State Gas Limited
ACN 617 322 488
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ASX RELEASE

20 December 2022

End of Year Update

State Gas Limited ("State Gas" or "the Company") is pleased to provide an update on a series of matters prior to the end of the 2022 calendar year.

Response to regulatory intervention

The Company's Board of Directors and management believe that its recently announced CNG Project is unaffected by the $12/GJ gas price cap and its underlying project economics remain attractive. In particular, the Company's CNG production is currently planned to be sold into the spot market – which is not governed by the announced price cap and, moreover, project operating costs are estimated to be less than $12/GJ.

Notwithstanding these project-specific positive commercial drivers, State Gas stands with other resource industry participants and commercial leaders in Australia in challenging both the intent and approach of the regulatory intervention in the gas industry. This intervention allows the government to dictate the contracted price of gas for the next 12 months and significantly influence it thereafter.

As pointed out in our submission to the consultation process on 13 December 2022 (attached as Appendix 1), we believe that these actions will have a significant negative impact on investor sentiment in the energy sector and perversely exacerbate the existing challenges of reliable energy supply.

In our view, it is supply-side factors which are driving the price of domestic gas and the implementation of pricing caps will not alleviate that situation. State Gas will continue to lobby against this regulatory intervention as part of the wider industry response and will keep its shareholders updated on the impact of the regulatory intervention as detail becomes clearer over the coming quarter.

CNG Project

The Company continues to make good progress on achieving its deadline of delivering first gas production from its natural gas reserves located on PL231 in March 2023. As previously reported, it is State Gas' intention to compress and truck the gas to a location where it can decant the gas into existing pipeline infrastructure ("the CNG Project"). All critical equipment has now been ordered and engineering design is well progressed to allow in-field construction and commissioning to be undertaken during February 2023.

The CNG Project will initially produce nearly 1TJ of gas per day, which State Gas intends to sell into the spot market. As noted above, the Company is strongly of the view that the proposed regulatory intervention will result in increased volatility in spot market activity with positive price effects. State Gas Directors and management remain of the view that the CNG Project is unaffected by the $12/GJ gas price cap and underlying project economics remain attractive.

Rougemont Well Production Testing

As advised to the market on 23 November 2022, State Gas has commenced production testing of the Rougemont-2 and Rougemont-3 well pair. De-watering activities have commenced after the successful completion of two lateral Rougemont 3 wells which connect with the vertical Rougemont-2 well. These interconnected wells provide direct access to ~ 2,400 metres of Bandanna coals, a formation under commercial production in the nearby Arcadia Valley.

The production test is being undertaken to confirm the gas production potential of the Rougemont area within State Gas' 100%-owned Rolleston-West Project (ATP 2062). As a positive early indicator of permeability, water production has exceeded initial expectations and the Company is therefore confident of encouraging gas production results as testing activities continue over the next three months.

Photos of production testing activities at Rougemont 2

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

FOR FURTHER INFORMATION

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ABOUT STATE GAS

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based gas exploration and development company focussing on the Bowen Basin in Central Queensland. State Gas is 100%-owner of the contiguous Reid's Dome (PL-231) and Rolleston-West (ATP 2062) Gas Projects, both of which contain both 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. Neither project is restricted by domestic gas reservation requirements.

State Gas also holds a 35% interest in new permit ATP 2068 in joint venture with Santos QNT Pty Ltd (65%), and, also in the same joint venture, has been appointed Preferred Tenderer for an additional new exploration block PLR2021-1-3. These two new areas lie adjacent to or in the near vicinity of State Gas and Santos' existing interests in the area, providing for an alignment of ownership interests across the region, enabling synergies in operations and development.

None of State Gas' permits are restricted by domestic gas reservation requirements. State Gas is implementing its strategic plan to bring gas to market from Reid's Dome and Rolleston-West to meet shortfalls in the east coast domestic gas market.

State Gas is also undertaking a carbon management initiative with minerals explorer Rockminsolutions Pty Ltd in respect of EPM 27596 on the western border of ATP 2062. This project is investigating the potential of basalts in the Buckland Basaltic Sequence to provide long term secure sequestration of carbon through mineralisation[1].

[1] For more information see State Gas Ltd announcement on 9 May 2022

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Appendix 1 – Consultation Submission regarding Regulatory Intervention

13 December 2022

Gas Market Consultation
Labour Market, Environment, Industry and Infrastructure Division
The Treasury

GasMarketConsultation@treasury.gov.au

Dear Colleagues,

Consultation on Proposed Price Cap

The major issue facing the eastern seaboard gas market is insufficient supply occasioned primarily by the rapid decline in Bass Strait production. The governments of Victoria and NSW have effectively banned the exploration for or production of replacement gas. The proposed policy mooted in the consultation process does not address the need toto increase supply in order to bring the market back into balance.

