



Larus Energy Limited

ACN 140 709 360

Notice of Annual General Meeting and Explanatory Statement

2014 Annual Report:

<http://www.larusenergy.com.au>

**3.00PM
11 August 2015
Norton Rose Fulbright
Level 18, Grosvenor Place
225 George Street
Sydney, NSW 2000**



LARUS ENERGY LIMITED
ACN 140 709 360

Notice of Annual General Meeting

NOTICE is given that the Annual General Meeting of the Company will be held at the offices of Norton Rose Fulbright, Level 18 Grosvenor Place, 225 George Street, Sydney at 3.00PM on Tuesday, 11 August 2015.

ORDINARY BUSINESS

1. Receipt of the Financial Report for the year ended 31 December 2014

Receipt of the Company's Financial Report and the Directors' Report and the Auditor's Report for the year ended 31 December 2014.

2. Resolution 1 – Re-election of Mr. Richard Malcolm as a Director

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

“That, Mr Richard Malcolm, having been appointed as an additional Director of the Company since the last annual general meeting and who retires in accordance with paragraph 55.2 of the Constitution of the Company, and being eligible for re-election, is re-elected as a Director of the Company.”

3. Resolution 2 - Retirement by rotation and re-election of Mr Ashley Mangano as a Director

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

“That, Mr Ashley Mangano, who retires by rotation in accordance with paragraph 57.1 of the Company's Constitution and being eligible for re-election, is re-elected a Director of the Company.”

SPECIAL BUSINESS

4. Resolution 3 – Approval of the issue of shares to Cinu Investments Pty Ltd under Secured Convertible Note Deed and Option Deed

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That, for the purpose of item 7 of section 611 of the *Corporations Act 2001* (Cth) and for all other purposes, approval be given for the Company to issue the number of fully paid ordinary shares to Cinu Investments Pty Ltd ACN 120 419 605 (**Cinu**) as will result in Cinu achieving a voting power in the Company of up to 39.0%, pursuant to the terms of:



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- (a) the Secured Convertible Note Deed dated 18 September 2013 between the Company and Cinu; and
- (b) the Option Deed entered into on or about 16 April 2014 between the Company and Cinu,

(as those documents are amended from time to time) which are described in the Explanatory Statement that accompanies the Notice of Meeting at which this resolution is proposed.”

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 3 by Cinu Investments Pty Ltd ACN 120 419 605 or any of its associates, including Richard Gazal, a director of the Company. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. Resolution 4 – Amendment to the Company’s Constitution

To consider and, if thought fit, to pass the following resolution as a special resolution:

“That, for the purposes of section 136 of the *Corporations Act 2001* (Cth) and for all other purposes, the following new paragraph 3.3 be inserted in the Company’s Constitution:

- 3.3 To avoid doubt, the Directors’ power under paragraph 3.1 excludes the power to issue and allot Shares to any Director for nil consideration, except where such issue and allotment is made by the Directors in compliance with the *Corporations Act 2001* (Cth).”

Dated at Sydney, on 10th July 2015

The Chairman will provide an update to Shareholders at the meeting. In addition both the Company’s Exploration Manager and CEO will give a short technical presentation on operations.

By order of the Board
Matthew Azar
Company Secretary

2014 Annual Report:

The 2014 Annual Report is available on the Company’s Website:
<http://www.larusenergy.com.au>



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PROXIES

1. A Shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy, or not more than two proxies, to attend and vote instead of the Shareholder.
2. Where two proxies are appointed:
 - (i) a separate Proxy Form, should be used to appoint each proxy;
 - (ii) the Proxy Form may specify the proportion, or the number, of votes that the proxy may exercise, and if it does not do so each proxy may exercise half of the total number of votes that may be exercised on a resolution.
3. A Shareholder can appoint any other person to be their proxy. A proxy need not be a Shareholder of the Company. The proxy appointed can be described in the Proxy Form by an office held e.g. "the Chair of the Meeting".
4. In the case of Shareholders who are individuals, the Proxy Form must be signed:
 - (i) if the shares are held by one individual, by that Shareholder;
 - (ii) if the shares are held in joint names, by any one of them.
5. In the case of Shareholders who are companies, the Proxy Form must be signed:
 - (i) if it has a sole director (including where that director is also sole secretary), by that director (and stating the fact next to, or under the signature on the Proxy Form);
 - (ii) in the case of any other company by either two directors or a director and secretary.

The use of the common seal of the company, in addition to those required signatures, is optional.

