

Chairman's Address | Annual General Meeting

Address to shareholders by Mr. Reg Nelson, Chairman, Vintage Energy Limited

Introduction

Longer term shareholders will recall Vintage Energy was formed expressly to build a business, and generate value for its shareholders, by finding and supplying gas to an east coast Australian energy market facing dwindling supply from 2020 onwards.

As befits a start-up, focus was disciplined, concentrating on regions offering the combination of gas prospectivity with low threshold for commercialisation and cash generation. Oil opportunities were to be embraced as a part of the business model, where rapid pay-back for modest capital expenditure could be expected.

Our first well was in the Galilee Basin and recorded the first measurable unassisted gas flow to surface. Subsequent drilling in the Penola Trough of the Otway Basin yielded the Nangwarry CO₂ resource.

Then, an opportunity to farm-in and take operatorship of gas exploration in the southern flank of the Nappamerri Trough of the Cooper Basin led to today's position; where Vintage is supplying gas under long term contracts from two gas fields, Odin and Vali, and as at 30 June had around 71 PJ of 2P sales gas reserves.

We are still at the early stages of life for these fields as gas producers; appraisal production through which an understanding of their reservoirs, production characteristics and the intricacies of their gas and fluid bearing zones is being acquired.

It's not always as straightforward as it sounds: I estimate I have had involvement in the drilling of over 500 wells in the Cooper and Eromanga Basins and amongst the many lessons that delivered there are 3 which I think are particularly relevant to Vintage's current position:

First, complexity and surprise are to be expected.

Second, there are no short cuts in appraisal, it is an investment made by way of an iterative process of analysis, modelling, solution design, performance monitoring and re-evaluation.

Sometimes this can be frustrating, and even disappointing. But it leads to the third point I would highlight: the Cooper Basin is an excellent and financially rewarding location for gas and oil exploration and development. Its features include proximity to existing gas gathering and processing facilities, access to markets keenly seeking, and placing a high value on, new supply and an understanding of prospectivity accumulated over 61 years from the first gas discovery at Gidgealpa-2.

In our case, it is worth reflecting on the numbers underpinning the inherent value of our position: over 60 PJ of our 71 PJ 2P sales gas reserves are uncontracted. To spell it out, that is over 60 million gigajoules (Gj) of an essential commodity. To put this into the context of the current market, we estimate an indicative price range of \$10/GJ to \$15/GJ for term contracts.

Realising value for shareholders from this position has been the core concern of board and management since discovering Vali and Odin in 2020 and 2021. While it was never our expectation the full potential would be realised by 2025, we did expect to be further advanced than is currently the case.

Delayed commencement of start-up has been compounded by delays in establishing gas production from two of Vali's three wells. The consequential under-generation of cash compared with plans necessitated capital raisings, the most recent of which was conducted in April of this year. As noted in the Annual Report, management and directors acted to reduce cash expenditure. Directors elected to forego directors' fees for the balance of the FY24 financial year and measures to reduce overheads were implemented. As a result, quarterly corporate administration and staff costs in the September quarter just concluded were 14% lower than for the same period last year. Within this figure, salaries and wages were reduced 22%, whilst some other non-recurring items such as legal costs were higher.

The main game, of course, is increasing cash generation through gas production from our existing wells and connecting more of our gas reserves to market. The work conducted in September: connecting Odin-2 and optimising production at Odin-1; has been reflected in increased gas sales for the month. Total field average raw gas production for days online in the month of October of 5.45 MMscf/d was just over double the comparable rate of 2.68 Mmscf/d recorded in August prior to the field work.

Further and more substantial production and revenue growth can be realised through drilling and connecting additional appraisal production wells in our gas fields and successful drilling of low-risk oil targets.

In respect of the former, our technical team is analysing production logging data acquired from Odin-1 and Odin-2 earlier this month to understand the contributions and characteristics of the field's producing formations. As the Managing Director will shortly explain, the results are encouraging and will be incorporated into future appraisal drilling plans.

