

20 August 2012

Director General
NSW Department of Planning and Infrastructure
23-33 Bridge Street
Sydney NSW 2000

Dear Sir,

**Apex Illawarra Gas Exploration Drilling Project (No: 07_0103)
Section 75W Application for Modification of Part3A – extension of expiry date**

Apex Energy has a Gas Exploration Project (Application number 07_0103) in the Illawarra region of NSW, for which Approval was granted under Section 75J of the Environmental Planning and Assessment Act 1979 (EP&A Act) on 23rd September 2009 for a period of three years, expiring on 22nd September 2012. That initial Approval was for 15 bore hole locations within the Project area. Subsequently a 75W Request for Modification for inclusion of a 16th bore hole was submitted and was Determined by the Planning Assessment Commission (PAC) on 21st November 2011, however maintaining the same expiry date of 22 September 2012.

We have today lodged a Request to Modify the Approved Project under Section 75W of the EP&A Act, to extend the expiry date, thereby allowing us further time to undertake the Exploration activities as proposed. That Request has been lodged by electronic means, and this letter provides further supporting information to accompany that online form.

Project Overview

The Apex Illawarra Gas Exploration Drilling Project is located south of Sydney near Helensburgh, in and around the areas of Darkes Forest and Maddens Plains.

The objectives of the initial exploration are to determine the quality and quantity of methane gas within the abandoned coal mines (goafs) and within the unmined coal seams in the exploration area. By drilling exploration boreholes into the goafs and coal seams, and by various testing, we intend to gather essential resource data to enable confident planning of future gas extraction and utilisation projects in the area. This may include delivering the methane into the nearby main pipeline which delivers gas from Victoria and South Australia to the greater Sydney supply system and/ or for electricity generation.

Apex currently has one well into a goaf at Darkes Forest, which was drilled in 2005 with encouraging test results. That well is not currently connected or producing, and whilst it is within the Project area, is not one of the boreholes in this Part 3A Approval.

Apex has 16 exploration bore holes approved in the Project area under Part3A, final approval for which was received in November 2011. Drilling has not as yet commenced as we await final approval of our Environmental Management System and associated Management Plans.

The 16 Approved bore holes comprise:

- 11 are bore holes into abandoned coal workings (goafs) in the Bulli seam – these are technically very simple bore holes without many of the considerations of other types of bore holes eg no produced water, and logically, if the areas have already been mined for coal, there would have been many similar core holes drilled already.
- 3 are proposed through remnant coal pillars in the goafs (mined out areas)
- Only 2 are away from existing mine workings to take core samples of coal seams

The 75W Modification Application

The current Part 3A Approval for 16 bore holes expires on 22 September 2012. Apex is requesting that the expiry date be extended for “three years from commencement of drilling of the first bore hole”. This should be sufficient timeframe for us to undertake the proposed exploration activities.

Subject to approval of this extension to the Part3A and approval of the EMS by DoPI, and subject to Renewal of Petroleum Exploration Licences, for which the NSW government has not issued a single Renewal in the State since coming to office 17 months ago, we expect to commence with the drilling of an initial two core holes, AI19 and AI16, in a very short timeframe.

Why has the Project been delayed?

The approval process to undertake the proposed exploration Project has been extremely long, complex and expensive. There have been several disruptive phases to the approval process since we commenced discussions about the Project with the various government agencies in early 2007. We have still not attained a position where we could commence drilling, although we are advised that we are very close to achieving that.

Matters which have contributed to the delays include; a general difficulty in adapting the Part3A process to accommodate a multiple site Project such as ours; the inclusion of an additional bore hole, which effectively started the process again; disruption to arranging funding; the rapid emergence of the anti gas movement and sway of Public opinion against the industry, and a new state government eager to allay those concerns by Regulation, have all conspired to bring the CSG Industry in NSW to a standstill. We believe that our Project has largely fallen victim to that environment, however, we also believe that, in the best interest of NSW energy supply, those issues will be overcome in the near term and the Industry, including ourselves, will move forward.

What are the benefits of the Project?

