



State Gas Limited
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ASX RELEASE

31 July 2019

QUARTERLY ACTIVITIES REPORT

1st April 2019 – 30th June 2019

HIGHLIGHTS:

- Preparations well advanced for further drilling and testing program at the Reid's Dome Gas Project (PL 231) planned for 2019.
- Appointment of Mr Richard Cottee as Executive Chairman of the Company.
- \$4.9m in funds raised by private placement at \$0.70 per share.
- Trial dates set for hearing of State Gas' action to enforce its right under the Joint Operating Agreement to transition to 100% of PL 231.
- Drilling and testing program funded, with end of year cash balance of \$6.344m.

Brisbane-based gas developer **State Gas Limited (ASX: GAS)** is pleased to provide its Quarterly Activities Report for the June Quarter 2019.

Background

State Gas Limited (State Gas or the Company) holds a majority interest in, and is 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).

In November-December 2018 State Gas, as operator of the Reid's Dome Joint Venture, drilled the Primero West-1 and Nyanda-4 wells. The Primero West-1 appraisal well confirmed expectations, encountering the "Primero" gas sand in the Cattle Creek Formation at 131.5m depth, and identifying a net gas bearing zone of up to 12.5m. Gas flowed at a maximum rate of 0.436 mmscf/d through a 48/64" choke, and laboratory analysis of the composition confirmed it to be 96.7% methane (pipeline quality), a result similar to offset well data.

The Nyanda-4 corehole was the first dedicated coal seam gas well at Reid's Dome. Earlier drilling undertaken in close proximity to the Nyanda-4 site encountered gas shows in association with coal seams. However, that drilling was prior to the establishment of the east coast gas market and related pipeline infrastructure and the coals were not evaluated. Logging and testing activities at Nyanda-4 confirmed a material gas content in the coals, and established the

potential for a significant coal seam gas project in PL 231.

The final results of Nyanda-4 confirmed the presence of more than 40 metres of net coal from approximately 394 metres depth to its total depth of 1,200 metres, and a further 25m of carbonaceous shales and thinner coal seams (i.e. <0.3m), indicating 65m of coals and carbonaceous shales (excluding conventional sandstones).

The average gas content from cored samples was 14.6 m³/t. Gas content for the thickest seams was ~16.9 m³/t.

In August 2018 Pipeline Survey Licence 2028 was issued to the Company, enabling investigations to commence for a pipeline route to market.

PROJECT ACTIVITIES

Following the successful drilling and testing of Primero West-1 and Nyanda-4, the Company is currently planning further drilling and testing operations at PL 231 for 2019 and is progressing a strategy to bring gas to market to meet forecast shortages in the near future. The Company expects to be in a position to make further announcements in this area in the coming weeks. This is part of the Company's determination to de-risk the asset, taking advantage of the buoyant gas market and smoothing the path to earlier commercialisation.

Increase in Ownership of PL 231

As previously announced, in November 2018 State Gas increased its Participating Interest in the Reid's Dome Project from 60% to 80% by acquiring an additional 20% Participating Interest from its Joint Venture partner Dome Petroleum Resources Plc (**Dome**). State Gas became entitled under the Joint Operating Agreement to acquire the remaining 20% interest when Dome reduced its Participating Interest to less than 25% (the Minimum Interest). State Gas exercised that right in December 2018, however Dome failed to complete the sale. Subsequent to State Gas commencing action in the Supreme Court of Queensland to enforce completion, Dome lodged a counterclaim seeking to reverse the November 2018 acquisition.

The parties attended a mediation in May 2019, however the matter was not resolved and will now proceed to trial, set down for September 2019. The Company remains confident of its position with respect to both its claim and Dome's counterclaim.

CORPORATE ACTIVITIES

Appointment of Executive Chairman

On 3 June Mr Richard Cottee was appointed as Executive Chairman of the Company.

Mr Cottee is internationally renowned for his energy experience, commercial strategy and acumen within the energy and utilities sector. As former Managing Director of the Queensland Gas Company (QGC) from 2002 to 2008, he took the company from an early stage explorer to a major non-conventional gas supplier building the market value from \$20 million to \$5.7 billion facilitating the sale of QGC to Britain's BG Group. During his extensive career, he has also been CEO of Queensland Government-owned electricity generator CS Energy, NRG Europe and Managing Director of petroleum explorer-producers Nexus Energy Limited and Central Petroleum Limited. Mr Cottee is also Chairman of Elixir Petroleum Limited.

The previous Chairman, Mr Tony Bellas, remains on the board as non-executive Deputy Chairman of the Company.

Capital raising

Also during June 2019, the Company completed a \$4.9 million capital raising by way of a private placement to a sophisticated investor at \$0.70 per share. As the Placement was arranged directly by the Company, no fees were payable on the Placement. The \$4.9 million Placement proceeds will be used for further drilling and appraisal activities at the Reid's Dome Gas Project in the Bowen Basin in Central Queensland with the aim of de-risking the prospect and accelerating commercialisation in a buoyant domestic gas market.