6. If the person signing the Proxy Form is doing so under a power of attorney, or is an officer of a company outside those referred to above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy Form, must be received by the Company by the time and at the place specified below.
7. A Proxy Form accompanies this notice. To be effective, your proxy must be received by the Company **no later than 48 hours before the time for the holding of the meeting:**

By facsimile

+61 2 9290 9655

By mail

Larus Energy Limited
C/- Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

In person

Larus Energy Limited
C/- Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000
Australia

SHAREHOLDERS WHO ARE ENTITLED TO VOTE

In accordance with the Corporations Act 2001 (Cth), the directors have determined that a person's entitlement to vote at the meeting will be the entitlement of that person set out in the register of members as at 7.00 pm on Sunday, 9 August 2015.

EXPLANATORY STATEMENT

1. Receipt of the Financial Report for the year ended 31 December 2014

The *Corporations Act 2001* (Cth) (**Corporations Act**) requires the financial report (which includes the financial statements and the directors' declaration), the directors' report and the auditor's report to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or in the Constitution of the Company for Shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the financial report.

2. Resolution 1 – Re-election of Mr Richard Malcolm as a Director

Mr Richard (Ric) Malcolm was elected as an additional Director on 16 October 2014. Paragraph 55.2 of the Company's Constitution provides that a Director appointed as an additional Director will hold office until the end of the next annual general meeting of the Company, at which time the Director may be re-elected. Accordingly, Mr Malcolm offers himself for re-election.

Mr Malcolm is a professional geoscientist with 34 years of varied oil and gas experience within seven international markets. He began his career as a Petroleum Geologist with Woodside Petroleum in Perth exploring for oil and gas on the Northwest Shelf. He spent ten years with Ampoex Limited (Perth and Sydney) as a Senior Explorationist and then Exploration Manager in Western Australia and Asset Manager in Northern & Eastern Australia. Following Mobil's takeover of Ampoex, Mr Malcolm was appointed manager of Mobil's assets in Papua New Guinea. Three years later he joined OMV, initially as Exploration Manager for Australia & New Zealand and later as Exploration & Reservoir Manager for OMV Libya, General Manager Norway and in 2006, Managing Director of OMV UK. Between 2008 and 2013, Mr Malcolm was CEO of Gulfsands Petroleum plc, an AIM listed production, exploration and development company with operations in Syria, Tunisia, Morocco, USA and Colombia. He is currently a Non-executive Director of Pura Vida Energy NL.

Each of the Directors (other than Mr Malcolm) recommends shareholders vote in favour of Resolution 1. The Chairman of the meeting intends to vote undirected proxies in favour of the re-election of Mr Malcolm.

3. Resolution 2 – Retirement by rotation and re-election of Mr Ashley Mangano as a Director

Mr Ashley Mangano was elected as a Director on 5 August 2014. Paragraph 57.1 of the Company's Constitution provides that at the close of each annual general meeting, one third of the Directors must retire by rotation. The Director to retire is the Director who has been in office for the longest period of time since their last election. In accordance with the Constitution Mr Mangano must retire by rotation at the annual general meeting. Being eligible for re-election, Mr Mangano offers himself for re-election.

Mr Mangano holds a masters degree in business administration from Oxford University, specializing in corporate finance, along with undergraduate degrees in engineering (honours) and commerce from the University of Western Australia.



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Mr Mangano has significant experience in international oil and gas, working on a diverse range of offshore and onshore projects in North America, West Indies, and Australasia. He spent the early part of his career as a drilling engineer with global oilfield service company Halliburton, before transitioning to a commercial manager role with Baker Hughes. Previous to his appointment with Larus Energy, Mr Mangano held the position of vice president (Trinidad) of publicly listed exploration and production company Range Resources Limited, where he not only successfully completed a debt-funded development plan for existing reserves across three licenses, but also significantly increased the company's acreage position in Trinidad by a factor of 18 through execution of a farm-in agreement and a successful bid during the 2013 Trinidad and Tobago onshore bid round.

Each of the Directors (other than Mr Mangano) recommends shareholders vote in favour of Resolution 2. The Chairman of the meeting intends to vote undirected proxies in favour of the re-election of Mr Mangano.

4. Resolution 3 – Resolution to approve the issue of shares to Cinu

4.1 Purpose of resolution

Shareholder approval is sought for the Company to issue the number of fully paid ordinary shares to Cinu Investments Pty Ltd ACN 120 419 605 (**Cinu**) as will result in Cinu achieving a voting power in the Company of up to 39.0%, pursuant to the terms of:

- (a) the Secured Convertible Note Deed dated 18 September 2013 between the Company and Cinu (**Convertible Note Deed**); and
- (b) the Option Deed entered into on or about 16 April 2014 between the Company and Cinu (**Option Deed**),

(as those documents are amended from time to time) (**Proposed Transaction**).

