



State Gas Limited
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ASX RELEASE

30 April 2021

QUARTERLY ACTIVITIES REPORT

1st January 2021 – 31st March 2021

Quarter Highlights:

- Production testing commenced at Nyanda-7 and Nyanda-8 wells, and recommenced at Nyanda-4
- Nyanda-4 achieving up to 700,000 standard cubic feet of gas production per day
- Encouraging gas production levels at Nyanda-7 and Nyanda-8
- Commencement of civil works for drilling of Rougemont wells on new Rolleston-West Project (ATP2062)

Activities

The March 2021 Quarter saw the beginning of a defining half-year for State Gas.

In January we commenced production testing the newly drilled Nyanda-7 & Nyanda-8 wells, and re-established production testing at Nyanda-4¹.

Logs of the Nyanda-7 provide further positive data for future gas production, with approximately 38.2 metres of net coal confirmed (compared with 30.9 metres at Nyanda-4²), with numerous open fractures apparent through the coal seams. Since the commencement of production testing the well has produced nearly twice as much water as did Nyanda-4 during the same period of its initial testing, with the pathways through the coals created by the open fractures the likely explanation for this enhanced production. These fractures are expected to enhance permeability and future gas production. With no offset wells to help the de-watering process (as is common for early-stage production tests) we expect Nyanda-7 will take longer for significant gas flows to eventuate. Nonetheless, it is currently producing approximately 5,000 cubic feet(cft) /day. As de-watering commonly takes between 3-6 months, we are anticipating that the well will begin to show its worth by the end of this financial year.

Gas production at Nyanda-8 is increasing and currently approaching 50,000 cft/day, and likewise, should pass the expected economic threshold by the end of this financial year.

The corehole drilling undertaken by the Company at its Reid's Dome Project has shown exceptional gas contents in deep coals³. The dome structure in the geology of the area indicates natural uplift, and as a result, fracturing, of the formations. These fractures (evident in the image logs obtained to date in the wells), suggest the potential in these deep coals for not

¹ Announced on 27 January 2021 and 3 February 2021

² Announced on 24 December 2020

³ Announced 5 December 2018, & 4 November 2019

just enhanced production pathways, but also “free gas” in the fractures available to be liberated during production. This potential has been corroborated by the production behaviour of Nyanda-4. In this regard, where natural fractures were intersected in the well, production reached over 700,000 cft/day, after which production resumed at the economic rate of around 100,000 cft/day. This production pattern suggested that the free gas in the intersected fractures had been drained. We prognose that this is the rate at which gas is produced from the natural matrix of the coal. Over time, the coal should shrink through production of gas and water, enhancing permeability by connecting an increasing number of fractures. When this occurs we expect to see sustained higher production rates.

On April 7 we re-commenced production testing of Serocold-1, reducing the water level and pressure through pumping to enable gas production. The well has commenced producing measurable volumes of gas even though the water level has not yet reduced below the top of the coal - an extremely positive sign.

Whilst fully appraising PL231 is important, particularly given the urgent need for more east coast gas in 2023 (as the ACCC has observed⁴), the additional contribution from the Company’s new Rolleston-West Project (ATP 2062) could define State Gas as a meaningful participant in the Australian Gas Market.

On April 29, the civil works within ATP 2062 necessary to provide access to the Company’s two proposed Rougemont wells commenced. The target formation for the Rougemont wells is the Bandanna Coals, which have proved economic (even without the geological advantages of plunging noses⁵) to the north and south of our acreage. The Rougemont wells will be logged and tested to determine the thickness and permeability of the coal seams, and cores will be taken to assess gas content.

Within Rolleston West we have sizeable acreage of over 1400 square kilometres (nearly 8 times the area of PL 231). Accordingly, should the core-holes prove successful ATP 2062, the Rolleston West Project will be developed as part of the development of Reid’s Dome/PL 231, sharing certain infrastructure and benefits from economies of scale. We are anticipating meaningful results at Rougemont in June. What a transformation this may prove.

Financial Position

At the end of the Quarter the Company had cash at bank of \$6.27m, after expending \$6.14m in Project development costs, and \$0.07m in other costs.

