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ASX RELEASE

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QUARTERLY ACTIVITIES REPORT

1st January 2019 – 31st March 2019

HIGHLIGHTS:

- Ongoing analysis of results from drilling undertaken in November- December 2018.
- State Gas enforcing its right under the Joint Operating Agreement to transition to 100% of PL 231.
- Ongoing discussions with interested parties wishing to participate in progressing the Reid's Dome Project in PL231.

Brisbane-based gas developer **State Gas Limited** (**ASX: GAS**) is pleased to provide its Quarterly Activities Report for the March Quarter 2019.

Background

State Gas Limited (State Gas or the Company) holds a majority interest in, and is 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).

Prior to the development of pipeline infrastructure and a significant east coast gas market, a conventional gas accumulation within the Denison Trough was discovered at Reid's Dome in the area of PL 231 in the 1950s. 15 wells have been drilled within the area of PL 231 between 1955 to 2006, and gas flows were achieved from sandstone reservoirs in both the shallow Cattle Creek Formation and the deeper Reid's Dome Beds.

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 the successful drilling program undertaken by State Gas (as Operator) during the previous quarter.

In August 2018 Pipeline Survey Licence 2028 was issued to the Company, enabling investigations to commence for a pipeline route to market.

PROJECT ACTIVITIES

The Company's primary activities during the Quarter were to analyse the data generated by its successful drilling during the previous Quarter, Primero West-1 and Nyanda-4.

Primero West-1 was drilled in the northern area of the permit to test the Cattle Creek Formation,

and Nyanda-4 to investigate the gas potential of both the tight gas sands and Permian coal seams within the Reid's Dome Beds.

Primero West-1

The Primero West-1 well, in the northern area of the permit, was located and designed to test the Cattle Creek Formation within PL 231, in accordance with the terms of the Reid's Dome Joint Operating Agreement. The Cattle Creek Formation contains 3-way dip closed structural and stratigraphic traps containing conventional gas with over-pressure. Primero West-1 is located approximately 650m west-southwest of AOE-1 and was designed to test the southwestern extent of the Cattle Creek gas sand discovered in AOE-1 in 1955.

The well confirmed expectations, encountering the "Primero" gas sand in the Cattle Creek Formation at 131.5m depth, and identifying a net gas bearing zone of up to 12.5m. Gas flowed at a maximum rate of 0.436 mmscf/d through a 48/64" choke, and laboratory analysis of the composition confirmed it to be 96.7% methane (pipeline quality), a result similar to offset well data.

Nyanda-4

Nyanda-4 was the first well drilled in the permit to test the gas potential of the Reid's Dome coals and has established a new coal seam gas play in the Denison Trough. The well also tested the gas potential of the sandstone reservoirs in the Reid's Dome beds.

Nyanda-4 is located approximately 13.5km south of the Primero West-1 well and 50m southwest of Nyanda-1 (drilled in 1987). It was drilled to a total depth of 1200m. Approximately 150m of core was obtained, commencing at 394m depth and the well was also logged, and drill stem tests conducted.

Gas was observed bubbling from coal cores, and hissing from sandstones. Analysis has confirmed 40.4m of net coal in seams up to 4m thick, and a further 25m of carbonaceous shales and thinner coal seams (i.e. <0.3m), indicating 65m of coals and carbonaceous shales (excluding conventional sandstones). Correlation with AOE-1, located approximately 14 km north of Nyanda-4 within PL 231, supports the expectation of additional coals below TD of 1200m.

The coal cores are generally bright black, with good cleating. The cores show open fractures. DST data indicates permeability of the coals in the cored section of the well, and that the Reid's Dome Beds are ~100psi over-pressured compared to hydrostatic.

The average gas content from cored samples is 11.6 m^3/t, with gas content increasing with ongoing desorption in the laboratory. Gas content for the thickest seams is ~13 m^3/t.

Gas composition data of the latest desorption sample indicates a weighted average composition of 80% methane, with balance CO_2. The thickest seam contains 87.6% methane. Within the cored interval, the CO_2 content reduces with depth. In the greater permit area, as well as diminishing with depth, CO_2 values decline to the north, with AOE-1 having 0.7% CO_2 at 1,360m.

An Updated Technical Presentation on the drilling outcomes and results to date was released by State Gas to the ASX on 13 March 2019 ('Reid's Dome Technical Update Presentation').

Further analysis of the core samples and well data is ongoing and possible scenarios for further testing of Nyanda-4 are being prepared.

Ownership of PL 231

During the previous Quarter the Company increased its interest in PL 231 from 60% to 80% through agreement with its joint venture partner. This was registered by the Queensland Department of Natural Resources, Mines and Energy on 4 January 2019.

In addition, in early December 2018 State Gas elected under the provisions of the Joint Operating Agreement for the Joint Venture to acquire the remaining 20% and increase its interest in PL 231 to 100%. Offer/Acceptance Notices were issued on 4 December, however State Gas' Joint Venture partner failed to complete the transaction as required by the Joint Operating Agreement. On 8 February 2019 the Company commenced proceedings in the Supreme Court of Queensland to enforce its rights under the Joint Operating Agreement. This process is anticipated to be completed in the second quarter or third quarter of 2019.

