State Gas Limited
ACN 617 322 488
PO Box 10348
BRISBANE QLD 4000

ASX RELEASE

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Rougemont gas flow-rates at 358,000 scft/day triggers a review of strategy

HIGHLIGHTS:

- Rougemont production testing well continues to demonstrate excellent gas production
- State Gas now pursuing rapid certification of reserves to underpin construction of gas pipeline
- The Rolleston West Project (100% owned) is in a highly productive area, producing export quality gas from the well-understood Bandanna coal measures

State Gas Limited (ASX: GAS) ("State Gas" or "the Company") is pleased to advise that production testing gas from the Rougemont2/3 lateral well ("Rougemont") is flowing at a rate that is approaching being unquestionably economic. It is producing in excess of 350,000 scft/day with the flowrate increasing at between15-20,000 scft/day (see Figure 1 below), despite the top coals of the Bandanna coal measures remaining underwater. If Rougemont gas production continues to increase at this rate it would justify temporarily relocating the relocatable CNG project compression assets from Reid's Dome to Rougemont.

The advantages of such a move would be that the company would produce a positive cashflow from otherwise flared gas whilst preserving the conventional gas at Reid's Dome as a quick response to what should be an increasingly volatile domestic gas market following the closure of the Liddell coal fired power station in April. Whilst such a move may cause a slight delay in the commencement of the CNG project, its gas would still be available for the winter electricity needs following the Liddell closure.

The early success of the Rougemont Production Test means the company is evaluating the quickest method by which it can get reserves declared at Rougemont to underwrite the financing of an approximately 20 km pipeline to a connection on the Wallumbilla to Gladstone Pipelines.

The options for a quick reserve certification range from a three to five well pilot scheme to pressure monitoring wells or a combination of both. A decision on the precise next steps to be undertaken this dry season will be made after discussions with the reserve certifier this month.

