

## Assets, Expertise, Gov't Gas Policy: It's All Coming Together for BLU

Blue Energy (BLU) represents a unique opportunity to obtain exposure to gas assets with significant reserves and resources in proven basins. BLU has strong potential to supply an east coast gas market needing significant new supply. Its management team is highly experienced in developing gas assets and bringing gas to market. The Federal Government has vigorously backed gas as Australia's key fuel to power manufacturing and transition to a lower-CO<sub>2</sub> economy. BLU offers significant valuation upside.

### Assets in Proven Basins – Gas Ready to Go

BLU has accumulated a diversified portfolio of 100%-owned, highly prospective assets in proven and producing oil and gas basins in Queensland (most of which are situated near established infrastructure) as well as emerging gas basins in the Northern Territory. BLU's key Bowen Basin tenements in Queensland cover 1,116km<sup>2</sup> with significant Reserves and Resources (assessed by tier 1 Reserve certifier Netherland Sewell) and are adjacent to established coal seam gas (CSG) production.

### Management – The Right Skills to Grow BLU

BLU's Executive Chairman, John Ellice-Flint (a petroleum geologist), has several decades of experience in the global oil and gas industry, and was instrumental in initiating Queensland's LNG industry as CEO of Santos. CEO John Phillips (also a petroleum geologist) has 35 years of operational experience in CSG and conventional gas production. The management experience positions the company to rapidly progress to production.

### Federal Government – Gas-Led Recovery

The Federal Government has implemented a gas-led manufacturing plan post-COVID, using gas as a transition fuel to a reduced-carbon world. Incentives include underwritten gas agreements, potential NAIF funding of critical gas infrastructure, and opening up of new gas supply from North Bowen, Galilee, and Beetaloo basins. BLU is strongly positioned in all these basin areas to benefit from the government's gas strategy.

### East Coast Market Needs More Gas

The outlook for East Coast supply remains tight as gas production from long standing conventional gas fields in Gippsland and Cooper basins is in rapid and irreversible decline. New gas supplies are needed, and BLU is well positioned. BLU has executed HOAs for long term gas supply to leading utilities Energy Australia & Origin Energy.

### Valuation – Multiple Scenarios – Range of A\$0.20-A\$0.46

Our base valuation of A\$0.20 is derived by estimating the value of developing the Sapphire project in the Bowen Basin. The valuation of this asset implies a **BLU shareholder obtains this project at a substantial discount and has exposure to the remainder of BLU's substantial gas Resources in Queensland and exploration potential in the Northern Territory for free.** The upper valuation of A\$0.46 is derived from market average EV/ Resource multiples. The key risks relate to lack of development of a pipeline in the Bowen Basin and non-completion of further gas sales.

## ENERGY Blue.

Blue Energy (BLU) explores, evaluates and develops conventional and unconventional oil and gas, principally in Queensland and the Northern Territory. BLU's diverse portfolio involves five key geographical basins. The main and most developed is the Bowen Basin in Queensland.

Key investment highlights:

- Exposure to new gas basin plays
- BLU is Operator – controls own destiny
- BLU has 100% in key tenements
- Large gas resource and 2P reserves
- Low finding cost

<https://blueenergy.com.au/>

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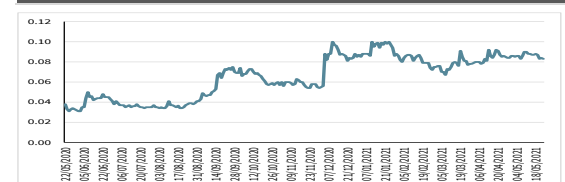
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Stock	ASX: BLU
Price	A\$0.075
Market cap	A\$100m
Valuation (per share)	A\$0.46

#### Next steps

Signing of further gas sale agreements	Ongoing
Gov't incentives	2021

#### BLU share price (A\$) – 1 year



Source: FactSet.

## Exhibit 1 – Company summary

Blue Energy Limited (ASX:BLU)					
Ratio Analysis	2018A	2019A	2020A	2021E	2022E
EPS (A¢)	(0.14)	(0.48)	(0.39)	0.04	0.04
P/E (x)	-	-	-	202.0	169.8
EPS Growth (%)	-	n/a	n/a	-110%	19%
CFPS (A¢)	(0.09)	(0.09)	(0.08)	0.03	0.03
P/CF (x)	-	-	-	244.7	261.6
DPS (A¢)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Profitability Ratios	2018A	2019A	2020A	2021E	2022E
EBIT / Sales (%)	0%	0%	0%	0%	0%
PBT / Sales (%)	0%	0%	0%	0%	0%
Return On Assets (%)	-	-	-	1%	1%
Return On Equity (%)	-	-	-	1%	1%

Liquidity Ratios	2018A	2019A	2020A	2021E	2022E
Net Debt / Net Debt + Equity (%)	4%	7%	6%	7%	7%
EBIT / Interest (x)	0.0	0.0	0.0	0.0	0.0
Current (x)	7.5	10.2	9.5	10.0	10.5

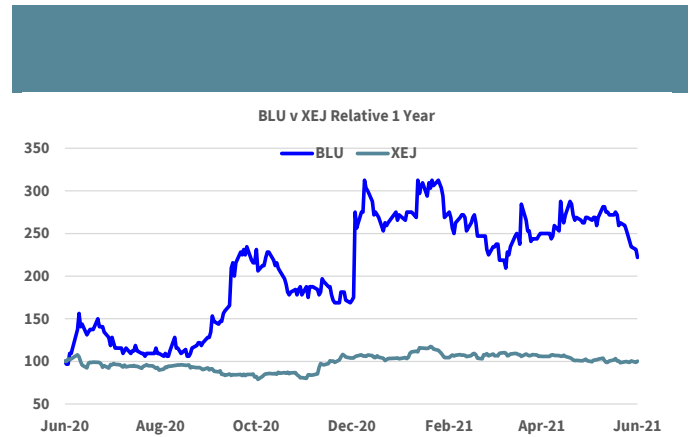
NAV	A\$m	Risking	A\$m	A\$ps
ATP 854 P (1C + 2C) Surat - 100%	26	100%	26	0.02
ATP 813 P (2C) Galilee - 100%	23	100%	23	0.02
ATP 814 P (Sapphire & Central 2P + 2C) -100%	103	100%	103	0.08
ATP 814 P (Monslatt & Hillalong et al (2C) -100%	315	100%	315	0.24

Total Operations	466	466	0.35	
Net Cash / (Debt)	5	100%	5	0.00
Admin / Corporate	(3)	100%	(3)	(0.00)
Other / Investments	0	100%	0	0.00
Exploration (risk-adjusted)	2	100%	2	0.00
Other 3C gas (Sapphire & Central risked)	108	100%	108	0.08

TOTAL VALUATION	578	578	0.43
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Number of Fully Diluted Shares (m)	1,329
Price / NAV (x)	0.17
Premium / Discount to current share price	-83%

Reserves and Resources	1C Gas (PJ)	2C Gas (PJ)	2P Gas (PJ)	3C Gas (PJ)	3P Gas (PJ)
ATP 854 P (Surat)	22	47	-	101	-
ATP 813 P (Galilee)	-	61	-	830	-
ATP 814 P (Bowen)	-	-	-	-	-
Sapphire	66	108	59	186	216
Central	50	99	12	306	75
Monslatt	-	619	-	2,054	-
Lancewood	5	23	-	435	1
South	15	27	-	30	6
Hillalong	-	182	-	237	-
Sub total	136	1,058	71	3,248	298
<b>Total</b>	<b>158</b>	<b>1,166</b>	<b>71</b>	<b>4,179</b>	<b>298</b>



Profit & Loss (A\$m)	2018A	2019A	2020A	2021E	2022E
Oil / Condensate Revenue	-	-	-	-	-
LPG Revenue	-	-	-	-	-
Gas Revenue	-	-	-	-	-
<b>Total Sales</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Operating Costs	-	-	-	-	-
Government Resource Taxes	-	-	-	-	-
Exploration & Development Expenses	(0)	(4)	(4)	(1)	(0)
Other Net Income / Expense	(2)	(2)	(1)	1	1
<b>EBITDA</b>	<b>(2)</b>	<b>(6)</b>	<b>(5)</b>	<b>0</b>	<b>1</b>
<b>EBITDAX</b>	<b>(2)</b>	<b>(6)</b>	<b>(5)</b>	<b>1</b>	<b>1</b>
Depreciation & Amortisation	0	0	0	0	0
EBIT	(2)	(6)	(5)	1	1
Net Interest Expense	0	0	0	0	0
<b>Pretax Profit</b>	<b>(2)</b>	<b>(6)</b>	<b>(5)</b>	<b>0</b>	<b>1</b>
Tax Expense / Benefit	-	-	-	-	-
<b>Net Attributable Profit</b>	<b>(2)</b>	<b>(6)</b>	<b>(5)</b>	<b>0</b>	<b>1</b>
Reported Profit	(2)	(6)	(5)	0	1

Cash Flow (A\$m)	2018A	2019A	2020A	2021E	2022E
<b>Pretax Profit</b>	<b>(2)</b>	<b>(6)</b>	<b>(5)</b>	<b>0</b>	<b>1</b>
D&A	0	0	0	0	0
Tax Paid	-	-	-	-	-
<b>Cash from Operating Activities</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>0</b>
Development Capex	-	-	-	-	-
Exploration Capex	-	-	-	(1)	(1)
Acquisitions/Other (Net of Sales)	-	0	-	-	-
Dividends Paid	-	-	-	-	-
<b>Free Cash Flow</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>0</b>	<b>0</b>
Cash Provided by Financing	2	4	1	-	-
<b>Net Change in Cash</b>	<b>0</b>	<b>2</b>	<b>(1)</b>	<b>0</b>	<b>0</b>

Balance Sheet (A\$m)	2018A	2019A	2020A	2021E	2022E
Cash & short term deposits	3	5	4	5	5
Receivables	0	0	0	0	0
Inventories	0	-	-	-	-
Property, Plant and Equipment	0	0	0	0	0
Capitalised exploration	66	62	59	59	59
Intangibles and Goodwill	-	-	-	-	-
Other assets	0	0	0	3	3
<b>Total assets</b>	<b>69</b>	<b>68</b>	<b>64</b>	<b>67</b>	<b>67</b>
Creditors	0	0	0	0	0
Borrowings	-	-	-	-	-
Other liabilities	1	1	1	3	3
<b>Total liabilities</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>3</b>
Shareholder equity	68	66	63	63	64
<b>Shareholder Equity + Total Liabilities</b>	<b>69</b>	<b>68</b>	<b>64</b>	<b>67</b>	<b>67</b>

Source: BLU, MST Access.

## Investment Thesis: Gas – Market Needs More, Government Wants More. BLU Has It – and Has the Skills to Deliver It

We believe BLU has the potential to become Australia’s leading mid-sized oil and gas exploration and production company.

The company’s strategy provides exposure to a well-balanced portfolio with proven basins, with a large gas resource and 2P reserves that are primed for commercialisation. Frontier basins provide exposure to longer-term growth. BLU is operator of all its assets and therefore controls its own destiny. 100% ownership of its assets adds flexibility around ownership structures and potential funding options. BLU has proven to be efficient with its capital, with ~90% of expenditure being spent in exploration and assessment, leading to low finding costs.

We value BLU at A\$0.20 – A\$0.46 and see significant upside as BLU works towards delivering gas to the undersupplied East Coast gas market.

### A Compelling Picture: Strong Assets, Skilled Management, Attractive Environment,

**Diversified asset base with strong production history: ready for commercialisation.** BLU’s diversified asset base is spread across five basins throughout Queensland and the Northern Territory (NT). The Bowen and Surat basins, both in Queensland, are home to BLU’s most advanced assets. Both basins have a strong history of gas production. A historical exploration programme of some A\$110m means BLU possesses a large reserves and resources base within these two basins. The resulting resource and reserve bookings have yielded one of the lowest “finding cost” metrics in onshore Australia.

BLU’s gas assets have high probability of near-term commercialisation. The North Bowen assets are development-ready, requiring only a 450km pipeline from Moranbah and the Wallumbilla interconnect. This pipeline will give North Bowen Basin gas access to the large East Coast gas market. The Federal Government is identifying priority pipelines and critical infrastructure as part of an inaugural National Gas Infrastructure Plan (NGIP) worth \$10.9m that will also highlight where the government will step in if the private sector doesn’t invest.

BLU has signed multiple HoA’s of 10–15 year periods, to supply gas from its Bowen Basin tenements north to the Townsville domestic market and to the southern markets. These HoA’s have been signed with Energy Australia and Origin, two of Australia’s largest wholesale and retail energy utilities, and Queensland Pacific Metals for their new Nickel refinery in Townsville.

BLU is seeking further southern offtake volumes to secure the economic underpinning for construction of a minimum 18” gas pipeline from Moranbah into the East Coast gas pipeline grid. Construction of this pipeline is essential for unlocking the estimated 15,000 PJ of gas resource in the North Bowen Basin and securing long-term gas supply for the domestic gas market.

