MPS

MARTIN PLACE SECURITIES

Australia's Boutique Resource Investment Firm

Excellence in Oil and Gas

28 Feb -1 March 2011

Energy Sector Outlook 2011

Barry Dawes

B Sc FAusIMM(CP) MSAA MSEG

Managing Director

Martin Place Securities

Disclaimer

Nothing in this presentation shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, MPS did not take into account the investment objectives, financial situation and particular needs of the reader.

Before making an investment decision on the basis of this presentation, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances.

This presentation is based on information obtained from sources believed to be reliable but MPS does not make any representation or warranty that it is accurate, complete or up to date. MPS accepts no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice and accurately reflect the views of MPS at the time of writing.

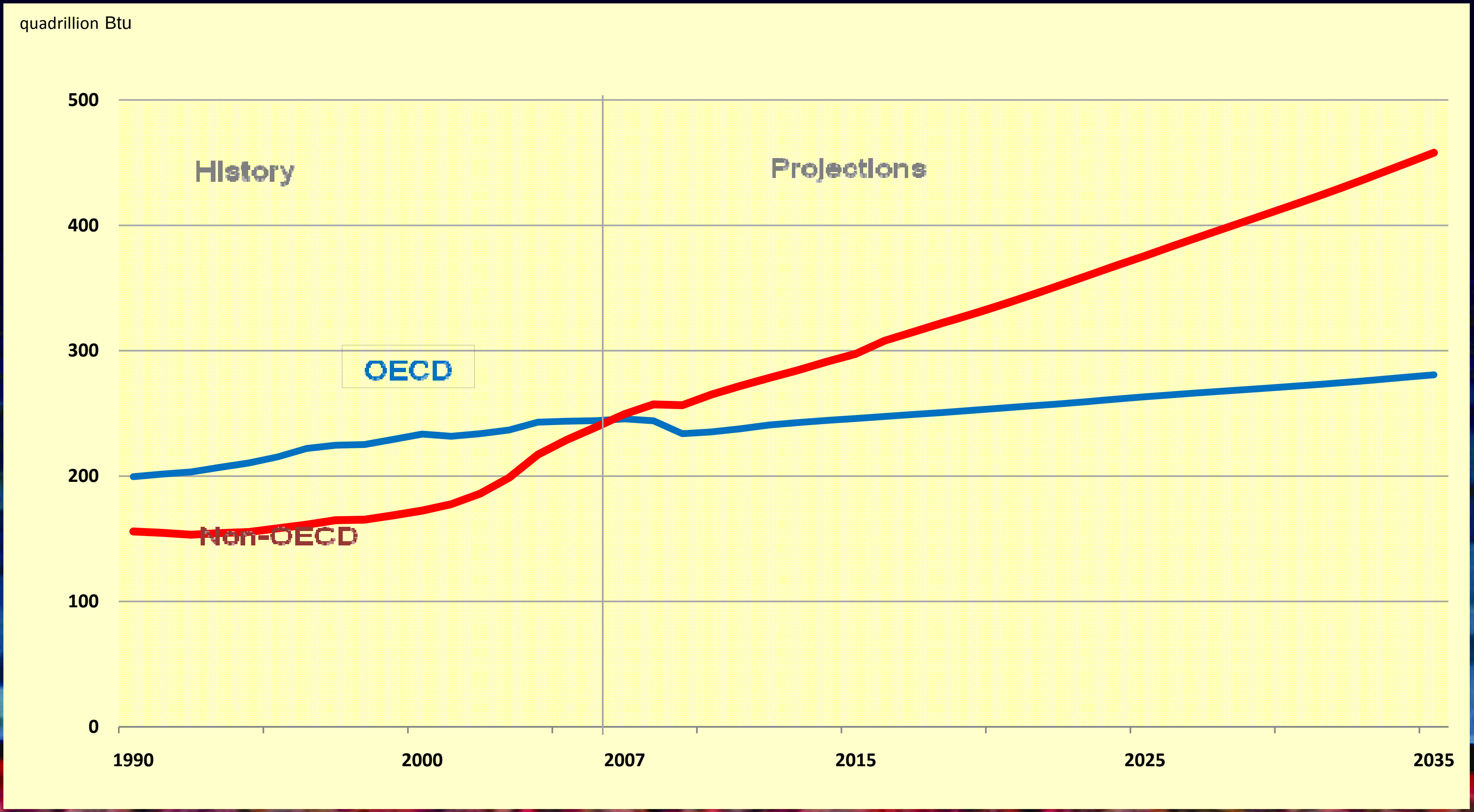
This presentation has originated from MPS (ABN 30 094 927 947), a licensed securities dealer (AFS Licence 247 404). MPS can gain income through brokerage, capital raising commissions and corporate advisory fees.

Key Energy Issues

- Non-OECD consumption growth
- Energy supply security
- Investment flows – where from and where to
- Peak Oil – Are we there yet?
- Rise of unconventional hydrocarbons
- Major growth in global LNG market
- Australian company opportunities

