MST ACCESS

BLU's Large Resource Perfectly Placed for Strong Global, Aus East Coast Gas Markets

Market Hugely Supportive Locally and Globally

Global gas markets remain elevated. The global gas markets remain focused on the Russia–Ukraine conflict, sanctions on Russia and the security of supply, particularly in Europe. LNG prices remain buoyant off the back of this and US domestic markets have also rallied significantly.

East Coast gas market (ECGM) prices rising on global energy crunch, tight local supply. Global gas market issues have led the US to attempt to avert a further crisis in European gas supply and shore up gas supply through LNG imports from the US and allied nations, including Australia. LNG netback prices are over A$30/GJ at Wallumbilla. Local supply is tightening from declining Queensland and Victorian production and domestic gas prices are rallying.

BLU Perfectly Positioned – Surat and Bowen

BLU has 100% ownership of its key assets, allowing BLU control of its destiny and optionality in the future development of its assets.

Surat: resource upgrade, existing infrastructure; accelerating options for BLU. The total recoverable contingent resource (3C) base of BLU's wholly owned ATP854 permit in the Surat Basin has increased by 300% to 398 PJ (sufficient to supply an average Gladstone LNG train for 4 years). The resource gives BLU accelerated options to supply into LNG trains in Gladstone, into the domestic ECGM or augment BLU's Bowen Basin gas supply agreements.

Bowen: drilling soon, resource upgrade potential. Blue Energy (BLU) aim to commence drilling in the Bowen in June 2022, and will define reserves, productivity test the asset and refine the development plan for the supply of gas into BLU's offtake agreements to Origin Energy, Energy Australia and Queensland Pacific Minerals. BLU has previously drilled 17 wells in the north Bowen asset to establish the current reserve and resource base. A substantial amount of BLU's Bowen resource has not been reviewed since 2014; given the large amount of activity surrounding BLU's permit, we see the potential for resource upgrades.

Valuation Range Raised to A$0.25–A$0.58

BLU represents a unique opportunity to obtain exposure to gas assets with significant reserves and resources in proven basins. The lower end of our base-case valuation range (A$0.25, vs. previous A$0.25) is derived by estimating the value of developing just 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 end of our valuation range (A$0.58, vs. previous A$0.51) is derived from market average EV/resource multiples. Key risks relate to the development of a pipeline in the Bowen Basin and non-completion of further gas sales.

Blue ENERGY

Blue Energy (BLU) explores, evaluates and develops conventional and unconventional oil and gas resources solely in Australia, principally in Queensland and the Northern Territory. BLU's diverse portfolio involves five key geographical basins, the main and most developed of which 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/

Stock	ASX: BLU
Price	A$0.09
Market cap	A$130m
Valuation range (per share)	A$0.25–A$0.58

Next steps	
Signing of further gas sale agreements	Ongoing
Reserves drilling	June Y22

BLU share price (A$)

Source: FactSet.

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Exhibit 1 – Company summary – year-end 30 June

Blue Energy Limited (ASX:BLU)

Price	**$**	**0.09**
52 week high / low	$	**0.09/ 0.04**
Valuation (diluted)	**$**	**0.25-0.51**
Market Capitalisation	**$m**	**141**
Enterprise Value	$m	.09/0.4
Shares on issue (basic)	m	1528.20
Options / Performance shares	m	0.00
Other equity	m	0.0
Potential shares on issue (diluted)	m	1528.20

Ratio Analysis	2019A	2020A	2021A	2022	2023
EPS (A¢)	(0.48)	(0.39)	(0.07)	(0.22)	0.03
P/E (x)	(9.2)	(9.9)	(85.5)	(25.6)	161.1
EPS Growth (%)		n/a	n/a	n/a	-116%
CFPS (A¢)	(0.09)	(0.08)	(0.07)	(0.32)	0.02
P/CF (x)	(51.6)	(50.5)	(95.9)	(17.6)	257.6
DPS (A¢)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
EV / EBITDA (x)	-8.6	-8.9	-78.3	-25.0	0.0
EV / boe (x)	-	-	-	-	-
EV / PJe (x)	-	-	-	-	-
FCFPS					
FCF Yield (%)					

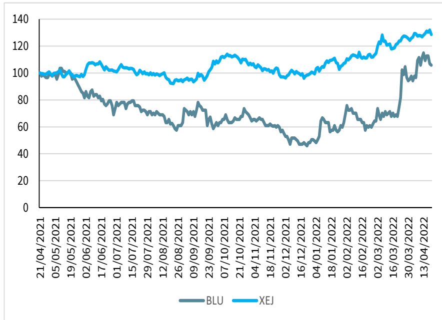
Profitability Ratios	2019A	2020A	2021A	2022	2023
EBIT / Sales (%)	0%	0%	0%	0%	0%
PBT / Sales (%)	0%	0%	0%	0%	0%
Return On Assets (%)	-9%	-8%	-2%	-5%	1%
Return On Equity (%)	-9%	-8%	-2%	-5%	1%

Liquidity Ratios	2019A	2020A	2021A	2022	2023
Net Debt / Net Debt + Equity (%)	7%	6%	3%	9%	10%
EBIT / Interest (x)	0.0	0.0	0.0	0.0	0.0
Current (x)	10.2	9.7	2.1	14.1	14.4

Assumptions (Yr end Jun)	2019A	2020A	2021A	2022	2023
Brent Oil Price (US$/bbl)	69.6	46.2	46.0	70.0	70.0
Exchange Rate (A$1:US$)	0.715	0.671	0.740	0.700	0.700
Gas Price (A$/GJ)	7.97	8.00	8.00	9.00	10.00

