

24 February 2025

Problems to the solution

Work ongoing to unlock huge resources but impediments abound

- Sapphire pilot testing continues at lower than expected rates but future development is at risk due to legal challenges
- Huge 2C gas resources in a gas-short region. Elsewhere, the N.T. acreage is a high upside option in the Greater McArthur basin
- Cash at 31 Dec 2024 of \$2M

The Sapphire coal seam gas (CSG) pilot test commenced in January 2023 and has flowed gas at variable rates, impacted by equipment and maintenance down-time. Legal challenges pose risks to commercialising this gas, which if developed would abate the east coast gas market shortfalls looming from 2026.

BLU's vast gas resource can solve the east coast gas crisis. Approximately 700PJ of gas is committed to MoU's with AGL Energy (ASX:AGL), Origin Energy (ASX: ORG) and QPM Energy (ASX:QPM).

Cash at 31 Dec 2024 was \$2M. Meaningful exploration activity over the outlook will absorb this so BLU will need to raise funds in CY 2025 or find alternative ways to monetise assets.

Investment Thesis

Blue has ~1600PJ of 2C gas resource in it's Queensland Bowen and Surat Basin acreage, of which 700PJ is subject to MoU's. Establishing commercial flow rates at Sapphire is critical to firm these agreements into bankable contracts. Accessing the east coast gas market will require a pipeline to Wallumbilla in Southeast Qld.

The revenue opportunity dwarfs Blue's market value. The volume of gas subject to MoU has an undiscounted sales value of ~A\$7B, at a sales price of ~A\$10/GJ. This may prove conservative, with producer offers or 2025 supply averaging A\$14.77/GJ (Ref: ACCC Gas Inquiry 2017-2030, 10 Jan 2025)

The east coast market shortfall is widely recognised and thoroughly documented. BLU is one of a small number of companies that have uncommitted resources to address the market shortfalls.

Valuation A\$0.054 (Prev. A\$0.10)

Our value is derived from a peer group active in the gas exploration phase. We apply a peer group average value per 2C of 6.2c, to Blue's ~1600 PJ of 2C resource. The gap between the current market value and upside potential is very wide. Resolution of legal roadblocks and better results from Sapphire are near-term upside catalysts.

Risks

A key risk is the achievement of commercial rates from the Sapphire. Failure would force Blue to explore elsewhere or drill more wells and find the capital to do so. Blue has no production revenue so will need external funds to continue field activity, and this might not be forthcoming. Environmental groups have blocked timely work and may continue to do so.

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Blue Energy explores and develops conventional and coals seam gas from a portfolio of permits in Queensland's Bowen and Surat Basins, and in the N.T. BLU has proven reserves and very large contingent and prospective resources which are not yet in production.
www.blueenergy.com.au

Valuation	A\$0.054 (from A\$0.100)
Current price	A\$0.006
Market cap	A\$11M
Cash on hand	A\$2M

Upcoming Catalysts / Next News

Period	
CY25	Resolve EDO challenge
CY25	Secure PCA's in Qld acreage
CY25	Ongoing Sapphire test results

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial Summary

Market Data	Y/E Jun 30	A\$	Lo	Hi
Share price	A\$/sh	0.006		
52 week range	A\$/sh		0.006	0.02
Shares on issue	M	1851		
Perf shrs + Options	M	0.00		
Market Cap	A\$M	11		
Net Cash	A\$M	2.0		
Other	A\$M	0		
Enterprise Value	A\$M	9		
Valuation	cents/share	0.054		

Valuation multiples	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	0.00	0.000	0.000	0.000	0.000
PE	-	-	-	-	-
DPS	-	-	-	-	-
Yield-%	-	-	-	-	-
EBITDAX/sh (US cents)	-	-	-	-	-
P/FCF	-	-	-	-	-
EV/EBITDAX	-	-	-	-	-
EV/(2P+2C)- A\$/ GJ	0.005	-	-	-	-
Revenue/MM boe	-	-	-	-	-
EBITDAX/Sales-%	-	-	-	-	-
Net cash (US\$M)	2.4	4.4	0.5	-0.8	-0.5
ND/(ND+E)	-	-	-	-	-

Realised prices	FY23A	FY24E	FY25E	FY26E	FY27E
Gas- A\$/ GJ	9.27	11.95	12.00	12.00	12.00
Oil-US\$/bbl	-	-	-	-	-
A\$/US\$ rate	-	-	-	-	-

