ASX RELEASE

30 January 2024

QUARTERLY ACTIVITIES REPORT

1 October 2023 – 31 December 2023

HIGHLIGHTS:

- Mechanical completion and commissioning of the Compressed Natural Gas Facility ("CNG") imminent
- Sales of compressed gas to commence in conjunction with commissioning activities expected in mid-February 2024
- Revenue from sale of gas will support the Company's further investment in refining and scaling the CNG technology as well as further measured investment in exploration activities

State Gas Limited (ASX: GAS) ("State Gas or "the Company") is pleased to provide this update for the quarter ended 31 December 2023 ("the Quarter"). During the Quarter, the Company completed the majority of civil and construction activities associated with development of the Compressed Natural Gas Facility ("CNG Facility") and is now in the final stages of mechanical completion and commissioning.

Figure 1: Near Complete CNG Facility including all weather access road (top of photo) leading to Carnarvon Highway.

Challenging weather conditions on site, during December 2023 and January 2024, including extreme rain events associated with Cyclones Jasper and Kirrily, have impacted the Company's original commissioning timetable and project costs. However, the CNG Facility is now in the final stages of completion and commissioning and State Gas is confident of shipping initial cargoes of compressed natural gas in February 2024. This is a first of its kind facility in Australia and State Gas has created valuable intellectual property for the Company as it has dealt with the establishment costs that are inevitable with projects of this type.

The Company now requires a period of successive dry weather days to allow mechanical completion activities and the introduction of hydrocarbons into the CNG Facility to be efficiently undertaken. State Gas currently anticipates improved weather conditions on site later this week and resources mobilised to undertake final completion activities on Monday 5 February 2024. In accordance with this timetable, and subject to successful mechanical completion sign-offs, hydrocarbons will be introduced into the plant in the following week. Once gas is introduced and processed through the CNG facility, it will be immediately captured in virtual pipeline ("VP") trailers and will be capable of delivery to State Gas' initial customer.

<u>Field activities completed during the period</u>

The Company and its contractors have delivered an exceptional construction outcome during some of the most extreme weather conditions experienced in central Queensland for several years. To date, approximately 3,600 hours of civil and mechanical construction activities have been delivered, with zero lost time or reportable incidents. This is a remarkable achievement, with productivity impacted initially by bushfires and then periods of significant rain. Activities were conducted in conjunction with comprehensive site access plans agreed with the local landowner and indigenous representatives of the Karingbal people.

The site has experienced more than 261 millimetres of rain since October 2023, with greater volumes in some areas of the site. In response to the challenging ground conditions, the Company chose to invest additional capital in weather-proofing the access road and CNG facility pad.   While outside of the original project scope and cost, it has meant that more extensive delays during the construction process have been mitigated but, more importantly, State Gas will be able to maintain continuous truck access to the facility, which will be critical for continuity in its future gas supply obligations.

Figure 2: Low pressure gas dehydrator designed to remove moisture as it passes through two contactor desiccant vessels

Figure 3: Refurbished Four Stage CNG Compressor capable of 25000 Kpa (3750 psi). CNG in a box

<u>Compressed gas off-take</u>

The Company will commence initial gas sales using its virtual pipeline ("VP") as soon as commissioning gas is processed through the CNG facility and the Company's first customer is ready to receive cargoes. State Gas is advanced in finalising the commercial terms of this gas supply arrangement and over time will demonstrate the efficacy of the CNG technology's application to CSG and can underpin further expansion and application of the unique technology and process which State Gas has developed.

In the first instance, the CNG Facility will intake and dehydrate gas provided by the gathering system connected to State Gas' Rougemont 2/3 CSG well, which can conservatively produce around 0.5TJ of gas per day. Initial cargoes of compressed gas will be sold in the first instance to a local coal mine, that is in advanced stages of trialling diesel/gas hybrid mining truck engines, as part of wider strategies to reduce the emissions profile of its operations. 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 the ongoing orderly de-carbonisation of industrial activities, such as coal mining.

CNG Project adds long term value

The application of existing gas industry know-how to capture and compress CSG close to the well-head is unique. The physical properties of CSG (being generally high in moisture and originating from relatively low formation pressure coal environments) has required State Gas to develop a unique processing approach and adapt 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, the CNG Facility 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. This technology has a range of benefits and potential use cases:

- delivers substantial environmental benefits to gas producers, as it provides a reliable method for capturing and commercialising production testing gas which has historically been released to the atmosphere;
- provides a new path to market for pipeline quality natural gas which the Company believes will become increasingly important across a range of industries, including critical minerals, while the economy continues its long-term transition to renewable energy sources;
- is modular and can be efficiently expanded and easily relocated to support gas testing and processing opportunities in new locations; and
- provides access to a new fuel source for end users who are seeking access to smaller, flexible quantities of natural gas, but don't have access to traditional pipeline infrastructure and need to accelerate a transition away from diesel.

The significant investment in designing and developing this unique application of compression and dehydration technology means the Company is eligible for grant funding, including through the R & D incentive regime.

Exploration Strategy

The Company has already established a substantial resource base across its portfolio of acreage in the Southern Bowen Basin. As such, the Company is focussed on investment in activities which will support conversion of those existing resources into 2P reserves, which will support further project development.

