Comet Ridge

ASX Announcement

30 July 2020

Greater Mahalo Development Area Update

Comet Ridge Limited (ASX:COI) is pleased to provide an update on its plans for the Greater Mahalo Development Area, comprising the Mahalo Gas Project (COI 40%) and Mahalo North Project (COI 100%), as well as thoughts on gas market conditions which are currently impacting the industry.

Key points:

- Comet Ridge believes the gas market should move from oversupply to being significantly short gas, around the time that the Greater Mahalo Development Area gas fields will be entering the market.
- Given the scale of the Mahalo Gas Project, the Company is investigating the sale of a portion of its interests to fund the equity component for that development.
- This enables Comet Ridge to concentrate its technical efforts on developing its 100% equity position in the Mahalo North block (ATP 2048).

Gas Market Conditions

The impact of Covid-19 has seen softer energy demand globally, leading to weaker global oil and LNG prices. This has resulted in significant write-downs of the value of Australian LNG assets by the majors in recent weeks. The east coast gas market is currently in surplus because of weakness in international LNG demand as well as lower domestic gas demand. This has a flow on effect to local gas spot pricing and will lead to a corresponding industry-wide decrease in future investment in gas exploration and project development.

Recent quarterly forecasts by the Australian Energy Market Operator (AEMO), suggesting that Australia's east coast gas market will not be in shortfall until the end of 2023, may well be optimistic given the current reduction in investment across the industry.

Comet Ridge expects a significant reversal of the current softer spot gas prices, from 2022/23 (if not earlier) due to:

- Natural decline of tier 1 producing gas assets across the main producing basins of eastern Australia;
- A reduction in current and near-term investment, resulting in not only less new gas supply entering the market than has currently been forecast, but existing fields without ongoing expansion drilling declining quicker than anticipated;

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- A lack of government support and clarity for new supply sources from emerging gas producing regions (for example, AEMO are assuming 70 PJ of new gas per year coming into the New South Wales market by 2022); and
- The higher cost (on a lifecycle basis) of new gas resource development needing to be reflected in term contract pricing.

The Australian Competition and Consumer Commission (ACCC) Gas Inquiry 2017-2020 Interim Report released in January 2020 indicates the long-term supply outlook for the East Coast Gas Market 2021 to 2031 is "*uncertain*" and the outlook for southern states is "*highly uncertain*". The ACCC notes 2P reserves have continued to fall, particularly in Queensland, where 2P reserves were downgraded by 4400 PJ between June 2017 and June 2019. The ACCC also notes that long term security of supply in the east coast is becoming increasingly dependent on more speculative sources of supply, with 75% of 2C resources located in fields (mostly from Bowen, Beetaloo, Galilee and Gunnedah basins) that are not yet in production or approved for development.

Comet Ridge supports the ACCC's findings that *"Governments should use active tenement management to ensure producers bring gas to market in a timely manner, prevent larger producers 'warehousing' gas and encourage greater diversity of suppliers"*.

The confluence of the above factors, leads Comet Ridge to believe, subject to international LNG requirements, that the gas market should move from oversupply to being significantly short gas, around the time that the Greater Mahalo Development Area gas fields will be entering the market.

ACCC notes in their January 2020 Report that the price of longer-term domestic contracts offered between January 2018 to August 2019 for supply in 2020 has been in the $8-10/GJ range for producer offers (refer Figure 1 below). Term contract pricing has been much less volatile than spot pricing, particularly spot prices seen in recent times (including post COVID-19).

