

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

ASX RELEASE

29 October 2021

QUARTERLY ACTIVITIES REPORT

1st July 2021 – 30th September 2021

Highlights

- Exceptional results from Rougemont drilling at the Rolleston-West Gas Project
- Rougemont-2 well to be production tested during the December Quarter
- Production testing to recommence at Reid's Dome
- MOU entered into with Rockmin solutions for low emission hydrogen and carbon sequestration
- \$8m raised during the September Quarter to fund further activities.

During the June Quarter **State Gas (ASX: GAS)** drilled the first two coal seam gas wells in its Rolleston-West Gas Project in Central Queensland (ATP 2062, granted in October 2020), Rougemont-1 and Rougemont-2. The laboratory analyses of the cores taken from the wells were received during the September Quarter, which, combined with the earlier data, amount to stellar results from the two coreholes.

Permeabilities in the Rougemont-2 coal seams range up to 395mD, and the gas compositions are equally spectacular, with both wells hosting gas close to pipeline quality. The two thickest seams at Rougemont-2, that is those seams hosting the most gas, provided the following results¹:

| Seam | Depth | Thickness | Permeability | Gas content | Composition |
|------|--------|-----------|--------------|----------------------------|----------------------|
| 1 | 355.8m | 2.8m | 25mD | 5.15 m ³ /t DAF | >94% CH ₄ |
| 2 | 384m | 2.4m | 395mD | 6.0 m ³ /t DAF | >96% CH ₄ |

Table 1: Results from the two thickest coal seams in the Rougemont-2 well

As a result of these very positive outcomes the Company is commencing production testing at Rougemont-2, with the test scheduled to start in mid November. Out of an abundance of caution, the de-watering will commence slowly, with a plan to draw down the water gradually to prevent stress-induced skin damage around the well bore, which can be caused by rapid pressure drawdown.

During the Quarter an \$8 million placement was conducted to enable the Company to undertake the production test and new drilling at Rougemont, and complete important appraisal work at Reid's Dome². The Company plans to bring both the Serocold-1 and Nyanda-8 wells back into

¹ Announced 9 June and 27 August 2021

² Announced 24 September 2021

production, applying the learnings from earlier phases to modify the wells slightly. The Company is hopeful that this work will lead to sufficient reserves being certified to enable the Company to enter into Sales Contracts for the gas. These contracts should underwrite the development phase at Reid's Dome.

A lot has been said about gas being a fossil fuel. With nearly half of natural gas' consumption being an input primarily for the food and housing sector this nomenclature is not without ambiguity as fuel is clearly not its sole purpose. The role of gas in enabling the transition to a net zero future cannot be understated.

The physical market for gas has never been tighter. A major transition appears to be occurring, for whilst oil prices rose 12% this quarter, gas prices rose 25% in the USA and 75% in the Euro area. The ACCC LNG Netback price, being the ACCC's estimate of the price a Queensland LNG producer can obtain if exporting their gas to Asia, less liquefaction and transport costs, has risen above **A\$39/GJ**³. With such a strong incentive to export as much as possible, it cannot be a surprise that the east coast gas price is strong. Now more than ever the vision your Board has for the Company is being fortified.

The Company is also looking at the potential of future fuels. As announced on 5 October 2021, we have entered into a Memorandum of Understanding (MoU) with Rockmin solutions to investigate carbon sequestration and low emission hydrogen. The concept is for hydrogen to be manufactured from gas, with the carbon dioxide to be dissolved and pumped into basaltic formations to the west of Rolleston-West. The carbon interacts with minerals in the basalt to form solid-form carbonate minerals for long term, safe and stable storage. The process, proven in Europe, is currently being implemented in Iceland and elsewhere.

With the funding now in place, we look forward to a Company defining Quarter ahead.

Financial Position

At the end of the Quarter the Company had cash at bank of \$7.65m, after raising \$8m as noted above, and expending \$2.73m in Project development costs and \$0.28m in other costs.

Payments to Related Parties

A total of \$81,000 was paid to directors and their associates for salaries, director fees and superannuation during the quarter ended 30 September 2021.

Tenements

The tenements held by State Gas are:

| Project | Permit | State Gas Interest | Area (km²) |
|----------------|---------------|---------------------------|------------------------------|
| Reid's Dome | PL 231 | 100% | 181 |
| Rolleston-West | ATP 2062 | 100% | 1,414 |

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

³ ACCC LNG Netback Price Series: www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/lng-netback-price-series

