State Gas Limited
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ASX RELEASE

30 April 2020

QUARTERLY ACTIVITIES REPORT

1st January 2020 – 31st March 2020

HIGHLIGHTS:

- Very encouraging gas flow rate and low water make from Nyanda-4 production test.
- Encouraging early signs from Serocold-1 production test.
- Desktop study confirms viable export pipeline route from the gas field to connect with the east coast gas pipeline network (approximately 45km to the east of the field).
- State Gas in a good position to weather the COVID-19 storm and advance our commercial aims.

Background

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 approximately 45 km from the high pressure gas pipeline network in Queensland.

In August 2018 Pipeline Survey Licence 2028 was issued to the Company, enabling investigations to commence for a pipeline route to market. In late 2018 State Gas drilled the first coal seam gas well in the region into the Reid's Dome Beds and established the potential for a significant coal seam gas project in PL 231. 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 drilling program undertaken by State Gas.[1]

State Gas has adopted a strategy to bring gas to market from PL 231 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 market[2].

The rationale for the strategy was supported by the Australian Energy Market Operator's Gas Statement of Opportunities 2020, released in late March, which warns that the southern states of Australia could face gas shortfalls by 2024 and as early as 2023[3]. While this report pre-dates the

[1] The background information in this paragraph was previously announced on 31 October 2018 and 5 December 2018.

[2] Previously announced on 21 August 2019

[3] 'Additional east-coast gas supply required by 2024', AEMO, 27 March 2020, https://aemo.com.au/news/gsoo-vgpr-2020

current COVID-19 crisis your Board believes it remains essentially valid: while COVID-19 may depress gas demand, the oil price crash may well lead to equal or greater reductions in domestic supply. The development of the Queensland LNG projects has caused the linkage of the east coast domestic gas and international LNG markets, particularly in Asia, with surplus Queensland produced gas moving between each. Asian LNG demand has been severely impacted by COVID-19, but is showing signs of recovery, particularly in China. At the same time we have seen several major new LNG projects cancelled or deferred, and it can be anticipated that US LNG supply will also reduce, as gas is no longer so freely produced as a by-product of oil shale. If these reductions in supply outweigh the recovered demand we can anticipate Australian gas moving to meet the international market, and a commensurate reduction of gas available to meet Australian shortfalls.[4]

The drilling of the Aldinga East-1A and Serocold-1 wells during the December 19 Quarter confirmed the extension in the northern and central areas of the permit of the Reid's Dome coal measures previously identified in the south by Nyanda-4. The objective of the March Quarter was to confirm producibility of the gas through production testing of the Nyanda-4 and Serocold-1 wells.

PROJECT ACTIVITIES

The March 2020 Quarter commenced extremely well, with production of gas from Nyanda-4 commencing on 9 December 2019, after just 5 days of dewatering. The gas rate and increased consistently as the water level (and hence downhole pressure) was lowered. A gas rate of 227 mscf/d was recorded on 23 January 2020. However, at that point the pump shut down with technical problems. Frustratingly, widespread heavy rain and floods in late January to March washed out site roads and prevented access to enable remediation of the pump.[5] Gas continued to flow from the well at reducing rates as down hole pressures gradually increased with the recharging water. The slow water recharge is consistent with the low water make during pumping from the well, suggesting water management costs (a large component of CSG operating costs) will be at the lower end of the range for coal seam gas projects.

Gas flare at Nyanda-4 on 9 January 2020

Production testing commenced at Serocold-1 in the central area of the permit on 17 January 2020 and early signs of gas production were also seen within a week. However as with Nyanda-4, pump problems and wet weather intervened and dewatering was shut down[6].

Access to site was re-established in April 2020 and works to recommence dewatering undertaken after Easter. While pumping issues are currently being addressed the high gas flow rates and low water discharge proved in this campaign augur well for future production.

At Aldinga East-1A the Company has also observed a build up in wellhead pressure commensurate with the reservoir pressure

[4] See further State Gas Executive Chairman's Letter to Shareholders 16 April 2020

[5] Gas production data, pump shut down and weather impacts previously announced on 16 December 2019, 31 January 2020 and 1 April 2020

[6] Announced 31 January 2020

measured during logging operations, suggesting that access to the conventional gas discovered in the Cattle Creek Formation has been re-established. The Company continues to monitor this pressure and has commenced planning for a short-term flow rate test of Aldinga East-1A.

Export Pipeline

While field activities were restricted during the wet season, State Gas has also progressed plans for an export pipeline from the Reid's Dome gas field. A desktop study of potential options has been undertaken and has confirmed a viable route from the gas field to the high pressure east coast gas pipeline network, via the Queensland Gas Pipeline (approximately 45km to the east of the field)[7].

