
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	7.5

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: 31 October 2023

Authorised by: Board of Directors
(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.