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Lodgement of Market Briefing

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Market Briefing

Liquefied Natural Gas Limited (LNG Limited) Managing Director on strategic gas supply alternatives

Interview with Mr Maurice Brand (Managing Director & Joint CEO)

Market Briefing

You recently announced that PetroChina Australia have purchased Molopo Energy Limited's Queensland gas assets, only subject to Australian Government FIRB approval and the Chinese National Development and Reform Commission approval. Who is PetroChina Australia and what relationship does LNG Limited have with them?

Maurice Brand

PetroChina Australia is a wholly-owned subsidiary of PetroChina Company Limited (PetroChina). PetroChina is one of the largest oil and gas companies in the world – listed on the New York Stock Exchange, the Hong Kong Stock Exchange, and the Shanghai Stock Exchange. PetroChina is 86% owned by the State-Owned Enterprise China National Petroleum Corporation (CNPC).

LNG Limited's major shareholder (19.9%) is China Huanqiu Contracting & Engineering Corporation (HQC), with HQC being wholly owned by CNPC and a 'sister' Company to PetroChina.

With the active assistance and full support of HQC, LNG Limited has been evaluating and negotiating gas supply arrangement options for its Fisherman's Landing LNG Project in Gladstone. This included full due diligence on Molopo Energy Limited's coal seam gas assets in Queensland.

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So why did PetroChina and not HQC purchase the Molopo gas supply assets?

Maurice Brand

HQC's core business is engineering, procurement, construction, technology, project management and consulting on downstream business activities, such as LNG terminals, LNG plants, petrochemical and oil refinery projects. This core business is a strong fit with LNG Limited's core business of developing mid-scale LNG projects utilising the Company's wholly owned OSMR® liquefaction technology.

PetroChina is focussed on global oil and gas exploration, production, development and direct ownership of natural resources. It also has specific experience and expertise in coal seam gas assets in Australia. Clearly PetroChina is the most appropriate entity to own, develop and manage the upstream gas assets and gas supply.

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Why would PetroChina source and supply gas to Fisherman's Landing?

Maurice Brand

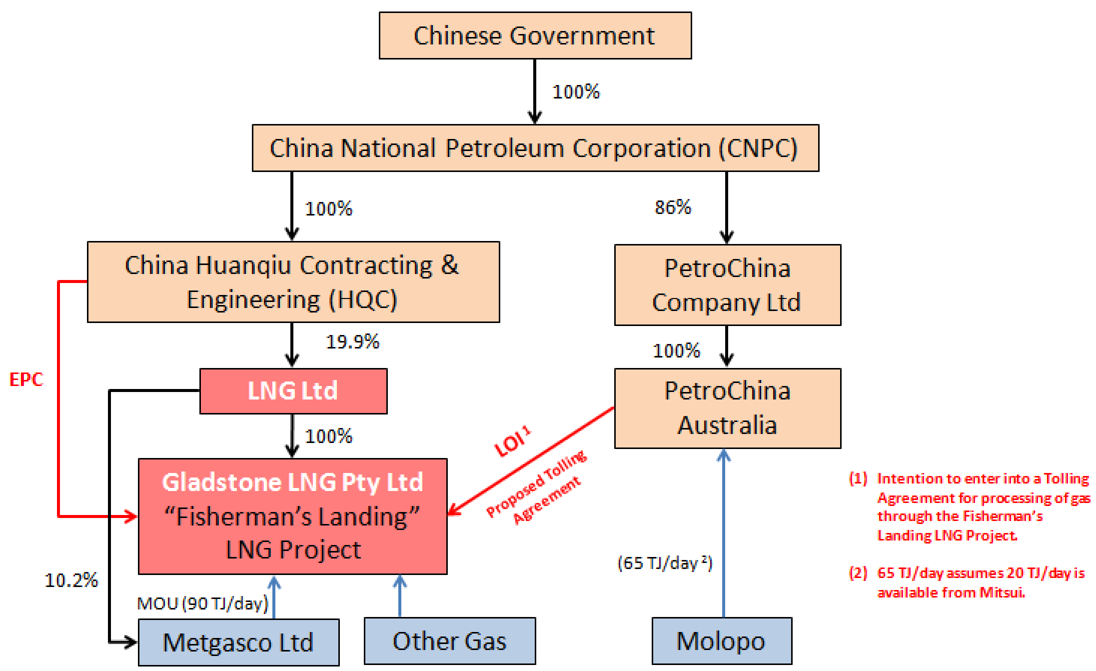
As we've previously stated, the CNPC group has been actively assisting HQC and LNG Limited to recommence the Fisherman's Landing LNG Project and the key is to secure a gas supply for the project. The provision of gas allows HQC to achieve its stated objective of showcasing its engineering, procurement and construction capability internationally using the OSMR® technology owned by LNG Limited. It really is as simple as that for PetroChina and HQC.

