Comet Ridge Limited

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# Comet Ridge buys back Mahalo interests from Stanwell

19 March 2014

# Executive Summary

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## Comet Ridge buys back interests in Mahalo sold to Stanwell in 2011

- In September 2011 Stanwell purchased:
  - a 5% interest in the Mahalo Gas Project (*MGP*); and
  - an option to acquire up to a further 35% interest in MGP
- Stanwell has relinquished these interests in exchange for (at Stanwell's election exercisable at Final Investment Decision) either:
  - Stanwell and COI entering into a 20 to 40 PJ gas sales agreement; or
  - Stanwell receiving a cash payment of $20m (escalated at CPI)

# Summary of Key Benefits to COI

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| | |
|---|---|
| **1** | Restores COI interest in MGP to 40% with consideration in the form of a GSA or cash payment deferred until Final Investment Decision for the MGP |
| **2** | COI retains optionality to maximise value achieved for its equity gas (less gas sold to Stanwell under a GSA if elected by Stanwell*) |
| **3** | Provides COI exposure to increased gas prices from production or gas reserves from the MGP in a tightening East Australian gas market |
| **4** | No cash consideration required prior to Final Investment Decision |

** Limited to a minimum of 20 PJ and a maximum of 40 PJ of gas, delivered via one third of Comet Ridge's produced equity gas from the MGP over 10 years*

# Summary of 2011 Option Deed

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## Original Sale & Purchase Option Deed over the MGP executed with Stanwell in 2011

- Sale of 5% interest in ATP 337P Mahalo to Stanwell for $7m – completed December 2011
- Funding up to $8m by Stanwell of COI's expenditure commitments (carrying COI through the 2012/13 Pilot Program) – completed September 2013
- Grant of option to Stanwell to acquire up to a further 35% interest in MGP at an average price of $1.00/GJ based on the level of 2P reserves achieved by 31 December 2014

# Key Terms of 2014 Agreement

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- Stanwell can elect either of the following at FID of MGP as consideration for the relinquishment of its interests in the MGP

| GSA | OR | Cash payment |
|---|---|---|
| ▪ ***GSA with COI for supply of 20 PJ to 40 PJ from the MGP over 10 years***<br>▪ Limited to one third of COI gas produced each year for 10 years<br>▪ Key GSA terms:<br>— Pricing linked to LNG netback (with ceiling)<br>— Floor price protection based on fixed return<br>— Take or pay provisions apply<br>— Stanwell receive pricing discount over term of GSA to reflect $15m invested to date | | ▪ ***Cash payment of $20m ****<br>▪ Represents reimbursement for expenditure to date and uplift in value/funding costs<br>▪ If FID is not reached within 4 years Stanwell is deemed to have elected the cash payment |

** Escalated quarterly from 1 August 2014*

# Mahalo Gas Project

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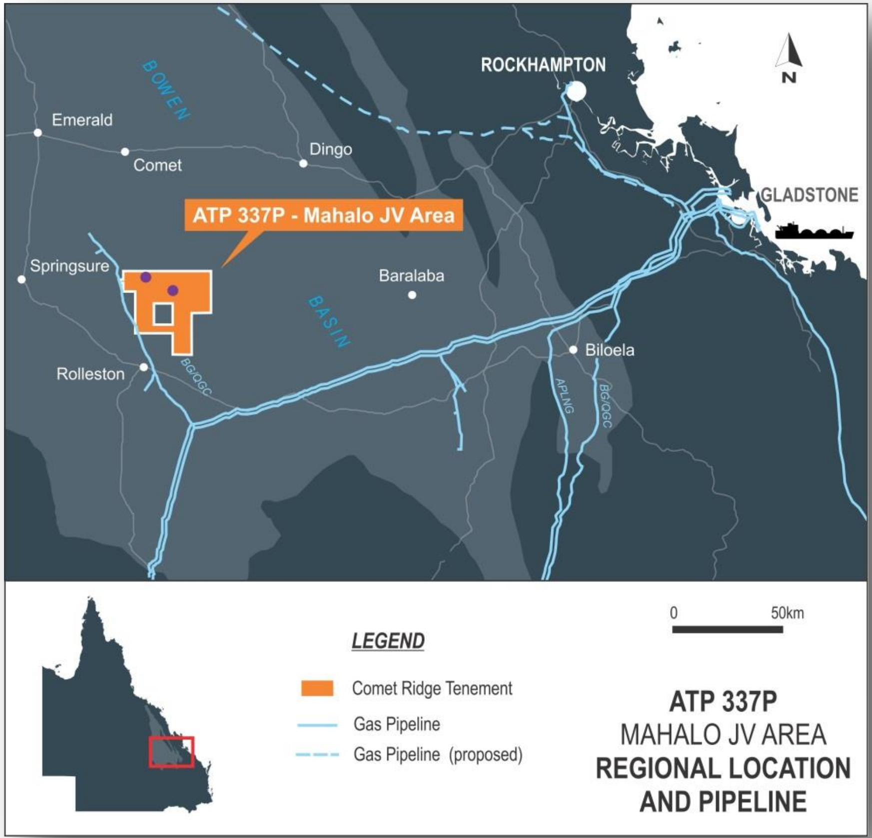
- Quality project located close to infrastructure linking to Gladstone LNG market with gas supply shortages and rising prices
- Initial drilling and testing exceeded expectations and confirmed a high quality asset:
  - 7 to 9 metres of continuous net coal thickness achieved across both pilot locations
  - Very good to excellent permeability measured (up to hundreds of millidarcies)
- COI view of asset potential unchanged
- Joint Venture currently working to optimise production potential consistent with initial drilling results
- Mahalo 3 & 5 wells now back on line for evaluation following January and February stimulation