Reserves and Resources (25 January 2022)	Working Interest	1C Gas (PJ)	2C Gas (PJ)	2P Gas (PJ)	3C Gas (PJ)	3P Gas (PJ)
ATP 854 P (Surat)	100%	90	194	-	398	-
ATP 813 P (Galilee)	100%	-	61	-	830	-
ATP 814 P (Bowen)	100%					
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
Total		226	1,313	71	4,476	298

12 Month BLU v XEJ Relative



Profit & Loss (A$m)	2019A	2020A	2021A	2022	2023
Oil / Condensate Revenue	-	-	-	-	-
LPG Revenue	-	-	-	-	-
Gas Revenue	-	-	-	-	-
Total Sales	**-**	**-**	**-**	**-**	**-**
Operating Costs	-	-	-	-	-
Government Resource Taxes	-	-	-	-	-
Exploration & Development Expenses	(4)	(4)	(0)	(4)	(0)
Other Net Income / Expense	(2)	(1)	(1)	1	1
EBITDA	**(6)**	**(5)**	**(1)**	**(3)**	**1**
EBITDAX	**(6)**	**(5)**	**(1)**	**1**	**1**
Depreciation & Amortisation	0	0	0	0	0
EBIT	(6)	(5)	(1)	(3)	1
Net Interest Expense	0	0	0	0	0
Pretax Profit	(6)	(5)	(1)	(3)	1
Tax Expense / Benefit	-	-	-	-	-
Net Attributable Profit	**(6)**	**(5)**	**(1)**	**(3)**	**1**
Reported Profit	(6)	(5)	(1)	(3)	1

Cash Flow (A$m)	2019A	2020A	2021A	2022	2023
Pretax Profit	(6)	(5)	(1)	(3)	1
D&A & Other Non-Cash Items	5	4	0	-1	0
Tax Paid	0	0	0	0	0
Cash from Operating Activities	**(1)**	**(1)**	**(1)**	**(5)**	**0**
Development Capex	-	-	-	-	-
Exploration Capex	-	-	(0)	(6)	(1)
Acquisitions/Other (Net of Sales)	0	-	-	-	-
Dividends Paid	-	-	-	-	-
Free Cash Flow	**(2)**	**(2)**	**(2)**	**(5)**	**0**
Cash Provided by Financing	4	1	(0)	10	-
Net Change in Cash	**2**	**(1)**	**(2)**	**5**	**0**

Balance Sheet (A$m)	2019A	2020A	2021A	2022	2023
Cash & short term deposits	5	4	2	7	7
Receivables	0	0	0	0	0
Inventories	-	-	-	-	-
Property, Plant and Equipment	0	0	0	0	0
Capitalised exploration	62	59	61	60	60
Intangibles and Goodwill	-	-	-	-	-
Other assets	0	0	0	0	0
Total assets	**68**	**64**	**63**	**68**	**68**
Creditors	0	0	0	0	0
Borrowings	-	-	-	-	-
Other liabilities	1	1	1	(1)	(1)
Total liabilities	**1**	**1**	**2**	**(0)**	**(1)**
Shareholder equity	66	63	62	68	69
Shareholder Equity + Total Liabilities	68	64	63	68	68

Source: BLU, MST Access.

Gas Market: Global Gas Shortage Driving High LNG Prices; East Coast Gas Market Pushing Higher

Supply in Global Gas Market Remains Challenged

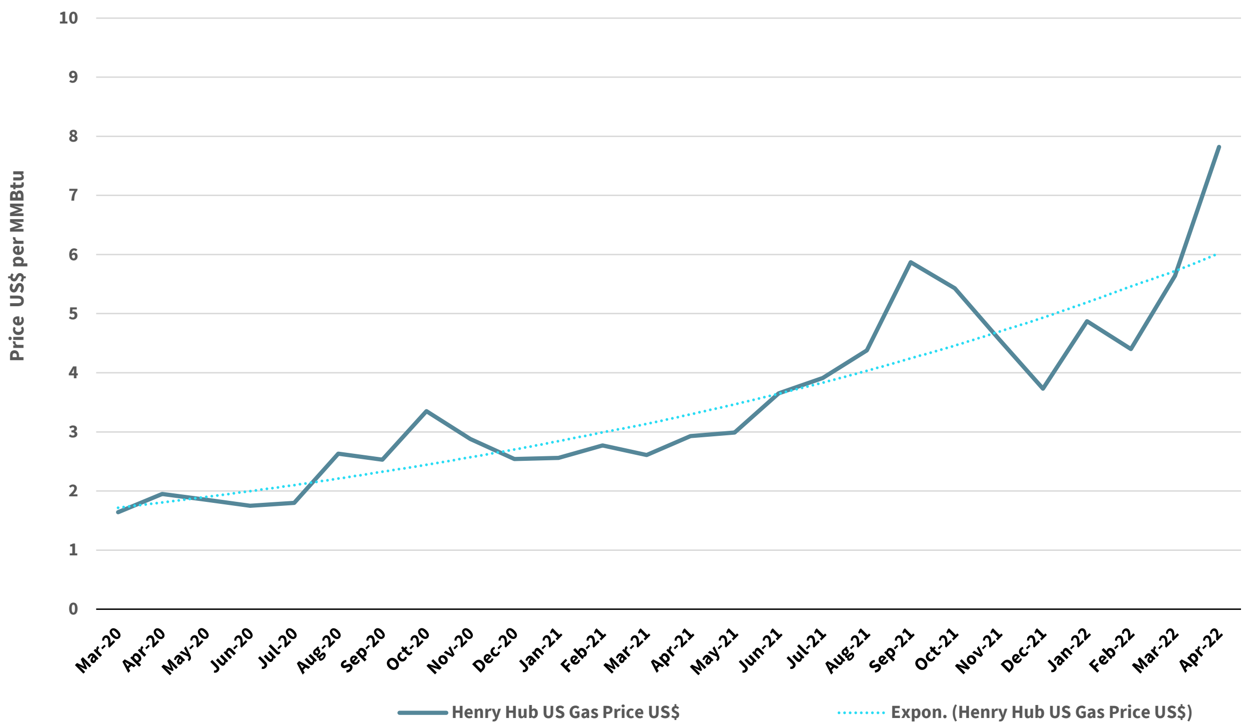
The global gas market is presently focused on supply to Europe. Supply shortages in parts of Europe can be traced to a shortage of gas from Russia into Europe, the absence of full nuclear generating capacity, intermittency of wind and solar energy and the banning of the shale gas sector in Europe.

