

CHIEF EXECUTIVE OFFICER'S REPORT

We are very proud that Montauk has developed into a leader in the renewable energy industry in the United States – an industry that is at the forefront of the sustainability movement through the capture and beneficial use of landfill methane. Methane, with a global warming potential 25 times greater than CO₂, is a potent greenhouse gas that is a key contributor to global climate change.

BUSINESS OVERVIEW

The business of creating renewable energy, with all of its social and environmental benefits, is challenging as production costs are significantly higher than typical fossil fuels such as natural gas. Gas originating from the decomposition of organic waste within landfills must first be collected by applying a vacuum, then cleaned, dewatered and refined to meet the requirements of the fuel end use. In most cases the renewable gas is either combusted for the production of electricity, or it is further processed and compressed for injection into a natural gas pipeline as a drop-in replacement for fossil fuels. Controlling and managing the capital and operating costs associated with collecting and processing the raw landfill gas is a critical component of optimising the value of our product.

The pricing of the various types of renewable energy produced by the Group is an ever-changing balance between the underlying energy commodity price and any associated environmental attribute premiums that can be realised. With electricity and natural gas commodity pricing in the US having been depressed for several years while still maintaining a relatively high degree of short-term volatility, the premiums associated with the various environmental attributes produced have become, and will continue to be, a major factor in the profitability of the business.

Our focus will continue to be to position the Company and its facilities to capitalise on and leverage the opportunities that develop in the renewable energy markets. The evolving regulatory environment mandating the use of renewable fuels can lead to opportunities that allow existing projects to capture additional premiums as they become available. To that end, the Company has made the decision to remain flexible in its offtake contract strategy, utilising a mix of fixed and market-based contracts to position the Company to capture and maximise value from these programmes.

ENVIRONMENTAL ATTRIBUTE PROGRAMMES

Since August 2014 renewable natural gas (“RNG”) derived from landfill methane used as a vehicle fuel, qualify as a cellulosic renewable identification number (“RIN”) under the United States Environmental Protection Agency’s (“EPA”) controversial Renewable Fuel Standard (“RFS II”) programme. The RFS II programme is intended to promote US security and energy independence, reduce emissions, create jobs

and grow the economy. As a result, the Company participates in the programme and looks for opportunities to increase its participation in the RFS II programme as production from additional facilities become available. While the programme allows for renewable natural gas produced anywhere in the US to qualify and potentially offer premiums significantly higher than natural gas commodity pricing, the stability of the market is dependent on the EPA issuing the annual mandated volume obligations on a timely basis and at volume levels sufficient to accommodate supply. Although the market remains relatively illiquid with limited ability to sell RINs on a forward basis, the Company has been able to monetise blocks of cellulosic RINs at pricing levels commensurate with general market conditions.

In July 2017 the EPA released the proposed volume obligations for 2018 of 238 million cellulosic D3 RINs, representing a 23% decrease over the 2017 volume obligations for cellulosic D3 RINs of 311 million. The 2018 proposal is below our expectations as the EPA used a new “rate of growth” methodology in this proposal, instead of previously used “facility-by-facility” analysis. This “rate of growth” methodology fails to take into account RNG projects under construction or undergoing retrofit to add fuel volume and has the potential to be inaccurate. In the interim the EPA has accepted comments through 31 August 2017 from industry participants (including Montauk) on the volumes which it intends to use in finalising the volume obligations to accurately reflect actual production while promoting the growth of cellulosic biofuels. Montauk has taken an active role in the process by providing comments both individually and collectively through various renewable energy organisations to assist the EPA in setting volume obligations that meet the projected production for the industry. The proposed volume obligations are expected to be finalised by the EPA by 30 November 2017.