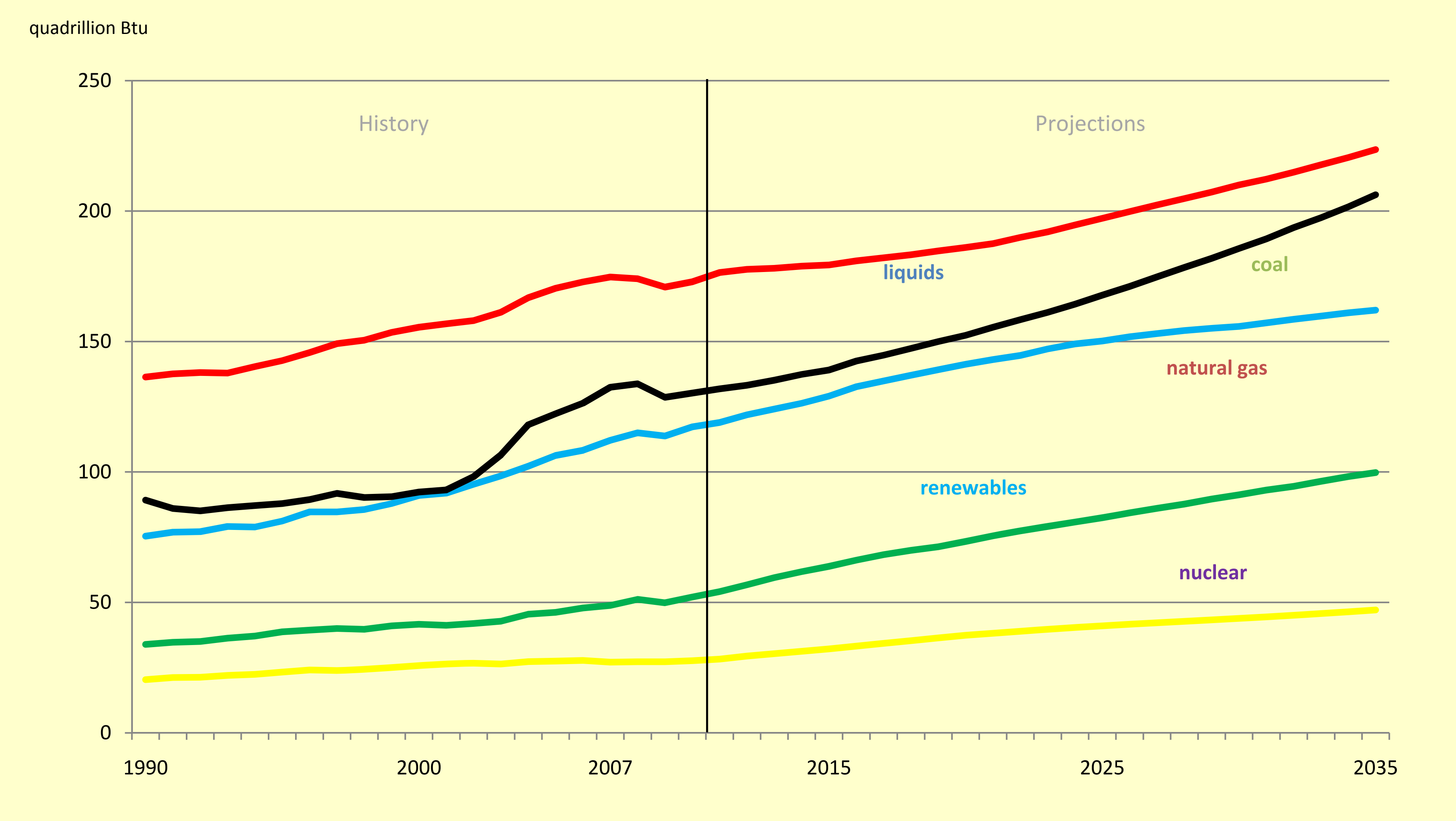
Managing the activity boom now underway

Global Consumption Growth



Source: IEA 2010

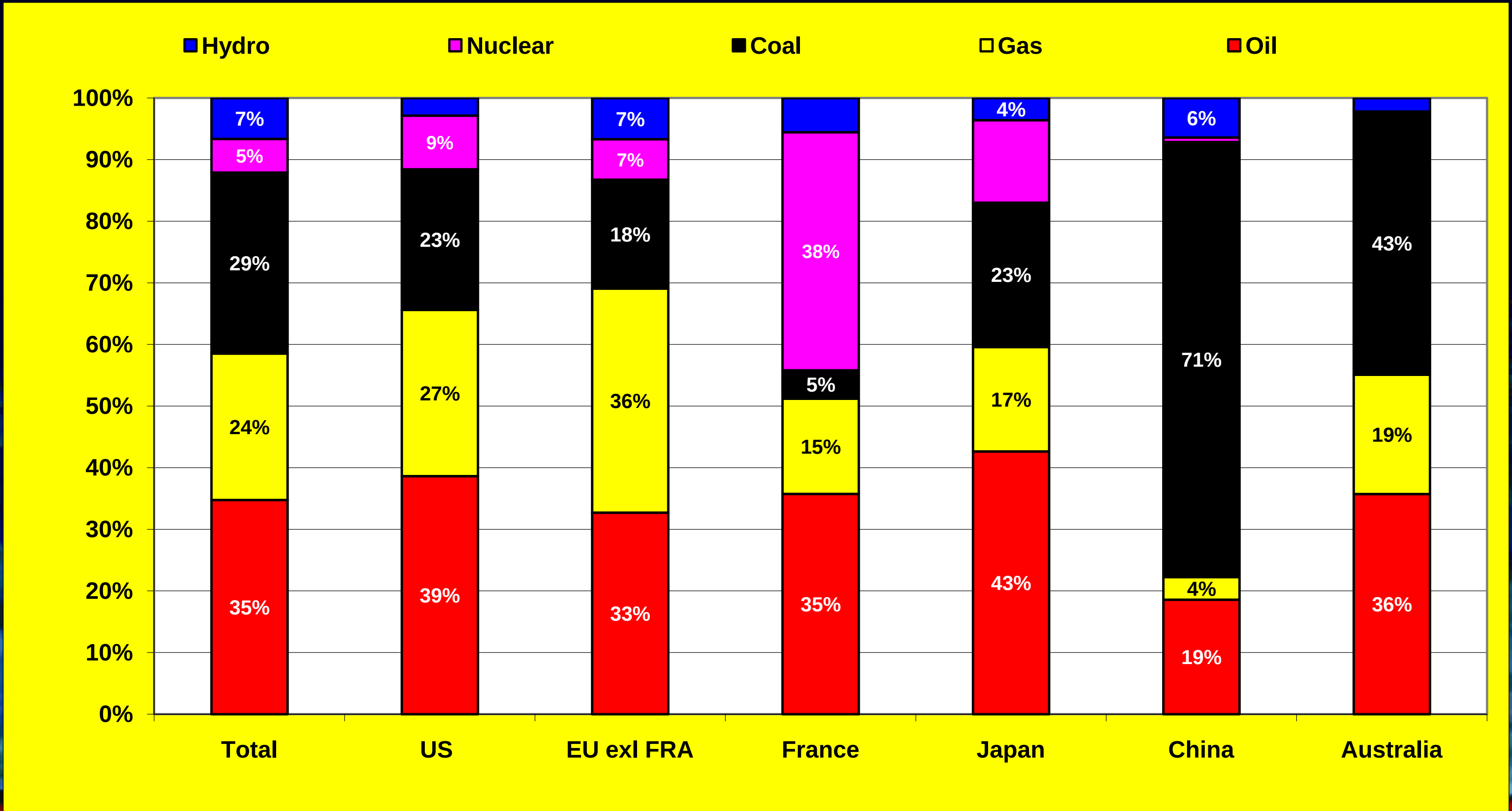
Global Consumption Forecast



IEA data 2010

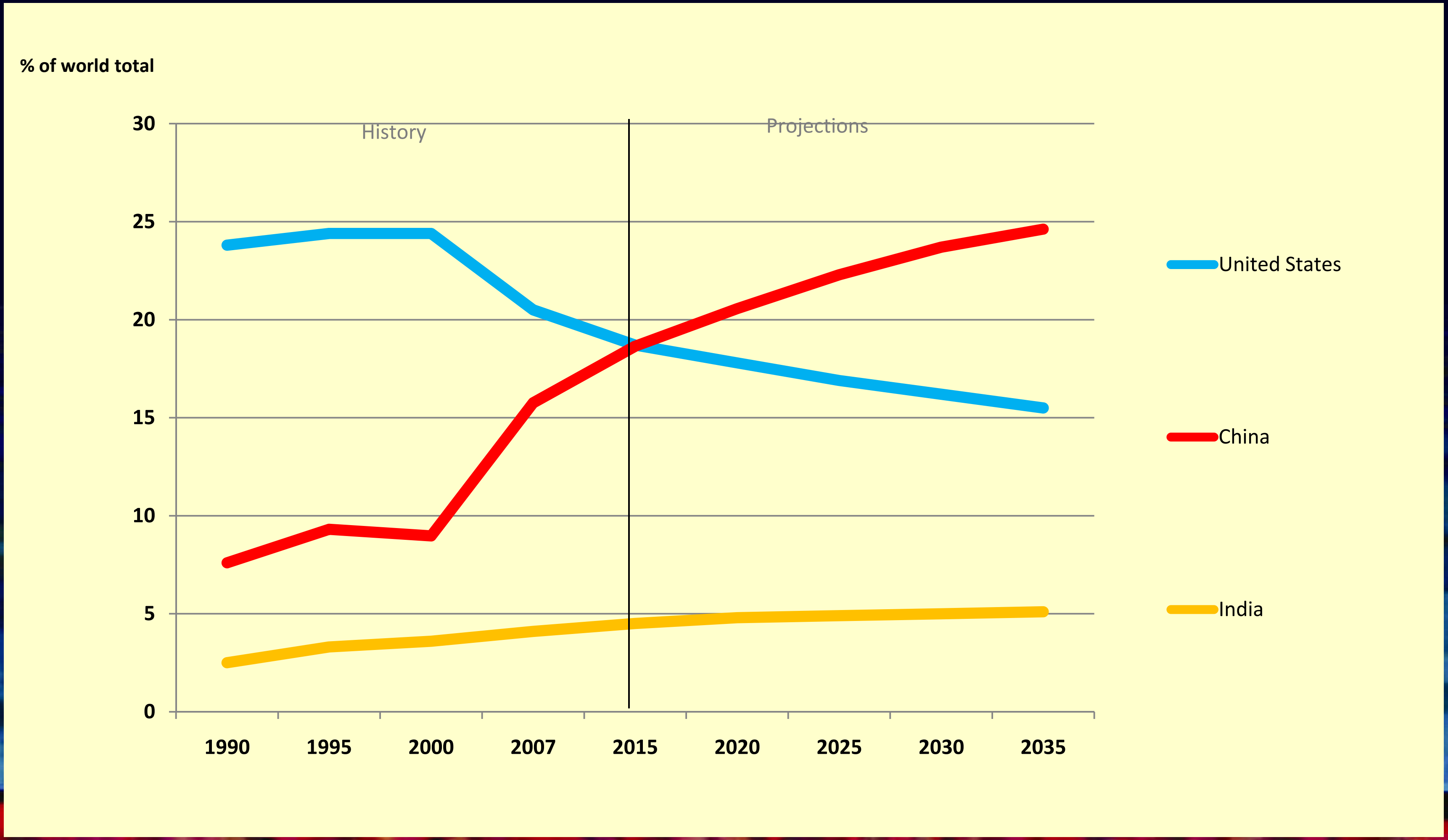
Global Energy Consumption

(by fuel type)