The greater Sydney gas supply is currently provided 95% through two pipelines; one from Victoria and one from South Australia. The other 5% is currently supplied through local CSG production by AGL Energy near Camden, which has been operating for over 10 years. We

believe that the Apex Illawarra Project could potentially supply 20% of that gas supply for greater Sydney for the next 20 years (or more). The fragile state of NSW energy supply has already been subject of recent reports. We have the opportunity to secure that energy supply locally through development of the Apex Illawarra Project.

We are requesting through our 75W Application to have the date of our approved Part3A extended so that we may advance the Approved Project and provide substantial certainty to the gas supply of greater Sydney into the future.

As an Appendix to this letter we have included a timeline which has evolved over the course of this Project Approval to its current status. We have also included some information in support of the Project by way of extracts for the Parliamentary Inquiry into CSG which reported in May this year, and the review of the Project by the National Interim Expert Scientific Committee, and have provided some information placing the Project in context.

Our objectives for the Exploration Project remain unchanged and we have requested by application under section 75W that the time frame of the Approval be extended to allow those objectives to be progressed.

We look forward to your favourable assessment of our 75W Application.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S O'Keefe', written in a cursive style.

Stephen O'Keefe

Director, Apex Energy NL

and on behalf of Sydney Basin CBM Pty Ltd (subsidiary of Ormil Energy Ltd)

Mob: 0411 045 582

Appendix to Letter

Apex Illawarra Gas Exploration Drilling Project (No: 07_0103)

Section 75W Application for Modification of Part3A – extension of expiry date

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1/ Project Approvals status

Approval for the 15 bore hole, Apex Energy has a Gas Exploration Project was granted under Section 75J of the Environmental Planning and Assessment Act 1979 (EP&A Act) on 23rd September 2009 for a period of three years. Subsequently a 75W Request for Modification for inclusion of a 16th bore hole was submitted and was Determined by the Planning Assessment Commission (PAC) on 21st November 2011.

The final approval required before commencement of drilling activities is an Environmental Management Strategy (EMS) to the satisfaction of the Director General. That EMS includes various Management Strategies, Plans and Programs as required under conditions of the current Approval Those documents state in detail various aspects of how the activities would be undertaken and are referenced to each specific bore hole site. After some years, and in sequential process, to date that EMS has not been Approved by the Department of Planning and Infrastructure (DoPI), however, we have been advised that all required information and acceptable documentation has been provided, and that Approval is pending.

It has been a very lengthy, complex and expensive process, and we have necessarily performed considerable in field site preparation works in anticipation of undertaking drilling, however, to date we have not been in a position to commence any drilling activity within the Project area in absence of an Approved EMS.

We have requested by application under section 75W that the time frame of the Approval be extended to allow the exploration Project to be progressed.

2/ Timeline

Follows is the timeline thus far with the Project and Approvals process;

2007 July

From meetings with the Department of Planning (now DoPI or “the Department”) in early 2007 it was confirmed that the proposed Project would constitute a “Major Project” under the State Environmental Planning Policy (Major Project) 2005, primarily as it was a coal seam methane Project which fell within one of specified NSW Local Government Areas, specifically the Wollongong City LGA. Consequently, the exploration proposal was required to be assessed in accordance with Part 3A of the Environmental Planning and Assessment Act, 1979.

Following consultation with the Department and various agencies, Application was made for Major Project status under Part 3A of the Act on 27th July 2007. That Application was accompanied by a Preliminary Environmental Assessment which included sections on:

- Vegetation and soil disturbance associated with access and site establishment.
- Water quality issues associated with site runoff.
- Potential disturbance to archaeological sites.
- Hydrocarbon storage and use on sites.
- Waste management (including waste water from exploration well testing).
- Site and road dust.
- Noise.
- Visual impacts
- Flora and fauna disturbance.
- Weed introduction.
- Bushfire effects

2007 September

Following assessment of the Application and consultation with the various stakeholders, the Director-General issued his Requirements for the Project on 18th September 2007 for the 15 bore hole program. These Requirements outline particular parts of the approval process and any specific environmental considerations and conditions which need to be addressed by the final Environmental Assessment for the proposed Project. The Apex Energy Illawarra Coal Seam Gas Exploration Drilling Project was thus Declared a project to which Part 3A of the EP&A Act applies (Project Application No: 07_0103) and documentation was posted on the Department's public web site.

