



State Gas Limited  
(ACN 617 322 488)  
C/- GPO Box 525  
BRISBANE QLD 4001

**ASX RELEASE**

25 January 2023

## **QUARTERLY ACTIVITIES REPORT**

1<sup>st</sup> October 2022 – 31<sup>st</sup> December 2022

### **QUARTER HIGHLIGHTS:**

- Rougemont-3 production testing shows strong initial indicators of gas production
- CNG trucking project in advanced stages of engineering design
- CNG project operating costs estimated to be substantially less than \$12/GJ
- Feedback provided on proposed Federal Government intervention into gas pricing

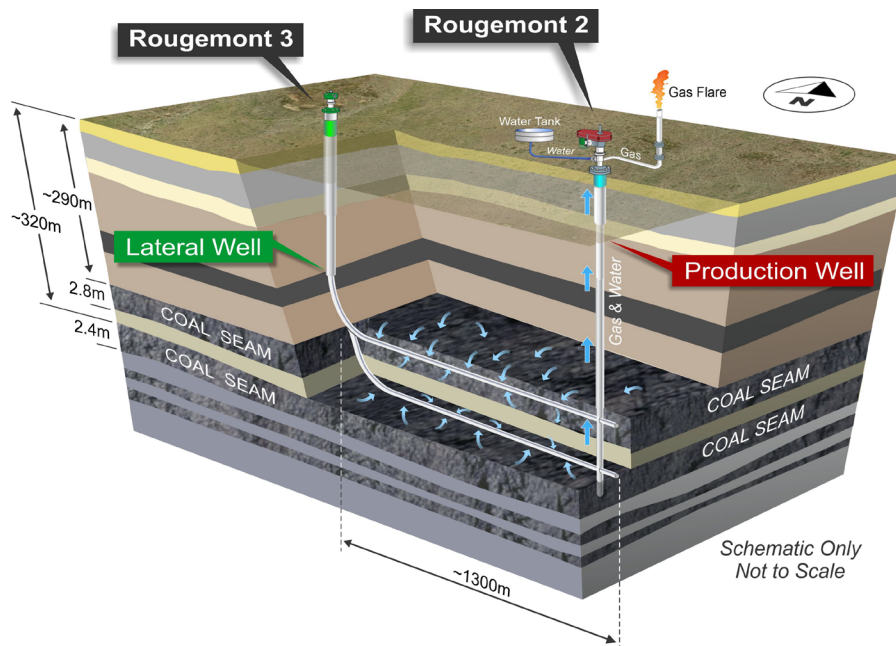
### **ACTIVITIES**

The December 2022 Quarter (**Quarter**) and the subsequent month of January 2023 have been eventful for both the energy sector and **State Gas Limited (ASX: GAS)**.

- International and domestic gas markets continued to perform strongly with global energy demand, particularly for gas, remaining high;
- State Gas has remained focussed on developing its projects and commercialising its resource base as quickly as possible. We continue to work towards enhancing the value of the Company's assets and generating an attractive return on capital through commercialising the Company's projects over the short to medium term.
- Federal Government intervention into domestic gas pricing has created an environment of uncertainty for the industry while attracting significant criticism from industry participants and the Australian business community more generally; and
- Notwithstanding the disruption created by regulatory price intervention, demand for domestic gas remains high and is expected to remain so for the foreseeable future as there are no reliable supply-side drivers capable of boosting supply in the short to medium term. The government's price caps will probably have the unintended consequence of increasing price volatility, thereby benefitting suppliers of spot gas.

### **Rougemont Well Production Testing**

State Gas' Rolleston-West Project (ATP 2062) is targeting the Bandanna Formation coal measures. These are the same coal measures already in commercial production at Arcadia Valley to the south-east and under development at Mahalo to the North. Rougemont-3 consists of two laterals well drilled sub-horizontally through highly permeable coal seams identified by the previously-drilled Rougemont-2 well. The laterals connect to the Rougemont-2 vertical well, enabling the vertical – dual horizontal well system to be tested as a single unit.



**Figure 1:** Rougemont-3 Well, showing first and second lateral wells completed in the recent drilling program and the previously-drilled Rougemont-2 vertical well.