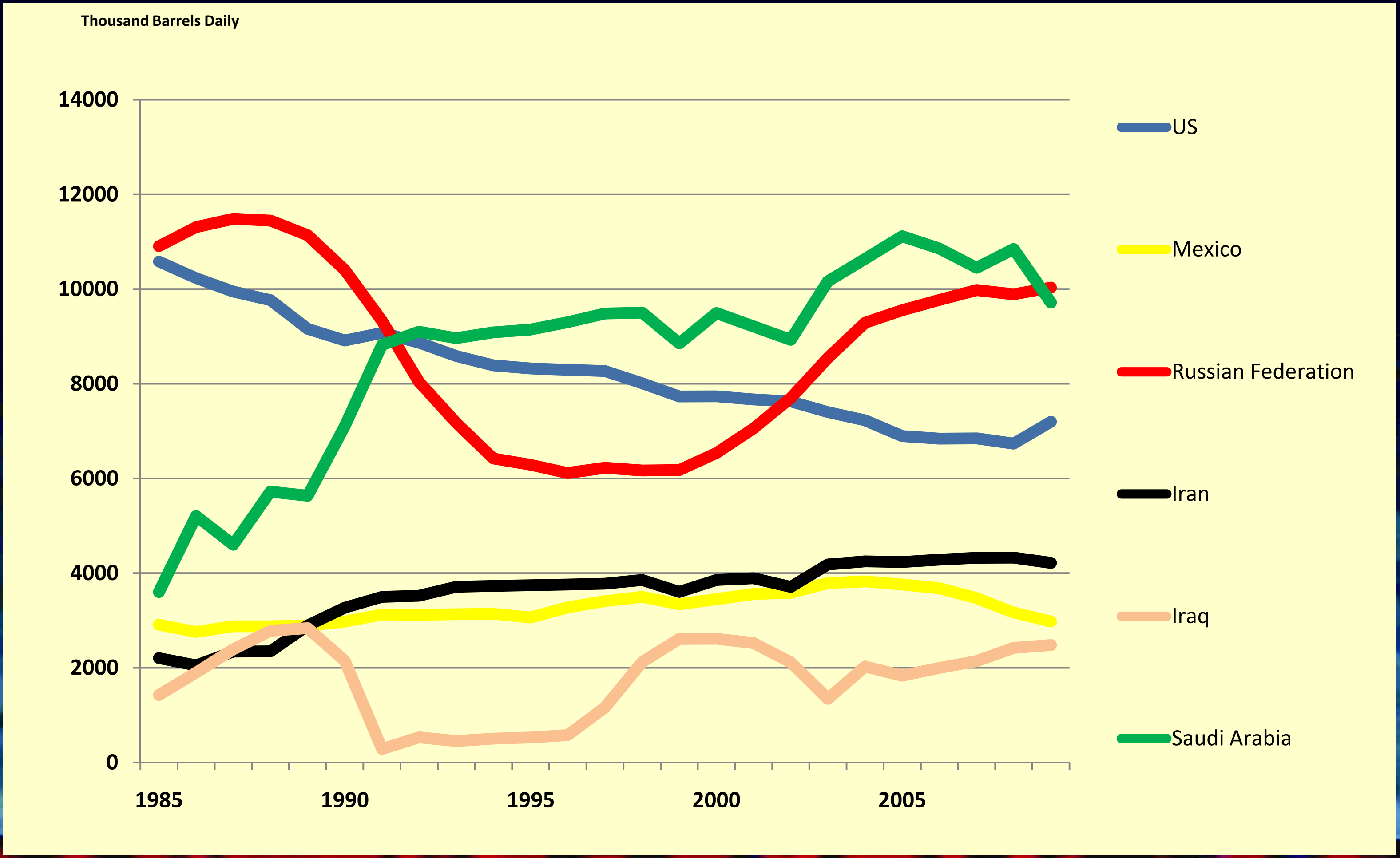
BP data 2010

Key Energy Consumers



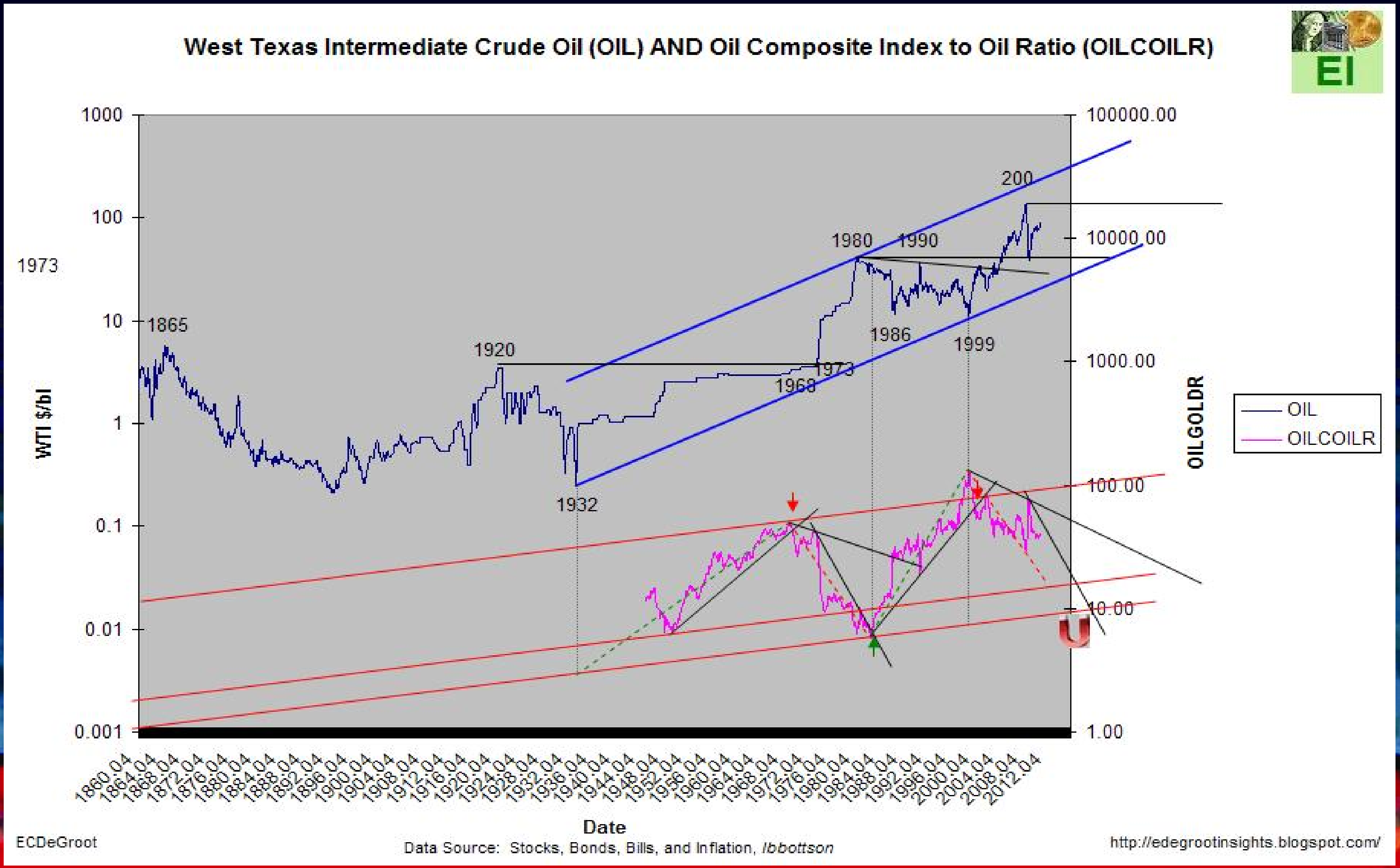
IEA 2010

Key Oil Producers



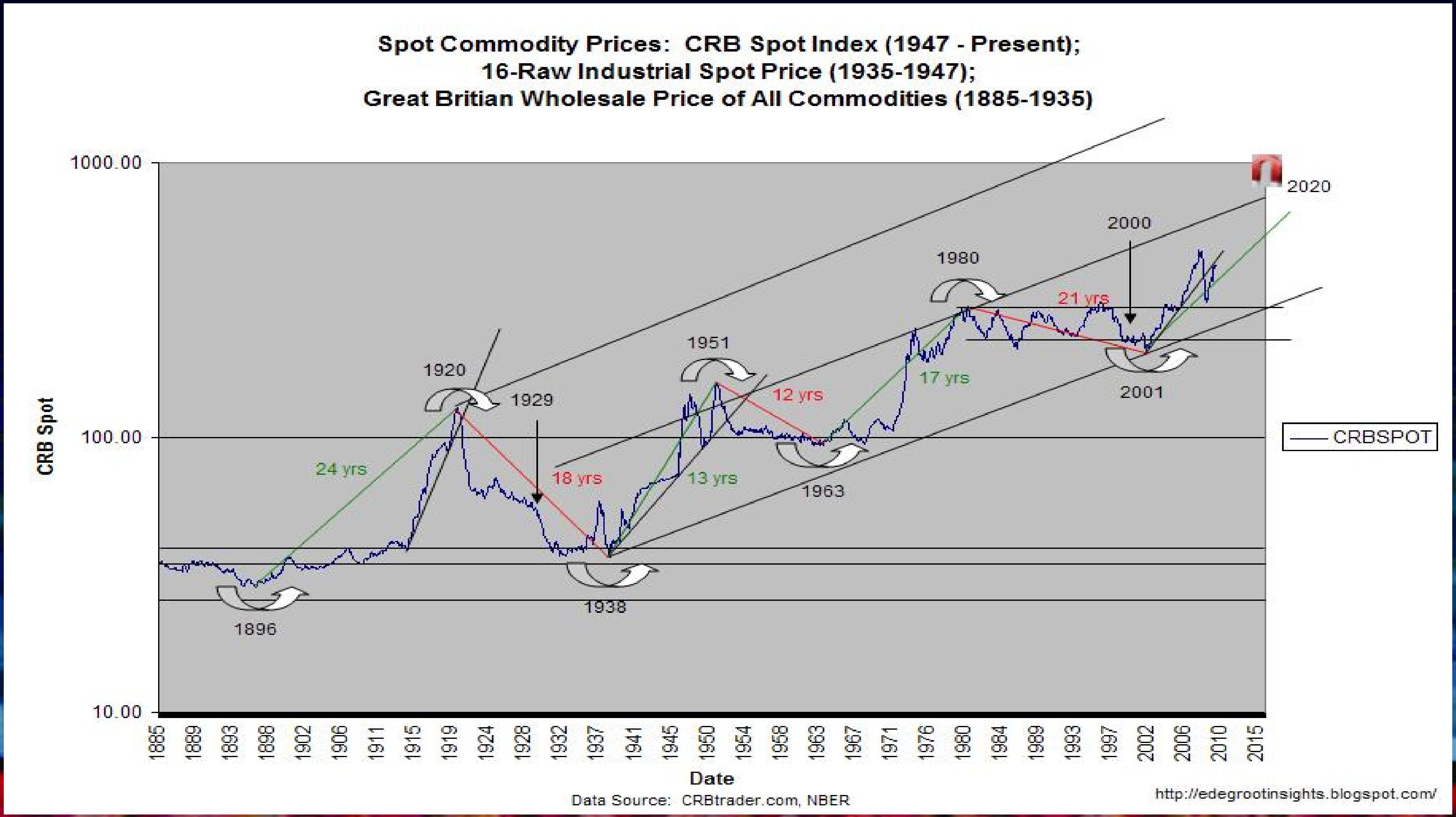
BP 2010

Very Long Term Oil Price



Long term commodity prices

MPS MARTIN PLACE SECURITIES