The recommencement of the Fisherman's Landing LNG Project will give LNG Limited the opportunity to not only showcase its OSMR® technology, but also its mid-scale LNG development capability – whilst retaining ownership of the LNG project.

This partnership is a win-win situation for all parties involved.

The relationship between the various parties involved is best shown in the diagram below, where you can see that LNG Limited retains 100% of the Fisherman's Landing LNG project, HQC owns 19.9% of LNG Limited and under contract provides the engineering, procurement and construction (EPC) role for the project, and PetroChina will provide gas supply from the Molopo gas assets. Separately, LNG retains its 10.2% stake in Metgasco Limited.

LNG LIMITED FISHERMAN'S LANDING LNG PROJECT OWNERSHIP FLOWCHART AND GAS SUPPLY PLAN



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You also recently announced a letter of intent between PetroChina Australia and LNG Limited in relation to a Tolling Agreement whereby following the completion of the acquisition the Molopo gas will be tolled through the Fisherman's Landing LNG Project. What is the significance of this proposed Tolling Agreement?

Maurice Brand

The significance of the proposed Tolling Agreement is that the LNG Limited Fisherman's Landing LNG Project can proceed towards a final investment decision. There is no requirement for a Gas Sales Agreement or an LNG Sales and Purchase Agreement. The Tolling Agreement will allow LNG Limited to raise both project equity and project debt to proceed. It also allows LNG Limited to proceed to appoint HQC as EPC Contractor and recommencement of construction of the LNG plant and facilities. Tolling Agreements are quite common in the LNG industry and contractually more simple to manage, with less commercial risk to LNG Limited and its shareholders.

Under the Tolling Agreement, PetroChina will pay a monthly capacity fee to exclusively reserve the right to supply gas to the LNG plant for liquefaction and supply back as LNG, ready to be shipped by PetroChina. The Tolling Agreement is typically for up to 20 years and the monthly capacity fee is payable even if no gas is delivered to the LNG project. This agreement will provide project revenue security and allow the LNG project to raise long term project financing and, importantly, will provide equity returns and flow-on value for LNG Limited shareholders.

In addition to the monthly capacity fee, LNG Limited will also be paid a tolling fee based on the actual usage of the LNG plant. This fee effectively finances the ongoing operating cost.

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What is the next step with PetroChina on the Tolling Agreement?

Maurice Brand

LNG Limited and PetroChina will now proceed to agree all the key commercial principles for the Tolling Agreement, as the basis of a legally binding definitive agreement, and then work towards a final investment decision.

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Can you explain what level of gas supply is needed to allow the LNG project to successfully proceed to a final investment decision?

Maurice Brand

Each LNG train at Fisherman's Landing requires 260 Terajoules a day (TJ/d) of gas to produce its guaranteed LNG plant capacity of 1.5 million tonnes per annum of LNG (mtpa). The LNG Limited OSMR® technology, with its lower capital costs, makes significant changes to the economics of LNG plant processing. The LNG Limited plant can be commissioned on just 65 TJ/d and is capable of being economically viable on only 130 TJ/d or fifty per cent of the LNG train capacity.

Thus the immediate goal is to secure minimum gas supply of 130 TJ/d for a term of not less than 15 years to achieve a successful final investment decision for the LNG project to proceed.

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How much gas do you expect to source via Molopo?

Maurice Brand
Based on a number of studies, LNG Limited considers that up to 65 TJ/d may be available from the Molopo Queensland gas permits. It must be remembered that on settlement of the Molopo acquisition, PetroChina will only hold a ~66.6% interest in the Molopo assets. The other ~33.4% is held by Mitsui E&P Australia. Both PetroChina and Mitsui will therefore be in a Joint Venture and its activities are governed by a JV agreement between the parties. PetroChina will be the operator.