CORPORATE ACTIVITIES

During March 2019, the Company completed a $1.370 million capital raising by way of a $500,000 placement to sophisticated investors at $0.85 per share, immediately followed by a Securities Purchase Plan offered to all shareholders, also priced at $0.85 share.

The SPP raising, combined with the placement funds, provides further resources for important corporate initiatives currently underway during the remainder of FY2019.

Following its successful drilling campaign in the previous quarter, the Company has received approaches and interest from experienced industry participants to progress the Reid's Dome Gas Project in both partnering (asset-level) and corporate (company-level) transactions. During February this year, the Company appointed Highbury Partnership to help assess commercial options for State Gas and respond to inquiries from interested parties. Discussions are currently ongoing under confidentiality arrangements.

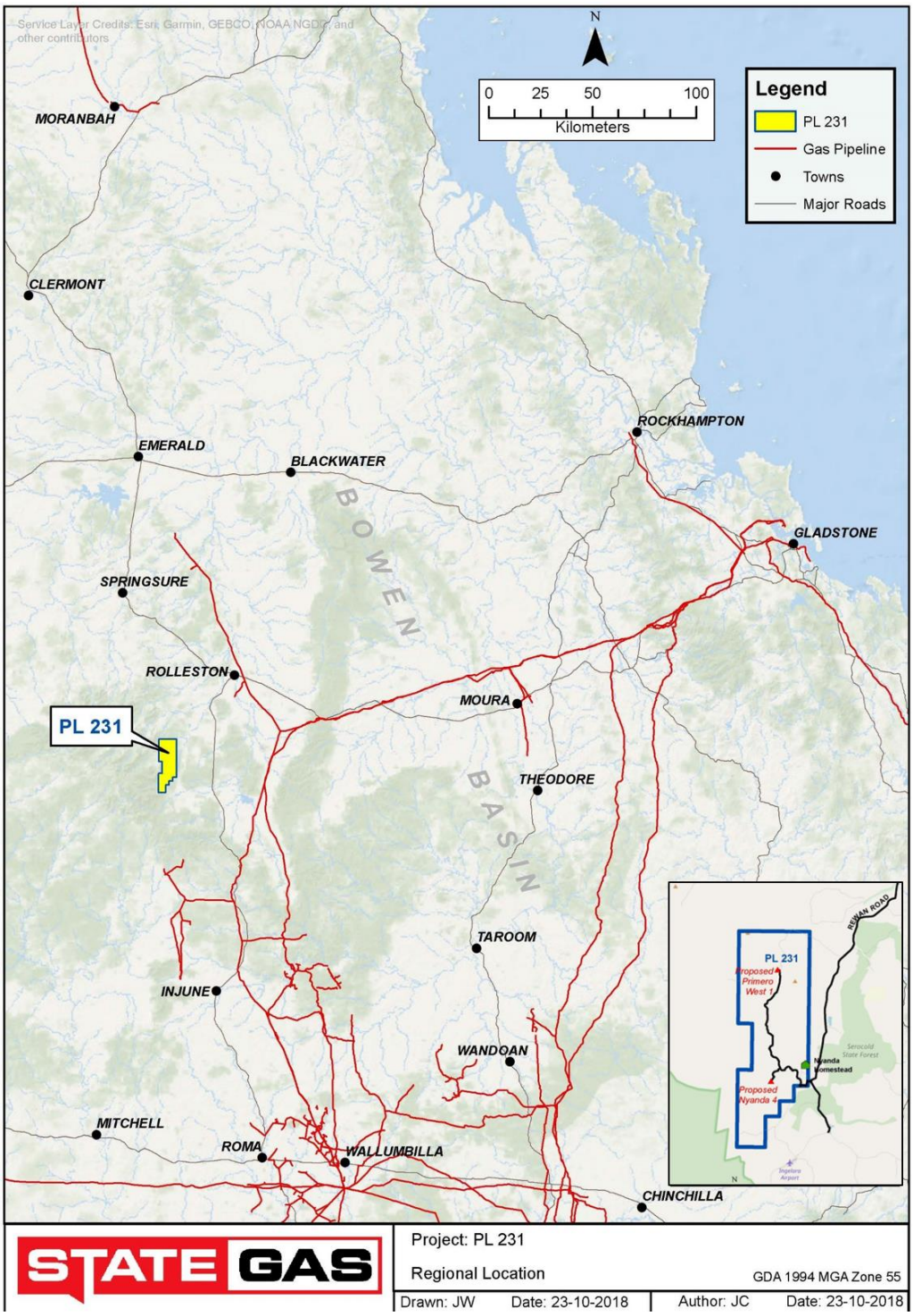

Figure 1: Location of PL 231 shown relative to regional pipeline infrastructure and towns. Inset shows location of Primero West-1 and Nyanda-4

FOR FURTHER INFORMATION

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ABOUT STATE GAS

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based developer of the Reid's Dome gas field (including both CSG and conventional gas). Originally discovered during oil drilling in 1955, Reid's Dome is located in the Bowen Basin in Central Queensland on the apex of the Springsure-Sericold Anticline. State Gas is sole Operator and 80%-owner of the Reid's Dome gas project, which is well-located 50 kilometres southwest of Rolleston, approximately 47 kilometres from the Queensland Gas Pipeline.

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Above: Nyanda-4 core showing coal at 476m

Above: Silver City Drilling Rig-25 on location at Primero West-1.