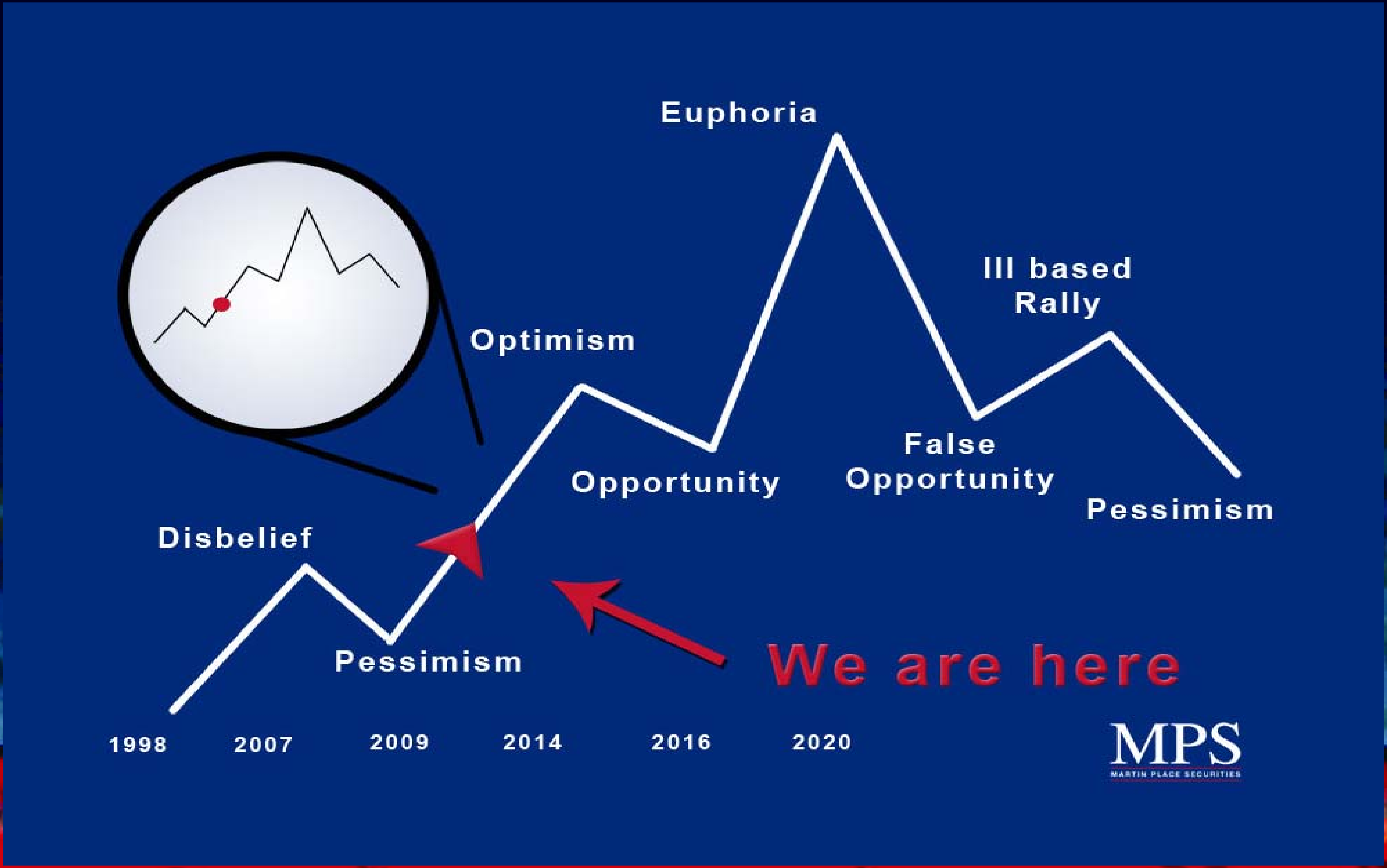
Continuation of Commodity Bull

– End of era of financial assets
– Basic industries in ascendency
– Global high capacity utilisation rates
– Few new undeveloped resources
– Time lags considerable
– Exploration to boom for years
– Strong Asian/BRIC demand growth