4.2 Section 611, Item 7 of the Corporations Act 2001 (Cth)

Larus is an unlisted company with more than 50 members. Accordingly, the Company is subject to the provisions of Chapter 6 of the Corporations Act dealing with the prohibition by persons of the acquisition of some relevant interests in voting shares of certain types of companies.

Broadly, section 606 of the Corporations Act prohibits a person from acquiring a "relevant interest" in voting shares in the Company if that acquisition results in that person's or their associates' voting power in the Company increasing to more than 20%, or from a starting point above 20% and below 90%.

However, section 611 of the Corporations Act provides a number of exemptions to the prohibition in section 606, including where shareholder approval is received in accordance with item 7 of section 611 of the Corporations Act.

Resolution 3 seeks the relevant approval required under item 7 of section 611 of the Corporations Act for the proposed increase in Cinu's voting power in the Company from its existing voting power of 8.2% up to a maximum of 39.0% as a result of the Proposed Transaction.



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4.3 Background to the Proposed Transaction

Shareholder approval is sought to approve the issue of Shares pursuant to the Proposed Transaction, through two distinct but related commercial arrangements:

- (a) the conversion by Cinu of existing convertible notes to fully paid ordinary shares under the Convertible Note Deed; and
- (b) the conversion of convertible notes to fully paid ordinary shares if Cinu exercises options granted to it under the Option Deed and is issued convertible notes.

Convertible Note Deed

Under the Convertible Note Deed, Cinu agreed to advance A\$1,000,000 in funds to the Company, by way of a series of draw downs by the Company, in exchange for the Company issuing convertible notes (**Notes**) to Cinu with a face value equal to the funds drawn down. As at the date of this Notice of Meeting the Company has drawn down fully on the funds available to it under the Convertible Note Deed such that the total aggregate face value of all of the Notes issued to Cinu is A\$1,000,000 (**Face Value**), but Cinu has not yet converted any of the Notes into fully paid ordinary shares in the Company (**Shares**).

The Convertible Note Deed was entered into by Cinu at a time when the Company had a critical need for funding and raising funds from existing and third party shareholders had proven difficult. Cinu agreed to fill the funding gap required at that time.

The terms attaching to the Notes include the following:

1. The maturity date of the Notes is four years after the date that a given Note was issued. The latest maturity date for Notes issued under the Convertible Note Deed is 25 June 2018. (**Longstop Maturity Date**).
2. Cinu may, at its discretion, convert Notes into Shares at any time before the repayment or redemption of the Notes, or on or before the maturity of the Notes.
3. The number of Shares that Cinu is entitled to receive is calculated by applying the Face Value, being an aggregate of A\$1,000,000 plus any capitalised interest (described below), to a subscription for Shares at a specific issue price.
4. The issue price for the Shares on conversion will be the lower of:
 - (a) A\$0.05 per Share;
 - (b) if the Company issues Shares after 18 September 2013 at a price that is lower than A\$0.05, the issue price of those Shares; and
 - (c) the lowest implied price or value per Share calculated under the terms of the Convertible Note Deed of any adjustment events (described below) which occur prior to conversion.

The following events are considered adjustment events:

- an issue of securities which are directly or indirectly convertible into, exercisable for, or exchangeable for Shares;
- any investment by a person, by way of debt or equity, into a subsidiary of the Company;
- entry into any joint venture by the Company or subsidiary of the Company, including any farm-out, partnership or establishment of a co-investment vehicle;
- takeover, scheme of arrangement or merger to which the Company or a subsidiary of the Company is subject (including any back-door listing of the Company or subsidiary);



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- disposal (including by way of compulsory acquisition) of a subsidiary of the Company;
- the disposal (including by way of compulsory acquisition) of all or a substantial part of, the collective assets of the Company and its subsidiaries;
- an initial public offering of the Company or a subsidiary of the Company;
- reconstruction of the capital of the Company, capital distribution, capital reduction, buy-back or division of any securities in the Company;
- any matter or thing similar in effect or purpose to any of the above; and
- any agreement by the Company or a subsidiary of the Company to do any of the above,

(each an **Adjustment Event**).

In 2014, on the conversion of a short-term loan that the Company had previously entered into with Cinu, the Company issued Shares to Cinu at A\$0.02 per share (**Lower Issue Price**). The short-term loan with Cinu was an arm's length transaction that was approved by the Board, excluding Richard Gazal (who is associated with Cinu), who abstained from voting.