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

⁴ ACCC Gas Inquiry Interim Report January 2021

⁵ The stress fractures created by “plunging noses”, that is bent and dipping formations, should enhance permeability in the coals

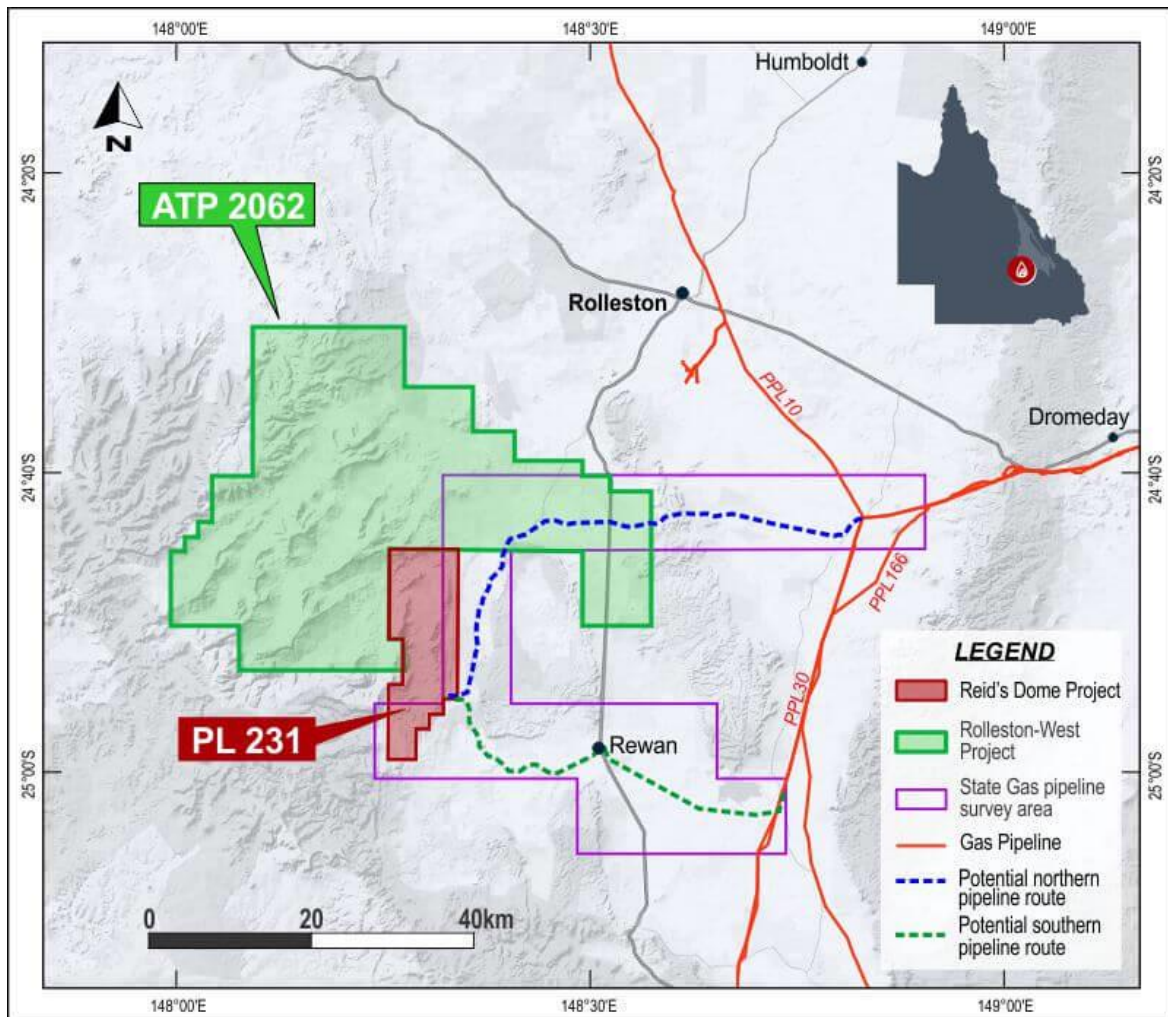


Figure 1: Map showing Reid's Dome, Rolleston-West, and State Gas' Pipeline Survey area

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