US Natural Gas to Oil Price Ratio

Stockcharts.com 2011

MPS Wave Market Psychology



Global Capital Flows and Investing

Three major features in global economy

– BRIIC et al exceeding OECD growth

– Supply-side issues for commodities continuing

– West is debasing currencies through debt problems

Global Dichotomy

- China and other BRIC making >60% global growth
- Commodity volumes and US$ prices increasing
- Rising living standards

- OECD (US, Europe and Japan) locked in debt
- `Quant Easing' debasing OECD currencies
- Falling living standards
- Flight of funds from cash and bonds

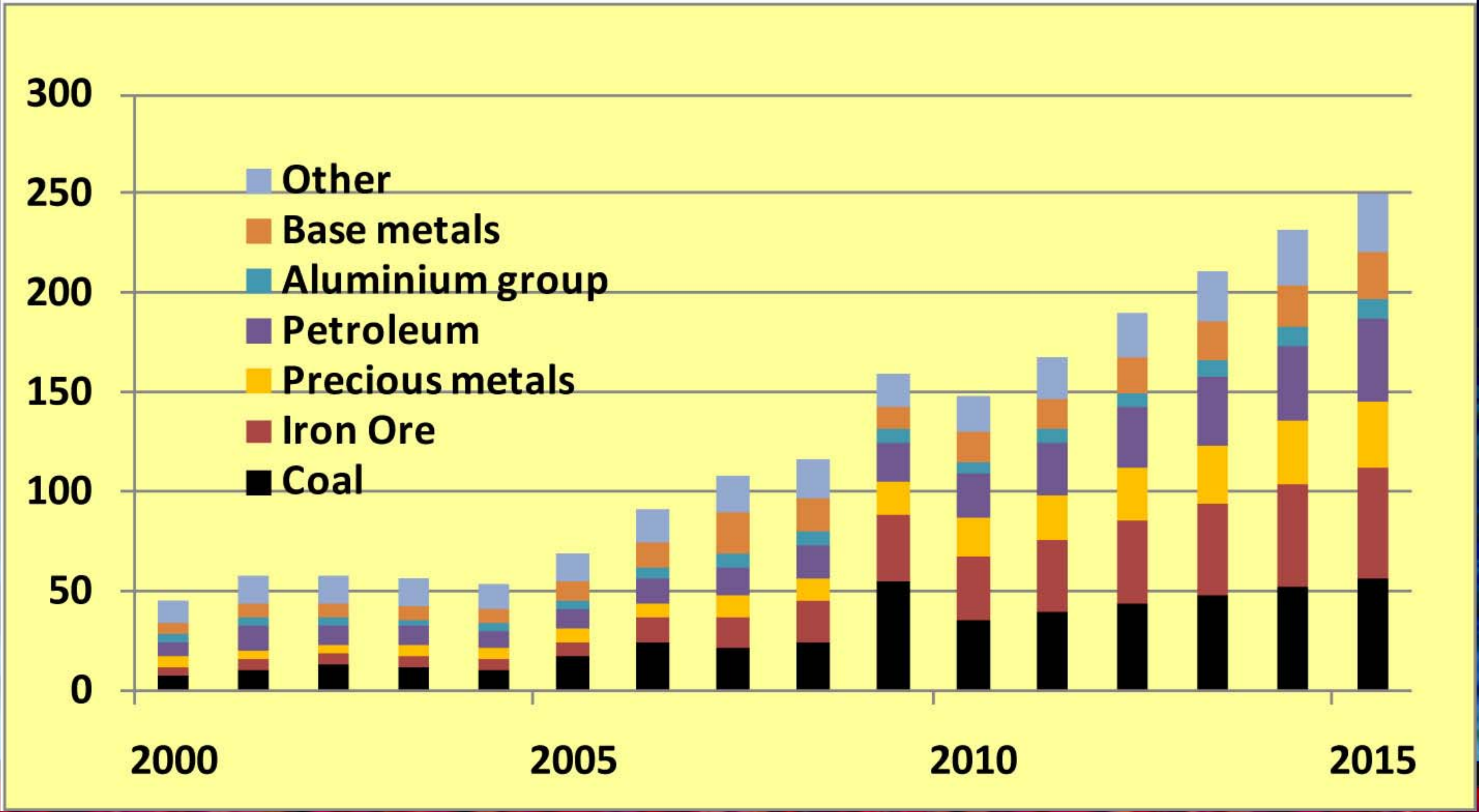
The Long View on US T-Bond Yields

Source: IRESS MPS

Australian Resource Sector Exports (A$bn)

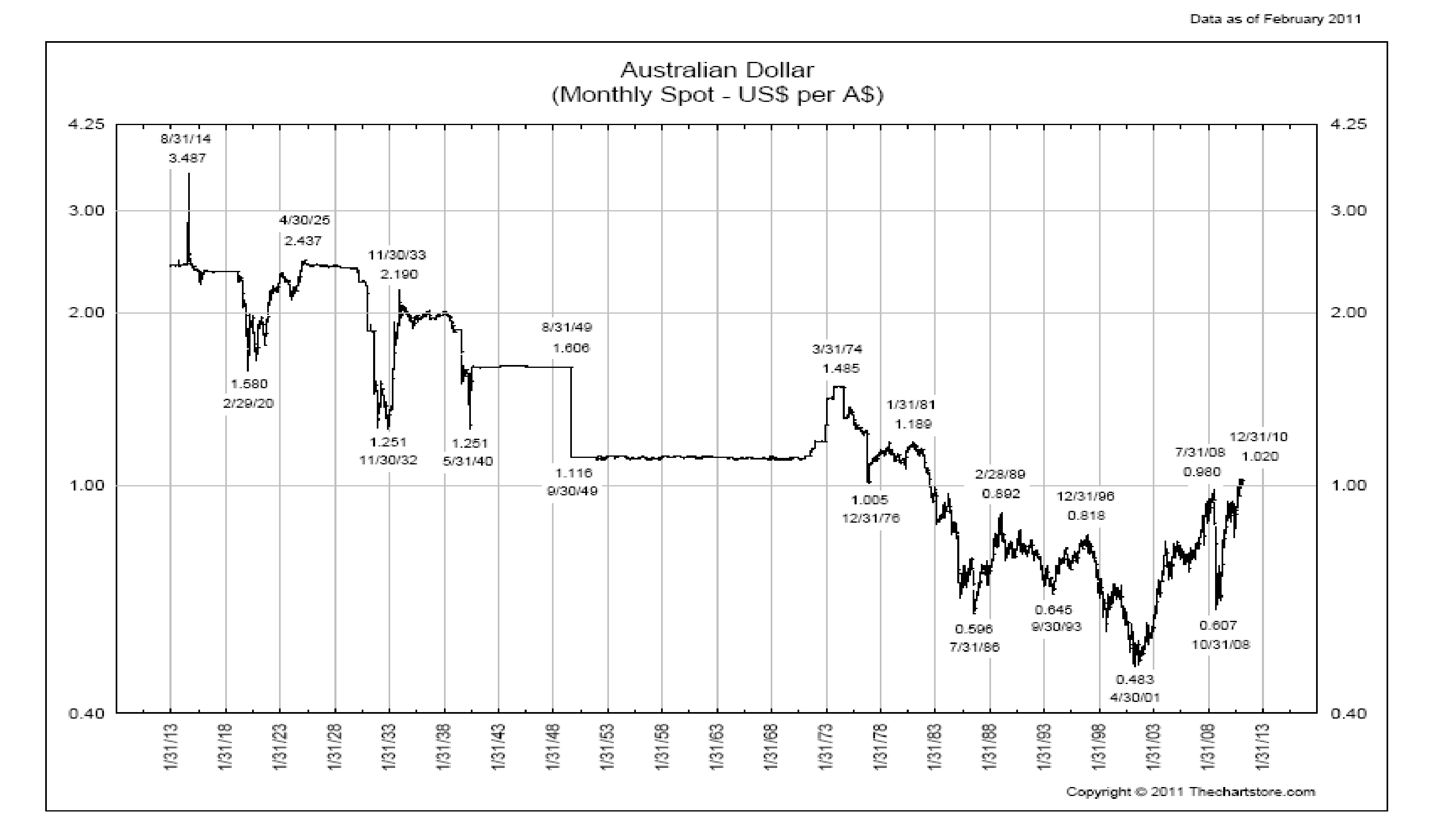
MPS
MARTIN PLACE SECURITIES

ABARE 2000-10 MPS estimates to 2015



Source: ABARE, MPS

US$/A$ Exchange Rate 1913-2011



Source: The Chartstore

Peak Oil Concepts

Discovery rate still too low

- Conventional discoveries expensive and offshore

Risk of decline in major super giant fields

- Giant fields produce over 40% global oil
- Decline in Cantarell(Mexico), risk in Gawahr (Saudi)