The Proposed Intervention into the operation of the wholesale gas market announced on 9 December 2022 ("**Proposed Intervention**") will exacerbate the shortage in domestic gas supply. Gas development is a high risk, high capital, multi-decade investment. A highly regulated environment with capped returns and the potential for ongoing broad regulatory intervention, will destroy investment confidence and further jeopardise gas supply over the medium to longer term. The responsibility for identifying and proving new gas reserves to underpin this demand largely rests with smaller explorers and gas producers, not the large export gas producers. State Gas believes the Proposed Intervention will create an environment of investment uncertainty that will prevent smaller industry participants accessing the essential equity capital necessary to contribute to Australia's long term energy supply needs.

This letter deals with State Gas' feedback on the Proposed Intervention generally and provides specific feedback on the proposed price cap (**Price Cap**) and enabling legislation (**Legislation**). A further response will be made to the proposal for the proposed Mandatory Code in February 2023.

State Gas Limited is a small ASX listed gas exploration and development company based in Queensland. A relatively recent entrant in the sector (established in 2017), is it independent of any other industry participant. All of the Company's projects are in Queensland and it is predominantly Australian owned.

Since its inception State Gas has been focussed on developing its gas projects in order to bring new supplies of gas to the east coast domestic market as quickly as possible. It has invested approximately $44 million of third-party investment capital in its activities to date. We have fast tracked exploration and brought forward pipeline development work to accelerate supply. For the last four months we have been developing a project, unprecedented in Australia, to compress and truck our conventional gas resource to market via the high-pressure pipeline network, targeting commencement in Quarter 1 2023. The Proposed Intervention has put the project at risk and we are now re-evaluating our previous investment decision and reviewing orders we have made for essential long lead time capital items.

State Gas is deeply concerned about the extent and breadth of the Proposed Intervention on short notice without adequate consultation. The gas and energy markets are highly complex and, in our view, it is inevitable that rushed intervention will result in unintended adverse consequences across all sectors of the economy. Participants, particularly those independent of the major market participants, should be afforded the opportunity to consider the proposed changes, understand the implications, and engage with decision makers. We have not been afforded this opportunity.

The argument that the government must act now to address the crisis of increasing domestic energy prices, should in our view, but considered in the context of what will provide stable and reliable energy pricing over the next decade. It is undeniable that gas has a fundamental role to play in the country's long term energy security strategy. Without gas there is no reliable medium-term solution for the stable supply of energy to Australian consumers as we move to the target of an 82% share of low-cost renewables in the National Electricity Market by 2030. Disincentivising continued investment in the gas sector today will have long term adverse consequences for reliable energy supply and pricing.

The ACCC has repeatedly raised concern about the lack of competition in the gas market, where most of the supply is controlled by a very small number of parties. The Proposed Intervention will exacerbate the problem, entrenching the dominance of the major suppliers through a much greater negative impact on the smaller producers. The LNG producers have the capacity to support lower domestic pricing through higher profits from exports, an option not available to non-LNG producers. In addition, the non-LNG producers generally hold higher cost gas resources – generally the smaller players entered the industry later, after the best tenures have been secured by others. Our assets are less developed, so we are less able to produce gas using existing facilities which have already been paid for.

State Gas makes specific comments on the design and operation of the proposed Price Cap as set out in Attachment 1 to this letter.

The Proposed Intervention, particularly the price cap will only stimulate demand and decrease the supply response. State Gas strongly urges reconsideration of the structure and timing of the Proposed Intervention and would welcome the opportunity to discuss how the government's energy price control objectives might be more effectively addressed.

Yours faithfully

Richard Cottee
Executive Chairman

Attachment 1

State Gas comments on Proposed Price Cap

- $12/GJ price is too low for the cap:
  - The price selected ignores the risks associated with gas development, imposing a roof which has no relation to costs and ignoring costs such as rehabilitation and exploration which must be recovered through production revenues.
  - The reference to 2019 pricing is inappropriate as it ignores the significant escalations in underlying cost (including costs incurred through supply chain delays) which have occurred in the interim, the majority of which are unrelated to disruption in European gas markets which is cited by the government as the predominant driver of uncontrolled gas price escalation.
  - Increasingly the gas entering the market is coal seam gas rather than conventional gas. CSG is inherently more expensive to produce than conventional gas as it requires ongoing investment through drilling to maintain production levels and manage water. Accordingly, a benchmark determined by reference to sales of conventional gas is inappropriate.
- Scope of the price cap:
  - The exemption for spot gas sales should extend to short term sales on the Wallumbilla Gas Supply Hub.
    - The Gas Supply Hub is extensively used for short term sales. The application of the price cap should not depend on the platform on which gas is sold. Application to longer term sales on the Gas Supply Hub can be managed where the trade is for a period longer than eg 7 days.
  - The definition of "affiliate" is too broad. There is no justification for an unrelated joint venture relationship to create "affiliation" for the purposes of the price cap.
    - For example, Producer A sells gas from field X to Party B. A related party of Producer A happens to be in joint venture for an unrelated project with a related party of Party B. That joint venture may be for an unrelated gas project, or for a project in another country, or a completely different commodity. The affiliation for the price cap should only exist where there is a joint venture concerning the supply of the gas which is the subject of the sale.