Russia's Ukraine invasion and subsequent sanctions enforced upon Russia have exacerbated these issues, leading the US to attempt to avert a further crisis in European gas supply. The US has been working to shore up gas supply for Europe through LNG imports from the US and allied nations, including Australia.

The US gas market has also increased substantially, sitting some 165% above the price a year ago. The tight global supply situation, coupled with the US being viewed as a supplier of choice to Europe and a relatively inelastic demand picture in the US, has combined to see a 'fear premium' being priced into the US gas price.

Exhibit 2 shows the US gas price over the past two years.

Exhibit 2– US Henry Hub gas price, March 2020–present



Source: AER.

East Coast Gas Market: Australian LNG Seen as Part of the Global Solution; Pressure Building on Local Supply

Spot contract prices have strengthened over the past 12 months, with LNG pricing increasing as Northern Hemisphere demand coincided with supply tightening (as discussed above). Local demand has increased from Queensland LNG projects looking to supply into a global market. Domestic East Coast demand has also increased post COVID, and government policy has been set in place looking at gas as a key energy component for domestic manufacturing and as a transition fuel into renewable energy sources.

A further challenge for LNG is potentially having to replace the volumes from the Russian projects Sakhalin One and Two if oil and gas sanctions on Russia are put in place. These volumes supply approximately 15% of Japan's and Korea's demand. An opportunity may present itself for Australian LNG given the proximity and direct shipping lines to Asia. Further gas supplies from domestic sources would be required if this opportunity arose.

From a supply point of view, the ACCC has forecast a potential domestic gas supply shortfall of 30 PJ pa as early as 2024 before a much greater potential shortfall of 358 PJ pa in 2032 due to:

- **declining production in Queensland:**
    - CSG for LNG is experiencing higher rates of decline than originally forecast, and this is unlikely to change unless new sources of gas are discovered
    - producers are projecting a slower development schedule
- **declining production in Victoria:** Victoria's previous excess production of gas, which previously supplied Tasmania, New South Wales and South Australia, will decline if no new reserves or resources are developed, which means customers will need to source more gas from the northern states/territories.

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

Domestic Gas Pricing: LNG Netback (Export Parity) Price Reaching New Heights

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 (at Wallumbilla) from a domestic gas buyer so as to be indifferent to a choice between 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 East Coast gas market (ECGM) gas prices.

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

Tightening global conditions in gas, particularly in Europe, have put upward pressure on LNG prices, leading the LNG netback price to rise strongly. **The LNG netback price per the Australian Competition & Consumer Commission (ACCC) for May 2022 is A$38.09/GJ. June forward prices indicate a moderately lower price of A$29.21/GJ.**

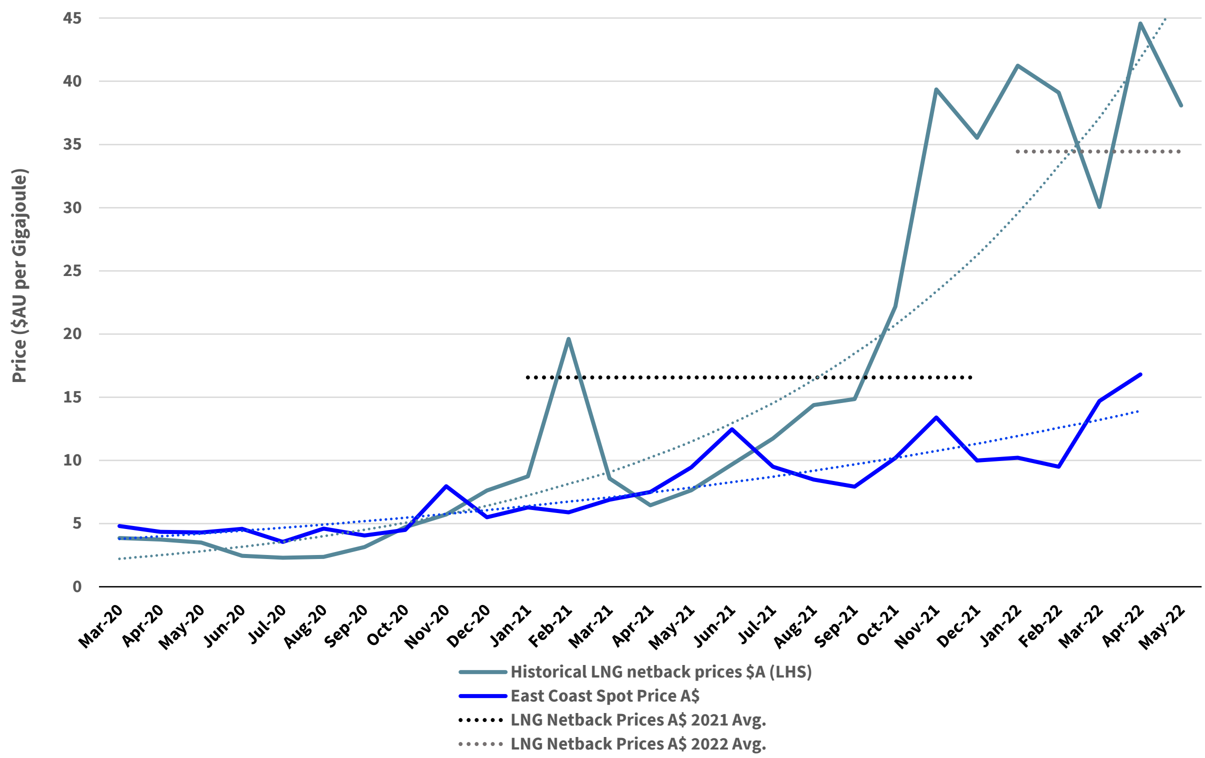
Spot price has risen but is still significantly below LNG netback price