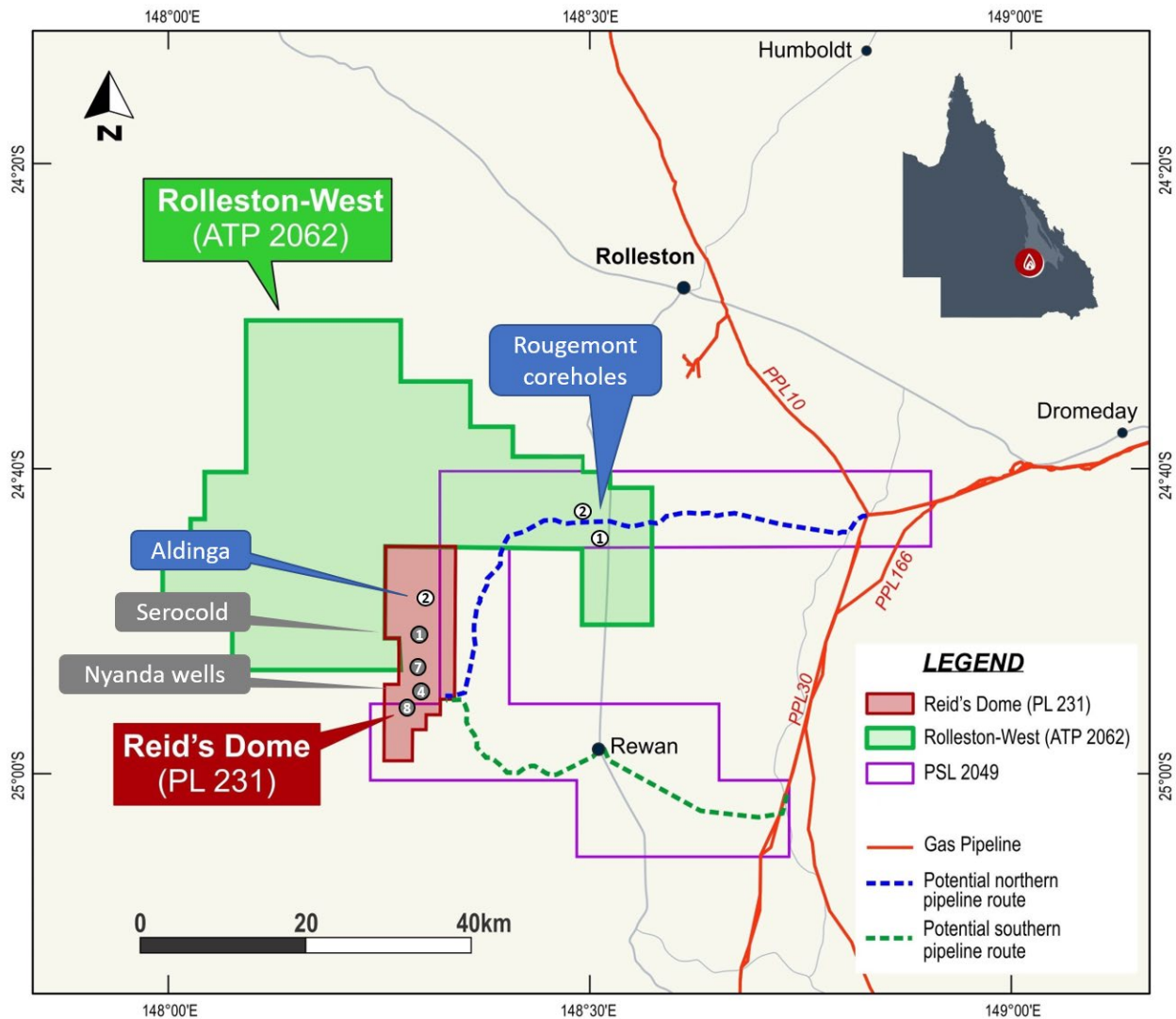


Figure 1: Map showing Project wells and the Reid's Dome, Rolleston-West, and State Gas' Pipeline Survey areas

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).⁴

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 market⁵. State Gas' current focus has been to confirm the producibility of the gas through production testing of the wells.

⁴ The information in this paragraph was previously announced on 31 October 2018, 5 December 2018 and 31 January 2020.

⁵ Strategy announced on 21 August 2019

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")

30 SEPTEMBER 2021

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 1. | Cash flows from operating activities | | |
| 1.1 | Receipts from customers | | - |
| 1.2 | Payments for | | |
| | (a) exploration & evaluation (if expensed) | - | - |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) staff costs | (258) | (258) |
| | (e) administration and corporate costs | (225) | (225) |
| 1.3 | Dividends received (see note 3) | | |
| 1.4 | Interest received | - | - |
| 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 | 203 | 203 |
| 1.9 | Net cash from / (used in) operating activities | (280) | (280) |
| 2. | Cash flows from investing activities | | |
| 2.1 | Payments to acquire: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) exploration & evaluation (if capitalised) | (2,726) | (2,726) |
| | (e) investments | - | - |
| | (f) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$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) | - | - |
| 2.6 | Net cash from / (used in) investing activities | (2,726) | (2,726) |

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 8,000 | 8,000 |
| 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 | (500) | (500) |
| 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) | - | - |
| 3.10 | Net cash from / (used in) financing activities | 7,500 | 7,500 |

| | | | |
|-----------|--|---------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 3,160 | 3,160 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (280) | (280) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (2,726) | (2,726) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 7,500 | 7,500 |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|---|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 7,654 | 7,654 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|------------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 177 | 1,850 |
| 5.2 | Call deposits | 7,477 | 1,310 |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 7,654 | 3,160 |

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

| Current quarter \$A'000 |
|------------------------------------|
| 81 |
| - |

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

| 7. Financing facilities | | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---|---|---|--|
| <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. 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 | Total financing facilities | - | - |
| 7.5 | Unused financing facilities available at quarter end | | - |
| 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. | | |
| | | | |

| 8. Estimated cash available for future operating activities | | \$A'000 |
|--|--|----------------|
| 8.1 | Net cash from / (used in) operating activities (Item 1.9) | (280) |
| 8.2 | Capitalised exploration & evaluation (Item 2.1(d)) | (2,726) |
| 8.3 | Total relevant outgoings (Item 8.1 + Item 8.2) | (3,006) |
| 8.4 | Cash and cash equivalents at quarter end (Item 4.6) | 7,654 |
| 8.5 | Unused finance facilities available at quarter end (Item 7.5) | - |
| 8.6 | Total available funding (Item 8.4 + Item 8.5) | 7,654 |
| 8.7 | Estimated quarters of funding available (Item 8.6 divided by Item 8.3) | 2.5 |
| 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: N/A | |
| 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: N/A | |
| 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: N/A | |

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: 29 October 2021

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.