I do want to highlight something which I find highly attractive. The potential of oil exploration prospects identified within our Cooper Basin acreage needs to also be addressed. The conduciveness of the region for oil exploration and development is such that relatively modest discoveries, as low as 150,000 bbls, can be developed rapidly and economically. We know these things: our team is largely comprised of the people who, while at Beach Energy Ltd. ('Beach') discovered and built the Western Flank of the Cooper Basin into the largest onshore oil producing region in Australia.

The concepts we used for the Western Flank are somewhat geologically different, but nevertheless compelling to us. The targets mapped include the drill-ready prospect Thaldra in ATP 2021.

Management is exploring opportunities through which drilling can be conducted either later in the current or next financial year.

The proposal to merge Vintage Energy and Galilee Energy announced in August is intended to provide a rational consolidation of people and assets with both near and longer term opportunities to meet energy demands. A strengthened balance sheet and enhanced equity market presence should provide capacity to build growth.

The merger proposal, which is to be effected by an all-scrip acquisition of Galilee by Vintage is subject to a number of conditions, including Galilee shareholder approval at a meeting to be convened and conducted at a date to be set in the near future.

At this stage, it appears the milestones in considering and completing the merger will occur later than advised in the announcement of the scheme implementation deed, last month. We look forward to updating shareholders on the progress of the merger proposal in the coming weeks.

Vintage of course has other assets outside the Cooper Basin, including the Nangwarry carbon dioxide resource and licences in the onshore Otway, Galilee and Bonaparte basins. Each of these licences is assessed to hold the potential for value generating projects. However, for the foreseeable future, our focus is on our producing 2P reserves and more mature Cooper Basin assets.

I know the Nangwarry resource has been of long-standing interest to shareholders; especially those who recognise its potential and its similarity to the nearby Caroline-1 well. Caroline-1 produced CO₂ for nigh on 50 years and still ranks as the most economically valuable well in South Australian history.

Directors share the frustration with what seems slow progress in commercialising a resource whose end-use is so ubiquitous in day-to-day living and the supply of which is tightening as sources of production dwindle.

We have continued to engage across the food-grade CO₂ value chain from end-users to suppliers and infrastructure providers. The findings confirm: Nangwarry is a unique asset, possessing a resource in demand by end-users.

However, without investment in a liquification plant there is presently no path to market for Nangwarry gas. Clearing this a hurdle is complicated by the drive for decarbonisation, irrespective of the daily need for CO₂ in essential activities such as food production storage and distribution and health care. We expect greater interest in Nangwarry, and enthusiasm for funding the necessary plant as the scheduled decommissioning in 2026 of the existing source of CO₂ in South Australia draws closer.

Given this outlook, it is apparent Nangwarry can be a significant value generator for Vintage shareholders but one which will require persistence and patience.

Concluding comments

In the 12 months since we last met your company has

- completed its first full year of production
- conducted an \$8 million capital raising
- drilled, completed and connected the Odin-2 appraisal well
- continued with remedial measures at Vali-2
- dealt with the impacts of unseasonal rainfall
- determined drilling location for Odin-3 and
- increased its 2P reserves by 45% from 8.6 million barrels of oil equivalent (boe) to 12.6 million boe.

This has been a busy year for a young, small and tightly staffed company. Most importantly of all, it has been conducted free of lost time injuries – on behalf of all shareholders I highlight this most important achievement and commend the employees and contractors who enabled it. Our operations to date are only accessing a small fraction of the reserves identified at Odin and Vali. Our task this year is to assimilate and analyse the lessons of the current appraisal operations so the optimal avenue to realise the full potential of these fields can be realised.

Before I close, I wish to acknowledge the work done and support given by my fellow directors and thank Neil and his team for their efforts in a year which has asked a lot of them. And to shareholders for their support throughout a difficult, but promising, year. Thank you.

Reg Nelson
Chairman

This release has been authorised on behalf of the Vintage Board by Mr. Neil Gibbins, Managing Director.

For more information contact:

Neil Gibbins | Managing Director | +61 8 7477 7680 | info@vintageenergy.com.au

For personal use only