The confluence of global supply-side issues and increasing demand, coupled with a tight domestic supply-demand scenario, has naturally put upward pressure on domestic pricing.

The spot ECGM has seen significant pricing moves in CY2022, beginning the year around A$10/GJ and with **current pricing at over A$16/GJ.** The spot price is still significantly under the LNG netback price.

Exhibit 3 shows the current spot price of ECGM vs the LNG netback price. The graph shows a distinct breakout of the LNG netback prices from late 2021 and the movement of spot prices from February 2022 towards bridging the gap.

Exhibit 3 – LNG netback prices vs prevailing spot ECGM prices



Source: ACCC, AEMO STTM.

Spot pricing will influence contract pricing

Large contracts in the Australian gas market are typically at negotiated prices and over terms of 3–5 years. The prevailing spot market inevitably has influence over contract pricing arrangements. Continued high spot prices may lead to higher contract prices.

BLU Perfectly Positioned for a Strong Gas Market – Bowen and Surat

Resource Upgrade, Surat Basin – Potential Near-Term Supply to Market

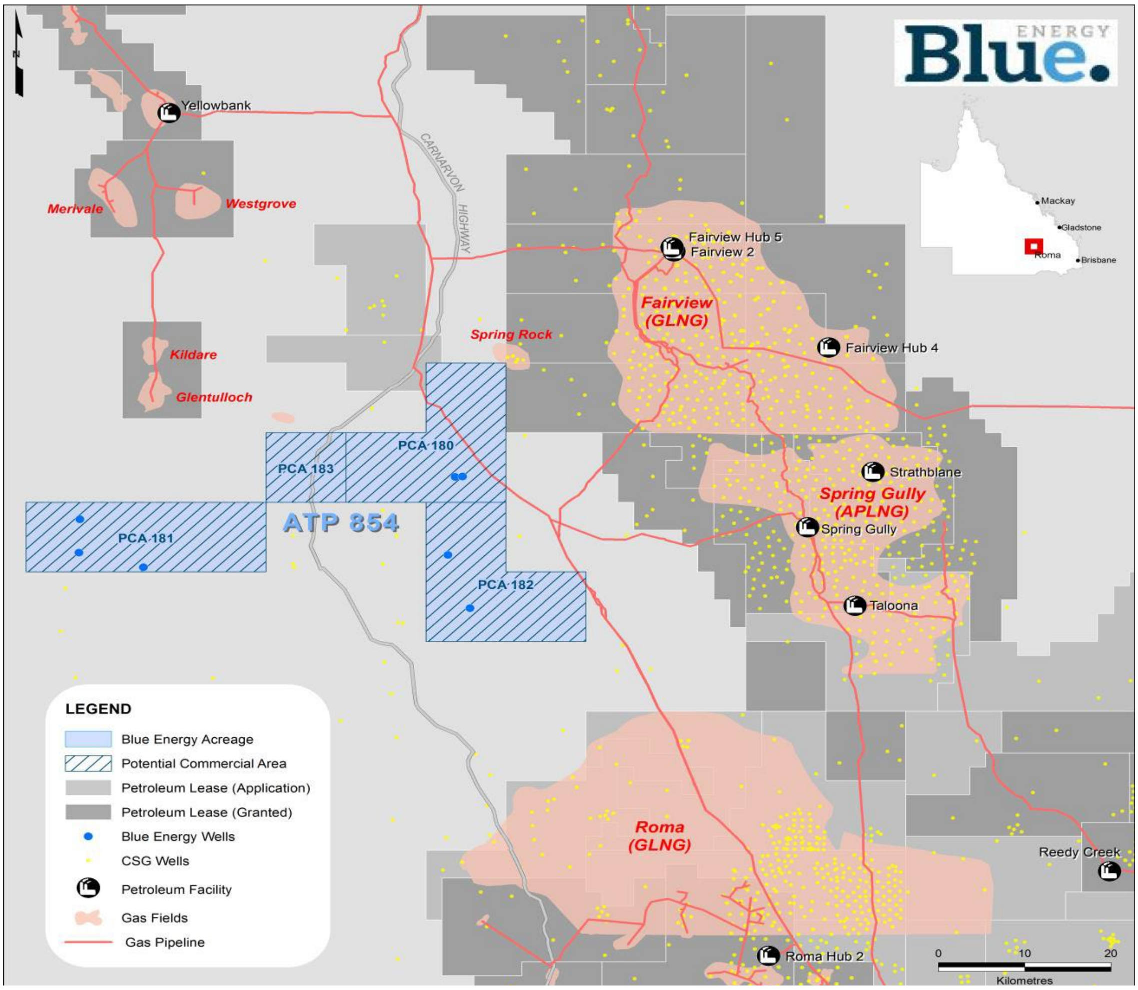
As at January 2021BLU announced that its solely owned permit ATP854 in the Surat Basin had a 300% upgrade in 3C net recoverable gas resource from 101 PJ to 398 PJ, with 1C and 2C also increasing over 300%. The increase is based on a review by independent reserve certifier Netherland Sewell and Associates Inc (NSAI) as at 31 December 2021 using BLU data together with available industry data, which has been established since the initial gas resource estimate in March 2013.