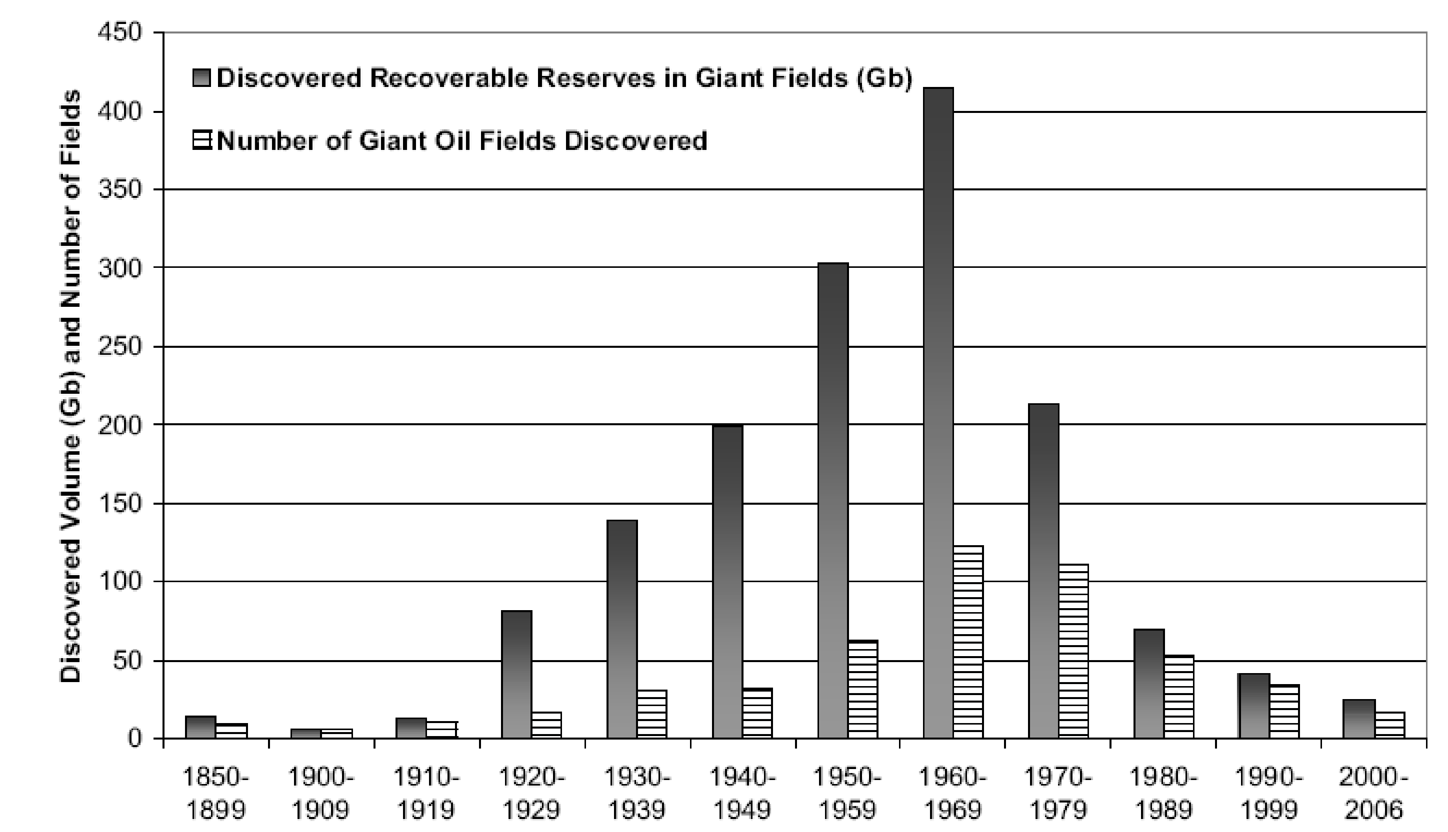
Major producers in decline

- UK, Norway, US, Mexico, Indonesia

Ameliorating influences

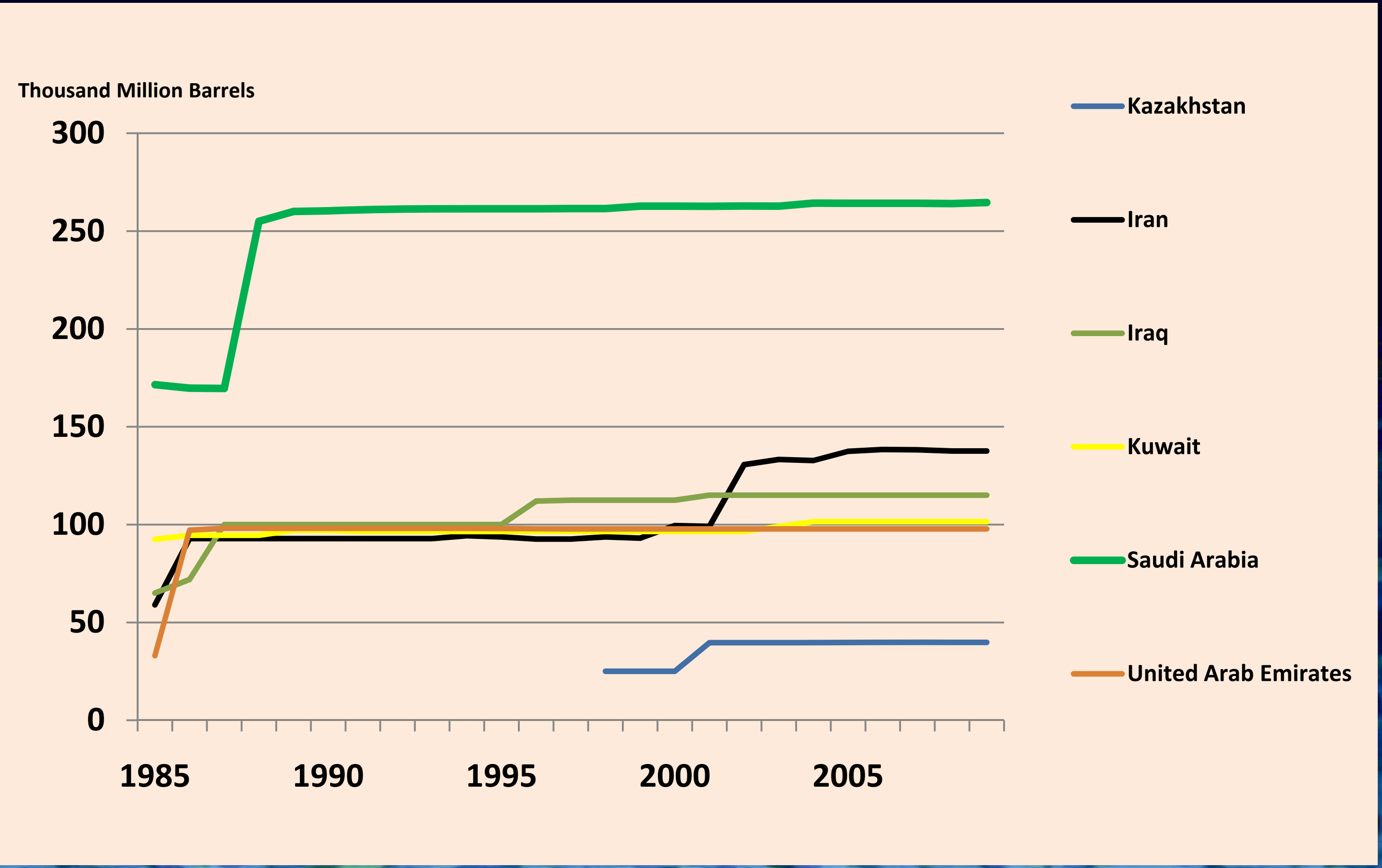
- Rise of gas as fuel of choice
- Discoveries of vast unconventional gas and oil