Whilst PetroChina has entered into the Letter of Intent with LNG Limited in relation to its share of gas, no agreements are in place with Mitsui.

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In addition to the PetroChina proposal, it appears that LNG Limited still requires additional gas from other parties. What progress is being made to secure the additional 65TJ/d?

Maurice Brand
LNG Limited, with the support of HQC, is negotiating to secure additional gas of at least 65 TJ/d from several different sources. These arrangements may be in the form of further Tolling Agreements or Gas Sales Agreements or indeed the outright purchase of the gas resource.

LNG Limited has previously advised that one such gas supplier with whom it is undertaking due diligence, on a non-exclusive basis, is Westside Corporation Limited (Westside). This due diligence process is ongoing and there is no certainty any transaction will be agreed. However, should agreement be reached with Westside, LNG Limited considers that Westside (51% and operator) and its 49% JV partner Mitsui E&P Australia, has the potential for supply of up to 65TJ/d from their Meridian JV. As with Molopo, no agreements are in place with Mitsui.

We are also at various stages of negotiations on other gas arrangements and will keep shareholders fully informed as we move closer to finalising any agreements.

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LNG Limited is a major shareholder in Metgasco Limited (Metgasco). Why did you take a major shareholding in Metgasco? How does the Metgasco gas availability enter into your gas supply plans?

Maurice Brand
We formed the view that Metgasco has a potential significant resource and that in time this resource could be commercialised with a resultant uplift in value. The Company still holds that view.

LNG Limited entered into an MOU with Metgasco for the supply of 90 TJ/d of gas that could be supplied via the Metgasco proposed Lions Way Pipeline that is planned between Casino (northern New South Wales) and Ipswich (southern Queensland). Since that time we have been, and are continuing to, hold discussions with Metgasco on the supply of gas to the Fisherman’s Landing LNG Project.

The NSW Government is expected shortly to announce new policy decisions and process procedures that will be material in assessing when Metgasco gas supply may be available and allow Metgasco to fully evaluate commercial options.

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The parent company of PetroChina Australia is a 50% partner of the Arrow Energy Limited JV. Why can't PetroChina supply LNG Limited with some of the Arrow JV gas?

Maurice Brand

Arrow Energy Limited is a JV between Shell, who is the operator, and PetroChina. As publicly stated the Arrow JV plans to progress a major LNG project at Curtis Island, Gladstone, and is in the process of obtaining various approvals and undertaking studies into pipelines to connect its gas resources with its proposed LNG project in Gladstone. The Arrow JV timeline is very different to that of LNG Limited. LNG Limited has a short term requirement to reach a final investment decision to proceed with its Fisherman's Landing LNG project, so the focus is on gas sources that can provide near-term supply to the LNG project.

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Should LNG Limited be successful in securing its own gas supply, who will buy the liquefied natural gas produced by the Fisherman's Landing LNG Project?

Maurice Brand

Under a Tolling Agreement, LNG Limited will not own the gas or be responsible to market the liquefied natural gas that is produced by the plant. The gas owner will be responsible for the marketing of the end LNG product.

If we enter into a Gas Sales Agreement or if we end up owning our own gas resource, then we would be required to find a buyer for the LNG we produce at the plant. Of course if we are the owner of the gas resource we would also need to fund our share of any upstream gas supply capital and operating costs.

We are aware of a number of parties that would be interested in entering into a LNG Sales and Purchase Agreement for liquefied natural gas produced at the Fisherman's Landing LNG Project.

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How confident are you that Fisherman's Landing will proceed?

Maurice Brand

After some delay in finalising the Company's Gas Sales Plan, the building blocks are now falling into place to drive the project through to the final investment decision process. The Company has increased its presence in Queensland in order to maintain the momentum and with the ongoing support of HQC and the CNPC group, LNG Limited is confident that its Fisherman's Landing LNG project will proceed and its shareholders' patience rewarded.

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Thank you Maurice.

For further information, please contact LNG Limited on
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For further information on PetroChina see www.petrochina.com.cn/ptr/, China National Petroleum Corporation (CNPC) see www.cnpc.com.cn/en and China Huanqiu Contracting & Engineering Corporation (HQC) please see www.hqcec.com/hqcec/english.