



ACN: 097 997 914

Stop CSG Illawarra

PO Box 5022,
Wollongong NSW 2520

Date: 21/10/2011

Dear SCSGI

In response to your letter dated 09/10/11 requesting that Apex answers certain questions, please find below our responses:

All activities of Apex/Ormil have to be scrutinized and approved by at least half a dozen government departments and independent agencies. Would it be fair of us to ask who approves your information? We have to be absolutely transparent and factual, clearly your group doesn't. For example, there are numerous factual errors in your petition.

Our project has the potential to prevent millions of tonnes of CO₂ emissions, as it is a FACT that gas burns cleaner than coal.

SCSGI question

1. APEX was invited to provide a panellist for the forum as the holder of PELs 442 & 444. Therefore, can the company please explain why it elected (in a last minute change) to send Mr Tom Fontaine, who is neither a director nor an officer of APEX? Also (as Ormil is only a minor shareholder through the JV) can the company please confirm that the board of APEX formally authorised Mr Fontaine to act on its behalf at the forum.

Apex answer

PEL 444 and PEL 442 are controlled by a joint venture between Apex Energy NL (Apex) and Sydney Basin CBM Pty Ltd (SBCBM) with respective interests at present of 80% and 20%. SBCBM is 100% owned by Ormil Energy Ltd (Ormil). Apex and SBCBM have appointed Ormil Operations Pty Ltd (Ormil Ops) to be the farmin Operator. Tom Fontaine is the Managing Director of both Ormil and Ormil Ops and so it was felt that it was appropriate for Tom to engage with the Illawarra public.

SCSGI question

2. Why is APEX so sure that none of the wide ranging risks associated with production CSG mining, identified by world renowned research institutes (such as those of Cornell, Duke and Tyndal), are relevant to PELs 442 & 444, especially given the nature and location of the sites in and around the drinking water catchments?

Apex answer

Please be specific. There is no evidence of ‘wide ranging risks’ associated with CSG. Listing random universities is not evidence.

In addition, the Cornell report relates to Shale Gas not CSG. The Lock the Gate Alliance, as you are aware, has been exposed by the NSW Government in its attempts to influence people adversely in relation to CSG by manipulating the Cornell report. The Cornell findings relate to Shale Gas and NOT CSG therefore you should refrain from referring to it.

SCSGI question

3. Given that APEX has now stated publicly that it will not use hydraulic fracturing, why does its application include for borehole AI16,

a. a Type 3 bore hole with the option to use ‘Conventional methods (Hydraulic fracturing of frac’ing)’ and

b. the following statement “It is expected that the coal seams will need to be stimulated in order to increase permeability”

Apex answer

Apex’s position on hydraulic fracturing has been made very clear via the home page on its web site. Apex has held this position since 2008 and continues to do so. This position has been stated repeatedly by Apex at many public forums and has not changed.

None of the conditionally approved boreholes within the Apex Illawarra project include provisions to carry out hydraulic fracturing.

Apex has identified that it expects that some form of gas flow stimulation will be required for any future Illawarra production drill sites not related to coal mine distressed zones. Stimulation of gas flow can be done in many ways depending on prevailing conditions including:

- **Horizontal directional under-balanced drilling**
- **Horizontal directional over-balanced drilling**
- **Zero radius drilling**
- **Tight radius drilling**

Stimulation refers to any process used to alter permeability to increase gas flow including the methods summarised above.

Production is outside the scope of the current Apex Illawarra Project.

SCSGI question

4. Is APEX now prepared to enter into an unconditional binding commitment not to use hydraulic fracturing, or similar stimulation techniques, at any of its PEL sites in the Northern Illawarra; and if not, why not?

Apex answer

Apex's position on hydraulic fracturing is clear as has been detailed on the home page of its web site for quite some time.

Will your organization enter into an unconditional binding commitment to only state facts?

SCSGI question

5. APEX asserted in its presentation that Gas is cleaner than coal. Is the company aware of Research by the Nicholas Institute for Environmental Policy Solutions at Duke university in the US, that the greenhouse emissions effect of unnatural gas mining (i.e. shale gas and CSG) is at best = to coal over a 100 year period and substantially worse over a 30 year period? How does it align its representation to this research, or is it confusing CSG and LPG?