Production (Net)	FY23A	FY24E	FY25E	FY26E	FY27E
Gas- Bcf	0.00	0.00	0.00	0.20	0.40
Liquids (MMbbl)	0.00	0.00	0.00	0.00	0.00
MMboe	0.0	0.0	0.0	0.0	0.1
% liquids	-	-	-	-	-

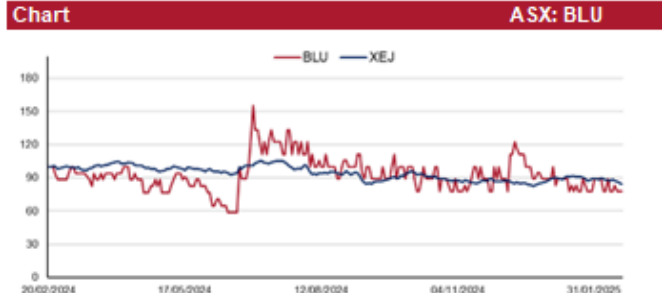
Reserves (MM boe)	2P	3P	2C	3C
Gas- PJ	91	293	1617	4017
Liquids	0	0	0	0
Total MMboe	15	49	270	670
% oil	0%	0%	0%	0%

Valuation	2C	\$/GJ	Value
Bowen-Sapphire	252	0.062	16
Bowen-Central	111	0.062	7
Bowen-Monslatt	619	0.062	38
Bowen-Lancewood	232	0.062	14
Bowen-Hilalong	182	0.062	11
Surat / other	194	0.062	12
Total E&P assets			99
Cash			2
Debt			0
Total equity value			101
Shares FD			1851
Value Per share			0.054

Income statement	FY23A	FY24A	FY25E	FY26E	FY27E
Gas Revenue	0.0	0.0	0.0	1.6	3.2
Oil Revenue	0.0	0.0	0.0	0.0	0.0
Total Oil & gas revenue	0.0	0.0	0.0	1.6	3.2
Revenue	0.4	0.2	0.2	1.8	3.4
Opex	0.0	0.0	0.0	0.0	0.0
Royalties	0.0	0.0	0.0	0.0	0.0
G&A	1.9	1.6	2.0	2.0	2.0
EBITDAX	-1.5	-1.4	-1.8	-0.2	1.4
Exploration exp.	0.0	12.2	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	-1.5	-13.6	-1.8	-0.2	1.4
Finance charges	0.0	0.1	0.0	0.0	0.0
Net profit before tax	-1.5	-13.6	-1.8	-0.2	1.4
Tax	0.0	0.0	0.0	0.0	0.0
NPAT-underlying	-1.5	-13.6	-1.8	-0.2	1.4
Significant items	0.0	0.0	0.0	0.0	0.0
Reported NPAT	-1.5	-13.6	-1.8	-0.2	1.4
Shares at EOP (M)	1851	1851	1851	1851	1851

Cash flow	FY23A	FY24E	FY25E	FY26E	FY27E
Receipts	2.0	0.3	0.1	1.8	3.4
Payments	-4.0	-1.9	-2.0	-2.0	-2.0
Payments for E&A	0.0	0.0	0.0	0.0	0.0
Interest & other	0.1	0.1	0.0	0.0	0.0
Net cash from ops.	-1.9	-1.5	-1.9	-0.2	1.4
Exp & Dev capex	-20.6	-3.8	-2.1	-1.1	-1.1
Acquisitions & other	0.0	0.0	0.0	0.0	0.0
Net investing	-20.6	-3.8	-2.1	-1.1	-1.1
Equity issuance	19.2	0.0	0.0	0.0	0.0
Debt Movement	0.0	0.0	0.0	5.0	0.0
Divs / other	0.0	0.0	0.0	0.0	0.0
Net cash Financing	19.2	0.0	0.0	5.0	0.0
Increase in cash	-3.4	2.0	-3.9	3.7	0.3
Cash at EOP	2.4	4.4	0.5	4.2	4.5

Balance sheet	FY23A	FY24E	FY25E	FY26E	FY27E
Cash	2.4	4.4	0.5	4.2	4.5
Receivables / Inventory	0.1	0.1	11.0	11.0	11.0
P, P & E	86.5	70.7	70.7	70.7	70.7
Exploration & evaluation	0.1	0.2	2.2	3.3	4.4
other	0.2	0.2	0.2	0.2	0.2
Total Assets	89.3	75.6	84.5	89.3	90.7
Payables	0.6	0.5	0.5	0.5	0.5
Debt	0.0	0.0	0.0	5.0	5.0
Other	1.2	1.2	9.7	9.7	9.7
Total liabilities	1.8	1.8	10.2	15.2	15.2
Total equity	87.4	73.8	74.3	74.1	75.5