Rougemont 2/3 has been on production testing since 21 November 2022 with the water being drawn down at a rate of around 2 metres per day. The well has been drawn down consistently and predictably to 120 metres (the first coal seam is at 356 metres depth) and we are consistently producing small quantities of gas - a good sign. The production test is producing a larger quantity of water than was initially prognosed, indicating high permeability in the coal seams within the two lateral wells, and therefore, potentially higher gas production from these coals once the water level has been reduced.

### **CNG Trucking ('Virtual Pipeline') Project**

The Company made substantial progress towards achieving its deadline of delivering first gas production from its natural gas reserves located near the northern end of PL 231 with the compressor scheduled to arrive in February 2023. The project will see State Gas compress, truck and then decant the gas into existing pipeline infrastructure ("the CNG Project"). The CNG Project will allow State Gas to generate a modest positive operating cashflow and build up to delivering approximately 1TJ per day of new gas into what we expect will continue to be an under-supplied market. Engineering, design and preliminary pre-fabrication activities were completed during the quarter, allowing in-field construction and commissioning to commence in late February 2023. Gas from the CNG Project is planned to be sold into the spot market – which is not governed by the announced price cap of \$12/GJ. Project operating costs are estimated to be substantially less than \$12/GJ.

### **Proposed Federal Government Intervention into gas pricing**

During the quarter, State Gas responded to substantial regulatory price intervention in the gas industry in conjunction with other industry participants and business leaders. This intervention allows the Federal Government to dictate the contracted price of gas for the next 12 months and significantly influence it thereafter. In our view, it is supply-side factors that are driving the price of domestic gas and the implementation of pricing caps will not alleviate that situation over the medium-term. We believe that price intervention will have a significant negative impact on

investor sentiment in the energy sector and, perversely, exacerbate the existing challenges of reliable energy supply.

Whilst State Gas is exempted from the price caps announced in Canberra just before Christmas, the Company believes that the Government's attempts at price control - to the extent that they are effective - will stimulate domestic gas demand, exacerbating gas price volatility. State Gas' pioneering efforts to create a demand-responsive ('capital lite') trucking solution may well be a net beneficiary of the unintended consequences of this policy.

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 as detail becomes clearer over the coming quarter. A copy of our submission seeking further consultation and debate was released to the ASX on 13 December 2022.

## **Other Projects**

As previously announced<sup>1</sup>, State Gas has developed a strategic partnership with Santos Limited ("Santos") through a joint venture for new acreage in the area surrounding PL 231 and ATP 2062. This joint venture creates an alignment of ownership interests across a substantial gas resource in the southern Bowen Basin, providing the opportunity for coordinated and synergistic development. Santos and State Gas are currently developing an exploration program across both tenures.

As part of State Gas' strategy to reduce the carbon footprint of its projects, the Company entered into the Carbon Management Joint Venture with Rockmin Solutions Pty Ltd in October 2021. The Joint Venture will investigate the potential of the Buckland basaltic ignimbrite located within and nearby to ATP 2062 for a range of ex-situ mineral carbonation purposes. In addition, the Joint Venture will seek to apply a process (currently being implemented by Carbfix<sup>2</sup> in Iceland) which safely traps CO<sub>2</sub> in the underground basalt layer. This in situ mineralisation process is attracting significant international attention, with the US Department of Energy demonstrating the technology at a site in Washington State, and Rio Tinto recently announcing a project in Minnesota, USA<sup>3</sup>. The Joint Venture is currently planning initial tests of the basalt deposits over the coming twelve months.

## **Financial Position**

Net proceeds of \$6.7 million were generated from an equity raise completed in October 2022. During the quarter, the Company expended \$4.6 million on Project Development costs incurred to progress towards gas production and sales, and \$0.5 million on other costs. Project Development costs for the quarter primarily reflect:

- drilling costs of the Rougemont 3 and the two associated lateral wells which connect to Rougemont 2; and
- progress payments for long lead-time equipment for the CNG trucking project, as well as engineering and other project consulting costs.