Apex answer

Thank you. This question makes our point about the inaccuracy of the information you propagate. So much of your 'information' relates to shale gas in the US which has no technical or practical relevance to our CSG project. The public can do their own research and will find for themselves that your organization is making false claims. Please refer to this recent news article.

<http://www.smh.com.au/environment/coal-seam-gas-claims-were-falsified-20110920-1kjms.html>

Apex is not sure what unnatural gas mining refers to. However, it is widely recognised worldwide that there are substantial benefits to the burning of natural gas over coal. This places natural gas as a tremendously advantageous bridging energy source to take the world towards total renewable energy production.

There are multitudes of sources of information regarding the fact that natural gas is a cleaner energy source including NSW Government web sites such as:

<http://www.trade.nsw.gov.au/energy/gas>

There is no doubt at all that gas is cleaner burning than coal. Some common sense is appropriate. How can lifecycle gas emissions be predicted for facilities not yet constructed? Why would any natural gas producer allow large amounts of its valuable commodity to escape to the atmosphere without putting measure in place to control such escape?

SCSGI question

6. APEX contends that it intends, in conjunction with its JV partner, to carry out production CSG mining in the Northern Illawarra, yet it was claimed by Tom Fontaine that the JV does not currently have any plans on how it will do so. Therefore;
- a. How can APEX reasonably expect the local community to have any confidence in its ability to do so? And
 - b. How is this statement consistent with the assertions of its Chief Operating Officer who said in meetings with SCSGI members, that the company knows the area extremely well and understands how to safely mine the CSG?

Apex answer

As we have stated many times, these first few wells are to determine if there is any potential for commercial gas. We can't make plans for something until we know if it exists.

If we find potentially commercial gas, the approval process starts again before any production can commence. This again will involve considerable technical work, approved by independent experts and numerous government agencies with community consultation.

Coal and natural gas has been exploited in the Illawarra region for many years quite safely and successfully. These activities including the drilling of over 2000 local boreholes have provided a tremendous amount of data that is relevant to Apex and the JV in the ongoing feasibility studies.

SCSGI question

7. APEX is a minimally capitalised, Non Liability company that is subcontracting much of the exploration activity. Please explain why the company operates behind this structure and what it means in context with its responsibility to the Government, community and ability to remediate any environmental mishaps that may arise.

Apex answer

The commercial arrangement that Apex has entered into is common industry practice. Woodside Petroleum, Santos and most Australian oil and gas companies have started this way.

To avoid further confusion over “No Liability” see the following definition;

Definition – No Liability

A no-liability company in Australia (suffix NL) is a company which, under the Corporations Act 2001 (Cth), must have as its stated objects that it is solely a mining company and that it is not entitled to calls on the unpaid issue price of shares. It is a company which is restricted to mining activities and is the only sort of corporation which is entitled to this form of liability, given the sometimes financially risky business of mining. Most of the usual rules in the Act apply to no-liability companies, save that a mining company must adopt a constitution. No-liability companies should not be confused with the concept of limited liability.

Source: <http://www.investordictionary.com/definition/no-liability>

Therefore No Liability refers only to shareholder rights and not OHS or Environmental liability.

SCSGI question

8. Is the company willing/able to put up substantial financial security deposits as a disaster alleviation contingency?

Apex answer

The company has more than adequate insurances in place. In addition, the NSW Government requires petroleum licence/lease holders to submit environmental remediation bonds in relation to drill sites.

SCSGI question

9. Does APEX intend through its current commercial arrangement with Ormil, to be the CSG production operator for PELs 442 & 444; or does it intent selling its rights on to established gas operators based upon the value of the reserves identified - as was the case with Pure Energy (a company in which Mr Fontaine was a co Founder and major shareholder) and several other similar cases with combined valuations of around \$2 billion?

Apex answer

Questions 7 and 8 are concerned that the companies are too small. This question is concerned that the project may be taken over by a company that is too big. We are curious what size company you think might be right?

Best Regards,



Mr. Darren Rice

Chief Executive Officer
Apex Energy NL

Ref: AEC16