2009 March

Following an iterative process of consultation with the various Authorities and community, and expert reports prepared by our local consultants, the Environmental Assessment documents were prepared to meet the requirements of Part 3A of the EP&A Act were lodged in March 2009. This was a very extensive document package, and after acceptance by the Department was posted on the Department public web site and available via the company's web site and advertisements were placed in both local and National newspapers announcing that the documents were being placed on Public Exhibition and calling for submissions from the public and other interested parties.

2009 April

On 6th April 2009 the Environmental Assessment was placed on Public Exhibition until 11 May 2009. The Department received 12 submissions, seven of which were from government authorities; two from specific interest groups, which represented broader community groups, and three from the general public. None of the authorities objected and only one other submission objected, whilst one supported the Project. Some submissions, whilst not objecting to the Project, raised concerns about various aspects, primarily environmental and Heritage. Apex subsequently addressed every concern raised, to the satisfaction of the Department.

2009 September

On 9 September 2009, the Department issued a very extensive Environmental Assessment Report Under Section 75I of the AP&A Act, recommending that the Director-General, under

powers delegated to him by the Minister, approve the Project Application. It stated in that Assessment Report that “the Department is satisfied that the project is able to be undertaken in a manner that is consistent with the objects of the EP&A Act”, and further that, “the Department is satisfied that the Director-General’s environmental assessment requirements have been complied with”. On 23rd September 2009 the Director-General did issue that Project Approval.

2009 October

Following the Project Approval, Apex entered intensive discussion and negotiation with a number of parties to raise the capital required to progress the Project. Various proposals were tabled and the merits of each considered. It was decided to advance negotiations with a particular major party which had required an exclusive dealing period, during which we were required to discontinue discussions with any other party. Around April 2010, where both parties believed we had reached a position to conclude a transaction, the party withdrew unexpectedly for reasons we were advised as being “unrelated to the Apex transaction”. With great disappointment we commenced discussions with a number of other parties.

2010 Mid

One of the parties with whom we had been advancing discussions was Ormil Energy Ltd (then Golden Tiger), an ASX Listed Public company. In the course of discussion and review of the Project, in conjunction with the various expert consultants, it was decided that there was requirement for an additional bore hole in the north westerly extent of the Project area, to provide data which, in conjunction with other data held or to be acquired, should enable a more confident assessment of the prospectivity of the whole Project area.

2010 August

Apex Energy and Ormil Energy entered a Farm In and Purchase Agreement on 22 August 2010 with a one month completion period, which was subsequently concluded. The Agreement allowed for Ormil to acquire an initial interest in each of the Apex Project areas, and earn additional interest up to 50%, with a Phased program of expenditure up to \$10.5 million. Ormil was also appointed Operator of the projects and brought with them considerable expertise and experience in the coal seam gas industry.

On 9th September 2010 an Application was lodged (designated MP 07-0103 MOD-1) with the Department under Section 75W of the EP&A Act to have the Approved Part 3A Modified by the inclusion of an additional bore hole, designated “Apex Illawarra (AI) #19”, in the northwest sector of the Project area at Darkes Forest. The Application was accompanied by a Preliminary Environmental Assessment. The bore hole is for the purpose of taking coal core samples and testing for gas, before being cemented to surface and the site remediated.

2011 January

Following extensive consultation with the Department and various agencies, a full Environmental Assessment Report for the AI19 bore hole, including various expert reports, was lodged and placed on the Department web site, and the company’s web site for viewing. The Application was advertised in local and National media that it was on Public Exhibition from the 9th to the 23 February, which was subsequently extended, and open to submissions from the public and other interested parties.