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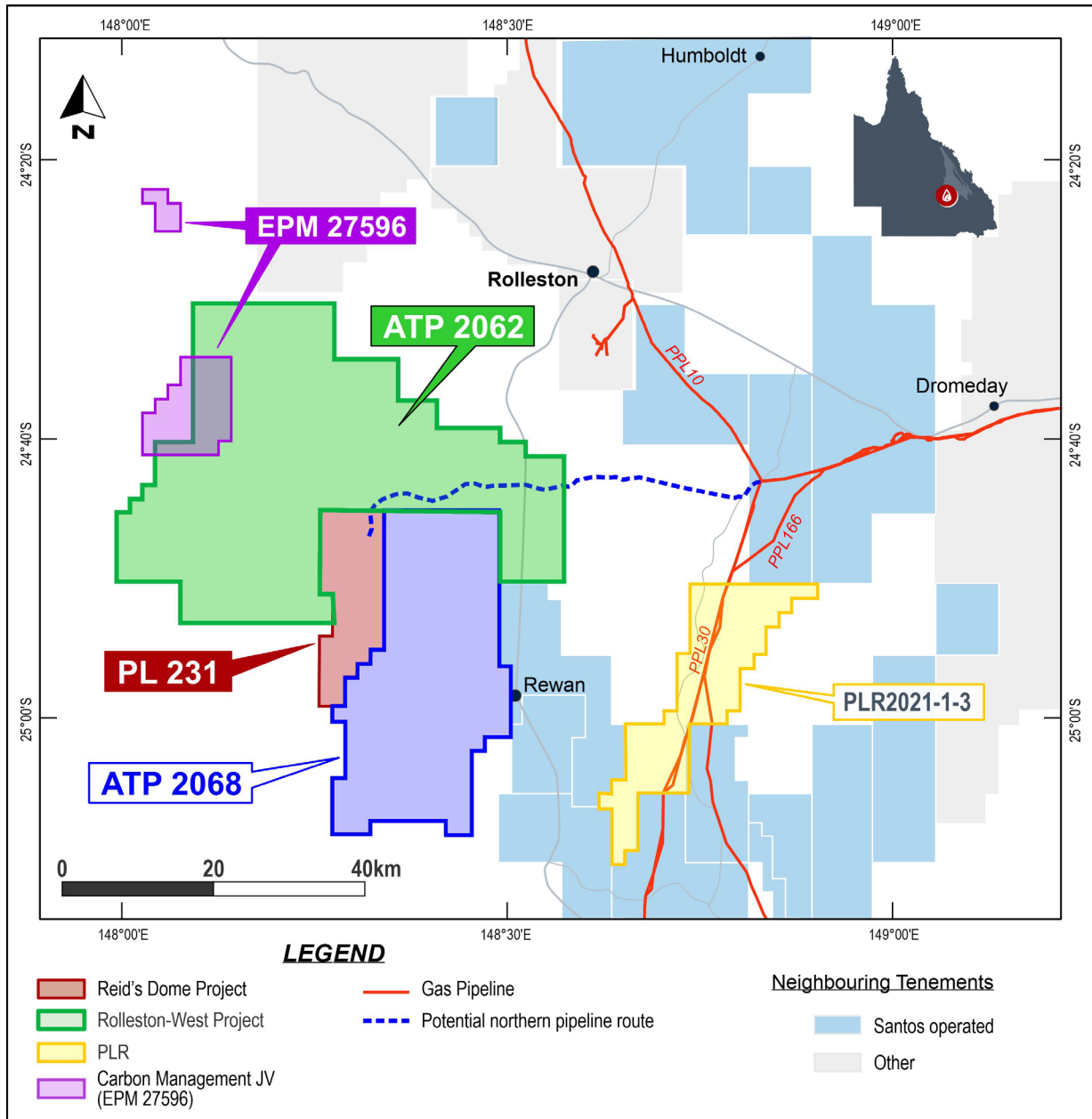
<sup>1</sup> On 17 May 2022

<sup>2</sup> See [www.carbfix.com](http://www.carbfix.com) and State Gas ASX release dated 5 October 2021

<sup>3</sup> <https://www.riotinto.com/news/releases/2022/DOE-backs-Rio-Tinto-led-team-to-explore-carbon-storage-at-Tamarack>

## Tenements and Resources

Tenements held by State Gas either directly or in joint venture are:



The contingent and prospective resources established by State Gas are:

| Year         | Asset                                    | Net Acreage (km <sup>2</sup> ) | 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          |
| <b>Total</b> |  | <b>1957</b>                    | <b>274</b>  | <b>534</b> | <b>1266</b> |

| Year         | Asset                                  |  | Estimated Prospective Resources* (PJ's Net to State Gas) |          |           |
|--------------|--|--|--|----------|-----------|
|              |  |  | P10  | P50      | P10       |
| 2020         | ATP 2062 Rolleston-West (conventional) |  | 1.0  | 4.7      | 22.7      |
| 2022         | ATP 2069 (conventional)                |  | 0.7  | 3.0      | 12.8      |
| <b>Total</b> |  |  | <b>2</b>   | <b>8</b> | <b>35</b> |

\*State Gas estimate as at 12/09/2022

#Interest in ATP 2069 is held by State Gas subsidiary, State Gas (CQ) Pty Ltd. The remaining 65% is held by Santos QNT Pty Ltd. State Gas (CQ) Pty Ltd is also preferred tenderer (35% interest), with Santos QNT Pty Ltd (65% interest) for ATP 2069.

### Payments to Related Parties

A total of \$93,000 was paid to Directors and their associates for salaries, director fees and superannuation during the quarter ended 31 December 2022.

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

### FOR FURTHER INFORMATION

Richard Cottee  
Executive Chairman  
Phone: 0458 517 850  
Email: @stategas.com

Doug McAlpine  
Chief Executive Officer  
Phone: 0488 007 889  
Email: lucy@stategas.com

## 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<sup>2</sup>, 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 intends to accelerate commercialisation of the conventional gas assets in Reid's Dome through the implementation of an innovative virtual pipeline solution which will see the Company transport gas by truck to a closely located inlet point on existing pipeline infrastructure.

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 Rockminolutions 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.

### **ASX Listing Rules Chapter 5 - Reporting on Oil and Gas Activities**

#### **Additional Information about Contingent Resources estimate**

*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 Contingent 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

49 617 322 488

Quarter ended ("current quarter")

31 DECEMBER 2022

| Consolidated statement of cash flows                      | Current quarter<br>\$A'000 | Year to date<br>(6 months)<br>\$A'000 |
|---|----------------------------|---------------------------------------|
| <b>1. Cash flows from operating activities</b>            |                            |                                       |
| 1.1 Receipts from customers                               | -                          | -                                     |
| 1.2 Payments for  |                            |                                       |
| (a) exploration & evaluation (if expensed)                | -                          | -                                     |
| (b) development   | -                          | -                                     |
| (c) production  | -                          | -                                     |
| (d) staff costs   | (189)                      | (353)                                 |
| (e) administration and corporate costs                    | (780)                      | (1,096)                               |
| 1.3 Dividends received (see note 3)                       |                            |                                       |
| 1.4 Interest received                                     | 9                          | 11                                    |
| 1.5 Interest and other costs of finance paid              | -                          | -                                     |
| 1.6 Income taxes paid                                     | -                          | -                                     |
| 1.7 Government grants and tax incentives                  | -                          | -                                     |
| 1.8 Other (provide details if material)                   |                            |                                       |
| - GST refunds   | 479                        | 546                                   |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>(481)</b>               | <b>(892)</b>                          |
| <b>2. Cash flows from investing activities</b>            |                            |                                       |
| 2.1 Payments to acquire:                                  |                            |                                       |
| (a) entities  | -                          | -                                     |
| (b) tenements   | -                          | -                                     |
| (c) property, plant and equipment                         | -                          | (701)                                 |
| (d) exploration & evaluation (if capitalised)             | (4,625)                    | (5,505)                               |
| (e) investments   | -                          | -                                     |
| (f) other non-current assets                              | -                          | -                                     |