**Management experience ideal.** BLU’s management team has ideal experience to execute the company’s strategy to deliver gas to the east coast market. Executive Chairman John Ellice-Flint joined BLU in 2012. Mr Ellice-Flint’s tenure as Santos CEO is widely seen as critical to the Santos’ success. Under his leadership, the Company commenced Gladstone LNG, the world’s first LNG project to utilise CSG. This was the catalyst for major structural change in Australia’s gas market as the Queensland LNG boom transformed the domestic market to one with tight supply with prices linked to global LNG. John Phillips, a 35 year oil and gas veteran, joined BLU in 2009 as COO and was appointed CEO in 2010. He has strong operational CSG and Conventional gas experience and has been instrumental in accumulating an outstanding asset base at BLU and overseeing a drilling programme that has booked significant resources.

**Market is primed for more gas; government policy is encouraging.** The East Coast gas market supply situation is deteriorating, and new supply is required in order to meet demand. In addition, the Federal Government is increasingly supporting the development of gas assets, seeing gas as the key fuel to sustain a post-COVID manufacturing recovery and transition to a lower-carbon economy.

Both the Bowen and Galilee basins are being specifically promoted by the government as long-term new gas supply regions for the East Coast gas market and these volumes are a key input to economic growth and power generation as part of the National Gas Infrastructure Plan.

## Corporate Profile

**Strong reserves and resources growth since maiden reserve in 2011.** BLU started out as a private petroleum exploration company with assets in several producing Australian basins. Listed in 2006, BLU has a history of strategically acquiring assets in proven basins, conducting drilling programmes and booking significant resources and reserves. BLU's maiden reserve was booked on ATP814P in the Bowen Basin in 2011 and the latest resource in 2019. The growth in reserves and resources in that period was significant.

**Commercial focus in recent years after strong exploration spend.** BLU's incumbent management team has seen around ~A\$110m spent on exploration and development. Over the last few years, BLU has focused on commercialising the gas and signing gas agreements.

See Appendix 1 for a full history of BLU.

## Recent Events: Closer to Commercialising as Government Steps Up Support for Gas

### 2021

- May: Federal Government commits A\$15.6m to gas appraisal projects in Bowen and Galilee basins
- May: National Gas Infrastructure Plan (anticipated completion by 3<sup>rd</sup> quarter 2021) incorporates North Bowen Basin gas resources into the national gas infrastructure priority spend for east coast supply
- May: Federal Government matches the \$5m Queensland Government expenditure for an economic feasibility study of the Moranbah – Wallumbilla Gas pipeline connection (due for completion 3<sup>rd</sup> quarter 2021).
- March: BLU and Origin Energy sign Heads of Agreement for up to 300 PJ of new long-term (10 year) gas supply

### 2020

- December: BLU and Energy Australia sign Heads of Agreement for 100 PJ of new long-term (10 year) gas supply
- October: BLU and Stanmore Coal sign MOU on fugitive gas emissions
- September: Federal Government targets fast-tracked domestic gas supply, with potential benefits for BLU given its gas assets in the Bowen, Galilee and Beetaloo basins
- August: Queensland Government commits to spend \$5m on Bowen Basin Gas Pipeline Study

### 2019

- November: BLU and Queensland Pacific Metals sign 15 year 112 PJ gas supply MOU for proposed Townsville Nickel refining project

## Potential Near-Term Catalysts and Timing

- Ongoing: Signing of further gas supply contracts
- Ongoing: Further government incentives to production eg single large gas diameter pipeline and underwriting gas contract commitments
- Q3 2021: Queensland and Federal Government feasibility study for Bowen pipeline south to market
- Q3 2021: Application for Federal Government grants for North Bowen drilling activity
- Q4 2021: Progress on pipeline link between Moranbah and the Gladstone/Wallumbilla interconnect

## Valuation – Multiple Scenarios – Range of A\$0.20-A\$0.46

We have developed several valuation scenarios including valuing production from the Sapphire Gas Project in the Bowen Basin, EV/Resources and recent acquisition comparatives. Our base valuation for BLU is A\$0.20 for the development of the Sapphire project in the Bowen Basin. **This valuation implies a BLU shareholder obtains this project at a significant discount and has exposure to the remainder of the BLU's significant resource base in Queensland and exploration potential in the Northern Territory for free.** The high side valuation of A\$0.46 is based on market average EV/ Resource multiples, demonstrating further upside.

The key risks to BLU relate to lack of development of pipeline infrastructure in the Bowen Basin and lack of completion of further gas sales agreements.

## Assets: Balanced Portfolio Creates Opportunity and Diversifies Risk

### Asset Overview: Good Likelihood of Success from Diversified Asset Base

BLU has accumulated a diversified asset base across several established and emerging basins, where management has extensive experience and deep knowledge. The Bowen Basin is the key shorter-term driver of BLU's value, BLU's assets are compatible with the company's stated strategy of focusing on both the northern and east coast gas markets. Most assets are near established infrastructure with the potential to lead to rapid commercialisation upon successful exploration and appraisal.

Apart from using its own work program to add value, BLU utilises adjacent competitor activity and results to enhance the value of its portfolio by targeting areas most like competitors' successful exploration or producing wells. This minimises the use of shareholder funds whilst maximising the benefit of competitor expenditure to BLU. BLU is focused on capitalising on significant gas demand along Australia's east coast amid a global background of increased energy needs. The overall probability of success has been heightened by BLU's strategic decision to spread its exploration and appraisal risk, rather than relying on a single asset.

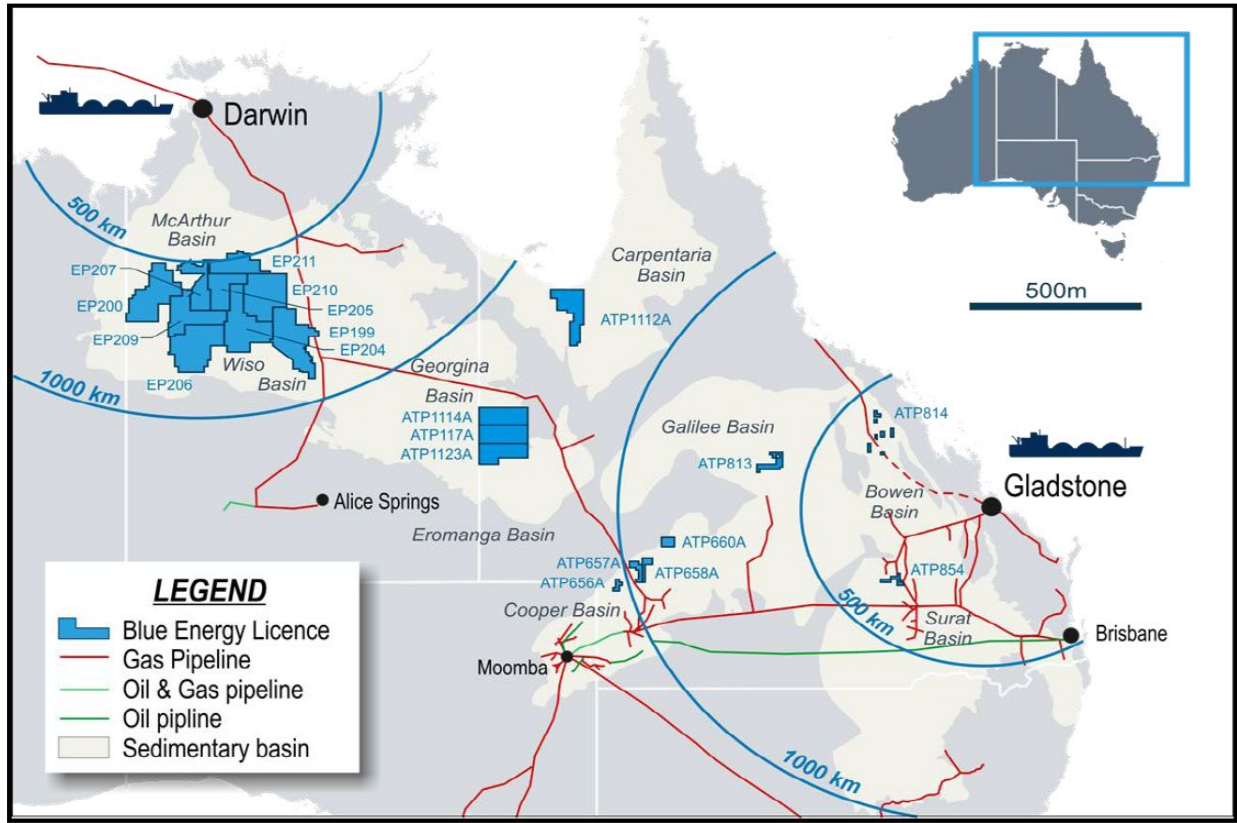
BLU will seek to continue to acquire projects in areas adjacent to established infrastructure. BLU's assets could appeal to potential partners and could be commercialised via a selldown to a JV partner as well.

Exhibit 2 – BLU asset summary

Asset	Targeting	Reserves / Resources	Holding	Status	Basin Production Status
ATP814P, Bowen Basin, QLD	Rangal Coal Measures, Fort Copper Coal Measures, Moranbah Coal Measures	<b>71PJ 2P and 298PJ 3P, 136PJ 1C, 1058PJ 2C and 3248PJ 3C</b>	100% (Operator)	Proven	Drilling undertaken focussed on the Sapphire Block. 3 HoA's for long term gas supply are signed. Additional long-term gas supply agreements with other domestic gas users are being sought. 3 Production Licence Applications lodged.
ATP854P, Surat Basin, QLD	Permian Bandana Coal Measures, Jurassic Walloon Coal Measures, Conventional Jurassic Oil (Precipice Sandstone)	<b>22PJ 1C, 47PJ 2C, 101PJ 3C</b>	100%	Proven	ATP 854 sits adjacent to the giant Fairview and Spring Gully CSG fields operated by GLNG and APLNG, with both fields having gas production from the Permian/Bowen Basin coals. Potential Commercial Area Applications (PCA's) over the Permit with the Queensland Government to secure these resources. Continued marketing of the gas resources to potential buyers.
ATP813P, Galilee Basin, QLD	Aramac Coal Measures, Betts Creek Beds, Hutton Sandstone	<b>62PJ 2C, 838PJ, 3C</b>	100%	Later Stage Emerging	PCA applications over the ATP813 permit remain with the QLD Department of Resources for grant. BLU have drilled 6 CSG coreholes in total.
Greater McArthur Basin, NT	Cambrian Shale sequence, Cambrian carbonate and clastic sequences, Proterozoic section		50% (post farm in)	Emerging	Early geological work has been conducted.
South Georgina Basin, NT/QLD Border	Cambrian-aged Arthur Creek Shale Formation, Thornton Limestone, Steamboat Sandstone		Preferred Tenderer at 100%	Emerging	Sparsely explored to date.
ATP1112A, Carpentaria Basin, QLD	Toolebuc Formation and Proterozoic / Cambrian		Preferred Tenderer at 100%	Emerging	Little exploration seismic or drilling.

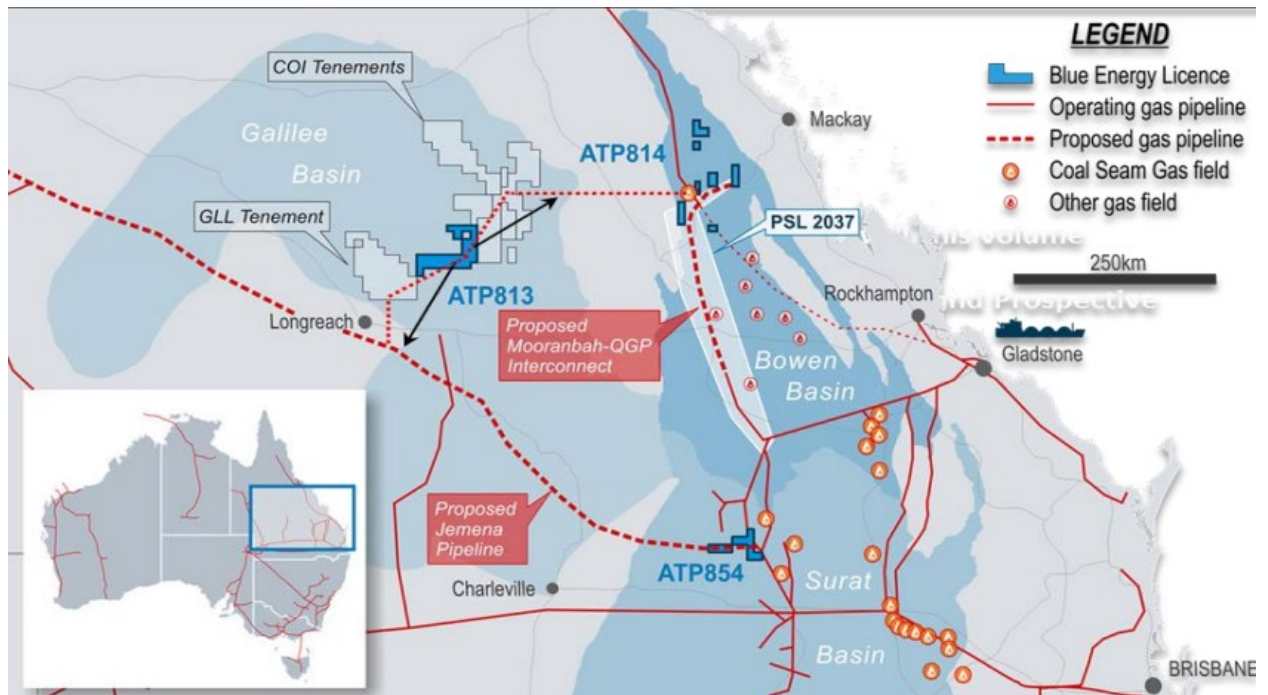
Source: BLU

Exhibit 3 – Location of BLU’s assets



Source: BLU.