February 2011 onward

The Department received a total of 1,053 submissions to Public Exhibition of the 75W Modification Application, comprising:

- 7 from public authorities;
- 1 from a special interest group; and
- 1,045 from the general public.

The Department commented in their subsequent Report that, "Of the very large number of submissions received from the general public, the vast majority were made through [an anti CSG group] website, and are essentially a 'form email', with some containing additional comments. Many of these submissions have raised generic issues about the coal seam gas industry in general, rather than the drilling of a stratigraphic core hole."

Apex worked with the Department and agencies and responded over the following months to each submission, to the satisfaction of the Department.

It is noteworthy that NSW government elections were held in March 2011, and coal seam gas had become a visible and emotive issue, with various activist groups and political campaigners using it as a platform to gain public attention.

2011 September

On 14 September 2011 the Minister updated his delegation criteria for approvals with a new requirement that, where an application receives greater than 25 submissions objecting to a project, the Department shall refer it to the Planning Assessment Commission (PAC) for independent assessment.

On 19 September 2011 the Department released a very extensive and detailed Assessment Report on the Modification Application, and recommended it to the PAC for consideration and Approval.

In that Report, the Department laid out in some detail the key issues which had been raised in submissions to the Public Exhibition, and placed on record the responses and the process followed for it to be satisfied. In part the Report stated:

The Department has assessed the merits of the proposal. During this assessment, the Department has considered:

- the EA and the Director-General's assessment report for the original project application;
- the existing conditions of approval;
- the EA (see Appendix B), submissions and response to submissions from the proposal;
- the relevant environmental planning instruments (EPIs), policies and guidelines; and
- the requirements of the EP&A Act, including the objects of the Act.

"The assessment has found that the environmental impacts of the proposed construction and operation of a single stratigraphic core hole would be minor."

In conclusion to its recommendation to the Planning Assessment Commission for approval, the Department stated "The Department has assessed the proposed modification in accordance with the relevant requirements of the EP&A Act, including the objects of the Act and the principles of ecologically sustainable development, and is satisfied that it is in the public interest and should be approved."

November 2011

Through October and November the Planning Assessment Commission met with the key parties, including Apex and Ormil, the Department and the relevant agencies. It also held a public meeting in Helensburgh on 17th October to hear from interested parties. Those meetings are documented in the PAC's very extensive and detailed Report along with its consideration and response to various issues raised.

Of particular mention was the meeting between the PAC and the Sydney Catchment Authority (SCA). The site of the additional bore hole, AI19, as with several of the other approved bore holes, is located within the SCA "Special Areas" or water catchment areas. This has been a particularly emotional issue in the media where the statement "poisoning Sydney's water supply" has been used many times to effectively attract attention. The PAC said:

"The application is for approval to drill one exploratory borehole (AI19). Many similar exploratory boreholes have been drilled in the Sydney water supply catchment areas over a long period. The SCA at a meeting with the Commission on 25 October 2011 advised that it had no evidence that there had been any significant impacts on aquifer security or quality as a result of these exploratory boreholes in and of themselves. The SCA indicated that the risk to aquifer security posed by the drilling of the proposed AI19 borehole, in and of itself, was not significant under strict conditions of approval".

The PAC made its Determination and Approval for the 75W Modification to the Part 3A in an extensive Report dated 21 November 2011.

2012 to current

Following final Determination of the PAC, attention focussed back on completion of the Environmental Management System (EMS) and underlying Management Plans, which until approved, precludes any drilling to take place. We have reached the stage where the EMS and Plans are aligned with the Project Approvals, and all stakeholders are in agreement. Surveying and pegging of the initial two borehole sites is completed and accepted. The surveying is very detailed, down to precise positioning of each piece of equipment on site.

3/ Parliamentary Inquiry into CSG

The Parliamentary Inquiry into CSG undertaken from August 2011 and findings reported on 1st May 2012, was possibly the most significant public review of the CSG Industry in Australia to date. The Committee took a very large number of written submissions from the various agencies, special interest groups and the public, plus took evidence at public meetings from a broad cross section of anti and pro CSG groups. The 910 Submissions lodged, plus the Hansard records of all meetings and evidence taken make for interesting reading, and can be found on the www.parliament.nsw.gov.au web site.