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

| Consolidated statement of cash flows |   | Current quarter<br>\$A'000 | Year to date<br>(6 months)<br>\$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)                   | -                          | -                                     |
| <b>2.6</b>                           | <b>Net cash from / (used in) investing activities</b> | <b>(4,625)</b>             | <b>(6,206)</b>                        |

|             |   |              |              |
|-------------|---|--------------|--------------|
| <b>3.</b>   | <b>Cash flows from financing activities</b>   |              |              |
| 3.1         | Proceeds from issues of equity securities (excluding convertible debt securities)       | 7,000        | 7,000        |
| 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 | (334)        | (334)        |
| 3.5         | Proceeds from borrowings  | -            | -            |
| 3.6         | Repayment of borrowings   | -            | -            |
| 3.7         | Transaction costs related to loans and borrowings                                       | -            | -            |
| 3.8         | Dividends paid  | -            | -            |
| 3.9         | Other (provide details if material)   | -            | -            |
| <b>3.10</b> | <b>Net cash from / (used in) financing activities</b>                                   | <b>6,666</b> | <b>6,666</b> |

|           |  |         |         |
|-----------|--|---------|---------|
| <b>4.</b> | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |         |         |
| 4.1       | Cash and cash equivalents at beginning of period                             | 1,233   | 3,225   |
| 4.2       | Net cash from / (used in) operating activities (item 1.9 above)              | (481)   | (892)   |
| 4.3       | Net cash from / (used in) investing activities (item 2.6 above)              | (4,625) | (6,206) |
| 4.4       | Net cash from / (used in) financing activities (item 3.10 above)             | 6,666   | 6,666   |



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

| <b>Consolidated statement of cash flows</b> |   | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(6 months)<br/>\$A'000</b> |
|---|---|------------------------------------|--|
| 4.5   | Effect of movement in exchange rates on cash held | -                                  | -  |
| <b>4.6</b>                                  | <b>Cash and cash equivalents at end of period</b> | <b>2,793</b>                       | <b>2,793</b>                                   |

| <b>5.</b>  | <b>Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | <b>Current quarter<br/>\$A'000</b> | <b>Previous quarter<br/>\$A'000</b> |
|------------|---|------------------------------------|-------------------------------------|
| 5.1        | Bank balances   | 687                                | 260                                 |
| 5.2        | Call deposits   | 2,106                              | 973                                 |
| 5.3        | Bank overdrafts   | -                                  | -                                   |
| 5.4        | Other (provide details)   | -                                  | -                                   |
| <b>5.5</b> | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>  | <b>2,793</b>                       | <b>1,233</b>                        |

**6. Payments to related parties of the entity and their associates**

|     |   |    |
|-----|---|----|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 93 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | -  |

**Current quarter  
\$A'000**

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.

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

| <b>7. Financing facilities</b>  | <b>Total facility<br/>amount at quarter<br/>end<br/>\$A'000</b> | <b>Amount drawn at<br/>quarter end<br/>\$A'000</b> |
|---|---|--|
| <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.<br/>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>   |   |  |
| 7.1 Loan facilities   | -   | -  |
| 7.2 Credit standby arrangements   | -   | -  |
| 7.3 Other (please specify)  | -   | -  |
| 7.4 <b>Total financing facilities</b>   | -   | -  |
| 7.5 <b>Unused financing facilities available at quarter end</b>   |   | -  |
| 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. |   |  |

| <b>8. Estimated cash available for future operating activities</b>  | <b>\$A'000</b> |
|---|----------------|
| 8.1 Net cash from / (used in) operating activities (Item 1.9)   | (481)          |
| 8.2 Capitalised exploration & evaluation (Item 2.1(d))  | (4,625)        |
| 8.3 Total relevant outgoings (Item 8.1 + Item 8.2)  | (5,106)        |
| 8.4 Cash and cash equivalents at quarter end (Item 4.6)   | 2,793          |
| 8.5 Unused finance facilities available at quarter end (Item 7.5)   | -              |
| 8.6 Total available funding (Item 8.4 + Item 8.5)   | 2,793          |
| 8.7 <b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b>   | 0.5            |
| 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 drilling cost of the two Rougemont lateral wells incurred during the quarter were once-off. Similarly the capital cost of long lead time items associated with the CNG project are not recurring.       |                |
| 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: We are expecting to receive proceeds from sale of gas by April 2023, if not earlier.  |                |
| 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: We anticipate to be able to curtail expenses to align with timing of sale/pre-sale of gas. We are also exploring other financing options to free up working 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: 25 January 2023

Authorised by: By the Chairman of the Board  
(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.