Source: MST Access

Gas crisis is solvable but green and red tape hinders activity

The east coast gas crisis has been thoroughly documented, and it appears that Governments are slowly realising this, however the demonization of gas continues at the societal level and is a legacy that Blue, and peers in the region, have to deal with in practical terms. The latest impediment to Blue bringing its huge resource to market is a challenge by the EDO to regulatory authorities. This is to be resolved. Meanwhile, east coast gas prices have trended higher and are reported by participants to be in the \$14-20/GJ range, for spot sales.

Blue is resource rich, but cash poor.

Blue has 1600PJ of 2C contingent resource in its Bowen basin and Surat Basin licenses. It has MoU's to supply >700 PJ to AGL (300PJ), Origin Energy (300PJ) and QPM Energy (112PJ), from the Bowen basin fields. Three things need to happen in order to move to production.

1. Bureaucratic and legal challenges need to be resolved. These have held-up activity, but this isn't unique to BLU with other Qld operators experiencing challenges to enter production or execute exploration. The green and red tape have imposed a regulatory and financial burden and have delayed Blue's legitimate field activity in the Bowen Basin.
2. The Sapphire pilot needs to achieve higher gas flow rates. The rates are lower than expected, from low permeability reservoirs that may have been damaged by drilling and completion methods. Nevertheless, more work and more money is needed to understand the problem and resolve it.
3. To transport Bowen basin gas to the east coast, a 450Km pipeline needs to be built to the Wallumbillah hub in south east Qld. Other companies that are active in the region would benefit from such a link but none have the financial capacity, with the exception of Shell that a decade ago proposed such a pipeline from its Bowen Basin acreage to connect to Gladstone or Wallumbillah. Queensland Government support has waxed and waned through the electoral cycles but there is no indication of funds or support to move this forward.

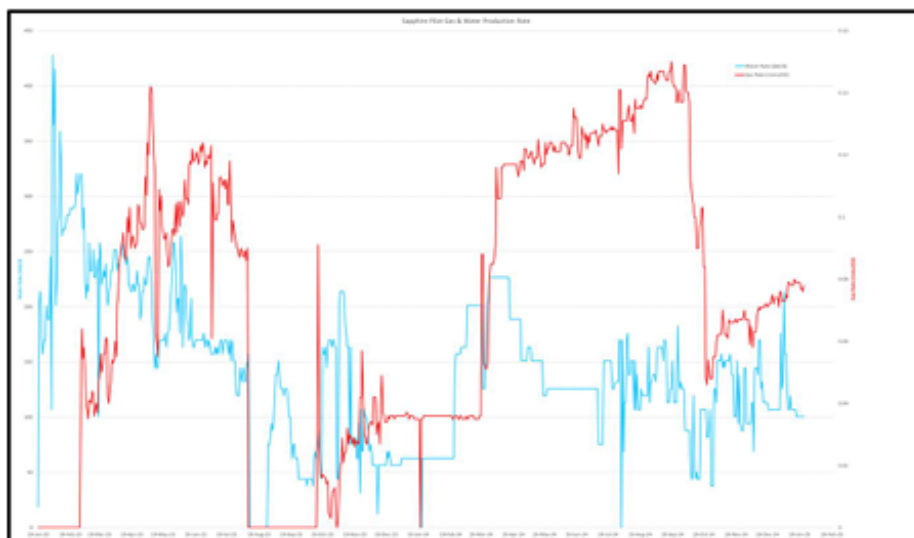
Recap: The Sapphire gas project in the Bowen basin

This Sapphire coal seam gas pilot program is Blue's flagship project because it accounts for the bulk of the company's reserves and resources and has MoU's for sale of ~700PJ of gas, with a sales value of \$7B at an assumed market well-head price of \$10/GJ.

The Sapphire CSG pilot phase commenced in February 2023, and gas began flowing to the surface in March 2023. As is typical for CSG, rates increased slowly over time and reached 150,000 scfd as water rates declined and the coals become de-pressured. During testing the field was shut-in from time to time to optimise equipment, and conduct maintenance, with re-starts impacting gas rates.