Exhibit 4 – Surat Basin resources

		1C (PJ)			2C (PJ)			3C (PJ)		
		Old	New	Change	Old	New	Change	Old	New	Change
ATP 854P	Surat Basin Qld	22	90	309%	47	194	313%	101	398	294%

Source: BLU.

Exhibit 5 – Surat Basin pipeline infrastructure (2 pipelines run through BLU's permits)



Source: BLU.

Resource is of substantial size – could supply an LNG train for 4 years

The resource upgrade makes BLU's Surat basin permit a significant size. This amount (398 PJ) of gas is sufficient to supply one average LNG train at Gladstone for 4 years.

Infrastructure points to rapid development potential – supply to Gladstone looks favourable

Two existing gas pipelines pass through ATP854, allowing direct access to the Wallumbilla gas hub and Curtis Island LNG facilities at Gladstone. This provides BLU with a number of options:

- to pursue an initial supply option to service the agreements with Origin and Energy Australia and to augment the company's North Bowen Basin gas reserves and resources
- to supply new ECGM contracts that may be signed
- to supply to Gladstone LNG.

Gladstone LNG option looks promising. The clear demand for LNG globally presents a strong opportunity for BLU to supply into the global market via Gladstone LNG. The GLNG pipeline runs right through ATP854 and is currently under capacity. Further, the GLNG LNG plant is currently running at around 88% capacity and is heavily reliant on third-party gas. The resources therefore have clear potential for near-term, low-cost 'brownfield' economic development using this existing infrastructure.

Recent developments in the Surat point to potential to develop the asset rapidly. A key example is the Atlas block awarded to Senex; the first awarded block in Atlas is already at its initial 12PJ pa capacity just two years after being awarded. More recently, the second block awarded to Senex within Atlas is set to see production at Atlas rise to 18PJ pa by late 2022, an increase of some 50%. BLU's experience would suggest a similar ability to develop assets rapidly.

Further appraisal of the field needs to be undertaken so any new supply can be assessed and brought to the market as soon as possible.

Bowen Basin – HoAs in Place, Reserve Drilling, Potential Resource Upgrade

Sales HoAs in place with gas buyers

BLU's assets have had significant capital expenditure (~$110m) over the years. Its Bowen assets have independently assessed reserves and resources (see Exhibit 6) and BLU has signed several HoAs with gas buyers, including:

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

Exhibit 6 –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
Total (PJ)		136	71	1058	298	3248

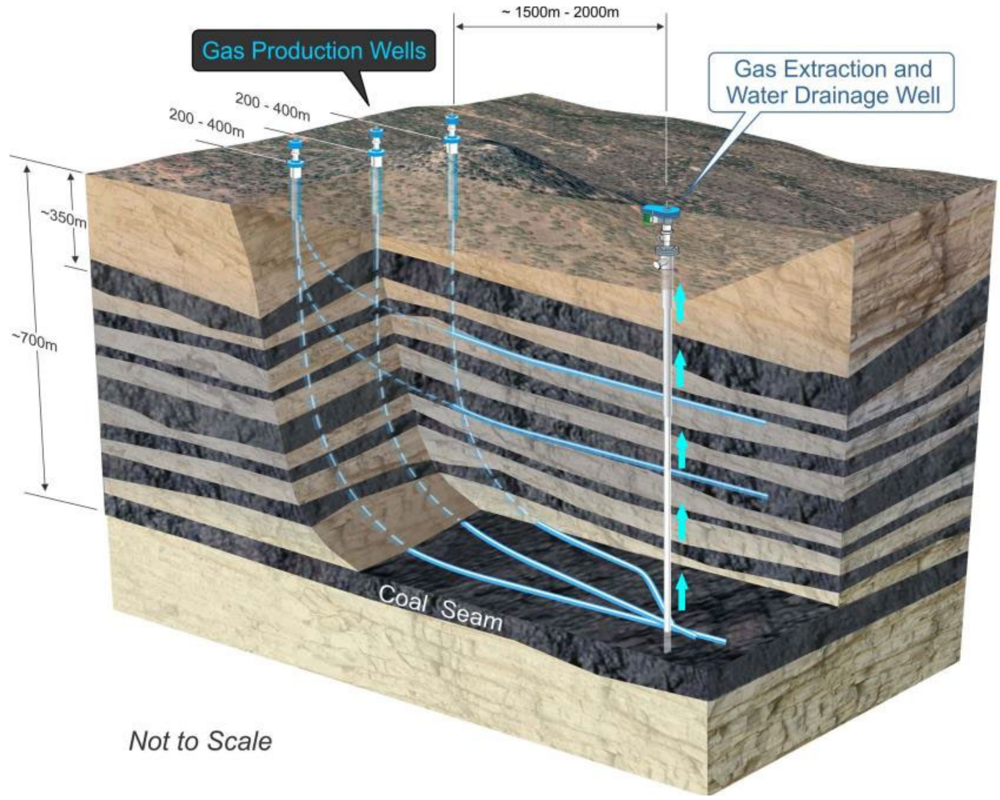
Source: BLU.