Financial results

At the end of the Quarter the Company had cash at bank of \$6.344m, after expenditure of \$0.309m during the Quarter, Non-staff related expenditure was dominated by litigation costs, which are expected to be finalised either next Quarter, or immediately thereafter. As can be expected, as we near finalisation of this matter legal expenses have adversely affected the cash burn rate in the last Quarter and will continue to do so in the next Quarter.

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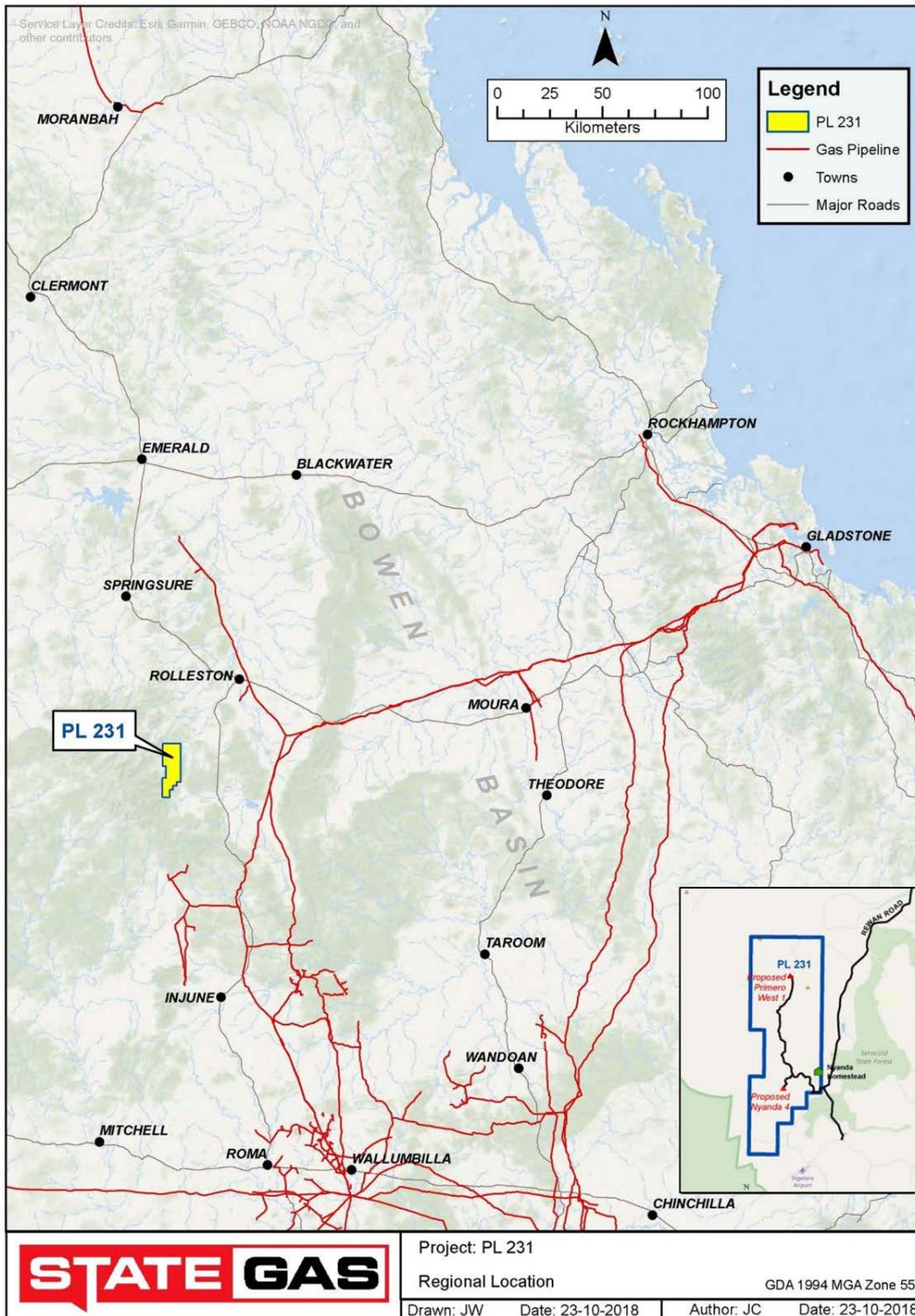


Figure 1: Location of PL 231 shown relative to regional pipeline infrastructure and towns. Inset shows location of Primo West-1 and Nyanda-4

FOR FURTHER INFORMATION

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ABOUT STATE GAS

STATE GAS LIMITED (ASX: **GAS**) is a Queensland-based developer of the Reid's Dome gas field (including both CSG and conventional gas). Originally discovered during oil drilling in 1955, Reid's Dome is located in the Bowen Basin in Central Queensland on the apex of the Springsure-Sericold Anticline. State Gas is sole Operator and 80%-owner of the Reid's Dome gas project, which is well-located 50 kilometres southwest of Rolleston, approximately 47 kilometres from the Queensland Gas Pipeline.

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Above: Nyanda-4 core showing coal at 476m



Above: Silver City Drilling Rig-25 on location at Primero West-1.