Peak oil discovery



Fredrik Robelius 2007

Middle East oil reserves



BP 2010

MPS
MARTIN PLACE SECURITIES

Unconventional Hydrocarbons

Basin Centred Continuous Reservoir Accumulations

- Tight gas reservoirs
- Coal seam methane
- Shale gas
- Shale oil

Major new sources of hydrocarbons

- Reduction in exploration capital risk
- Higher upfront capital but long life
- Global expansion just beginning

Engineering developments making high tech businesses

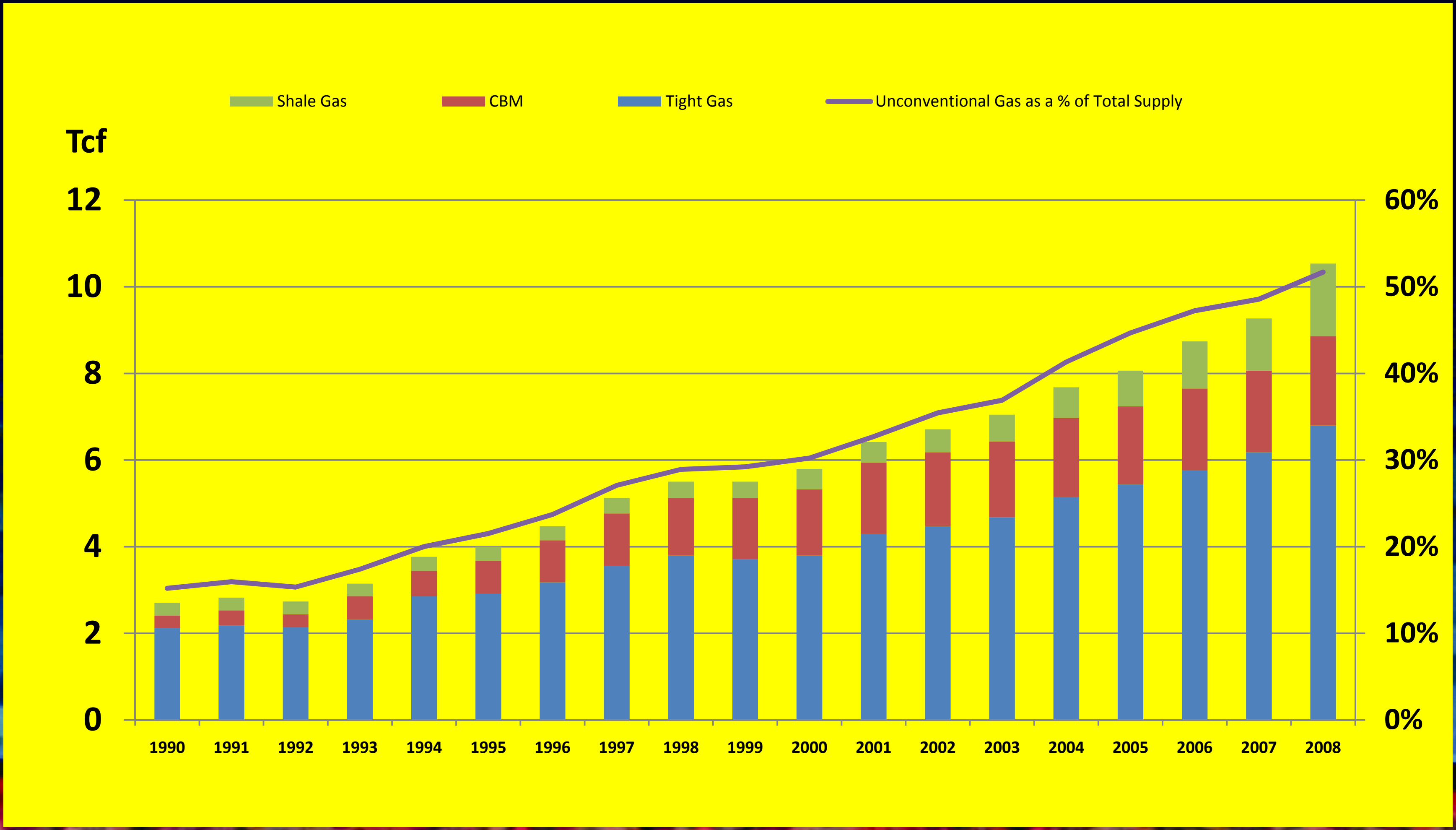
- Horizontal drilling
- Pattern drilling

MPS
MARTIN PLACE SECURITIES

Unconventional Hydrocarbons

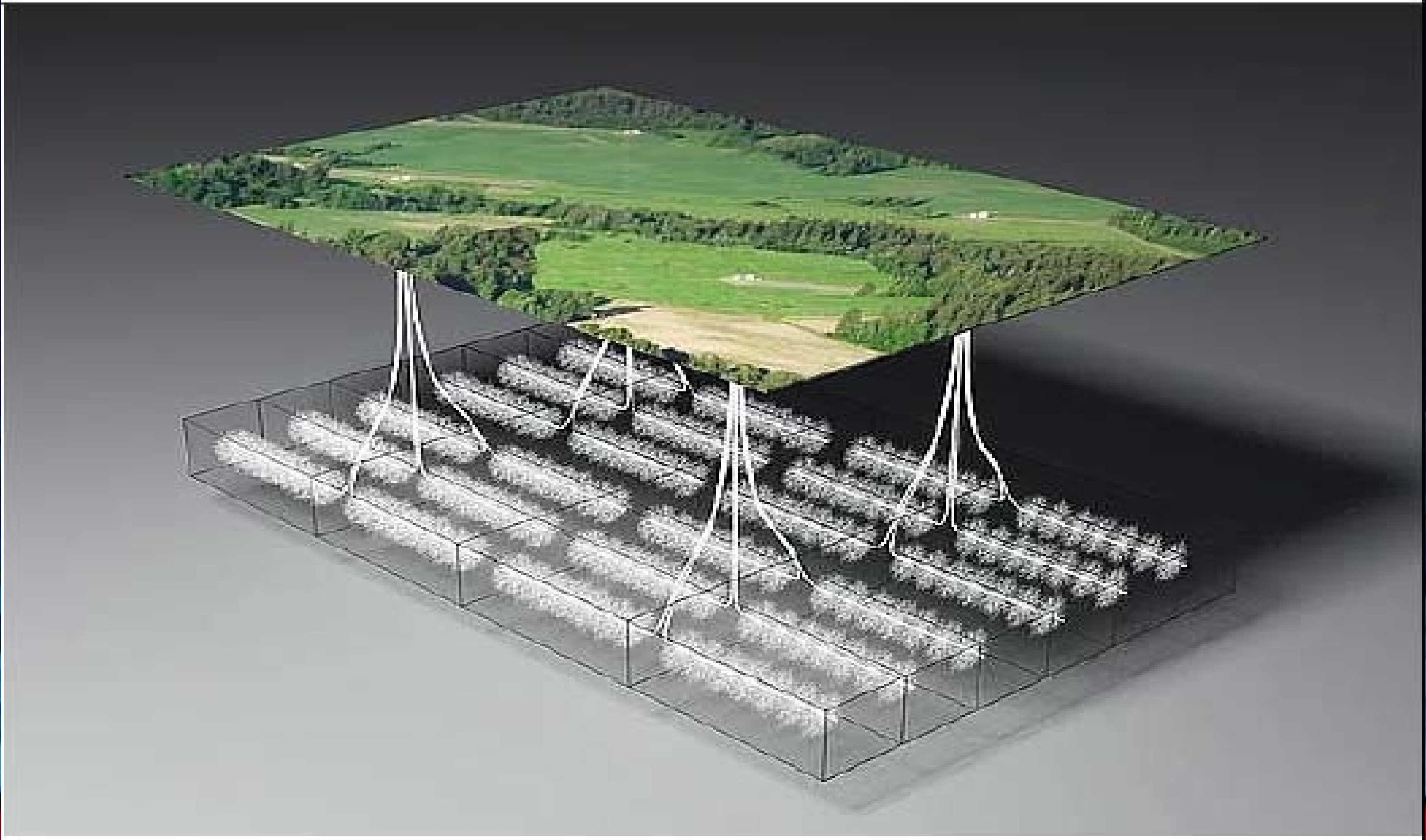
- New concepts and terminologies
  - Basin Centred Continuous Reservoir Accumulations
  - Strata thicknesses
  - Total Organic Carbon (toc)
  - Gas content per tonne and per unit area
  - Estimated Ultimate Recovery (`EUR')/well
- New technologies
  - Horizontal lateral wells (now over 4000m)
  - Fraccing stages (now over 20 per lateral)
  - Bi-lateral wells
  - Manufactured gas