BLU has reserve drilling and gas productivity confirmation planned for mid-2022

The drilling campaign's key focus is on a reserve build (conversion of 3C to 2P) and productivity test of the asset and is scheduled to commence in June 2022. The 2022 drilling program has been formulated in conjunction with NSAI to refine the development plan for the supply of gas into BLU's offtake agreements with Origin Energy and Energy Australia.

Well design and configuration concepts for the drilling campaign are being worked on.

Exhibit 7 – BLU's Bowen Basin well design concept



Source: BLU.

Potential resource uplift – most of BLU's resource not updated since 2013/2014

Approximately 83% of BLU's 2C resource has not been updated since 2013/2014.

Substantial exploration, appraisal and production has been completed by Arrow Energy in permits surrounding the BLU acreage.

BLU's reserve certifier, NSAI, is also Arrow Energy's reserve certifier. We think that, given the substantial amount of information that has been gathered since 2014 on the surrounding permits and given BLU's resource is the same coal measures as Arrow's, there is strong potential for BLU's Bowen permits to have a substantial resource upgrade.

Valuation Range of A$0.25–A$0.58; Potential Upside – Any Scenario

Valuation Methodology – Looking from Two Different Angles

BLU's assets have benefitted from significant capex (~$110m) over the years. The Bowen Basin assets have independently assessed 2P reserves and 2C resources, and BLU has signed several HoAs with gas buyers. The company continues to seek further potential buyers.

A pipeline needs to be constructed to transport gas from the Bowen Basin assets to the ECGM and thus 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. The Bowen Basin Concept Study (BBCS) has also assessed several options for a pipeline to connect the Bowen Basin to the ECGM.

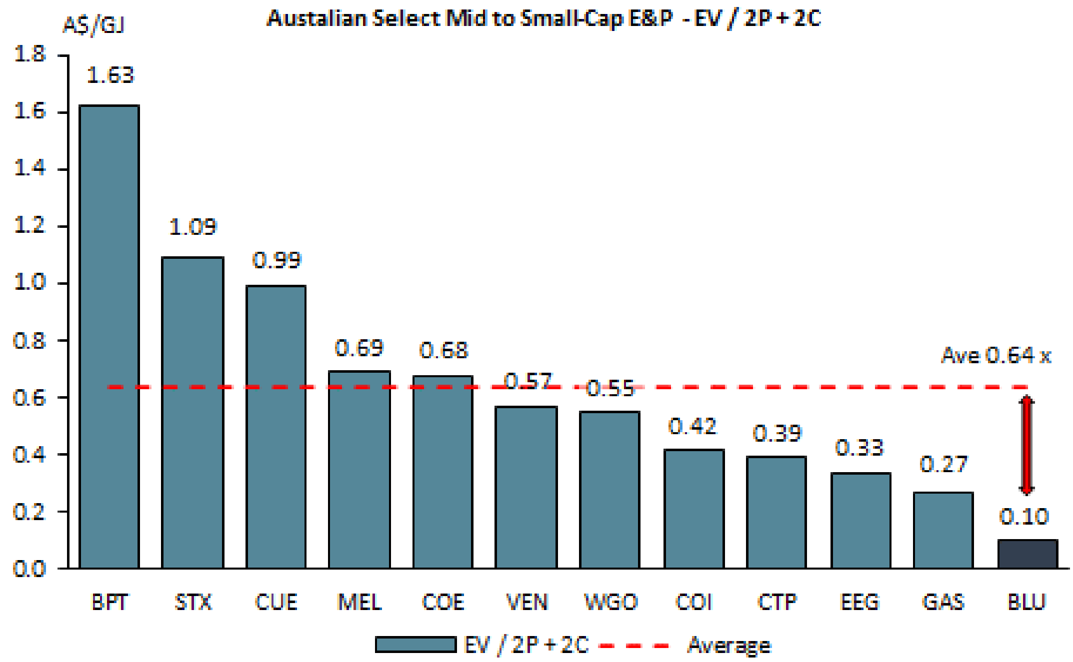
We focus on two key valuation methodologies in order to derive a risk-based valuation range for BLU:

- **The upper end of our range: EV/2P+2C resources – valuation A$0.58.** Here we use a common valuation method: assessing the value attributed by the market to combined 2P and 2C reserves and resources.
- **The lower end of our range: development of Sapphire Gas Project – valuation A$0.25.** We use a simple development NPV estimate for the Sapphire Gas Project in the Bowen to ascribe some value to the CSG assets.

Valuation Scenario 1 (Upper End of Range): EV/(2P+2C) Valuation of A$0.58 (Prior A$0.51)

A commonly used valuation methodology is to compare the value attributed by the market to the reserves and resources in the ground for different companies, usually using EV/(2P+2C). The average EV/(2P+2C) is $0.64/GJ (see Exhibit 8), with a very wide range of $0.10–$1.63/GJ. (Most of BLU's peer group report a 2C figure but some do not have 2P.) BLU's A$0.10 per GJ EV/2P+2C is ~15% of the peer average. Applying a peer average of A$0.64/GJ to BLU's 2P+2C of 1385GJ implies an EV of A$886m or A$0.58/share, fully diluted. While this is an un-risked number, the market could be seen as applying a 'risk factor' to the multiples.

Exhibit 8 – Average EV/2P+2C, select Australian-listed small–mid energy companies



Source: SHA Energy Consulting, MST. Note: prices as at 20/4/22, company filings at 2QFY22 or 1HFY22. Calculations ignore liquids.

Valuation Uplift Potential – What if Blue Valued at the Upper End of Peers – A$1.48 per share

We argue that BLU's 2P+2C should be valued at a premium above its peers as it has several HoA gas sales agreements in place, a large resource in the Surat that can be brought to market relatively quickly at low brownfield capex. A number of its peers are less advanced and are at the exploration stage of their development cycle.