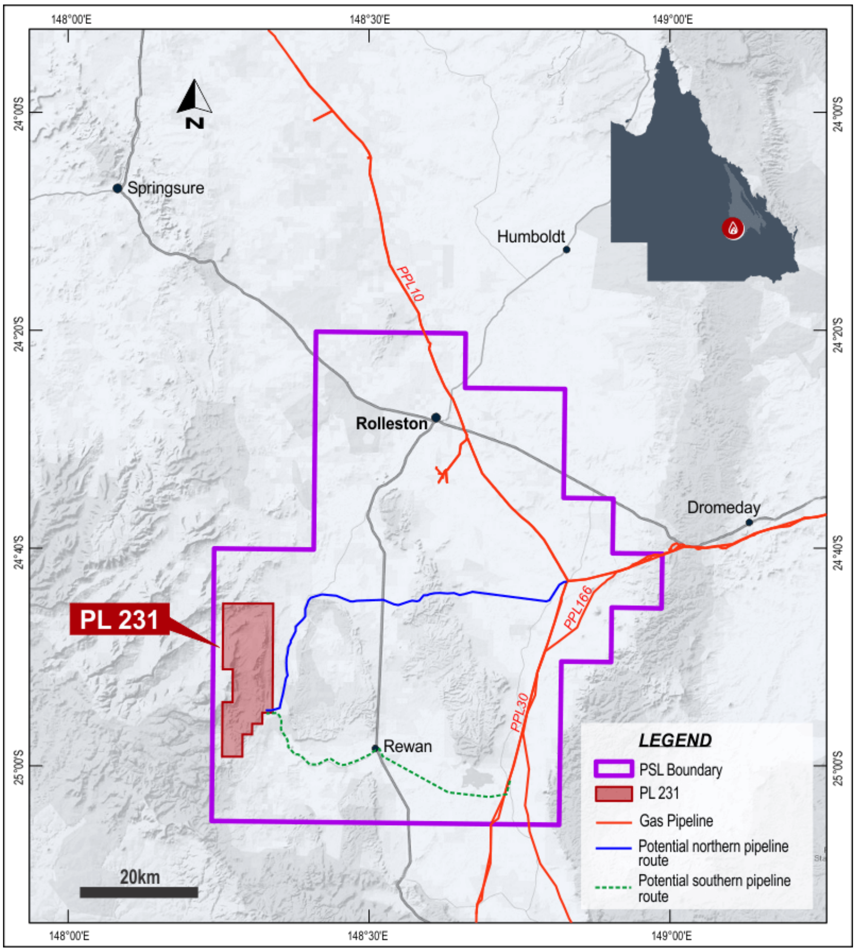

Figure 1: Potential export pipeline routes and area of Pipeline Survey Licence (PSL)

Financial Position

As noted above, your Board believes the mid-term outlook for gas from Reid's Dome remains strong, and accordingly we continue to move the Company towards achieving gas to market as soon as possible, while at the same time focussing tightly on near term activities most likely to build reserves and hence company value. Board and management remuneration has been restructured, and reductions from suppliers negotiated where possible.

[7] Previously announced 1 April 2020

Options for future development funding are being considered, including strategic partnering and pre-sales, along with and debt and equity.
At the end of the Quarter the Company had cash at bank of $1.54m, after expending $2.26m in Project development costs, and $0.14m in other costs. The Company is in a good position not only to weather the COVID-19 storm, but also to advance our commercial aims.

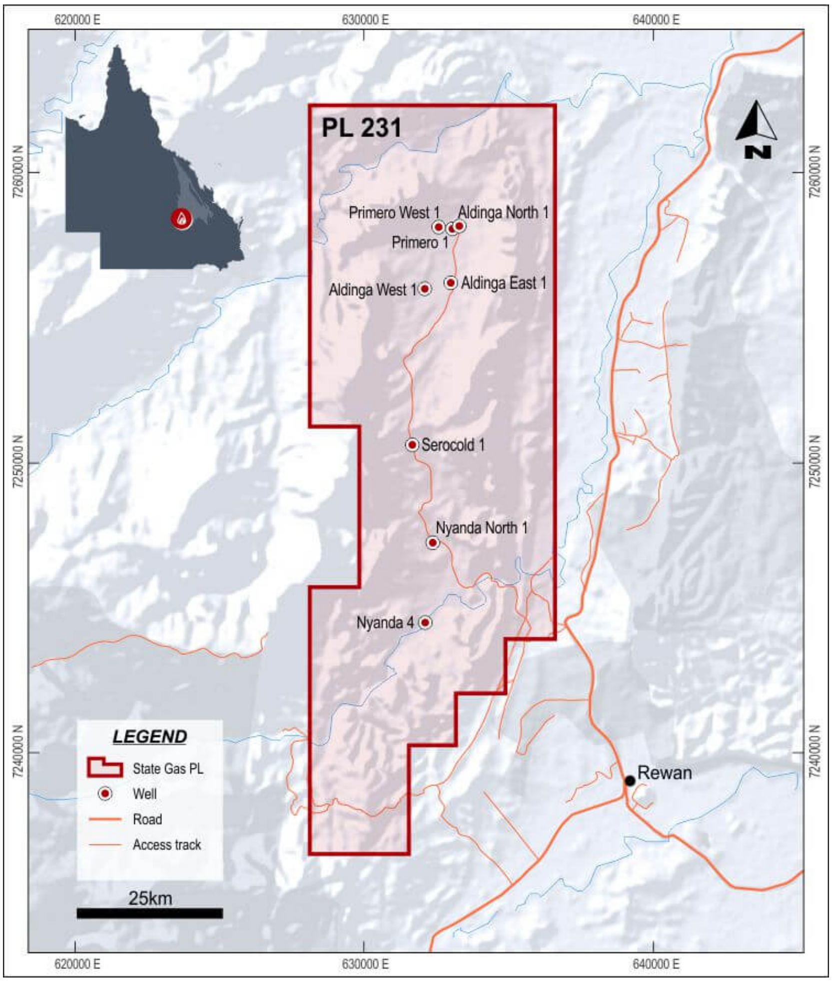

Figure 2: Location of wells on PL 231

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

FOR FURTHER INFORMATION

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