Exhibit 4 – Pipeline routes impacting ATP854, ATP813, ATP814



Source: BLU.

## Bowen Basin, Queensland – ATP814 (BLU 100% and operator)

### BLU’s position

The world-class Bowen Basin, which has been recognised by the Federal Government as one of the target basins from which gas can be brought to the east coast, contains a large scale of resource at ~15,000 PJ.

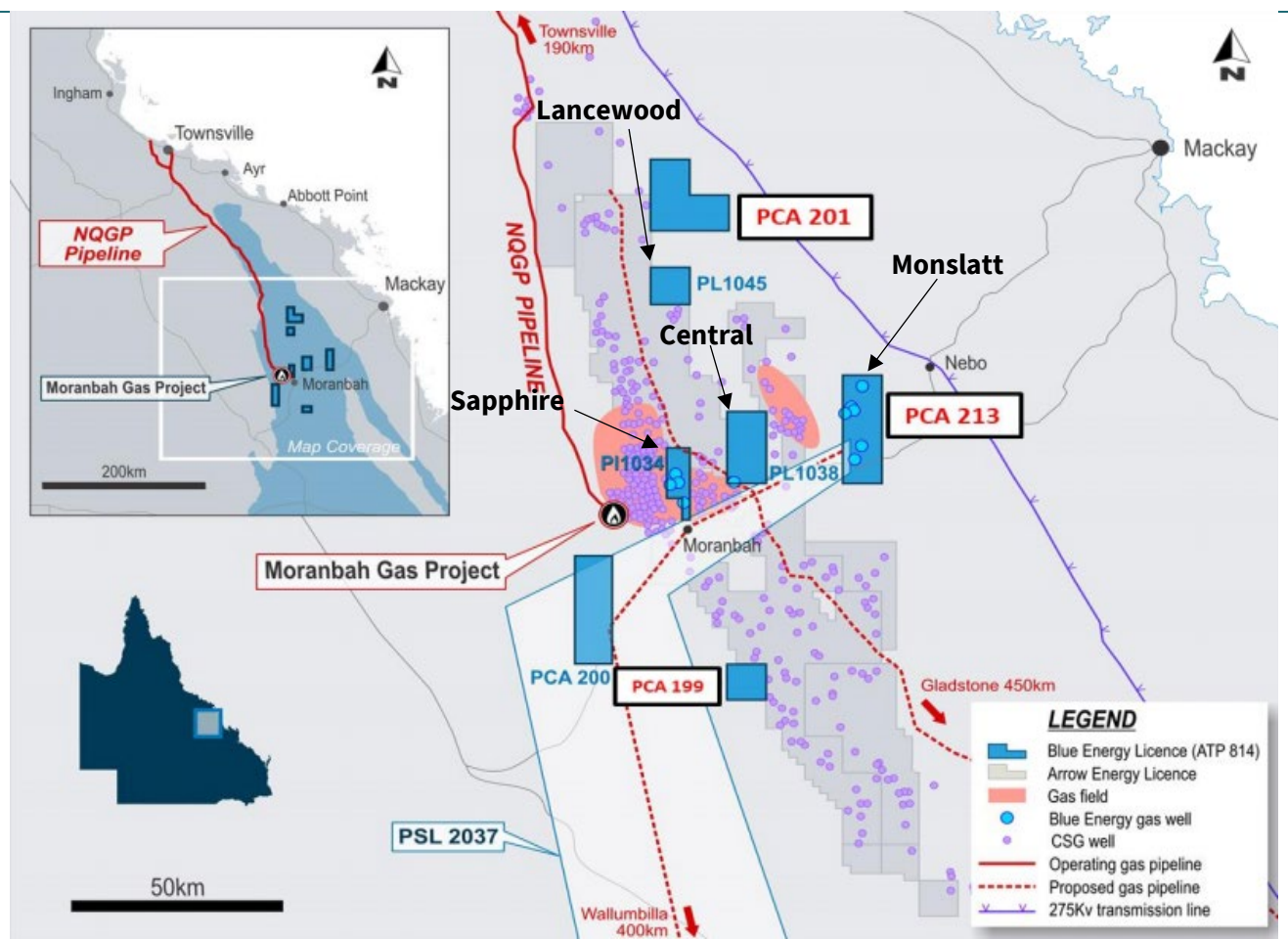
BLU’s holdings in the Bowen Basin total 1,116km<sup>2</sup>.

### Basic geology

All of the prospective geological sequences occur variously within the blocks comprising ATP814P. The key targets within BLU’s Bowen acreage are the Rangal Coal Measures, Fort Cooper Coal Measures and Moranbah Coal Measures in Permian Age coals at depths of around 600m–800m.

ATP814P consists of 7 disconnected blocks in the Bowen Basin in an area ranging from south of Moranbah to Newlands in the Northern Bowen Basin (see Exhibit 5). This general area is one of the largest coal mining areas in Australia.

Exhibit 5 – BLU’s Bowen Basin assets, Queensland

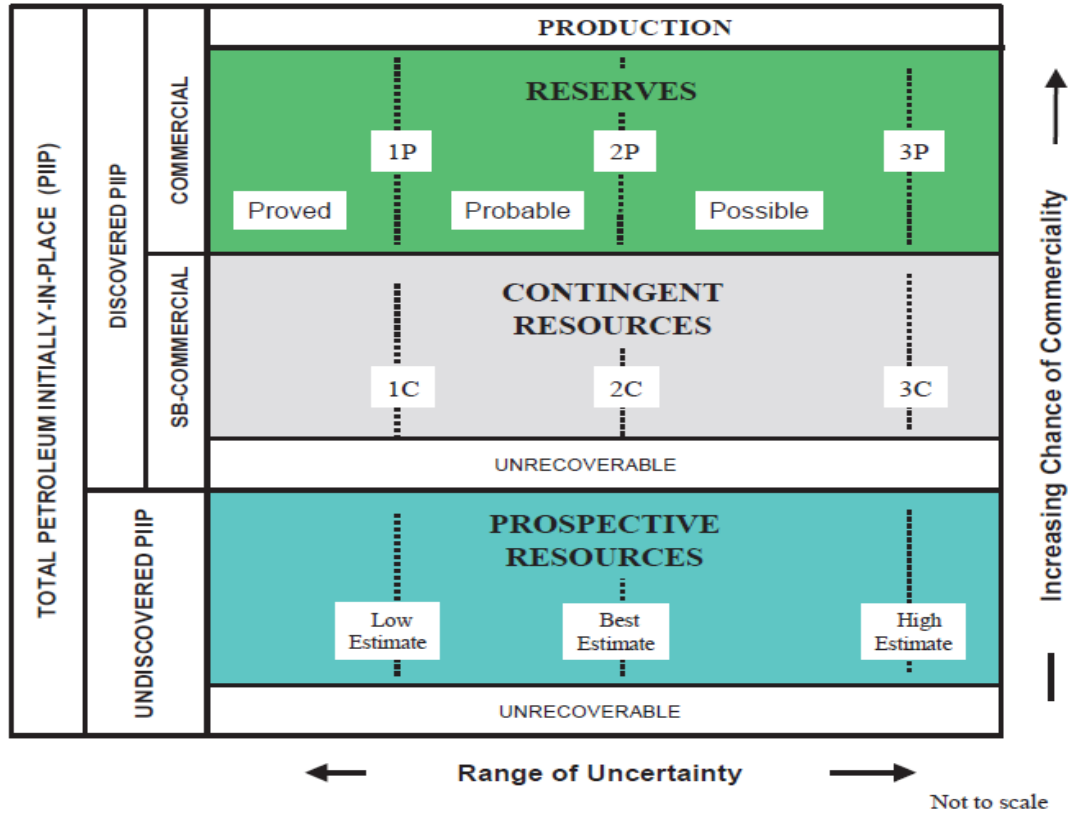


Source: BLU.

Reserves and resources

Reserves and resources are classified according to range of certainty and chance of commerciality. Exhibit 6 is a ‘ready reckoner’ that outlines the classification of reserves and resources.

Exhibit 6 – Classifying resources and reserves



Source: Industry

Drilling undertaken by BLU in the permit area has focused on the Sapphire Block which is flanked by Arrow Energy’s production licences. Activity on the flanks of the Sapphire Block has conferred 2P (59PJ) and 3P (216PJ) reserves. Adjacent activity by other operators in both the ATP814P South and Lancewood Blocks has also resulted in 3P reserves and contingent resources being conferred. BLU’s Bowen Basin reserves and resources are shown in Exhibit 7. **Further delineation will move the very large 3C Contingent Resource (3,248 PJ) into 2P reserves.**

Exhibit 7 –BLU’s Bowen Basin reserves and resources – estimates by blocks

Permit	Block	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP814P	Sapphire	66	59	108	216	186
ATP814P	Central	50	12	99	75	306
ATP814P	Monslatt	-	-	619	-	2,054
ATP814P	Lancewood	5	-	23	1	435
ATP814P	Hillalong	-	-	182	-	237
ATP814P	South	15	-	27	6	30
<b>Total (PJ)</b>		<b>136</b>	<b>71</b>	<b>1058</b>	<b>298</b>	<b>3248</b>

Source: BLU.



### Infrastructure

There is established CSG production in the vicinity of ATP814P, most notably the Moranbah Gas Project, operated by Arrow Energy (a joint venture of Shell and PetroChina). Arrow's field has been extensively drilled and developed and has been a major supplier to Townsville since 2005 (via a small pipeline going north).

Arrow Energy has expressed aspirations for the Moranbah Gas Project to supply gas to the Gladstone LNG projects and the east coast gas market. Consequently, the area surrounding ATP814P is subject to high levels of drilling activity and infrastructure development. Arrow has received all government approvals for the gas development and export infrastructure from Moranbah to Gladstone and is currently undertaking a front end engineering and design study ahead of final investment decision for the project. This project is important to BLU's commercialisation strategy in ATP814P.

The developed characteristics of BLU's most advanced project will allow it to make a long-term difference to the supply of new gas into the east coast domestic gas market.

### Route to market

BLU is continually seeking additional gas offtake volumes to economically underpin the construction of an 18" gas pipeline from Moranbah into the east coast gas pipeline grid.

The company has agreements in place for the long-term supply of up to 505 PJ of gas from its Bowen Basin tenure, representing 15% of BLU's total North Bowen Basin Gas Resource.

Important recent milestones are:

- an agreement with APA Group to investigate building, owning and operating a gas pipeline to connect BLU's Sapphire/Monslatt CSG fields, to tie in to APA's network running into Gladstone. The MoU includes the option for APA to build, own and operate specific gas processing facilities in the field
- an MoU with Townsville gas consumer Queensland Pacific Metals for the supply of 7 PJ of gas p.a. for 15 years for a proposed battery metal refinery in Townsville, to be sourced from BLU's Sapphire Block. Total contract volume is up to 105 PJ
- an MoU with the Northern Queensland Gas Pipeline (NQQP) to transport gas from ATP814P to Townsville.
- non-binding HoA with Origin Energy for gas supply to Wallumbilla. The agreement is for the supply of up to 30 PJ of gas p.a. for 10 years (300 PJ total)
- non-binding HoA with Energy Australia for the supply of 100 PJ of gas at Wallumbilla over 10 years from BLU's Northern Bowen Basin ATP814 coal seam gas tenure.

### Recent history

- The 2021 Budget included \$14.6m (net) in new grant money for gas appraisal work in the North Bowen Basin.
- Additionally, the 2021 Budget included a \$5m commitment from the Federal Government to match Queensland's Government Expenditure for the PFS of a single large-capacity gas pipeline from Moranbah in the North Bowen Basin.

## Surat Basin, Central Queensland – ATP854 (BLU 100%)

### BLU’s position

BLU’s Surat tenements (APT854) is another 100%-owned asset sitting in a proven basin. The Surat’s strategic location is key as it is near production and infrastructure. BLU’s tenements cover 828km<sup>2</sup>.

### Basic geology

The key targets are the Permian Bandanna Coal Measures, Jurassic Walloon Coal Measures, and Conventional Jurassic Oil (Precipice Sandstone). An oil exploration well has been drilled and flow tested.

### Reserves and resources

Initial exploration had a strong focus on the two distinct CSG opportunities: the Walloon Coal Measures which are productive to the south on the Undulla Nose and the Roma Shelf, and the Permian Baralaba Coal Measure Play, which is productive at Fairview and Spring Gully. Recent exploration has been conducted by a neighbouring tenement holder (GLNG) on the north-eastern boundary of the permit. As a result of this exploration, gas production has occurred from the Permian coals at the Glen Rock pilot wells.

Exhibit 8 – BLU’s Surat Basin reserves and resources

Permit	Block	Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P	Surat	19/03/2013	-	22	-	47	-	101

Source: BLU.