In particular, the Apex Illawarra CSG Project featured prominently in both the submissions lodged and in evidence given to the Inquiry. Of particular significance was evidence given on 12th December 2011 by SCA (page 24 of Hansard) where SCA made Statements under questioning specifically related to Apex and the CSG Project in the Catchment "Special Areas", which included:

- The SCA ..has a number of planning staff who review and have input into the planning and approval process as conducted by the New South Wales Government
- Access to special area lands for coal seam gas exploration is granted where the SCA is satisfied that the activity does not pose a risk to sustainable water management and will not impact on water quality, water quantity or the ecological health of the catchments, and
- the special areas down in the metropolitan area have been...subject to coalmining for 120, 130 years. Within those areas there have been in excess of 1,500 bores drilled for a range of purposes, both for coal exploration, groundwater monitoring and a range of other activities. So in relation to the decision that has been made around the exploratory boreholes for Apex Energy ..the drilling activity is similar to, if not the same as, the drilling activity that is undertaken for coal exploration around those areas and has occurred for at least the last 50 years.

Further, in the Report released on 1st May for the Parliamentary Inquiry into environmental, economic and social impacts of CSG in NSW (ref Drinking Water Catchments - Sections 4.51 to 4.60 pages 51 to 53) said:

“The Committee noted considerable community concern presented to them about the broader CSG Industry, and in part, the Apex/ Ormil proposed drilling activities in SCA Special Areas in the Illawarra, and supposed threat to Sydney’s water supply. The Committee repeated expert evidence presented to the Inquiry by SCA, specifically about the low risk the Apex/ Ormil drilling posed to water supply, and the Committee concluded that no Recommendations were necessary as to further review or regulation of Apex specific activities within the catchment areas. The Committee did make 35 Recommendations in relation to aspects of the broader Industry.

4/ Federal DSEWPC

Apex referred its Illawarra Project to the Federal Department of Sustainability, Environment, Water, Population and Communities (DSEWPC) (EPBC 2011/5821) for them to determine if the Project may be a “controlled action” under the National Environment Protection and Biodiversity Conservation Act 1999. We have kept them informed of all NSW processes as they have progressed.

On 23 March 2012 the DSEWPC referred the Apex Project to the newly formed Interim National Independent Expert Scientific Committee on CSG & coal. The Committee reviewed and reported that “it is likely that the NSW approval conditions will sufficiently reduce water related impacts on the vulnerable plant species”.

The Apex Illawarra Project was the first CSG project assessed in Australia by the *Interim* Committee.

On 27 June 2012 the DSEWPC determined that the Apex Project was “not a controlled action if undertaken in a particular manner” and does not require further assessment by them.

5/ The Project in Context

In conclusion, we would like to place in context our proposed exploration activities:

- Firstly, the Illawarra region has been mined for coal for 130 years
- The Department of Resources and Energy data base records over 10,000 boreholes having been drilled in the southern Sydney Basin.
- We have records of over 2,000 bore holes being drilled in the area, many within the SCA Special Areas, and over 150 of which have been drilled by the SCA themselves.
- In the timeframe which we have been following process to drill exploration bore holes, we believe the coal mining industry would have drilled over 50 boreholes in the area of a similar type.
- Several of the coal companies in the Illawarra have coal seam gas projects, for commercial exploitation, in a similar manner to Apex, and are progressing, under scrutiny of the Mining Act. They however, do not appear to have been subjected to the level of public scrutiny under which the CSG Industry is being placed.

We would also like to place in context the nature of bore holes which Apex currently has approved:

Of the 16 Apex currently Approved bore holes:

- 11 are bore holes into abandoned coal workings in the Bulli seam – these are technically very simple bore holes without many of the considerations of other types of bore holes eg no produced water, and logically, if the areas have already been mined for coal, there would have been many similar core holes drilled already.
- 3 are proposed through remnant coal pillars in the goafs (mined out areas)
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