During the Quarter, the Company undertook initial planning activities for further appraisal wells at Rougemont West in close proximity to Rougemont 2/3 and the CNG facility. A priority for the Company is to drill at least two new exploration and appraisal wells which, if successful will assist in further geological delineation of the Company's resource base and provide additional production testing gas which can be processed through the CNG Facility. The Company is evaluating whether it is in shareholders' interests that these activities are accelerated by pursuing a farm-out strategy. The aim would be to support 2P reserve accreditation for a portion of the Company's existing 2C resources associated with the Rougemont West project and enable it to rapidly pursue more permanent production tenure.

Establishing a substantial 2P reserve is an important step in demonstrating the commercial viability of a larger gas project at Rougemont West and will also enable the Company to evaluate the development of traditional pipeline infrastructure which could connect the CNG plant into the Gladstone to Wallumbilla pipeline network. Over time and at higher production volumes, the processing capacity of the CNG Facility can be efficiently upgraded, to allow a direct pipeline connection to operate in conjunction with the Company's CNG/VP distribution solution. Alternatively, the modular nature of the plant would also permit efficient relocation or duplication of the CNG facility to support new project areas.

The Company's existing plan is 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.

Outlook

In the Company's view, the operating environment remains challenging, with the regulatory framework for supporting new project development remaining highly uncertain. Pleasingly however, there have been some new large gas project approvals early this year and an increasing recognition, both politically and commercially, that natural gas remains a critical bridging fuel source on the road to 2050 renewable targets.

East coast domestic gas demand is increasing as expected and global gas supply market conditions remain volatile in response to northern hemisphere conflicts and more protectionist gas export policies. State Gas' view remains unchanged that increased domestic gas supply is essential to the East Coast's energy security and for keeping the cost of energy at a sustainable level for industrial and commercial consumers, while the contribution to total supply from renewable energy sources increases.

From an environmental standpoint, natural gas remains a superior fuel source to 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.

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 by generating initial revenues from its existing assets and being more strategic around how further exploration capital is invested. Increasing gas production capability up to the maximum processing capacity of the CNG Facility of 1.7TJ/day will be the Company's operational focus over the coming quarter.

Figure 4: Full site with Rougemont 2/3 gathering system connection to the top of image. Surface rehabilitation of corridor and area surrounding facility pad well underway and benefiting from recent rain.

Financial Position

During the quarter, the Company expended approximately $3.0 million on the CNG Project, including engineering, fabrication and pre-commissioning costs. Company overheads were consistent with the run-rate observed in previous quarters. The quantum of civil and construction cost variations has exceeded the Company's original cost estimates for the project but, in conjunction with the Company's existing cash reserves and access to grant funding (including R & D incentives), the Company has sufficient funding in place to complete and commission the CNG Facility and finance its ongoing operations while revenue from CNG sales ramps up.

The Company is currently evaluating a range of alternatives to finance additional appraisal drilling for the Rolleston West Project. Once the CNG Facility is commissioned, the Company will be begin generating revenue and will be capable of funding further drilling and development activity from operating cashflows over time.

The Board of Directors continues to evolve the Company's strategy with the imminent commissioning of the CNG Facility and the risks and opportunities arising from continued rapid changes in the energy sector. The CNG Facility and its ability to generate short term cashflow, in conjunction with the long-term development potential of the Company's high quality, strategically well located CSG asset base provides the Company with significant optionality. The Company remains focussed, however, on developing and executing its strategy within its existing limited fixed overhead cost structure.

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*
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 $81,000 was paid to Directors and their associates for salaries, director fees and superannuation during the quarter ended 31 December 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.

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 1,595km^2, 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 Rockminsolutions 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 Continent 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.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity
STATE GAS LIMITED

ABN	Quarter ended ("current quarter")
49 617 322 488	31 DECEMBER 2023

	Consolidated statement of cash flows	Current quarter $A'000	Year to date (6 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	(158)	(330)
	(e) administration and corporate costs	(574)	(989)
1.3	Dividends received (see note 3)		
1.4	Interest received	18	20
1.5	Interest and other costs of finance paid	(21)	(21)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material) - GST refunds	322	539
1.9	**Net cash from / (used in) operating activities**	**(413)**	**(781)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(2,511)	(4,521)
	(d) exploration & evaluation (if capitalised)	(524)	(807)
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 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**	**(3,035)**	**(5,328)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	350	7,385
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	(25)	(168)
3.5	Proceeds from borrowings	199	399
3.6	Repayment of borrowings	(436)	(436)
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**	**88**	**7,180**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	4,885	454
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(413)	(781)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,035)	(5,328)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	88	7,180

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**1,525**	**1,525**

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	1,525	3,135
5.2	Call deposits	-	1,750
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)**	**1,525**	**4,885**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
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	-

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.

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	-	-
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)	(413)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(524)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(937)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	1,525
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	1,525
8.7	**Estimated quarters of funding available (Item 8.6 divided by Item 8.3)**	1.6

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: The capital cost of long lead time items associated with the CNG project are lump sum non-recurring costs and not indicative of the Company's normalised run rate.

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 secured grant funding which will assist in meeting project costs and intends to refinance the CNG Facility immediately upon completion to recycle capital and improve the Company's average cost of capital. The immediate commencement of gas sales coincident with plant commissioning will also assist in meeting the Company's ongoing operating costs.

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 Company anticipates mechanical completion of the CNG Facility shortly and to complete plant commissioning activities during February 2024. The Company intends to commence initial gas sales through its virtual pipeline as part of the commissioning process. The Company can control the timing of further discretionary expenditure (such as exploration activity) to coincide with the availability of the relevant source of capital.

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 January 2024

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.