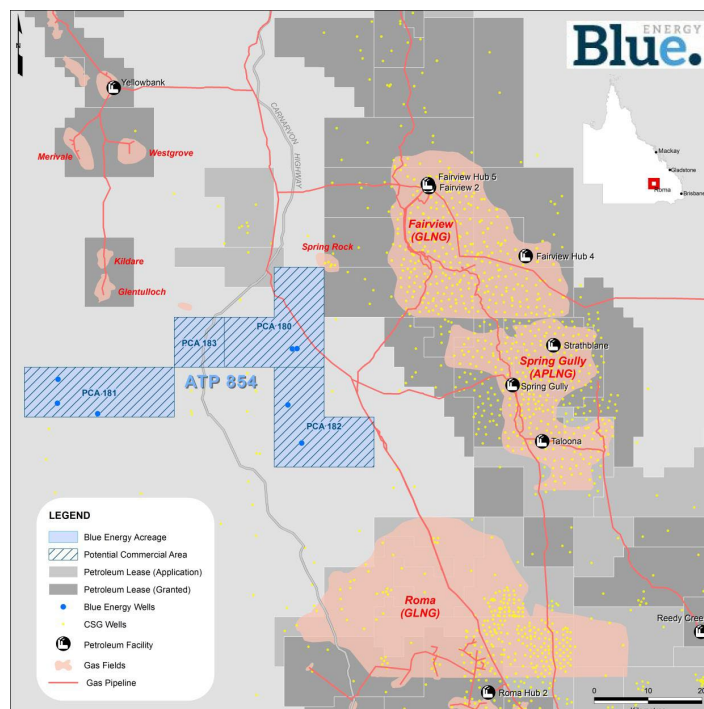
### Infrastructure – strategically positioned

ATP854 is located near the township of Injune in central Queensland. Importantly, the asset features an intersection of the Wallumbilla (Gladstone gas pipeline) through the acreage. The intersection of the pipeline through the eastern portion of the permit will easily allow any gas discovered to be transported through to either Gladstone or to the east coast gas market.

### Route to market

BLU has lodged Potential Commercial Area (PCA) applications over the permit with the Queensland Government to secure these resources. Award of these PCAs will allow work to be undertaken to grow the gas reserve and resource base in parallel with the continued marketing of the gas resources to potential buyers and in the context of existing and proposed pipeline infrastructure.

Exhibit 9 –BLU’s Surat Basin Assets – Surrounded by Infrastructure



Source: BLU.

## The Galilee Basin, Central Queensland – ATP813 (BLU 100% and operator)

### BLU’s position

BLU’s Galilee tenements (APT813) is another 100%-owned asset sitting in an emerging basin. The Galilee has a huge potential resource base, little gas infrastructure and relatively remote, compared to the developed basins such as Bowen and Surat. BLU’s tenements cover 4,158km<sup>2</sup>. The Galilee Basin, unlike the Bowen and Surat Basins, does not have existing gas production. BLU’s PCA applications over the ATP813 permit remain with the Queensland Department of Resources for granting.

### Basic geology

The key targets are the Aramac Coal Measures, Betts Creek Beds and Hutton Sandstone, which have coal seams with thickness of 15m–20m. BLU is one of three ASX-listed companies that are dominant acreage holders in the basin. The neighbouring operators, Galilee Energy and Comet Ridge, have been drilling and appraising in recent years. Galilee Energy continues to conduct production operations on its Glenaras CSG pilot testing project. CSG and conventional gas exploration continues today using modern drilling techniques to unlock resources.

### Reserves and resources

Positive results of the Carolina 1 well (drilled in 2008) encouraged BLU to embark on an expanded CSG exploration program to assess the potential of the Late Permian sequence. BLU has drilled a total of six CSG coreholes in the permit (from 2008–2013), resulting in ascribed contingent resources of 838 PJ (see Exhibit 10).

Exhibit 10 – BLU’s Galilee Basin reserves and resources

Permit	Block	Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP813P	Galilee	31/10/2014	-	-	-	62	-	838

Source: BLU.

### Infrastructure – Galilee is relatively remote

The lightly explored Galilee basin contains one of the largest potential coal reserves on the planet. Galilee does not have a history of gas production. Small explorers have been the key to exploration activity in the basin and the progression of prospective resources to contingent resources. There are currently no 2P reserves identified in the basin.

### Route to market – pipeline proposed

In 2019, pipeline company Jemena proposed a pipeline to connect Mt Isa to the Northern Gas pipeline via the Galilee Basin. This would be a key to opening up the Galilee Basin to east coast gas markets.

### Recent history – Federal Government identifies Galilee as a key basin

The Federal Government has implemented a gas-led manufacturing plan in order to re-build manufacturing post-COVID.

The Australian Government will provide competitive grants to support gas field trials in the Galilee Basin. The trial will aim to improve geological understanding of the region, overcome drilling challenges and determine gas flow rates, in order to attract customers and enable producers to enter into contracts.

The government’s assistance will assist in accelerating the Galilee towards being a supplier of gas to the market.

## Greater McArthur Basin, Northern Territory (BLU 50% post farm in)

### BLU's position

BLU's position in the Northern Territory (NT) commenced in 2013 when they "farmed-in" to nine contiguous exploration blocks in the Wiso Basin, part of the Greater McArthur Basin. BLU's current working interest is 10% and will earn up to 50% via funding staged work programs. Six of the nine blocks are under application. BLU has completed a regional gravity and aeromagnetic mapping project to understand the basin architecture. The company's holdings are 111,887km<sup>2</sup>.

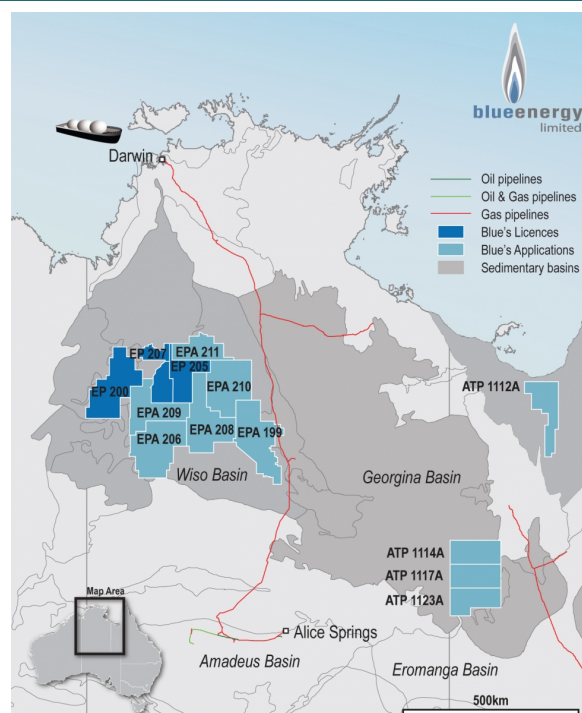
The 2016 fracking moratorium imposed by the NT Government paused all corporate activity within the region. The Scientific Inquiry into Hydraulic Fracturing in the Northern Territory released its report in March 2018. The report's recommendations were accepted and the moratorium on unconventional shale gas developments in the NT was lifted. However, although the moratorium has been lifted, field work is yet to resume.

Recent activity in the basin by BLU involved the company's successful request for a further 12-month suspension of its work programs for its current granted permits in the NT. The extension was necessary due to the lengthy delays experienced due to the impact of COVID-19 on matters such as remote community access. This severely impeded on the work of specific regulatory bodies on approval processes needed prior to on-ground activity. Also, BLU is actively pursuing Land Access Agreements with pastoralists/landowners in EP200, 205, and 207 as part of the approval process for future seismic acquisition activity. The attainment of a community license and other required NT Government exploration activity approvals remains a priority for BLU as it continues to engage with the Aboriginal Land Councils, traditional owners, pastoral landowners, government departments and other community stakeholders on the outstanding application areas.

### Basic geology

The Northern Territory is considered to be highly prospective for oil and gas. There is a long history of conventional oil and gas production from the Amadeus Basin west of Alice Springs (now operated by Central Petroleum). The Greater McArthur Basin sits north of the Amadeus Basin. The Geology generally consists of a Cambrian aged sequence of carbonates clastics and extrusive volcanics overlying the more prospective Proterozoic aged sequence containing the highly prospective organic rich marine shales of the Beetaloo sub-basin section. The Beetaloo sub basin within the Greater McArthur and northeast of the Wiso Basin has attracted large exploration investment from Origin, Santos, Empire Energy and Tamboran Resources and has demonstrated proof of concept of a viable oil and gas basin with potential for gas flows. It is now in the stage of establishing its economic viability. It has the potential to develop into a world class oil and gas basin.

Exhibit 11 – Greater McArthur Basin, Northern Territory



Source: BLU.

**Reserves and resources**

Currently there are no reserves or resources booked in BLU’s Wiso Basin assets.

**Infrastructure – Northern Gas Pipeline**

The Wiso Basin has the Mereenie-Darwin gas pipeline and Alice Springs - Darwin rail line running down its Eastern Flank. This part of the Northern Territory is completely undeveloped, however the Amadeus Basin, south of BLU’s holdings has connection to the East Coast gas market via the Jemena owned and operated Tennant Creek to Mt Isa Northern Gas Pipeline.

**Route to market – some work to do**

As activity in the NT begins to ramp up, BLU must acquire all compulsory permits before it explores further.

**Recent history**

**Federal Government identifies the NT as key for gas supply.** The Federal Government has identified the Beetaloo Basin, part of the Greater McArthur Basin, as a priority development to address domestic gas shortfalls by 2024. Although this is not directly part of BLU’s NT assets, this shows the significant interest in the NT. We believe the potential to develop the Wiso may well be accelerated via the investment into the Beetaloo.

The Beetaloo Strategic Plan involves investment of approximately \$220m with actions across the following areas:

- building a clear picture of the Beetaloo through exploration and identifying the resource
- regulating efficiently and effectively through environmental research and assessments
- enabling infrastructure through public road funding, midstream pipelines and project financing
- sharing regional benefits through Indigenous support.

Exhibit 12 – Government’s Accelerated Plan for the Beetaloo Basin



Source: Federal Government.

In December 2020, the Government announced \$50m in incentives under the Beetaloo Cooperative Drilling Program to support \$200m of exploration activity by the end of June 2022. This aims to fast-track exploration with grants for 25% of eligible exploration costs. Other initiatives include enabling key infrastructure projects such as pipelines and assisting with infrastructure financing. Currently there is work being done on the roads to improve all-weather access.

Overall, the strategic plan aims to accelerate the development stages for final investment decisions by 2025 or earlier. Without the plan, current industry analysis to date suggests exploration would be finalised by 2023 before the appraisal stages occur over another four years, which would mean investment decisions are potentially not made until around 2027.

**Corporate activity in the Greater McArthur Basin.** Recent transactions have also reignited activity within the basin. Empire Energy Group recently acquired Pangaea Resources’ NT acreage for cash and scrip with a value amounting to ~A\$54m, for acreage in the Beetaloo and McArthur basins. This was followed by a similar transaction by Empire for the remaining equity (17.5%) in those same permits held by Energy & Minerals Group of Houston, and on similar terms. The acreage acquired is adjacent to BLU in the south. The transaction includes ~148 Bcfe of gas and equates to ~37c/GJ for 2C gas.

In December 2020 transaction Tamboran Resources Limited acquired Sweetpea Petroleum to gain 100% equity in several Beetaloo sub-basin tenements previously held in joint venture between the two companies. The recent aggressive plays in attempt to obtain assets in the NT demonstrates its future potential.

## Management: BLU's Leaders Well Positioned to Execute the Strategy

BLU is in a critical stage of development as it goes through the commercialisation process, requiring further gas sales agreements and a pipeline to connect new North Bowen Basin gas supply to the undersupplied east coast gas markets. The quality and experience of management is the key driver for delivery of the strategy. We believe that the depth of experience of the management team within BLU is rare for a small exploration and development company, positioning BLU for success as it transitions from exploration and development through to production.

Management has extensive knowledge as well as a history of proven success in the regions where the company's assets are located and a proven track record in relation to asset acquisition, development, commercialisation and corporate activity. The Executive Chairman (John Ellice-Flint) and CEO (John Phillips) bring extensive experience to their roles and reinforce BLU's position as a viable commercial and operating partner.

### John Ellice-Flint – Executive Chairman

John Ellice-Flint, BLU's Executive Chairman since 2013, has over 40 years of exploration, production, operations and commercial experience in the oil and gas industry and has held multiple senior positions with multinational exploration and production companies.

Mr Ellice-Flint served as the CEO of Santos, Australia's largest domestic gas producer, in 2000–2008. During this time, he recognised CSG as a genuine source of gas and as an alternative to conventional gas sources. This was the beginning of a major structural change in Australia's gas market, as the Queensland LNG boom changed the low-priced, oversupplied domestic market into one with tight supply and demand fundamentals and prices linked to global LNG.

Mr Ellice-Flint guided Santos through a major growth period both onshore and offshore which culminated in the development of the Gladstone LNG export project in Queensland. The subsequent growth in the Queensland LNG industry has been immense and has involved Shell, CNOOC, Origin, Santos, Petronas, KOGAS, Conoco Phillips and Sinopec. Queensland LNG exported 22 million tonnes or 340 shiploads of LNG in 2020.