Within the electric segment of the business, the environmental premiums associated with renewable energy produced by Montauk are centred on various state renewable portfolio standards requiring that a stated percentage of the electricity produced in that state comes from a renewable resource. That resource could be either the renewable electricity itself produced from one of our facilities or the use of renewable natural gas as a replacement for fossil fuel-derived natural gas in a natural gas-fired generation facility. The value and

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requirements for each state programme vary widely, which can limit the ability of similar facilities located in different states from having a similar pricing structure. In addition, only 29 states plus Washington D.C. have adopted renewable portfolio standards in the US.

RESULTS

Revenue from the Company's renewable natural gas facilities increased by \$28.4 million or 64.7% for the year ended 31 March 2017 from the prior year. The Company produced 3.9 million MMBtus in renewable natural gas volumes, an increase of 10.3% over the prior year. During the year ended 31 March 2017 the Company monetised 24.0 million RINs, a 10.0 million decrease in the number of RINs sold during the year ended 31 March 2016. The decrease in RINs sold was attributable to an increase in gas volumes monetised under fixed-price contracts. At 31 March 2017 the Company had 0.9 million RINs generated and unsold in inventory. Average commodity pricing for natural gas during the year ended 31 March 2017 was 13.4% higher than the prior year. Average pricing realised on RIN sales during the year ended 31 March 2017 was 90.1% higher than average pricing realised in the prior year. For the year ended 31 March 2017 the Company monetised 44.5% of its renewable natural gas production under fixed-price contracts.

Revenue from the Company's electric generation facilities increased by \$10.0 million or 138.0% for the year ended 31 March 2017 from the prior year. The Company produced 0.3 million MWh in renewable electric volumes, an increase of 33.4% over the prior year. The favourable volume variance is attributable to the first-quarter commencement of commercial operations of Bowerman Power LFG, LLC ("Bowerman"), a 20 MW electric generation facility in Southern California. Average commodity pricing for electricity during the year ended 31 March 2017 was 7.3% higher than the prior year. For the year ended 31 March 2017 the Company monetised 60.9% of its renewable electric production under fixed-price contracts.

Operating expenses for the year ended 31 March 2017 increased by \$10.2 million or 24.7%. The unfavourable variance was primarily due to royalties on increased commodity and attribute revenue and the first quarter commencement of commercial operations of Bowerman. The change in gains recognised from the Company's hedging programmes for the year ended 31 March 2017, as compared to the prior year, was immaterial.

The Company realised \$9.9 million in the prior year on the sale of retired emission reduction credits ("ERCs") for its Texas-based renewable natural gas facility, which was included

in profit on disposal of intangible assets in the comparative results and did not recur in the current year.

In January 2017 the Company realised \$0.9 million on the sale of nitrogen oxide ("NOx") emission allowances for its Texas-based renewable electric generation facilities.

The Company recorded deferred tax income in the amount of \$26.8 million, recorded as a result of the recognition of a deferred tax asset of the same amount. The Company has recognised this deferred tax asset as it has become probable its accumulated net operating losses will be utilised for set-off against future taxable income.

DEVELOPMENT ACTIVITIES

In October 2016 the Company entered into an agreement with one of its existing landfill counterparties that provides the option to build, own and operate a renewable natural gas facility for a term of 20 years from commercial operation. Upon commercial operation this new facility will process up to 7 500 standard cubic feet per minute (scfm) of methane, a portion of which is currently being allocated to the Company's on-site electric facility that monetises power at market-rate commodity pricing. Commercial operation of the RNG project is targeted to commence early in the 2019 financial year and will replace the existing electric facility.

In June 2017 the Company entered into an agreement with a new landfill counterparty to build, own and operate a RNG facility at a landfill located in Ohio for a term of 20 years from commercial operation. Upon commercial operation this new facility will process up to 3 500 scfm of methane. Commercial operation of this RNG project is targeted to commence in the first half of the 2019 financial year.

These additions will further strengthen Montauk's position as a leader in the production of renewable natural gas from landfill methane.

SUMMARY

In an industry that continues to experience depressed energy pricing, management believes that Montauk is well positioned to capture both existing and emerging value from developing the renewable energy markets in order to drive long-term entity value.

ML Ryan
Chief Executive Officer

14 September 2017