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THE CHANGING FACE OF CSG NEGOTIATION

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The Changing Face of CSG Negotiation

1. LEVEL 2 COMPANIES COMING IN

- Prior to the LNG projects there were plenty of perceived cowboys operating in the tenure areas. Companies like Tipperary, Pure Energy and others had a bit of a reputation for not paying compensation payments when due and/or not doing the right thing.

- When the big 3 projects of Santos, QGC and Arrow took over most of these minnows, there was repeated assurances given as to how they would be about forever and the social licence issues meant they would always "do the right thing". Landowner lawyers wanting changes to agreements to prevent misbehaviour and/or assignments to lesser companies were portrayed as just trying to inflate fees.

- For instance we now have clients receiving letters from Origin saying that they have sold to Armour Energy and congratulating the Landowner on the change. The companies now seem to be offloading assets left, right and centre.

- Just to compare the financial capacity of Armour Energy to Origin serves a useful purpose. Armour's capitalisation is in the order of $35 million. Origin recently had a capital raising in the order of $2 billion.

- Whilst Armour may well prove to be a good company to deal with, it is a sign of what will come in the future as we were warned from the US experience, where it was found that as the profit margins reduced, so too did the capital value of the companies trying to extract resources and misconduct and poor practice increased. This move to second tier companies may well herald a later move to third tier companies etc. in the future.

- Whilst Santos, QGC and Origin have always structured their affairs to minimise their liability, at least there is a significant social licence issue in dealing with those large entities because of their size and social profile, however we have always been warning regulators and Landowners alike of the US experience (and the "structuring" problems with the existing operations for that matter).

- People with CCA's involving long-term annual payments, might also be feeling nervous about these kind of developments. We have always advocated getting as much of the compensation "up front" as possible and this is yet further endorsement of that approach.

2. INCREASED PRESSURE TACTICS

- [*see slide 1*] – The current context

- We are seeing a hardening of attitude and tactics on the part of the companies now that the money is getting tighter and we are getting loud noises that the companies are going to get very tough; including refusing to negotiate terms and/or making the absolute best monetary offer up front, then having it reduced each week that the Landowner does not accept the company's offer.

- QGC has also indicated that whilst it will negotiate on the money, it will not negotiate on the terms and those terms are, in our view, completely one-sided and ill-advised for Landowners.

- These are the sort of tactics being recommended by companies like McKinsey and Company, management consultants straight out of Harvard who think they know how to apply pressure and get results without any insight into the social aspects involved. Companies that use these tactics need to be condemned.

- It is critical Landholders stick together and reject this kind of approach. It will only work if Landowners buckle to it. You are in a much better bargaining position than you think and the terms are equally as, and sometimes more important than, the money.

- As with any commercial negotiation, it is important to ensure you understand the other party's position as best you can and there are things you can do to counteract this kind of approach.

- [*see slide 2*] - General tips

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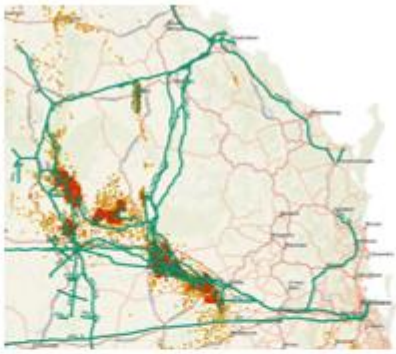
SOME CONTEXT

- Where have we come from?
  - Blank canvass – no pipelines, no compressors, central processing plants or water treatment facilities and limited wells to supply the domestic market.
- Where are we now?
  - 3 x main transmission pipelines to Gladstone and multiple lateral lines from the processing plants to the main pipelines;
  - Multiple field compressor stations, central processing plants and water treatment facilities; and
  - 7,000 total coal seam gas wells to explore/appraise the resource and/or supply the export market.



- Generally acknowledged that the major projects have now moved from the construction phase to the production phase.

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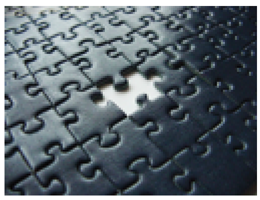
BASIC PRINCIPLES STILL APPLY

- Try to understand what time pressure is on the Company.
- What piece of the jigsaw puzzle are you? Are you "project critical" or necessary for surrounding infrastructure to be constructed?
- Stay strong on your "must have" clauses – companies will pounce on signs of a weakening of approach to clauses.
- You are armed with a lawyer, accountant and valuer – use them.
- Are you prepared for the company to walk away or for the matter to go to Court and live with the result either way?



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