Figure 2 shows the history of gas and water production. Blue theorises that rates have been compromised by additives in the drilling fluid, damaging the Permian coals when drilled. Courses of action are being evaluated to test this, including drilling of another lateral well using different drilling fluids. However, more activity will take time and more investment

Figure 2: Sapphire Pilot gas (red) and water rates (Blue)



Source: Blue Energy December 2024 Quarterly report

In adjacent acreage, QPM Energy are undertaking a multi-well re-development at the Moranbah field, to fulfill newly extended industrial and power generation contracts. Blue has an MoU to supply 112 PJ of gas to QPM Energy. Blue plans to construct a short (3km) gas line from Sapphire to a low-pressure gathering point in the Moranbah field and also has an agreement to sell pilot phase gas to QPM.

Gas sale agreements: very large!

Blue has MoU's for sale of gas into eastern Australia as follows:

- MoU with Origin Energy for supply of 200-300 PJ over a 10 year term, from 2027.
- MoU with QPM for 112 PJ in total over 15 years in addition to an agreement for Blue to supply Sapphire test gas.
- MoU with AGL Ltd for 200-300 PJ over 10 years from 2028.

In total, the volume of gas subject to MoU totals >700 PJ, over a 10 -15-year period.

Legal roadblocks: EDO taking on the Qld Govt and Blu in the cross-fire

Blue has an MoU to supply pilot production gas to QPM from Sapphire, to QPM's Node-3 compressor station 3 km to the west, in QPM's Moranbah field. The Sapphire field is in Production License PL1034. In 2023, Blue was granted a site-specific Environmental Authority (EA) for production from PL1034, by the Queensland Department of Environment, Science and Innovation (DES).

An appeal against this grant was lodged by the Environmental Defender Office (EDO) in 2024. Blue has been enjoined as a second respondent, in what is (in practical terms) a legal case between the EDO and the Government. In practical terms, it has added regulatory and financial burden to Blue and damaged investor confidence. The timing of a resolution is uncertain.

Wiso Basin, Northern Territory: a new frontier

Blue has vast acreage in the Wiso basin in the Northern Territory. The company has three exploration permits (EP200, 205, and 207) and Application areas EP199A, 206A, 208A, 209A, 210A and 211A.

The potential of this region is realised by others that are active, notably Santos, Tamboran and Empire Energy. Liquids rich shale rocks are believed to be extensive and US-style technologies (horizontal wells + fracking) are being applied with highly encouraging results.

During the past quarter(s) Blu has completed interpretation of 2D seismic data acquired by Geoscience Australia in 2023, with the seismic lines extending into Blue's EP's 200 and 207. (Figure 4). This activity is important for Blue to complete its farm-in arrangements with Liberty Petroleum, and increase its working interest from 10% to 50%, as well as define the broad structural trends. Interpretation to date indicates gas-rich sedimentary sequences of the McArthur Group extend into Blue's license and application areas.

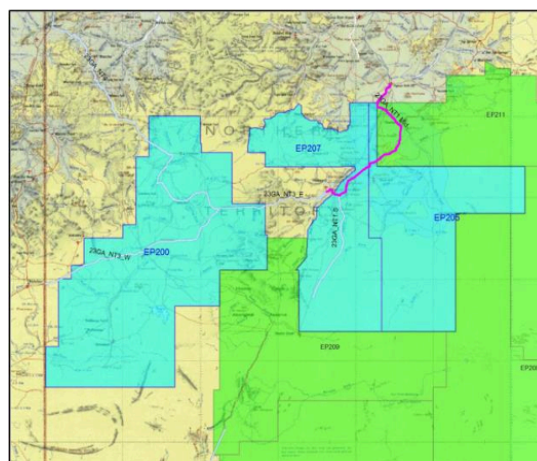
Tenure for EP 200, 205 and 207 requires extensions. The Pepper (aka "fracking") inquiry and protracted land access negotiations and various protocols that resulted has impeded planned work programs by years. Also, the remoteness of the region and lack of logistics makes drilling expensive. Blue and partners will need to attract larger industry participants to fund and meaningful exploration.

Figure 3: Wiso basin acreage and application areas



Source: Blue Energy

Figure 4: Geoscience seismic line (purple) in BLU acreage



Source: Blue Energy

Reserves and resources

We reproduce the company's reserve and resource statement in Figure 5, to quantify the upside if these reserves and resources can be commercially produced. Blue has the largest 2C and 3C resource of any ASX-listed exploration phase company in eastern Australia.