In our view, Mr Ellice-Flint's experience, connections and intimate knowledge of the Australian gas market and its major participants is key to the success of BLU and the implementation of its gas commercialisation.

### John Phillips – Managing Director

BLU's CEO, John Phillips, is a petroleum geologist with over 35 years' experience in the oil and gas industry. In May 2009, Mr Phillips joined BLU as Chief Operating Officer and was promoted to CEO in April 2010. He joined the board of BLU in June 2010. Mr Phillips' career has spanned both conventional oil and gas and CSG both domestically and internationally. He has accumulated extensive operational experience through his involvement with Delhi Petroleum, Esso, Conoco, Petroz and Novus, and was Chief Operating Officer of Sunshine Gas (which eventually became QGC / Shell).

Mr Phillips has been instrumental in driving BLU's asset acquisition, drilling programmes, reserves and resources development and commercialisation platform. We believe that his intimate knowledge of CSG, experience in the Australian gas market and detailed knowledge of BLU's asset base ensures the company is well placed to take the next step to commercialise its gas assets.

## Federal Government Backs Gas

### Federal Government Committed to Gas as a Key transition Fuel

The Federal Government has identified gas as a key to re-establish a strong economy, making energy affordable for families and businesses and supporting jobs as part of Australia's recovery from the COVID-19 recession.

The Government plans to reset the east coast gas market and create a more competitive and transparent Australian Gas Hub. I will do this by unlocking gas supply with an efficient pipeline and transportation market, and by empowering gas customers. The Government's plans include:

- unlocking five key gas basins starting with the Beetaloo Basin in the NT and the North Bowen and Galilee Basin in Queensland, at a cost of \$28.3m for the plans
- identifying priority pipelines and critical infrastructure as part of an inaugural National Gas Infrastructure Plan (NGIP) worth \$10.9m that will also highlight where the government will step in if the private sector doesn't invest
- reforming the regulations on pipeline infrastructure to promote competition and transparency
- improving pipeline access and competition by kick-starting work on a dynamic secondary pipeline capacity market
- establishing an Australian Gas Hub at the nation's most strategically located and connected gas trading hub at Wallumbilla in Queensland to deliver an open, transparent and liquid gas trading system.

Gas supports the manufacturing sector, which employs over 850,000 Australians and is an essential input in the production of plastics for PPE and fertiliser for food production. In 2019, Australia was the largest exporter of LNG, with an export value of \$49 billion.

Gas is part of the Government's plan to reduce emissions without imposing new costs on households, while at the same time creating jobs, growing businesses and the economy. The Government has also released the interim National Gas Infrastructure Plan in which it provides a blueprint of infrastructure requirements for Australia's east coast gas market to 2027.

### 2021-22 Budget Announcement – Outstanding Support for Bowen Basin

The Federal Government has committed \$58.6m in funding in the 2021-22 Budget to continue to advance the work of its gas-fired recovery. This includes:

- \$38.7m of early works support for critical gas infrastructure projects
- \$3.5m for the development of a long-term Future Gas Infrastructure Investment Framework
- \$4.6m to develop initiatives that empower gas reliant businesses to negotiate competitive outcomes, which includes developing a voluntary standardised contract framework with industry
- \$6.2m to design, consult and implement reforms to continue accelerating the development of Wallumbilla as Australia's Gas Supply Hub
- \$5.6m to develop a further National Gas Infrastructure Plan for 2022.

Within the Budget, the Government will provide the east coast gas market with an additional \$15.7m over three years to support gas industry field appraisal trials in the North Bowen and Galilee basins. The grant will be directed specifically at field trials that improve the geological understanding of the region, address any technical drilling challenges, and better determine gas deliverability rates. The attraction of new investment and enabling companies to enter into supply contracts with gas consumers is the next step.

The Federal Government is also committing A\$5m to match Queensland Government expenditure 1:1 for the pre-feasibility study of a single large-capacity gas pipeline from Moranbah in the North Bowen Gas Basin to connect to the existing east coast gas grid.

These 2021 Budget measures further highlight the importance of the North Bowen Basin Gas Province as a solution to the east coast supply shortfall, and also demonstrate commitment by Governments to the North Bowen Basin.

The North Bowen Basin is particularly important due to the following characteristics:

- It has a large-scale gas resource – 15,000 PJ of gas resource already identified.
- It has been in production (servicing the local Townsville market with a small-diameter pipeline) for over a decade.
- It has been geologically de-risked by hundreds of CSG wells, extensive coal mine drilling data and degassing operations and the decade-long history of continuous gas production.
- It is development-ready and only requires a pipeline link to the southern markets.
- With an aggressive build schedule, gas could be flowing to east coast customers well before 2026. The completion of the final National Gas Infrastructure Plan will see incorporation of the North Bowen Basin gas resources into the national gas infrastructure priority spend for east coast supply.

## The East Coast Gas Market: Potential shortfall in supply

### Market Context: Tight Supply – How did it Get Here?

**Less exploration of remote/lesser-known basins in recent past...** Rising oil prices in the decade to 2014 stimulated significant oil and gas industry investment, including the development of LNG infrastructure in Australia, with six LNG trains constructed in Queensland. However, when oil prices collapsed in 2014, the oil and gas industry aggressively cut costs, shed assets and deferred and development drilling, and in particular the exploration of more remote and poorly explored basins faltered.

**...while gas prices rose and supply tightened.** The ramp-up of LNG capacity and demand for gas from Australia caused a structural change in the eastern Australian gas market, leading to a pressure on domestic gas supply to east coast gas users and upward pressure on domestic gas prices. The supply tightness in Australia's east coast gas market was (and remains) exacerbated by the policy by various state governments in relation to restricting land access for petroleum exploration and ever-increasing regulatory restrictions.

### Supply-Side Shortage

The story of the lack of supply for natural domestic gas to Australia's east coast is very well known – limited production with constrained pipeline capacity exacerbated by additional demand from the existing LNG plants.

In its recent gas inquiry, the Australian Competition & Consumer Commission (ACCC) forecast potential for a domestic gas supply shortfall of 30 PJ pa to emerge as early as 2024 before a much greater potential shortfall of 358 PJ pa in 2032.

Supply is easier to forecast than demand and it looks limited, due to:

- Declining production in Queensland (QLD): CSG for LNG, is
  - a) experiencing higher rates of decline than originally forecast, and unlikely to change unless new sources of gas are discovered; and
  - b) given lower gas prices recently, producers are now projecting a slower development schedule.
- Declining production in Victoria (VIC): VIC's previous excess production of gas, which previously supplied Tasmania, New South Wales (NSW) and South Australia (SA), will decline if no new reserves or resources are developed, which means customers will need to source more gas from the northern states/territories.
- Pipeline constraints: These will limit the amount of supply that can go south.

On the positive side, Andrew Forrest is involved with the Australian Industrial Energy's (AIE's) commitment to the Port Kembla Gas Terminal (PKGT) in NSW. The LNG import terminal is estimated to inject up to 500 TJ /d into the domestic market, namely NSW and VIC, to aid with extreme winter electricity peaks and offset the declining VIC production. First gas is expected in 2023. This development comes with risks, particularly on timing.

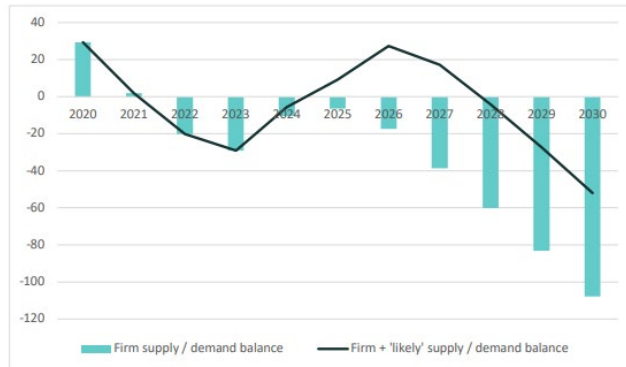
While new gas supplies will help improve the adequacy of supply, they are likely to be more costly than existing production given the cost to discover and develop.



## Demand – LNG Trends Drive the Big Picture

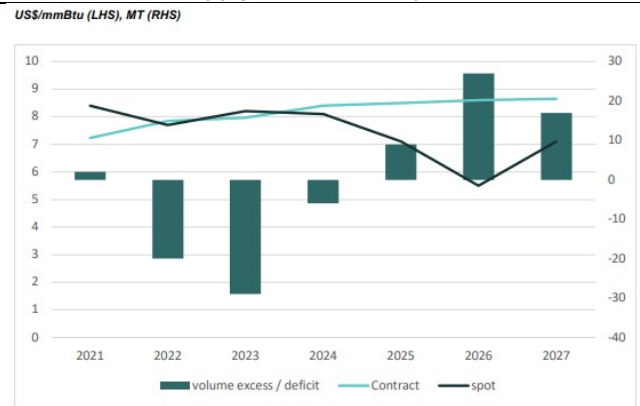
Global LNG markets remain supply constrained from new projects lacking economic return hurdles, in the face of continuing demand growth. MST resident Global LNG specialist, David Hewitt, expects the global LNG market to be in undersupply near term, and oversupply from 2025 onward. But, as we have seen many times through history, supply typically comes in under expectations given the huge size, cost and coordination required for these projects. As such, an undersupplied market is likely to remain for longer.

Exhibit 13: LNG supply–demand



Source: MST Marquee.

Exhibit 14: LNG supply–demand and price

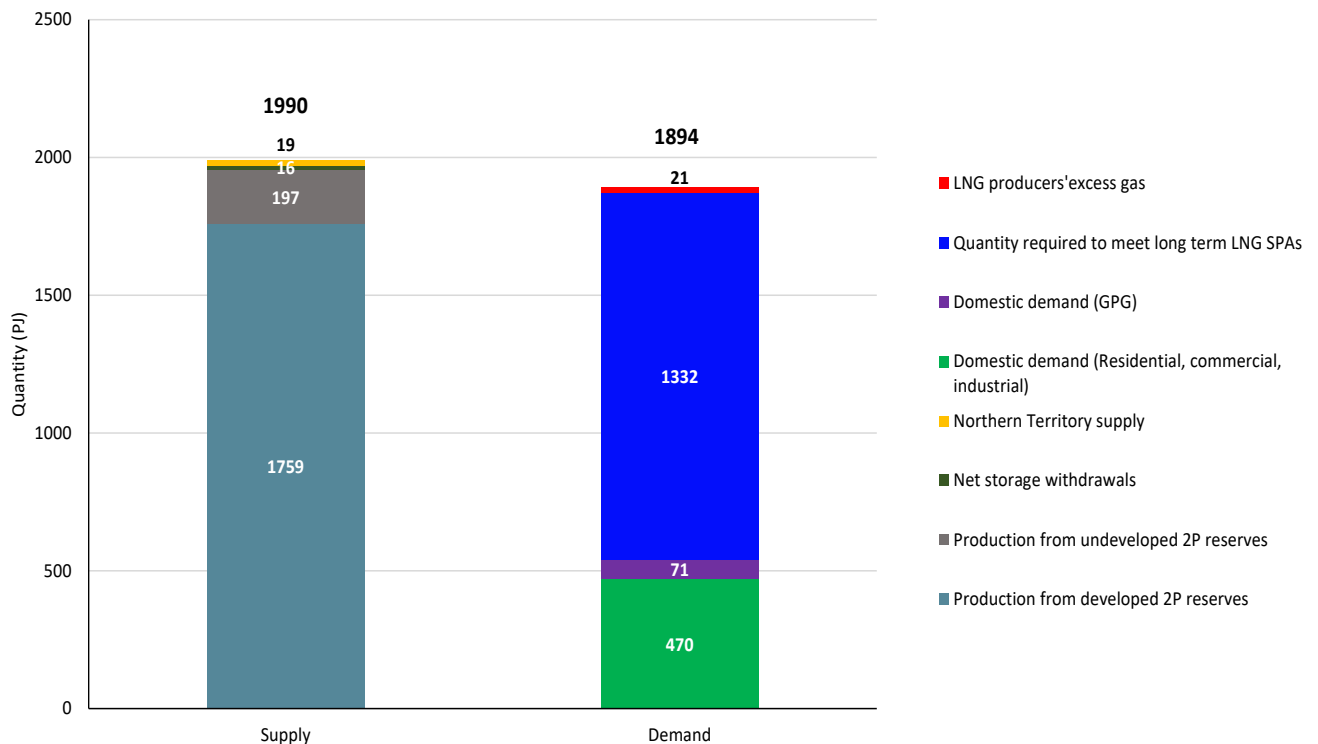


Source: MST Marquee.

Demand is largely driven by long-term LNG contracts with export demand the incremental swing factor.