# Rationale and Benefits to COI

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1. **Restores COI interest in the MGP to 40% with consideration in the form of a GSA or cash payment deferred until FID**

- COI interest in MGP increases from 35% to 40%
- Stanwell relinquishes its option to acquire COI's interest in the MGP for an average price of $1.00/GJ of 2P reserves
- COI's 40% equity share of Contingent Resources for the MGP, after completion of this transaction, is shown below

| Mahalo Gas Project Contingent Resources – COI 40% interest | | |
|---|---|---|
| **1C** (PJ) | **2C** (PJ) | **3C** (PJ) |
| 83 | 221 | 442 |

**Contingent Resources Estimates**
The Contingent Resource estimates that have been referred to in this presentation were first announced by Comet Ridge on 25 October 2010. The gas Contingent Resource estimates provided were determined by Mr. John Hattner of Netherland, Sewell and Associates Inc, Dallas, Texas, USA, in accordance with Petroleum Resources Management System guidelines.

# Rationale and Benefits to COI

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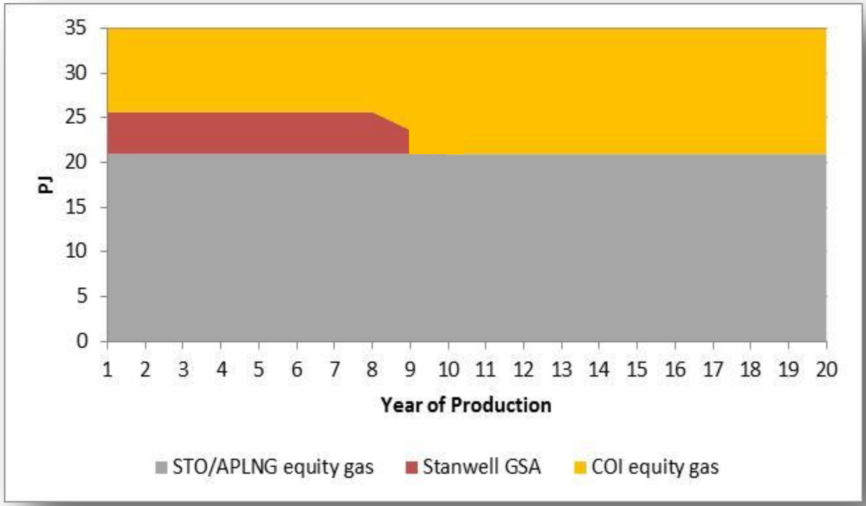
**2. COI retains optionality to maximise value achieved for its equity gas (less gas sold to Stanwell if a GSA is elected)**

- GSA to Stanwell for supply of 20 PJ to 40 PJ over 10 years to be no more than one third of COI's share of production each year
- Introduces cornerstone gas customer with pricing linked to LNG netback with floor price protection based on return on field costs
- Remaining COI gas production remains uncontracted