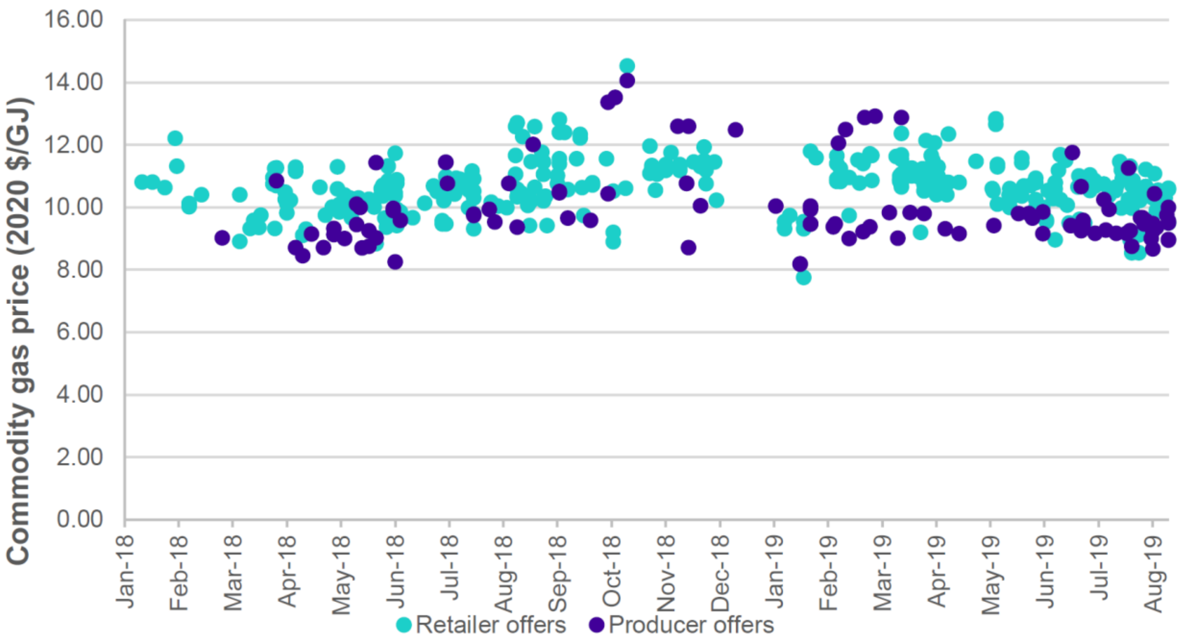

Figure 1 - ACCC Gas Inquiry 2017-2020 Interim Report: January 2020, p47; ACCC analysis of information provided by producers

Mahalo Gas Project (PL 1082 and PL 1083)

Comet Ridge announced on 7 July 2020 that the Mahalo Gas Project had been granted Petroleum Leases (PLs) 1082 ("Humboldt") and 1083 ("Mahalo") for a term of 30 years.

This means that Comet Ridge is now a 40% equity holder in a significant gas project that has received the necessary government approvals to proceed to development and production. Whilst the Mahalo Joint Venture (Santos 30% equity and APLNG 30% equity (with Origin as the Upstream Operator)) has agreed the facility at Mahalo will target 60 TJ/d gas production, the Joint Venture has yet to formally agree a date for Final Investment Decision (FID) or for First Gas.

Given the scale of the Mahalo Gas Project, the Company is investigating the sale of a portion of its interest to fund the equity component for that development (notwithstanding the project will also have a significant debt and tolling (opex) component). This will enable Comet Ridge to concentrate its technical efforts on developing its 100% owned Mahalo North block (ATP 2048) which is discussed in greater detail below.

Mahalo North (ATP 2048)

Whilst working with our Mahalo Joint Venture participants to progress the Mahalo Gas Project to FID, Comet Ridge has been progressing plans at Mahalo North, where 100% equity and operatorship provide the Company with the ability to control the timing of work program, initial gas delivery and expansion. Comet Ridge will look for operating synergy between Mahalo North and any other gas projects in the area for the purpose of generating the lowest unit cost of gas. Comet Ridge however will not do this at the expense of project timing nor operational control.

Following the announcement of the award of ATP 2048 on 30 April 2020, Comet Ridge has been working to optimise the work program at Mahalo North to fast track potential commercialisation. Recently integrated (additional) third party, high quality, seismic data has increased the Company's confidence in the productive coal fairway and the ability of strategically placed pilots to deliver meaningful gas volumes. The high quality of the newly obtained seismic data means it is likely that a further planned seismic survey will not be necessary and that appraisal and initial development wells can be located based on the data already available and interpreted.

Given the current unfavourable gas and corresponding share market conditions, Comet Ridge is unlikely to raise equity funds to undertake an initial pilot drilling campaign at Mahalo North. Rather, the Company has been working with potential partners who share Comet Ridge's view of a looming tightening gas market to bring Mahalo North into production to coincide with the predicted shortages in the market. These negotiations, designed to provide funding for upstream appraisal and development, include gas pre-sales and/or project equity participation. These negotiations, once finalised, may also incorporate a sell down of part of Comet Ridge's share of the Mahalo Gas Project (as indicated above).

Existing infrastructure near to Mahalo North, as well as the potential to supply gas to substitute diesel at nearby coal mines, provides for a staged development profile and early production from Mahalo North. Figure 2 (below) shows the Greater Mahalo Development Area.