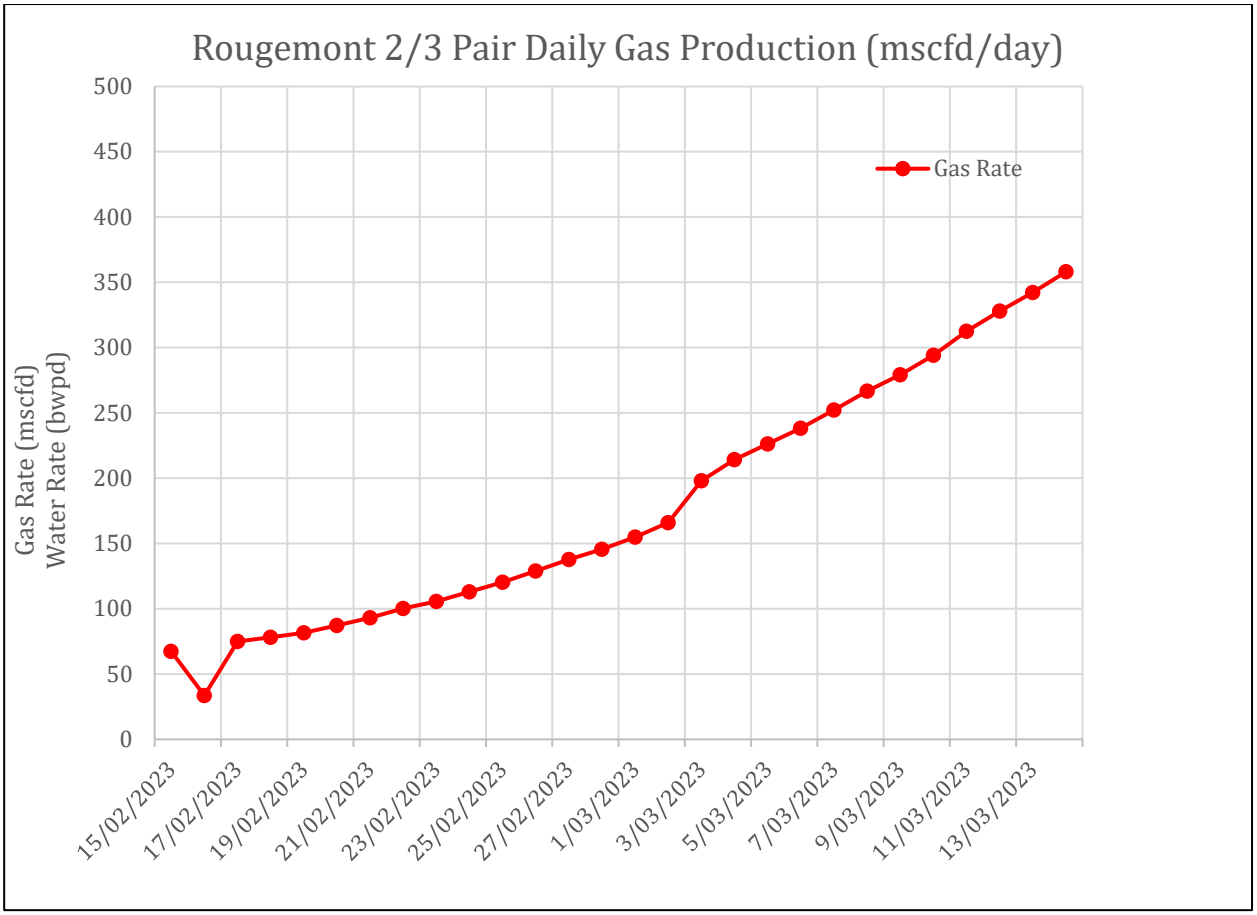

Figure 1: Daily gas production

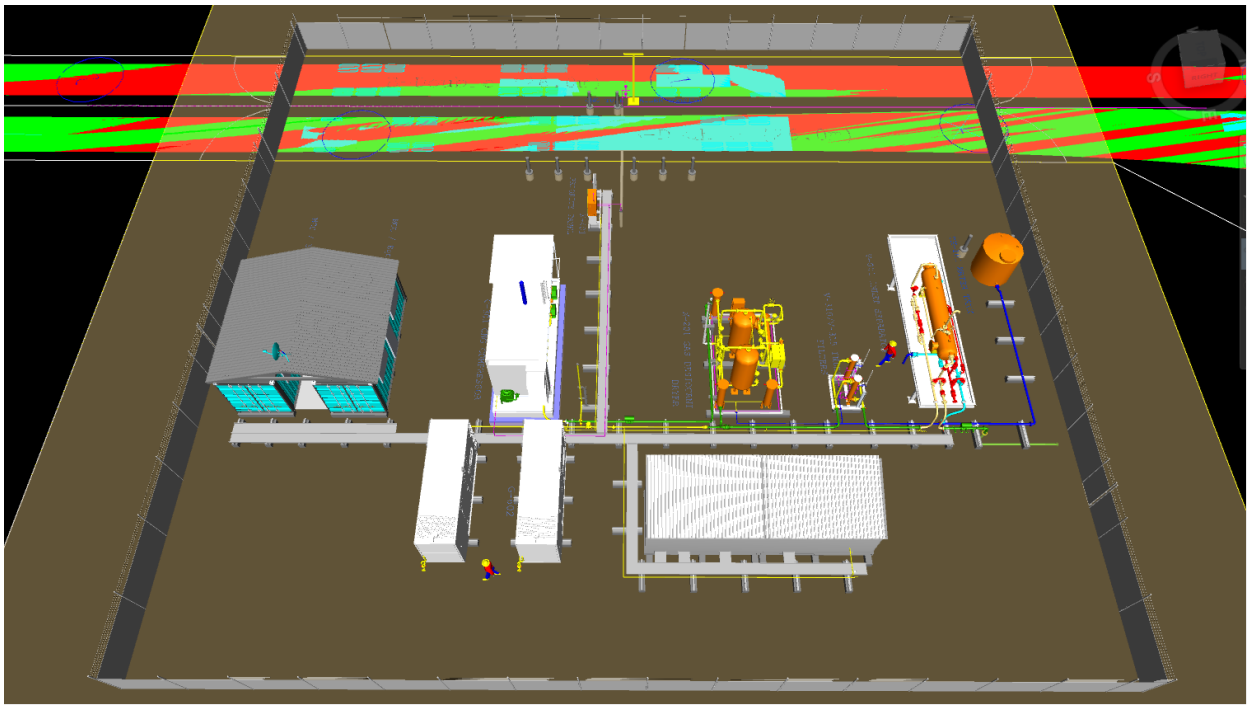

Figure 2: Relocatable Compression Station for Reid Dome CNG Project – can be repurposed to support CSG from Rolleston West

This announcement was approved for release by the Board of Directors.

FOR FURTHER INFORMATION

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

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

www.stategas.com

ABOUT THE ROLLESTON WEST PROJECT

The Rolleston West Project (ATP 2062), is 100% owned by State Gas Limited and is directly adjacent to the Company's other major project - Reid's Dome (PL 231). This enables the Company to build on its existing knowledge of the area and develop its projects synergistically to optimise efficiencies, optionality and scale. The Company is targeting the Bandanna Formation coals, which are extensive across large areas of the permit. The potential of these areas is underpinned by Santos' commercial production of gas from the Bandanna formation at the Arcadia Valley field to the south-east, and Comet Ridge's progress towards commercial production at Mahalo to the north-east.

Drilling undertaken in the eastern part of the tenement has intersected approximately 8 metres of net coal, with the thickest seams identified in each well laterally continuous over many kilometres. The gas content of the coals was as predicted, at between 5 and 6 m3/tonne dry ash free. Gas is at or near pipeline quality, between 93.8% and 96% methane. The permeability of the two primary seams was excellent, ranging from 26 to 395 millidarcies.

Production testing on a combined horizontal - vertical well pair to further determine flow rates and inform future development has generated excellent results. Water and early gas production has exceeded initial expectations and the Company is confident of encouraging gas production results as testing activities continue and development plans for the area undertaken.

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 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 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.