We look at the potential uplift to BLU's valuation if valued at similar levels to its comparables:

Exhibit 9 – BLU Valuation Uplift

Company	EV/2P+2C A$/GJ	Blue EV at same Multiple A$m	Blue Valuation A$ per share at same Multiple
BPT	1.63	2,258	**1.48**
STX	1.09	1,510	**0.99**
CUE	0.99	1,371	**0.90**
MEL	0.69	956	**0.63**
COE	0.68	942	**0.62**

Source: SHA Energy Consulting, MST.

Further resource potential in the Bowen Basin – potential valuation uplift

As discussed, we see potential for an uplift to BLU's Bowen Basin resource base. Any resource uplift would give a larger base on which to apply the EV/2P+2C multiple and lead us to further lift the upper end of our valuation.

Valuation Scenario 2 (Lower End of Range): Development of Sapphire Project Asset – Valuation of A$0.25 (Prior A$0.18)

We have formed a simple development scenario to focus on BLU's most advanced asset, the Sapphire Gas Project, in the North Bowen Basin (ATP 814P). This scenario highlights that one standalone development using a fraction of BLU's current resource base achieves a valuation of almost 3x the current share price. The remainder of the BLU portfolio is effectively 'free', including the Surat assets, for which the resource base increased recently by 300%.

We chose Sapphire because it has existing defined reserves and thus is more mature in terms of likely commercial development given the MoU that underpins a potential future development. This lets us ascribe some risk-adjusted value to BLU's CSG asset portfolio. We looked at several scenarios for a valuation estimate. Our Sapphire scenarios are preliminary and hypothetical including low and high estimates using the information provided by the QLD government in the BBCS, BLU's public filings, a gas offtake MOU of ~500 PJ, QLD Government data, internal estimates, industry benchmarks, and QLD 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 scenarios is shown in Exhibit 9. We estimate A$0.25 for our base case.

Exhibit 9 – Sapphire valuation scenarios

	Previous estimates (Oct 2021)	Revised estimates* (May-2022)	Bowen Basin Concept Study (Low) #	Bowen Basin Concept Study (High) #
Well count (number)	130	242	450	231
Per well capex (A$m)	2.0	1.5	1.0	2.0
Well tie-in & pad construction (A$m)	0.7	0.7	0.7	0.7
Assumed tariff**	0.93	0.70	0.70	0.70
Gas price (A$/GJ real, 2022)***	9.0	MST	MST	MST
NPV (10) - A$m (gross)	272	383	205	335
IRR	44.2%	46.5%	22.0%	36.7%
BLU shares on issue (m)	1,528.2	1,528.2	1,528.2	1,528.2
A$ps (unrisked)	0.18	0.25	0.13	0.22

Gas Price Assumptions	
East Coast Gas Price A$/GJ FY2023	$10.00
East Coast Gas Price A$/GJ FY2024	$11.00
East Coast Gas Price A$/GJ (LT from 2025)	$11.50

Source: SHA Energy Consulting, MST. *BBCS, Qld Govt Dept Resource, KPMG, 2 Dec 2021. NSAI analysis. **Indicative tariff from SHA energy pipeline infrastructure model, referencing BBCS comments (p. 8). ***escalated at 1.8-2.0 pa. MST gas price assumes delivered (incl transport charge), escalated at 3.0 pa. # Low: assumes ~0.53 TJ/d well productivity. High: assumes ~1.06TJ/d productivity, as per BBCS (table 13).

Our indicative, preliminary valuation of a potential Sapphire development is based on modelled cash flows (post-tax, ungeared) using DCF analysis. We will refine this further once more information is made public as the project is gradually de-risked. It ignores future funding requirements (debt, equity, or a combination, as well as a potential future sell down to assist a development). The timing and contribution of first production and cash flow is subject to uncertainty at this stage, as ATP 814P does not yet have a Production Licence, is not in FEED, and has yet to formally agree a date for final investment decision or first gas. As project definition is immature at this stage, capex assumptions and valuation are subject to uncertainty and therefore refinement over time. We assume first gas in 2024, which implies ~36 months of appraisal, delineation, permitting, construction and marketing.

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

Positive Catalysts for Share Price and Valuation

Acceleration of Surat: The Surat Basin represents a significant option for BLU. Any acceleration of the Surat permits towards production would be very positive for BLU.

Resource upgrades – Bowen Basin: The Bowen Basin has potential for a significant resource upgrade as a result of neighbouring permits drilling appraisal and production. This would lift the valuation and be positive for the stock.

Signing of further gas agreements: The signing of more HoAs would demonstrate further interest by gas buyers and would be a positive for the share price.

Reserve upgrades: These fields will be further tested and appraised using the proceeds of the raising. Conversion of prospective resources to contingent resources or contingent resources to reserves could boost the stock.

Pipeline for Bowen Basin: BLU has an MoU for the construction of a pipeline to the Wallumbilla gas hub, a key to getting BLU's gas to market. A firm commitment to develop the pipeline would be a positive catalyst for BLU.

Conversion of HoAs to binding gas sales agreements: Binding gas sales agreements are key to obtaining funding for the project as well as attracting potential JV partners.

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

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 wants gas to lead a post-COVID recovery. Further government assistance (e.g., underwriting of the North Bowen pipeline, incentives to develop projects) would be positive for BLU.

Risks to Share Price and Valuation

Delayed signing of gas agreements would add risk to the commercialisation of the projects.