- Domestic demand from residential, commercial and industrial consumption has remained reasonably consistent and, according to the Australian Energy Market Operator (AEMO) forecasts, is expected to remain so.
- The focus on renewables, while targeted to have a negative impact on gas demand longer term, will result in a more ‘peaky’ gas demand profile with greater value placed on flexible supplies.
- In 2021, supply is forecasts to slightly exceed demand on the East Coast

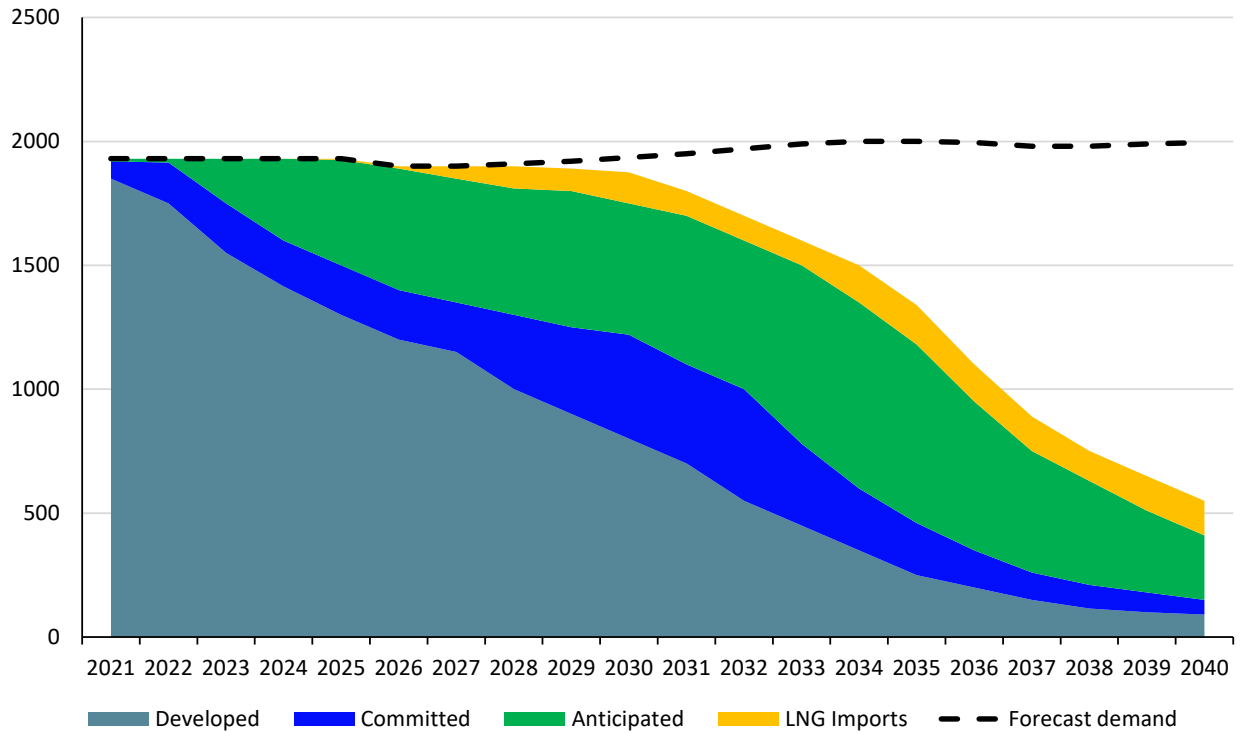
Exhibit 15 – 2021 east coast gas: supply and demand



Source: ACCC Gas Inquiry 2021.

Without LNG imports, there is forecast, gas shortages are forecast to emerge in 2026.

Exhibit 16 – 2022–2032 east coast gas supply and demand

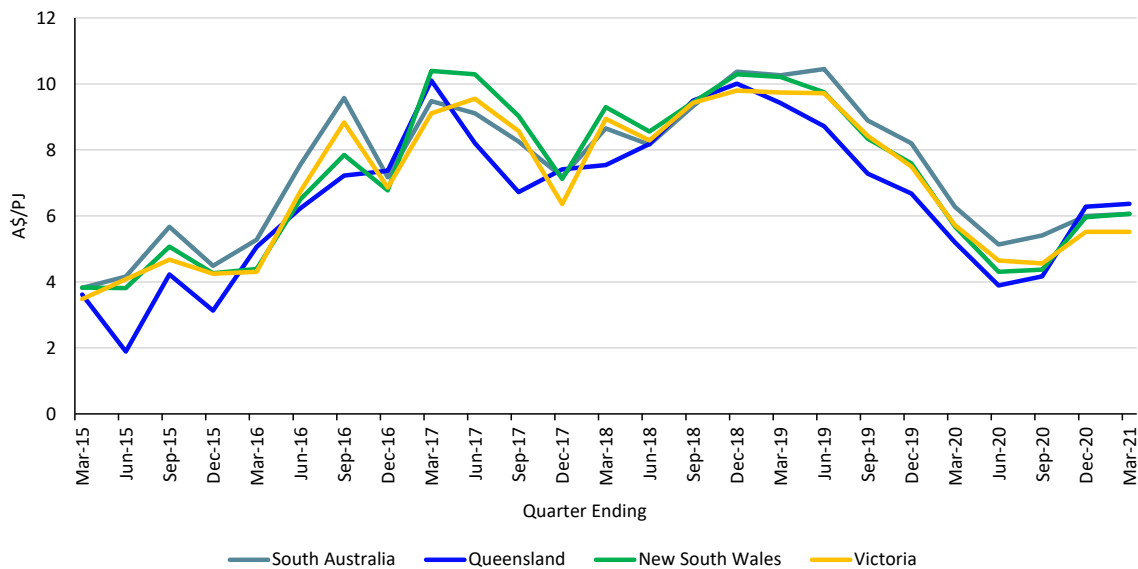


Source: ACCC Gas Inquiry 2021.

## East Coast Gas Pricing – Spot and Contract

Spot contract prices weakened last year off the back of Covid, however have strengthened as demand has recovered and LNG prices spiked in the Northern hemisphere driving a higher LNG netback price.

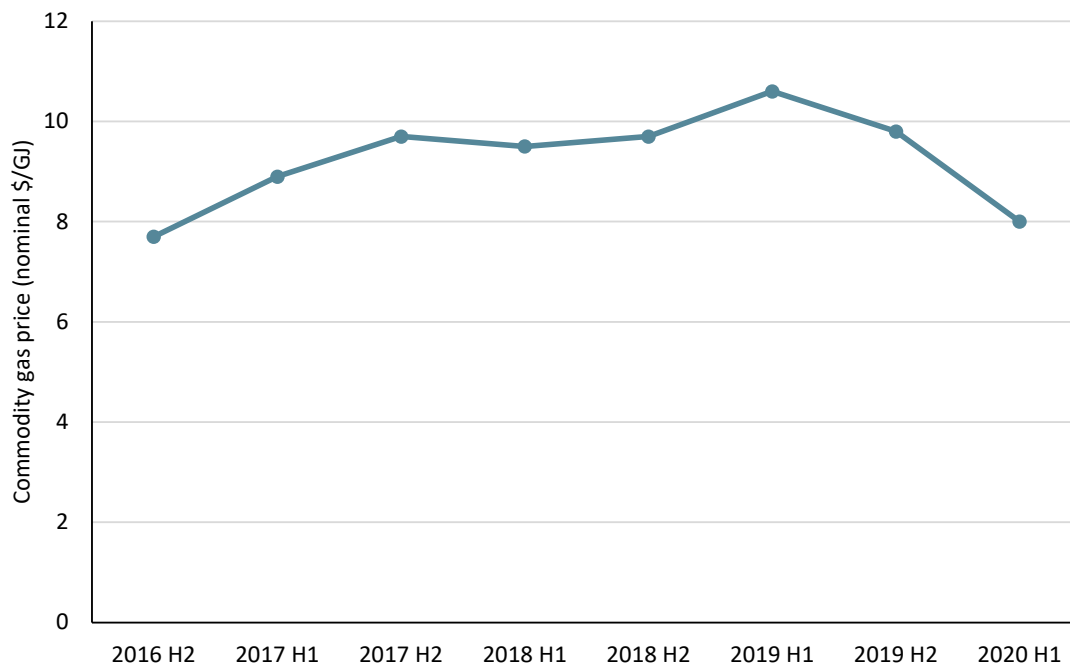
Exhibit 17 - Spot domestic gas prices



Source: AER

Contract gas prices have followed spot prices down, however as noted above, spot prices have recovered in the second half of 2020 and into 2021.

Exhibit 18 - Contracted domestic gas prices



Source: AER

## LNG Netback – Volatile, But Prices on the Up

### What is the LNG netback price?

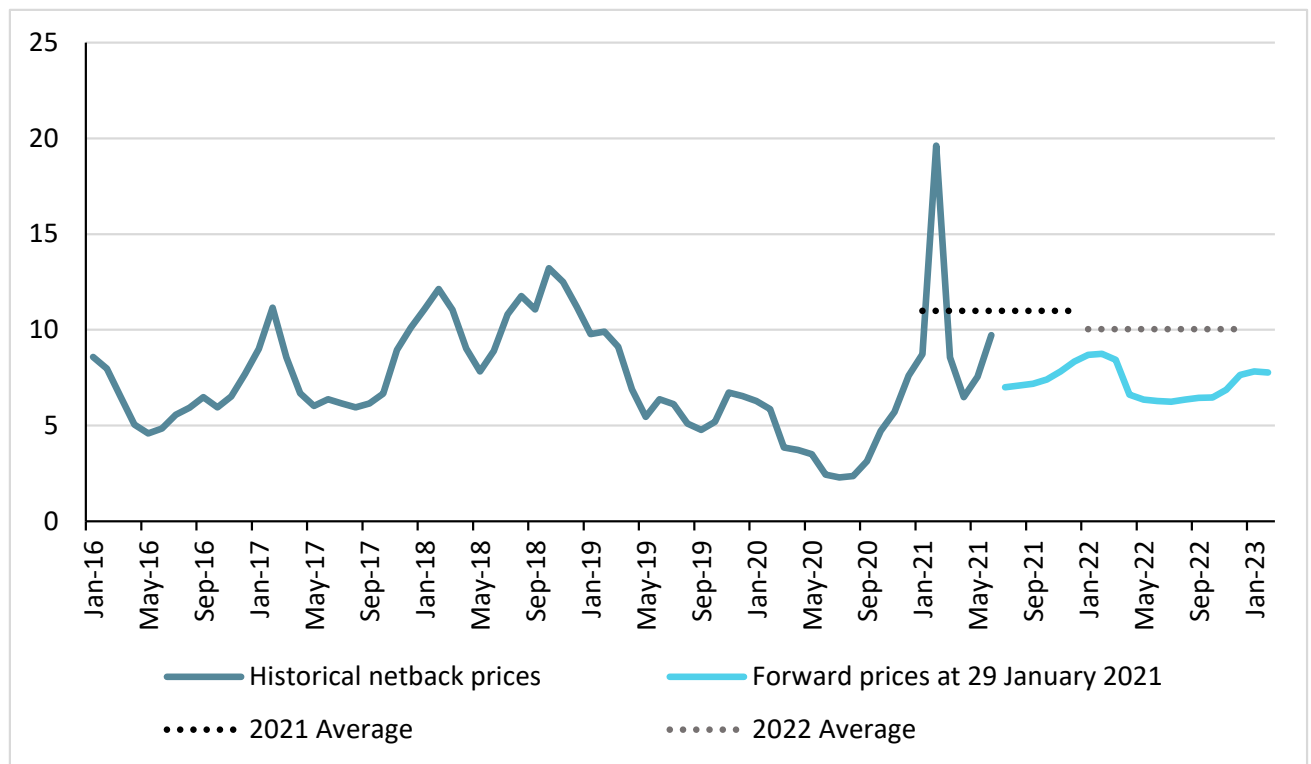
The LNG netback price is a measure of an export parity price that a gas supplier can expect to receive for exporting its gas. It is calculated by taking the price that could be received for LNG and subtracting or ‘netting back’ the costs incurred by the supplier to convert the gas to LNG and ship it to the destination port. When adjusted for these factors, an LNG netback price represents the price that a gas supplier would expect to receive from a domestic gas buyer so as to be indifferent to selling the gas to the domestic buyer and exporting it as LNG.

LNG netback prices based on Asian LNG spot prices currently play an important role in influencing gas prices in the east coast gas market.

### LNG netback price recently hit highest level since records began in 2016

An extremely cold Northern Hemisphere winter and supply outages, firmer oil prices and post COVID demand recovery drove Asian spot prices for LNG to US\$15/GJ, up from US\$2/GJ levels in June 2020 (see Exhibit 19). The sharp increase drove the LNG netback price to its highest levels since the ACCC began publishing the prices in 2016.

Exhibit 19 – Historical and forward LNG netback prices



Source: ACCC.

## Valuation - Several Scenarios – Valuation Range \$A0.20 - \$A0.46

### Substantial Upside – Under any Scenario

Our base valuation of A\$0.20 is derived by estimating the value of developing the Sapphire project in the Bowen Basin. The valuation of this asset implies a **BLU shareholder obtains this project at a significant discount and has exposure to the remainder of BLU’s substantial gas Resources in Queensland and exploration potential in the Northern Territory for free.** The upper valuation of A\$0.46 is derived from market average EV/ Resource multiples. The key risks relate to lack of development of a pipeline in the Bowen Basin and non-completion of further gas sales.

### Valuation Methodology – Looking at 3 Different Angles

BLU’s assets have had a significant amount of capital spent on them (~\$110m) over the years. The Bowen Basin assets have independently assessed 2P Reserves and 2C resources and BLU have signed several HoA’s with gas buyers. The company continues to seek further potential buyers.