Figure 5: Reserves and Resources (PJ)

Permit	Block / Area	1P	2P	3P	1C	2C	3C
ATP854	Surat	0	0	0	90	194	398
ATP814P	Bowen, Sapphire	0	91	287	171	252	256
ATP814P	Bowen, Central	0	0	0	39	111	469
ATP814P	Bowen, Monslatt	0	0			619	2054
ATP814P	Bowen, Lancewood	0	0	1	203	232	573
ATP814P	Bowen, Hillalong	0	0			182	237
ATP814P	Bowen, South	0	0	6	15	27	30
Total		0	91	294	518	1617	4017

Source: Blue Energy

Valuation A\$0.054 (Previously \$0.10)

Due to the uncertainty as to timing and likelihood of future cashflows, we have changed our valuation method from a DCF of future cashflows, to a resource-based market value. We believe this is more appropriate at this time and aligns Blue with a group of small companies that have exploration phase assets, but are not yet in a production of cash-flow phase, Refer to figure 6.

Key assumptions are:

- 2C contingent gas resources in Blue's Surat and Bowen Basin acreage are valued at 6.2c/GJ. This figure is derived from peer group market values. Refer to Figure 7 for a data table.
- 2C of 1617 PJ in Queensland acreage.
- Nil value ascribed to NT acreage due to lack of meaningful data sets to inform value.

Figure 6: Sum of part valuation

Asset Value (A\$M)	2C	\$/GJ	A\$M	\$/GJ
Bowen-Sapphire	252	0.062	16	0.062
Bowen-Central	111	0.062	7	0.062
Bowen-Monslatt	619	0.062	38	0.062
Bowen-Lancewood	232	0.062	14	0.062
Bowen-Hillalong	182	0.062	11	0.062
Surat Basin- 2C gas resource	194	0.062	12	0.062
Total E&P assets	1590		99	
Cash			1,991	
Debt			0	
Total equity value			101	
Shares on issue			1851	
Value Per share				0.054

Source: MST Access

Peer group

There are numerous small companies active in gas exploration in Qld, N.T, which are are not yet in a production phase. These companies are valued in the equity market based on reserve or contingent resource multiples. We think these are appropriate to apply to Blue at this juncture.

For completeness, we include in figure 7 companies that have CSG or other unconventional gas acreage and projects in foreign counties (Mongolia, USA, Botswana, Indonesia) and while gas prices and markets in these countries are different, the inference is that value is being ascribed to these companies which are in a gas exploration phase.

Figure 7: Peer group equity market resource valuations

Company	Ticker	EV	2P	EV/2P	2C	EV/(2P+2C)
Gas Exploration / appraisal companies						
Comet Ridge	COI	140	195	0.72	211	0.34
State Gas	GAS	17	0		534	0.03
Empire Energy	EEG	174	0		587	0.30
TMK Energy	TMK	31	0		862	0.04
Elxir	EXR	39	0		444	0.09
Jade Gas	JGH	55	0		155	0.35
Kinetiko	KKO	86	7		6360	0.01
Galilee Energy	GLL	-1	0		2508	0.00
Red Sky	ROG	24	0		38	0.64
Botala Gas	BTE	12	0		164	0.08
NuEnergy	NGY	32	215		0	0.15
Tlou Energy	TOU	23	43	0.54	228	0.09
Heartshad Resources	HHR	2	319	0.01	147	0.00
Triangle Energy	TEG	0	0		0	
Omega oil & gas	OMA	109	0		0	
Helios	HE8	28	0		294	0.10
88 Energy	88E	51				
Vol weighted av.		822	779	1.06	12533	0.062

Source: MST Access.

Risk Factors

- The Sapphire project testing may not reach levels expected by Blue Energy, requiring additional expense and additional drilling. Lower-than-expected flow rates may impact on reserve and resource determinations, and Blue's ability to convert gas MoU's to bankable sale agreements.
- Blue will need additional funds from external sources (debt, equity or asset sale) to fund development. This may not be forthcoming in a cost effective or timely manner.
- Environmental lobby groups have impeded activity to date. Continuing anti-gas agendas could jeopardise timely realisation of Blue's gas resources.
- To connect its gas resources to southern markets, Blue requires a pipe-line to be built from its Bowse Basin gas fields to hubs at Gladstone or Wallumbillah. There is no certainty such a link will be built by independent gas pipe-line operators or other parties.

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Stuart Baker received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Blue Energy (BLU.AX) | Price A\$0.006 | Valuation A\$0.054;

Price and valuation as at 24 February 2025 (not covered)*

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