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ASX RELEASE

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Recommencement of Field Activities at Reid's Dome

STATE GAS LIMITED (ASX: GAS) ("State Gas" or "the Company") is pleased to advise that field activities are recommencing following the lengthy wet season and flooding in the region, aimed at progressing development of the Reid's Dome Gas Project (PL 231) to bring gas to market as quickly as possible.

Following the receipt of very encouraging flow rates from the Nyanda-4 well and early evidence of coal seam gas from Serocold-1 at the Reid's Dome gasfield¹, the current phase of the Project has been focused on production testing of the Nyanda-4 and Serocold-1 wells.

The production data is providing important data on the gas productivity of the Reid's Dome Beds and focusing plans for additional drilling and testing required for reserve certification over a large area of PL 231. The production data is also valuable as an input to work currently being undertaken with potential pipeline partners and for broader project economics and planning.

As announced on 12 February 2020, the production testing was interrupted by mechanical issues at both the Nyanda-4 and Serocold-1 wells. Prolonged and heavy rainfall and flooding in the region has also prevented access to the site, and hence delayed the recommencement of dewatering of the wells. Recent weather improvements have meant that the site has now dried sufficiently to allow access to be restored.

In recent gas market developments, a lower Asian spot price for LNG has caused downward pressure on the price of domestic gas in Eastern Australia. The Company's Board believes that this situation will be short-lived, and when industrial production in China, South Korea and Japan returns to normal (ie pre-Coronavirus levels) the price of domestic gas will rebound. Indeed, the Board's view on the looming domestic gas shortfall is commensurate with that prognosed by the Australian Energy Market Operator (AEMO) in recent days. In particular, AEMO has warned that Victoria and the southern states of Australia could face gas shortfalls by 2024 and as early as 2023².

AEMO has also advised that supply from existing and committed southern gas developments is expected to reduce by more than 35% over the next five years, despite the increase in newly committed gas projects over the last 12 months³.

¹ Previously announced State Gas Ltd ASX Release "Operational Update, 12 February 2020

² 'Additional east-coast gas supply required by 2024', AEMO, 27 March 2020, <https://aemo.com.au/news/gsoo-vgpr-2020>

³ *ibid*

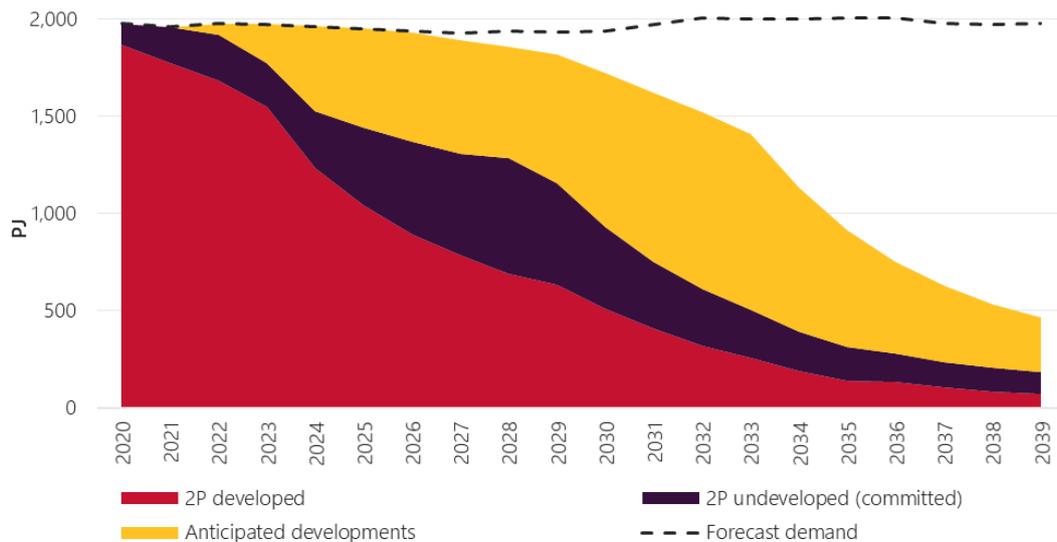


Figure 1: Projected eastern and south-eastern Australia gas production and forecast demand, Central scenario (PJ)
From 2020 Gas Statement of Opportunities, Australian Energy Market Operator

Resumption of Production Testing at Reid’s Dome

Accordingly, with the improvement in weather and site access, the State Gas Board has resolved to re-commence production testing at both Nyanda-4 and Seocold-1 as soon as practicable and expected during April.

The Company is highly encouraged by the early results from flow testing at the Reid’s Dome gasfield. As previously advised, gas flow from the Nyanda-4 production test commenced after only five days of dewatering and reached 227 mscf/d after only six weeks, before the mechanical interruption impacted downhole pressures⁴. Providing further encouragement, the volume of water produced from the test to date is extremely low, and if indicative of future wells in the permit, should lead to lower than usual production costs (water treatment being a large component of CSG operating costs).

The Seocold-1 production test commenced on 17 January 2020 and also quickly provided indications of gas production within the first week of dewatering commencing⁵.

These positive results and gas market dynamics have encouraged the Board to recommence production testing now that site access has been re-established (subject to potential government travel restrictions). The Company believes that the excellent initial results warrant the continuation of production tests for up-to three months to demonstrate the potential of the Reid’s Dome gasfield.

Export Pipeline

While field activities were restricted during the wet season, State Gas has also progressed plans for an export pipeline from the Reid’s Dome gasfield. A desktop study of potential options

⁴ State Gas ASX Announcement, 12 February 2020

⁵ ibid

has been undertaken and has confirmed a viable route from the gasfield to the high pressure east coast gas pipeline network, via the Queensland Gas Pipeline (approximately 45km to the east of the field).

Discussions with potential pipeline partners have been positive and are progressing.



Nyanda-4 flare, Reid's Dome Gasfield, 8 January 2020

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

ENDS

FOR FURTHER INFORMATION

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