The Bowen Basin assets require a pipeline to be constructed in order to transport gas to the East Coast gas markets and commercialise the assets. An agreement is in place with APA Group to investigate building, owning and operating a gas pipeline to connect BLU’s Sapphire/Monslatt CSG fields to tie into APA’s network running into Gladstone. The MoU includes the option for APA to build, own and operate specific gas processing facilities in the field.

Valuing exploration assets such as BLU’s is quite a subjective process. A number of uncertainties are at play, as significant test and appraisal works are still to be completed as well as uncertainty over financing.

We have looked at a number of different valuation methodologies in order to arrive at what we view as a risk-based valuation for BLU.

#### Scenario 1: EV/2P+2C Resources - Valuation A\$0.46 per share

A common valuation method in the equity market is to assess the value the market is attributing to combined 2P and 2C reserves and resources.

#### Scenario 2: Development of Sapphire Gas Project – Valuation A\$0.20 per share

A simple development NPV estimate of Sapphire Gas Project asset in the Bowen Basin .

#### Scenario 3: Recent Transactions – Risked Estimate A\$0.21 / Unrisked Estimate A\$0.43

A look at the valuation based on recent corporate transactions.

## Valuation Scenario 1: EV / (2P+2C) - Reserves and Resources – Valuation of \$A0.46

A commonly utilised valuation methodology is comparing the value attributed by the market to the reserves and resources in the ground. The most commonly utilised method is analysis of EV/(2P+2C).

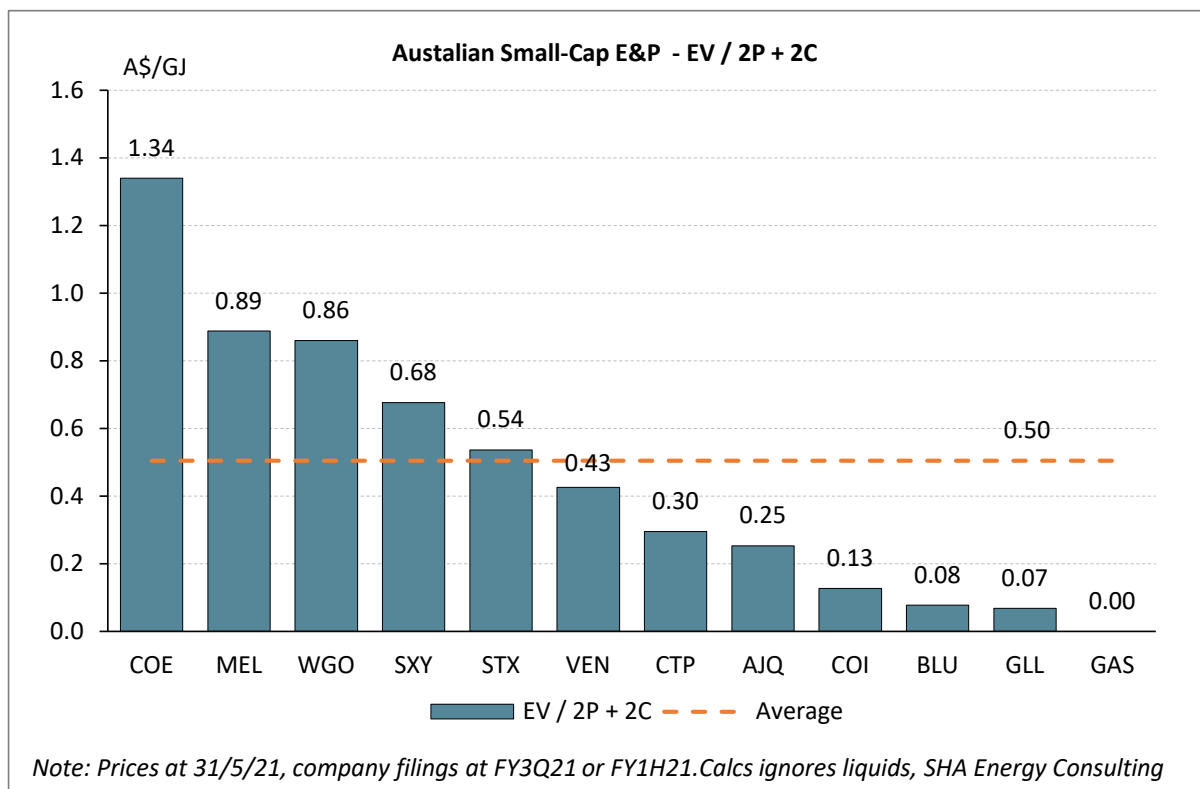
The simplest and most effective method is via looking across the peer group of BLU. Most of the peer group report a 2C figure but some do not have 2P. This methodology is commonly practised by investors.

The average EV/(2P+2C) is \$0.50/GJ as shown in Exhibit 20, but with a very wide range from \$0.07/GJ to \$1.34/GJ. BLU’s A\$0.08 share price is ~1/6 the peer group average.

If we apply a peer group average of A\$0.50/GJ to BLU’s 2P+2C we achieve an implied valuation of A\$610.8m or \$A0.46 per share. This is an unrisks number, however it could also be considered that the market does apply a “risk factor” to the multiples

It could be argued that the valuation of BLU’s 2P+2C could be allocated a “premium” above its peers as it has several HoA gas sales agreements in place, as opposed to a number of its peers who are at the exploration stage of their development cycle.

Exhibit 20 – Average EV/2P+2C Multiples Australian listed small energy companies.



Source: SHA Energy Consulting, MST.

## Valuation Scenario 2: Development of Asset –Sapphire Project - A\$0.20 per share

We have developed a simple development scenario to specifically focus on BLU’s most advanced asset, the Sapphire Gas Project within the North Bowen Basin . We have chosen Sapphire as it has 2P reserves, HoAs for gas sales and consider it would be an BLU’s initial development. We do this in order to demonstrate the inherent value within a project that represents a fraction of BLU’s resources.

We have valued a hypothetical, standalone Sapphire Gas Project (ATP 814 P) based on BLU’s public filings, a MoU for gas offtake of ~500 PJ, Queensland Government data, internal estimates, industry benchmarks, and Queensland CSG developments (e.g. Range, Mahalo, Denison Trough).

A preliminary, indicative, post-tax, NPV(10) for a potential future Sapphire development based on current stated 2P + 2C volumes (~278 PJ) under various gas price scenarios are detailed in Exhibit 21.

We have used a range of gas prices between \$A8/GJ and \$A10 reflecting recent contract gas prices (see Exhibit 17 and 18) and used the midpoint for our valuation.

Exhibit 21 – Sapphire Project Valuation Estimates Under Different Gas Price Scenarios

Gas Price Assumption A\$/GJ	Sapphire Valuation A\$	Sapphire Valuation A\$ per share
8	206	0.16
9	270	0.20
10	336	0.25

Source: SHA Energy Consulting, MST.

Our valuation is based on modelled cash flows using DCF analysis and is subject to future refinement once more public information comes to light as the project is gradually de-risked .

The ATP 814 P does not yet have a Production Licence, is not in FEED, has yet to formally agree a date for Final Investment Decision (FID) or for First Gas, so the timing and contribution of first production and cash flow is subject to uncertainty at this stage. Capex assumptions and valuation are subject to refinement. First gas is assumed in 2024, which implies ~36 months of appraisal, delineation, permitting, construction and marketing.

The valuation attempts a bottom up, standalone basis referencing other CSG developments in Qld and assumes the development pays a pipeline tolling charge to the Wallumbilla gas hub.

The simple message here is that one standalone development using a fraction of BLU’s current resource base achieves a valuation in excess of 2x the current the current share price.

## Valuation Scenario 3: Recent Transactions – Unrisked Estimate A\$0.43

There have been few recent transactions in the unconventional gas space to be able to make a comparison to BLU's assets. However, we can look at the recent acquisition by Empire Energy (EEG) of private company Pangaea Resources for A\$54m for acreage in the Beetaloo and McArthur Basin (next to BLU to the south).

The transaction equated to approximately A\$0.37/GJ. To apply this multiple across BLU's portfolio is not an exact comparison as the assets acquired by EEG are shale in a more remote location, compared to BLU's Bowen and Surat assets which are comparatively simpler CSG in a region with superior infrastructure.

However, for the purpose of a "market" comparison, we can apply this multiple across BLU's portfolio and appropriately risk each region in order to attain a total market based value for BLU. Exhibit 22 and 23 below shows the estimation of BLU under this scenario.

Exhibit 22 – BLU's Portfolio at EEG Transaction Value - Risked

Valuation Estimate - Risked Market	A\$m	Risking	A\$m	A\$ps
ATP 854 P (1C + 2C) Surat - 100%	26	30%	8	0.01
ATP 813 P (2C) Galilee - 100%	23	30%	7	0.01
ATP 814 P (Sapphire & Central 2P + 2C) -10	103	60%	62	0.05
ATP 814 P (Monslatt & Hillalong et al (2C) -	315	50%	157	0.12
<b>Total Operations</b>	<b>466</b>		<b>234</b>	<b>0.18</b>
Net Cash / (Debt)	5	100%	5	0.00
Admin / Corporate	(3)	100%	(3)	(0.00)
Other / Investments	0	100%	0	0.00
Exploration (risk-adjusted)	2	25%	1	0.00
Other 3C gas (Sapphire & Central risked)	160	30%	48	0.04
<b>TOTAL VALUATION</b>	<b>630</b>		<b>284</b>	<b>0.21</b>

Source: SHA Energy Consulting, MST.

Exhibit 23 – BLU's Portfolio at EEG Transaction Value - Unrisked

Valuation Estimate	A\$m	Risking	A\$m	A\$ps
ATP 854 P (1C + 2C) Surat - 100%	26	100%	26	0.02
ATP 813 P (2C) Galilee - 100%	23	100%	23	0.02
ATP 814 P (Sapphire & Central 2P + 2C) -10	103	100%	103	0.08
ATP 814 P (Monslatt & Hillalong et al (2C) -	315	100%	315	0.24
<b>Total Operations</b>	<b>466</b>		<b>466</b>	<b>0.35</b>
Net Cash / (Debt)	5	100%	5	0.00
Admin / Corporate	(3)	100%	(3)	(0.00)
Other / Investments	0	100%	0	0.00
Exploration (risk-adjusted)	2	100%	2	0.00
Other 3C gas (Sapphire & Central risked)	99	100%	99	0.07
<b>TOTAL VALUATION</b>	<b>569</b>		<b>569</b>	<b>0.43</b>

Source: SHA Energy Consulting, MST.



## Financials – Development Funding Options and Potential Cash Flow

### Options to Fund Asset Development

Currently BLU does not generate any cashflow as it has no production.

BLU's cash balance on 31 March 2021 was \$A2.4m. Administrative costs are well controlled by BLU, with the spend for the last quarter being around A\$0.23m (equating to approximately A\$0.9mpa). BLU has sufficient cash to “stay in business” for several quarters.

Historically, BLU has been reliant on equity capital, with ~90% of all capital raised being spent on exploration and evaluation. BLU's major focus in recent times has been on commercialisation of gas, demonstrated by the signing of MoU's and HoA's.

In order to move into commercial production, BLU will need to raise finance. We see several options:

- **Sell-down of acreage**  
A sale for cash or farm-out in order to fund the development of the project. BLU's 100% ownership, particular in the key Bowen Basin assets offers potential JV partners substantial positions.
- **Equity Capital**  
BLU has relied on equity capital to fund the portfolio to date. Development of that portfolio would logically include equity capital in the mix.
- **Debt**  
Conversion of the HoA's / MoU's to binding Gas Sale Agreements may open up the option for BLU to be able to acquire debt finance or for forward sale agreements to be put in place.

### The Potential Cash Generation from the HoA's in Place

BLU has signed a number of HoA's / MoU's with gas buyers. These agreements are non-binding but do demonstrate the interest from key market players in BLU's gas. The agreements also demonstrate a recognition by key market participants that do want to put in place some gas supply agreements to sure up future supply. It should be noted that two of the largest retail gas suppliers in Australia, namely Energy Australia and Origin have signed agreements with BLU. Potential upside for further HoA's exists as current agreements represent approximately 15% of BLU's total resource.

### Total Volumes Signed under HoA's / MOU's – 505PJ

- **Total contract volume is up to 105 PJ**
  - an MoU with Townsville gas consumer Queensland Pacific Metals for the supply of 7 PJ of gas p.a. for 15 years for a proposed battery metal refinery in Townsville, to be sourced from BLU's Sapphire Block.
- **Total contract volume of 300PJ**
  - non-binding Heads of Agreement (HoA) with Origin Energy for gas supply to Wallumbilla. The agreement is for the supply of up to 30 PJ of gas p.a. for 10 years
- **Total contract volume 100 PJ**
  - non-binding HoA with Energy Australia for the supply of 100 PJ of gas at Wallumbilla over 10 years from BLU's Northern Bowen Basin ATP814 coal seam gas tenure.

Exhibit 24 demonstrates the potential cash flow from the MoU's / HoA's signed by BLU.