Disappointing appraisal results: The fields will be further tested and appraised using the proceeds of the raising, with conversion of contingent resources to reserves a key outcome. Disappointing conversion would be a negative.

Delay to pipeline for Bowen Basin: BLU has an MoU for the construction of a pipeline to the Wallumbilla gas hub. A key to getting BLU's gas to market is this pipeline construction. If this does not happen, it would be negative for BLU.

Non-conversion of HoAs to binding gas sales agreements: Binding gas sales agreements are key to obtaining funding for the project. Lack of conversion would increase the risk of the project not being funded.

Project financing delays are a key risk, as they are critical for developing and commercialising the assets.

Gas price decreases: Weakness in gas prices would 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 for a post-COVID recovery would be a negative.

Key person dependence: BLU's future success depends, to a significant extent, upon the continued services of the members of its management.

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.

Regulatory/moratoria risk: BLU has assets in multiple Australian jurisdictions. Changes to relevant legislation could create more onerous conditions (financially and in management time) or impact operational/financial performance.

Financials – Development Funding Options and Potential Cash Flow

Options to Fund Asset Development

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

BLU's cash balance on 31 March 2022 was A$8.3m. Staff and administrative costs are well controlled, with spend for the last quarter at around A$0.44m. BLU has recently employed a full-time geologist.

Historically, BLU has relied on equity capital, with ~90% of all capital raised spent on exploration and evaluation. The recent capital raise will be predominantly used to convert resources to 2P reserves. BLU's major focus recently has been on gas commercialisation, demonstrated by the signing of MoUs and HoAs.

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

- **debt:** conversion of the HoAs/MoUs to binding gas sale agreements may open up the option for BLU to acquire debt finance or put in place forward sale agreements
- **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
- **sell-down of acreage:** a sale for cash or farm-out in order to fund the development of the project. BLU's 100% ownership, particularly in the key Bowen Basin assets, offers potential JV partners substantial positions.

Potential Cash Generation from the HoAs in Place

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

Total volumes signed under HoAs/MoUs = 505 PJ

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

Exhibit 10 demonstrates the potential cash flow from the MoUs/HoAs signed by BLU.

Exhibit 10 – Potential revenue and pre-tax cashflow from BLU's MoUs and HoAs

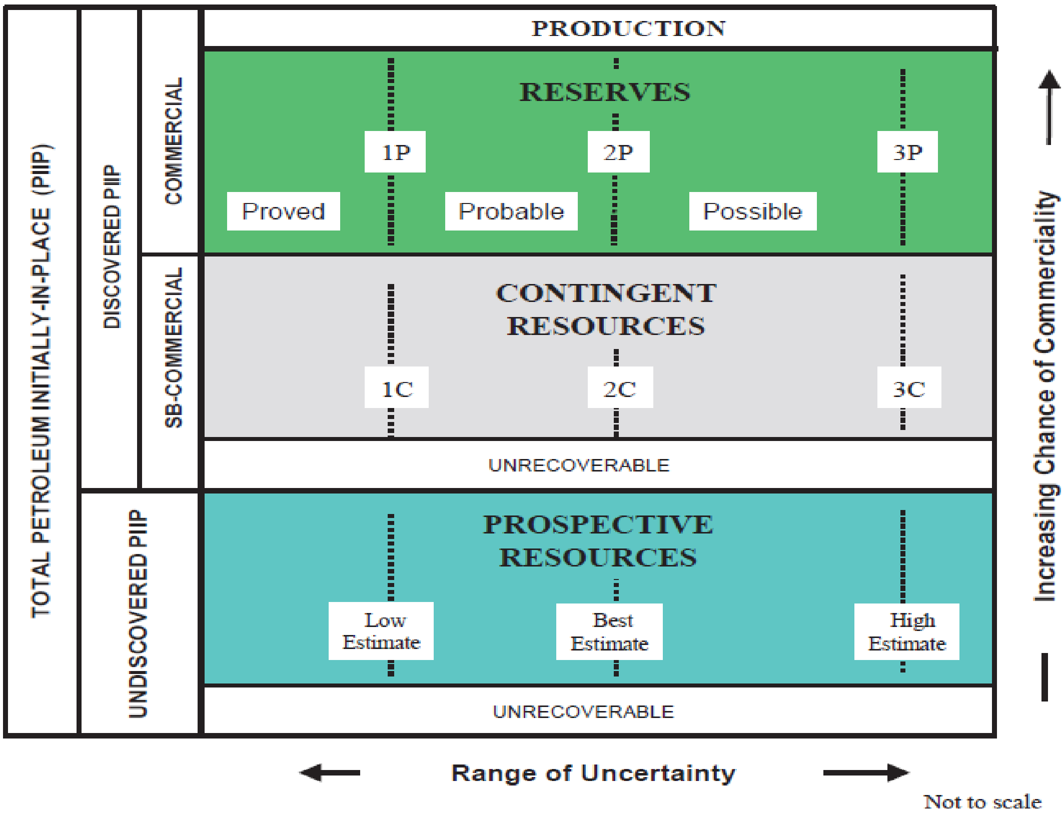
Gas Price Assumption A$/GJ	Potential Revenue A$m	Assumed Production Cost A$/GJ	Potential Total Cash Flow A$m	Potential Annual Cash Flow A$m
8.00	4,040	4.00	2,020	188
9.00	4,545	4.00	2,525	235
10.00	5,050	4.00	3,030	282

Source: MST estimates.

Appendix: Reserves and Resources Classification

Reserves and resources are classified according to range of certainty and chance of commerciality. Exhibit 11 is a 'ready reckoner' that outlines the classification of reserves and resources.

Exhibit 11 – Classifying resources and reserves



Source: Industry.

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