## Indicative GSA Example Based on 35PJ/a Gross Project Field Development




*Assumptions:*
- *35 PJ/a gross project field development*
- *20+ year field life*
- *40 PJ sold to Stanwell over 8.5 years*

# Rationale and Benefits to COI

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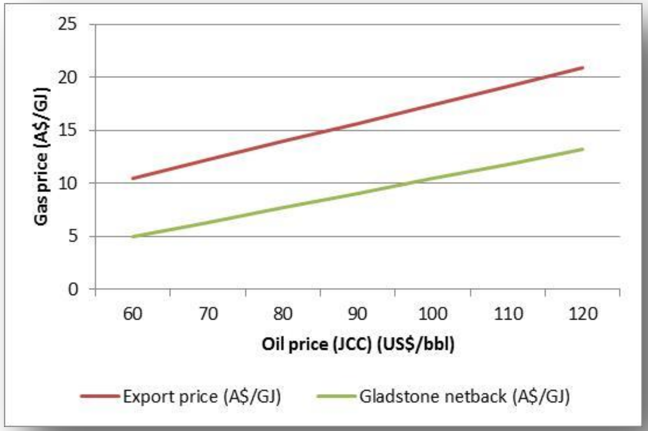
**3. Provides COI exposure to increased gas prices from production or gas reserves from the MGP in a tightening East Australian gas market**

- Gas prices have risen strongly since 2011:
  - Gas traded on the Brisbane STTM at $3.25/GJ as at 31 December 2011*
  - East Coast gas producers are now reporting gas sales of $8-10/GJ
  - Dec 2013 JCC import price of US$102/bbl equates to ~$10.50/GJ delivered to Gladstone
  - EnergyQuest is forecasting LNG demand to increase Qld gas prices to average $12/GJ from 2015 to 2017 and to force spikes of up to $18/GJ
- Strength of gas market evidenced by Stanwell's recent decision to shutdown Swanbank E in favour of trading gas
- LNG project proponents currently seeking third party gas with long production ramp-ups expected on second trains leaving significant unused LNG manufacturing capacity
  - Mahalo is uniquely located with infrastructure connection to Gladstone

**Long-run LNG netbacks**




*Source: EnergyQuest, November 2013*

** Represents delivered price of gas to Short Term Trading Market Hub (AEMO website)*

# East Australian Gas Shortage Widely Reported

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***Queensland LNG to be slowed by gas shortage: Citi***
*The Australian Financial Review, 17 March 2014*

***LNG demand to force spike in gas price***
*The Australian, 7 March 2014*

***Gas prices to soar on LNG supply dramas***
*The Australian, 17 February 2014*

***Concern as Qld LNG export projects eye local gas supplies***
*The Australian Financial Review, 5 February 2014*

***Gas shortfall closer***
*The Australian Financial Review, 29 November 2013*

***Australian LNG boom could cause domestic gas shortages***
*Platts, 29 November 2013*

***NSW gas shortage will hit business first***
*The Sydney Morning Herald, 2 December 2013*

***LNG export boom to cause domestic gas shortages***
*macrobusiness.com.au, 27 September 2013*

***CSG, joint-venture sales key to gas crisis: Grattan***
*The Australian Financial Review, 17 June 2013*

***Minister warns of looming gas shortage in NSW***
*ABC Newcastle, 22 August 2012*

# Summary

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- **Buying back Stanwell's interests in the MGP provides considerable benefits to COI:**
  - Restores COI interest in the MGP to 40%
  - Provides a potential cornerstone gas customer to underwrite future development
  - Provides COI with optionality to maximise value achieved for its equity gas (less gas sold to Stanwell if a GSA is elected)
  - Provides COI exposure to increased gas prices from production or gas reserves from the MGP in a tightening East Australian gas market
  - No cash consideration required prior to Final Investment Decision
- Agreement completes upon standard requirements that other JV partners consent to assignment of MGP equity interest (same process as was required in 2011)

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**Competent Person Statement**

The gas resource estimates provided in this statement were determined by Mr John Hattner of Netherland, Sewell and Associates Inc, Dallas, Texas, USA, in accordance with Petroleum Resource Management System guidelines. Mr Hattner is a full-time employee of NSAI, and is considered to be a qualified person as defined under the ASX Listing Rule 5.11 and has given his consent to the use of the resource figures in the form and context in which they appear in this presentation.