Exhibit 24 – Potential Revenue and Pre-Tax Cashflow from BLU's MoU's and HoA's

Gas Price Assumption A\$/GJ	Potential Revenue A\$m	Assumed Production Cost A\$/GJ	Potential Total Cash Flow A\$m	Potential Annual Cash Flow A\$m
8.00	4,040	4.00	2,020	188
9.00	4,545	4.00	2,525	235
10.00	5,050	4.00	3,030	282

Source: MST Estimations

## Positive catalysts for the share price and valuation

### Signing of Further Gas Agreements

The signing of further HoA's will demonstrate further interest by gas buyers and would be a positive for the share price.

### Pipeline for Bowen Basin

BLU have an MoU for the construction of a pipeline to the Wallumbilla gas hub. A key to getting BLU's gas to market is the construction of the pipeline. Firm commitment for the development of the pipeline would be a positive catalyst for BLU.

### Conversion of HoA's to Binding Gas Sales Agreements

Binding gas sales agreements are key to obtaining funding for project as well as attracting potential JV partners.

### Project financing

Obtaining project financing is key to the development of the assets into commercialisation.

### Sell Down of Assets

BLU's 100% ownership of assets is a key strategic advantage. Significant stakes in the assets can be sold down to JV partners / developers in order to fund the project for BLU and have the project developed.

### Resource Upgrades

Further testing and appraisal of these fields will be conducted. Conversion of prospective resources to contingent resources and contingent resources to reserves could be positive for the share price.

### Early project delivery

The early commencement of any of the projects would mean cash flows were generated sooner and would reflect positively on management, which would likely boost the valuation.

### Joint venture deals

Intelligent and innovative JV deals could add potential value to the portfolio of assets.

### Gas price increases

Strong gas prices will be positive to commercialising the project. Once commercial, gas price increases would have a positive effect on the valuation and share price.

### Government Incentives

The Federal Government has backed gas to lead a post Covid recovery. Further Government such as underwriting of the North Bowen pipeline or incentives to develop projects would be a positive catalyst for BLU.

## Risk to share price and valuation

### Delayed Signing of Gas Agreements

Delayed signing of further HoA's would add risk to the commercialisation of the projects.

### Delay to Pipeline for Bowen Basin

BLU have an MoU for the construction of a pipeline to the Wallumbilla gas hub. A key to getting BLU's gas to market is the construction of the pipeline. A lack of development of the pipeline would be negative for BLU.

### Non - Conversion of HoA's to Binding Gas Sales Agreements

Binding gas sales agreements are key to obtaining funding for project, lack of conversion would increase the risk of the project not being funded.

### Project financing

Obtaining project financing is key to the development of the assets into commercialisation and delay to this is a key risk.

### Inability to Sell Down of Assets

BLU's 100% ownership of assets is a key strategic advantage. Sell down of assets could provide funding for BLU. Inability to sell down assets may delay the project.

### Gas price decreases

Weakness in gas prices will be negative to commercialising the project. Once commercial, gas price increases would have a positive effect on the valuation and share price.

### Reversal of Government Backing of Gas

The Federal Government has backed gas to lead a post Covid recovery. Change in the political climate risks this backing being removed.

### Gas price decreases

Upon commercialisation, price decreases of the underlying commodity would be a negative for the valuation. Gas prices represent the key sensitivity for valuation.

### Key person dependence

BLU's future success depends, to a significant extent, upon the continued services of the members of its management team. The loss of senior managers would harm the company's business and its prospects.

### Community opposition

Any failure to adequately manage and meet community expectations with respect to issues such as compensation for land access, exploration activity, employment opportunities, and impact on local business may lead to local dissatisfaction, disruptions in the exploration program and potential losses to the company.

### Delays to project delivery

Delays to any project delivery would have a negative effect on the valuation and may reflect negatively on management.

### Regulatory and moratoria risk

BLU has assets in multiple Australian jurisdictions. Any changes to relevant legislation, may create more onerous conditions (both financially and in management time). Such changes may also impact the company's operational and financial performance.

### Native Title risk

In the event that it is determined that Native Title does exist, or a Native Title claim is registered, Native Title procedures may take considerable time, involve a requirement to negotiate for access rights, and require the payment of compensation.

## Environmental, Social and Governance (ESG)

ESG factors play an integral role in many investors' decision-making. BLU operates in an industry that has significant focus on it from both the impact of its operations and the impact of its products (oil and gas). BLU has a responsibility to support national emissions reduction initiatives. The company is fully engaged with both government and communities with relation to operating safely, and management has a strong track record in this area.

### Environmental

The assessment of BLU's environmental credentials falls into two categories:

- environmental assessment of the projects
- environmental assessment of BLU's key product, gas.

#### Environmental impact of the projects

All extractive industries have an impact on the environment. The projects involve the drilling and completion of production wells and the construction of gas-gathering equipment and pipeline infrastructure.

BLU understands and fully endorses the need to protect valuable aquifers. Fortunately, CSG does not come from prolific or high-quality conventional aquifer sands, such as key sandstone aquifers of the Great Artesian Basin.

To produce CSG, the target coals need to have very limited connectivity to aquifer formations; otherwise, only water would be produced with no gas. A report from Geoscience Australia to the Australian Government concludes the risk of impact from CSG production is minimal to the clean aquifers of the Great Artesian Basin. This point is being confirmed by more and more scientifically robust studies which highlight specific and localised areas of impact and concern, and which will be the focus for monitoring and mitigation of impacts.

For each of BLU's exploration tenements, the company operates under an Environmental Authority that can have more than 100 conditions specific to the area of the permit. BLU estimates the current number of regulations and conditions total around 2,500 for exploration activities.

#### Environmental impact of BLU's major product – gas

The oil and gas industry faces challenges as perceptions about climate change impact the public's appetite for safe, clean, affordable and reliable energy in both domestic and international markets.

The use of fossil fuels to meet these needs contributes to the rising concentration of greenhouse gases. The benefits of natural gas, as a lower-emissions fuel, should see it play a relatively important role in the global energy mix. Domestically the Australian Government has backed gas as key input to back a manufacturing and post covid recovery.

### Social

BLU interacts and engages with stakeholders in many towns and communities as part of its activities on exploration tenements across Queensland and the Northern Territory.

The social aspects of BLU's business are key to operating successfully in Australia.

Key social aspects of BLU's business are key to operating successfully in the community. The company:

- promotes workplace diversity and develops inclusiveness
- where possible and practical, employs local personnel, businesses and contractors for its work
- adopts a zero-harm approach to safety
- supports local community groups and employs local indigenous staff
- pays wages that are fair and reasonable

## Community support

BLU believes that its exploration activities will bring economic growth and opportunities to local communities, including providing direct support to local organisations and events.

## Major social issues affecting BLU's business

### Fracking

Community attitudes to fracture stimulation or 'fracking' emulated from the shale gas industry in the USA and the coal seam gas (CSG) industry in Australia. The objection stems from the view that there is a high risk of ground and surface water contamination resulting from fracking, and that contamination can occur from well casing failure due to corrosion, faulty construction or repeated fracturing.

Hydraulic fracturing is a technology that has been used globally for over 60 years. In South Australia, the Northern Territory and Queensland, some 1,400 wells have been hydraulically fractured, including conventional gas wells.

The impacts of hydraulic fracturing have been extensively studied and measured in the Cooper Basin. To date there has been no evidence of hydraulic fracturing activities impacting shallow aquifers. The distance between groundwater aquifers and the location of hydraulic fracturing activities is over 1,000m. In our view the potential risk of hydraulic fracturing activities reaching groundwater aquifers is low.

### Community opposition

Any failure to adequately manage community expectations with respect to compensation for land access, exploration activity, employment opportunities, impact on local business and any other expectations may lead to local dissatisfaction, disruptions in the exploration program and potential losses to the company.

BLU's management has many years of experience in operating gas production. The company is well versed in dealing with community concerns and has a strong safety record. BLU will continue to engage with communities regarding concerns and expectations and continue to focus on safety as the top priority of operations.

### Government regulation

Government regulation has had a direct effect on BLU's business, specifically in the Greater McArthur Basin. The 2016 fracking moratorium imposed by the Northern Territory Government paused all corporate activity within the region. The 'Scientific Inquiry into Hydraulic Fracturing in the NT' report was accepted in March 2018 and the moratorium on unconventional shale gas developments in the NT was lifted. However, field work is yet to resume despite the release of the moratorium.

## Governance

BLU's governance is documented in its Corporate Governance Statement. Key elements are:

- The company is guided by the ASX Corporate Governance Council Principles and Recommendations, adopting the revised *Corporate Governance Principles and Recommendations, 3rd Edition*.
- While the company does not have a formal internal audit function, the Audit and Risk Committee oversees the overall effectiveness of risk management and internal control processes. As part of this function, the Audit and Risk Committee can implement audits of its systems and processes to assess compliance.
- The board has adopted policies around remuneration structure and risk management systems that are in line with market practices.

## Key members of the board

In our view, the board's qualifications are appropriate for the business. The board consists of four members: the Executive Chairman, the CEO and two non-executive directors (see Exhibit 26). Two of the four directors are considered independent, making the company compliant with the ASX recommendation that a majority of the board is independent. John Ellice-Flint's and John Phillips' experience has been detailed in the management section of the report, the independent directors experience and qualifications are detailed below.

Exhibit 25 – Key qualifications of the four BLU board members

Board Skill	Exec Chairman	MD	Deputy Chairman	NE Director
	John Ellice-Flint	John Phillips	Rod Cameron	Mark Hayward
<b>Leadership</b>	✓	✓	✓	✓
<b>Strategy</b>	✓	✓	✓	✓
<b>Finance &amp; Legal</b>	✓	-	✓	✓
<b>Geology</b>	✓	✓	-	-
<b>Project Development</b>	✓	✓	✓	-
<b>Mining</b>	✓	✓	✓	✓
<b>International Expertise</b>	✓	✓	✓	✓
<b>Health, Safety and Environment</b>	✓	✓	-	-
<b>Stakeholder Management</b>	✓	✓	✓	-
<b>Corporate Governance</b>	✓	✓	✓	✓

Source: BLU, MST

### Rodney Cameron – Deputy Chairman

Mr Cameron's multi-faceted career has involved over 35 years of senior executive and board experience in energy, resources, airport, seaport, manufacturing, professional services, and disability sectors. He has extensive experience as a financial executive, having been CFO for an ASX-listed multi-national renewable energy company, as well as an executive director and CFO for a US multinational independent power generation company. Mr Cameron has also worked in various management positions for National Australia Bank, Rio Tinto, Telstra, and Atlantic Richfield Inc. He has experience of complex corporate transformations, strategy development and implementation, business planning and financial analysis, M&A, corporate reorganisations, business integrations and change management programs, debt and equity funding, project and corporate finance, IPOs, and banking relationship management.

### Mark Hayward – Non-Executive Director

Mr Hayward has both local and international experience in various industry sectors including energy and resources. He was a partner at Ernst & Young (EY) for 31 years until June 2020 and was appointed non-executive director of BLU in February 2021. His career at EY enabled him to serve as auditor and adviser for energy and resource companies with activities throughout Australia, Canada, USA, Singapore and South America. He is also a member of the BLU board's Risk and Audit Committee.

## Appendices

### Appendix 1 – Overview of BLU’s History

#### Entity establishment

In November 2004, BLU commenced as a private petroleum exploration company, holding key assets in several producing Australian basins. Two years later, in February 2006, Energy Investments Ltd (EIV) invested in BLU. EIV changed its name to BLU Energy and the listed entity (BLU) was established.

#### Key corporate activity since listing

##### 2008

- August: Stanwell acquires a 19.9% stake in the company from a former shareholder; executes alliance agreement to facilitate gas sale agreement

##### 2009

- June: KOGAS takes 10% placement in BLU

##### 2011

- July: Maiden 3P Reserves for ATP814P of 39 PJ

##### 2012

- March: John Ellice-Flint joins BLU and becomes substantial shareholder
- June: New shale gas and oil permits double BLU’s exploration acreage portfolio
- September: John Ellice-Flint appointed Chairman
- December: New Maryborough Basin permits granted

##### 2013

- March: Announced Maiden 2P reserves of 50 PJ
- July: BLU’s exploration portfolio expanded by 100% with Wiso Basin farm-in

##### 2014

- January: BLU secures 100% of Maryborough Basin permits

##### 2017

- May: QLD State Government approved Arrow Energy’s Bowen Basin Gas Export Pipeline License, giving potential gas buyers access to BLU’s Bowen Basin gas reserves and resources

##### 2019

- February: Bowen Basin additional 237 PJ recoverable gas resource in ATP814P (the Hillalong Block)
- July: Share Purchase Plan raising \$4.2m closed
- October: BLU signs a non-binding MOU with North Queensland Gas Pipeline to bring new domestic gas supplies to the North Queensland market
- November: BLU signs a non-binding MOU with Queensland Pacific Metals Pty Ltd (QPM) to facilitate supply of a portion of BLU’s North Bowen Basin gas resources

##### 2020

- August: QLD Government announced it would invest \$5m into Bowen Basin Gas Pipeline Study
- October: BLU and Stanmore Coal sign MoU on fugitive gas emissions
- December: BLU and Energy Australia sign HoA for 100 PJ of new long-term gas supply

##### 2021

- March: BLU and Origin Energy sign HoA for up to 300 PJ of new long-term gas supply
- May: Federal Budget commits 2021 funds of \$15.6m specifically to gas appraisal projects in the North Bowen and Galilee basins

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