Figure 2 – Greater Mahalo Development Area with some of the proximal operating coal mines

Comet Ridge has been developing an opportunity to commercialise well test and ramp up gas from the initial pilot phase of the Mahalo North appraisal work. Comet Ridge is finalising a Memorandum of Understanding (MOU) with Mine Energy Solutions Pty Ltd (MES) and the Intelligas Group of Companies for the offtake and transport of gas from Mahalo North for substitution of diesel for mine trucks at nearby coal mines and also possible distribution into the local pipeline network. Such an option could provide flexibility for initial gas production and provide an early revenue stream and environmental benefits for gas that would otherwise be flared. Comet Ridge would see a significantly reduced facility capex requirement for this early gas opportunity.

MES is an incorporated joint venture between Sime Darby Berhad, a multi-national corporation and Intelligas, a Queensland based alternate fuels technology development company. MES has developed a high density compressed natural gas fuel system for mine trucks that displaces diesel at high substitution rates. This has both environmental and cost of production benefits for the mining operation.

Comet Ridge is subsequently progressing numerous options for commercialisation of gas from Mahalo North through a combination of the following:

- "Virtual Pipeline" (i.e. trucking compressed natural gas "CNG") – providing pilot gas to MES for substitution of diesel for mine trucks and/or possible distribution into the local pipeline network;
- Accessing nearby pipeline infrastructure – Comet Ridge has previously announced an MOU with Denison Gas for up to 10TJ/d; and
- New tolled pipeline and gas processing facilities once the Mahalo Gas Project development is completed.

Greater Mahalo Development Area plans

Comet Ridge believes it is prudent to take a staged approach to the Greater Mahalo Development Area, targeting Mahalo North for early gas, initially at low cost and lower offtake to generate revenue. This would be followed with expansion at Mahalo North and development of the Mahalo Gas Project utilising a partial sale of equity, gas prepays, tolling arrangements and debt to provide funding.

Comet Ridge is progressing the following key milestones for development of its interests in the Greater Mahalo Development Area:

- Secure a partner for the Mahalo Gas Project (which may incorporate appraisal and development funding and project equity interest in the Mahalo North block);
- Initial pilot drilling at Mahalo North designed to achieve 2 to 3 TJ/d of production per pilot well and expand the Company's gas reserves in the Greater Mahalo Development Area;
- Infrastructure access initially via Virtual Pipeline or nearby existing infrastructure and subsequently via a tolled (shared) pipeline and processing facility for up to 60 to 80 TJ/d (gross) from development of the Mahalo Gas Project;
- Gas offtake arrangements for pilot gas initially and then expanding up to the total requirements of the Greater Mahalo Development Area;
- Joint Venture agreement on a Final Investment Decision at the Mahalo Gas Project;
- Access reserve-based lending facilities, loans from Commercial Banks or from Government backed infrastructure development funds to complement Comet Ridge's development funding requirements.

Comet Ridge believes the following production profile can be achieved for the Greater Mahalo Development Area. This plan is conceptual and subject to the necessary joint venture and government approvals as well as finalising infrastructure access, gas offtake and development funding.

Development stage	Gross Production (TJ/d)	Transport options	Target First Gas
Mahalo North (COI 100%)			
• Pilot	2-3	Virtual Pipeline (CNG)	2021
• Initial development	5-10	Nearby infrastructure/CNG	2022
• Expansion	20	Mahalo Gas Project facilities (with tolling the preferred Comet Ridge development option)	2023(1)
Mahalo Gas Project (COI 40%)			
• Initial development	60(2)	Mahalo Gas Project facilities (with tolling the preferred Comet Ridge development option)	2023(1)

(1) First gas timing and availability of Mahalo Gas Project facilities subject to Mahalo JV approvals
(2) The Mahalo Gas Project (Santos and APLNG JV with Comet Ridge) plans to come online at 60 TJ/d

Summary

The Company sees the gas market tightness re-emerging in the short to medium term and is taking steps now to participate in this opportunity by allocating capital and human resources across the portfolio in an optimal way.

Comet Ridge believes that Mahalo North and Mahalo Gas Projects are standout, low cost, near to production assets in a market that will ultimately move into significant undersupply. Given current share market conditions, the Company is pursuing non-equity market solutions for Mahalo North development funding in the form of project equity participation and/or gas prepay arrangements.

Further updates will be provided periodically as the Company progresses these negotiations for the initial development phase at Mahalo North.

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About Comet Ridge

Comet Ridge Limited (ASX: COI) is a publicly-listed Australian energy company focused on the development of gas resources for the east coast Australian market. The company has tenement interests and a suite of prospective projects in Queensland and New South Wales. Comets flagship Mahalo North and Mahalo projects are low cost, sales spec gas blocks, close to Gladstone. Comets exploration assets in the Galilee and Gunnedah basins offer further upside amid increasing domestic and international demand for gas as a source of cleaner energy.