Unconventional Gas USA



Source: IEA

Marcellus Shale Gas USA



Source: Statoil

Beetaloo Basin Gas Resource Potential in TCF

MPS
MARTIN PLACE SECURITIES

Reservoir	Unrisked Undiscovered Gas-In-Place (Tscf)			Unrisked Prospective (Recoverable) Gas Resources (Tscf)		
	Low	Best	High	Low	Best	High
Hayfield (Associated Solution)	0.013	0.025	0.046	0.002	0.004	0.009
Jamison (Associated Solution)	2.041	3.330	5.349	0.313	0.585	1.066
Moroak	0.800	1.437	2.346	0.607	1.048	1.731
Conventional Subtotal	**2.85**	**4.79**	**7.74**	**0.92**	**1.64**	**2.81**
Moroak BCGA	21.00	29.61	40.85	3.18	4.85	7.23
Bessie Creek BCGA	159.4	210.0	275.0	23.8	34.4	49.4
BCGA Subtotal	**180.39**	**239.58**	**315.81**	**27.02**	**39.28**	**56.64**
Lower Kyalla Shale Gas	12.70	15.80	19.20	1.90	2.60	3.50
Middle Velkerrie Shale Gas	94.6	125.1	160.4	14.2	20.4	29.0
Shale Gas Subtotal	**107.3**	**140.9**	**179.6**	**16.1**	**23.0**	**32.5**
Total Gas Resource Within The Beetaloo Basin	**290.54**	**385.27**	**503.16**	**44.05**	**63.91**	**91.94**

Ryder Scott, 2009

Conclusions

Energy demand and prices under upward pressure

Energy supply is restrained

Sector being reinvigorated

Major Australian activity boom underway - LNG

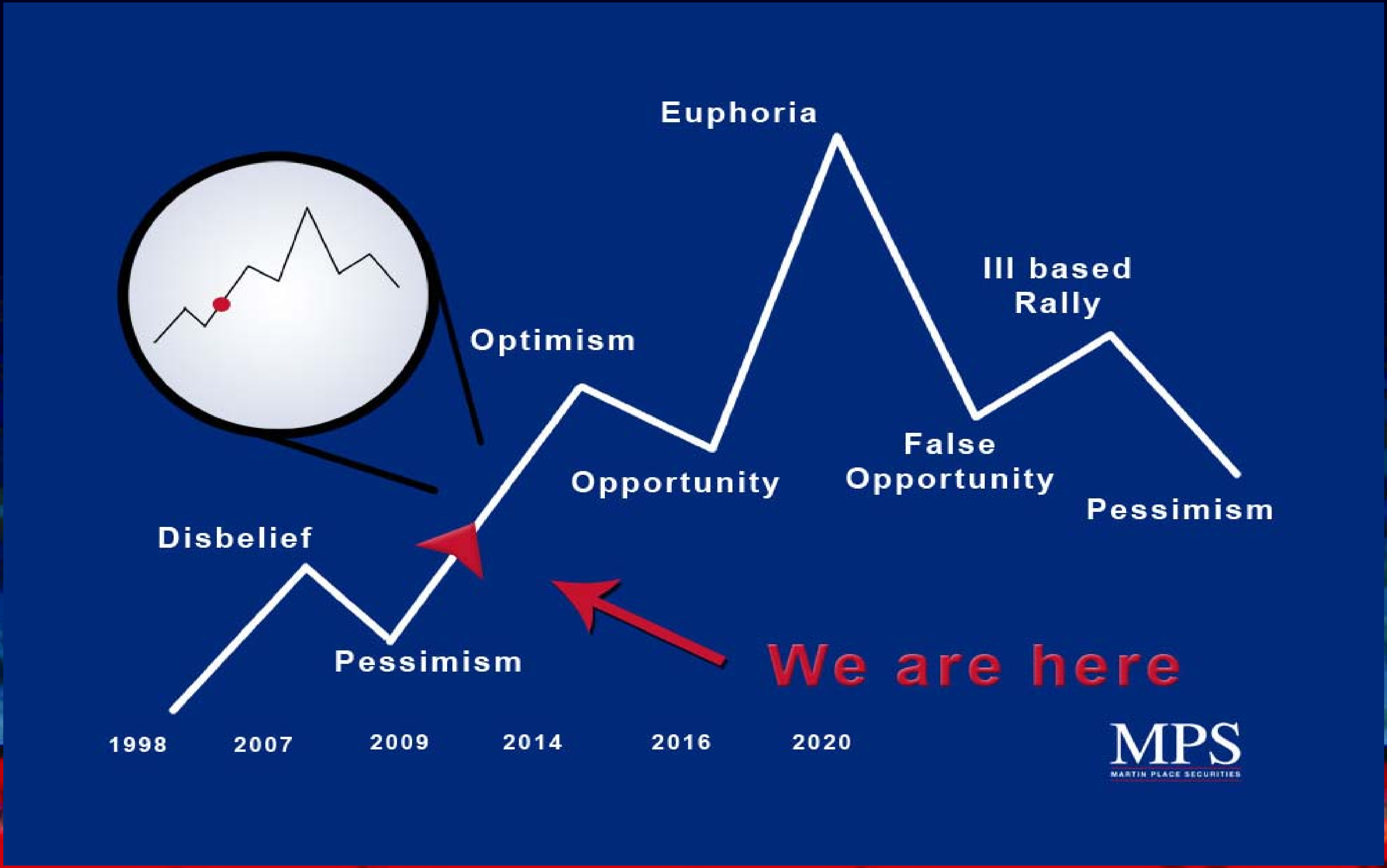
Unconventional sector will be major play

Australia n companies making international mark

Outlook

- Oil prices to stay high
- Domestic energy prices converging
- Onshore exploration boom now underway
- Substantial leverage in explorers
- Increase in institutional and overseas interest
- Market breadth and participation rising

MPS Wave Market Psychology



Recommendations

- Develop portfolio approach
- Watch Australian unconventional hydrocarbons
- Follow world oil price and US$/gold
- Australian juniors vastly undervalued

How to play this market

- Major long term bull market – buy and hold
- Portfolio of large caps to small caps
- Highly volatile with trading opportunities
- Many new IPOs likely in 2011-12
- Smorgasbord of choice
- Emphasise OIL but have diversity

Return of IPOs

- 3 year Post Aug 2007 Subprime drought
- New markets bring new opportunities
- MPS has 2 IPOs from seed investments
- Numerous other projects in pipeline
- Rising energy prices boost attraction
- A$1.3Trillion in cash on sidelines

Recommended Strategy
Optimism Upleg – Higher Risk/Reward

- Large caps – 30% BHP WPL OSH
- Mid caps - 30%
- Small caps – 20%
  - » 5% CSM 5% USA 3% Asia 2% Africa 2%
- Microcaps - 20%
  - » 5% CSM 5% Aust Onshore 3% Asia 2% Africa 2%USA

MPS
MARTIN PLACE SECURITIES

Stock selection

Portfolio approach

- 30% WPL, STO, OSH, ORG
- 30% Mid caps eg BPT, ESG, NXS, BOW, KAR, LNC
- 20% Small caps eg FAR, DLS, AUA, WCL, ADE, OEL, COE
- 20% Microcaps eg BRU, CTP, ROG, COI, PSA, POG, OGE, BCC,BAS,PGS