As a consequence of that issue of Shares, in accordance with the terms of the Convertible Note Deed, as at the date of this Notice of Meeting Cinu may elect to exercise its right to convert all of the issued Notes to Shares at the Lower Issue Price of A\$0.02 per Share, until, at the latest, the Longstop Maturity Date. However, in accordance with the terms of the issue of the Notes (and as described above), the issue price of Shares on conversion of all issued Notes may be further decreased if an Adjustment Event that implies a price or value per Share less than A\$0.02 occurs prior to conversion. If such an Adjustment Event occurs, that will result in a greater number of Shares being issued on the conversion of each Note than would be the case based on a A\$0.02 conversion price.

The Notes are subject to basic interest calculated at a rate of 8% of their face value per annum, payable monthly. Failure to pay interest on time is an event of default and results in interest accruing on the face value of the Notes at a penalty rate of 15% per annum. The interest may be capitalised at the election of Cinu. If interest is capitalised it is added to the face value of the Notes at the time of conversion. The Company has not paid interest on the Notes since January 2014, so interest is accruing on the face value of the Notes at 15% per annum. As at the date of this Notice of Meeting Cinu has not elected to capitalise any interest due or to be paid in the future. Any issue of Shares in lieu of capitalised interest that has accrued at the time of conversion of the Notes will count towards the 39.0% cap on the voting power of Cinu under Resolution 3 (discussed further in section 4.4 below).

Option Deed

Under the Option Deed, the Company has granted Cinu twenty options to subscribe in each case for a secured convertible note with a face value of A\$50,000 (**Options** and **Option Notes** respectively), such that the aggregate face value of the Option Notes that may be issued is A\$1,000,000. Cinu may exercise the Options at any time up to 16 April 2016 (**Option Expiry Date**).

The Option Deed provides the Company with an opportunity to access a further A\$1,000,000 of funding should it require to do so (albeit at Cinu's election). As at the date of this Notice of Meeting, Cinu has not exercised any of its Options.

On their issue, and similar to the terms of the Convertible Note Deed, the face value of each Option Note is convertible into Shares at an issue price of the lower of (a) A\$0.05 per Share; (b) if the Company issues Shares after 18 September 2013 at a price lower than A\$0.05, the issue price of those Shares; and (c) the lowest implied price or value per Share calculated under the terms of the Option Deed of any Adjustment Events which occur prior to conversion. For the same reasons as for the Notes issued under the Convertible Note Deed, if any Option Notes are issued, Cinu would therefore be able to convert the face value of those Option Notes at A\$0.02 per Share (or a lower price implied by an Adjustment Event).



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Option Notes have a maturity date of four years after the issue date of the Option Notes. If Options are exercised immediately prior to the Option Expiry Date, the maturity date of the Option Notes issued would extend to April 2020 (**Option Note Longstop Date**). If Cinu then elects to convert the full A\$1,000,000 in Option Notes, and assuming a conversion price of A\$0.02, the Company will be required to issue a maximum of 50,000,000 Shares (**Option Deed Shares**). (This figure also assumes that no interest on Option Notes is capitalised; see below.)

Interest is payable on any Option Notes in the same manner as Notes issued under the Convertible Note Deed and may be capitalised at the election of Cinu in the same way as under the Notes. The Company is unable to predict whether or not Cinu will exercise Options, and if it does, when that will be. Interest will only begin to accrue if Cinu exercises Options to subscribe for Option Notes. Any issue of Shares in lieu of capitalised interest that has accrued at the time of conversion of the Notes will count towards the 39.0% cap on the voting power of Cinu under Resolution 3 (discussed further in section 4.4 below).

4.4 Voting power of Cinu

Shareholders should note that given the variables set out below, it is not possible to provide an exact number of Shares that may be issued to Cinu as a result of the Proposed Transaction, or the total increase in Cinu's voting power pursuant to the Proposed Transaction (nor a definite range for either figure).

The number of Shares in which Cinu would have a relevant interest as a result of the Proposed Transaction, and Cinu's voting power in the Company, will ultimately depend on:

- (a) the extent to which Cinu exercises the Options (if at all);
- (b) the extent to which Cinu converts existing Notes under the Convertible Note Deed and any Option Notes issued under the Option Deed, into Shares;
- (c) the amount of accrued interest which is capitalised under the Notes and Option Notes;
- (d) the conversion price of the Notes and Option Notes (as adjusted in accordance with the terms of the Convertible Note Deed and Option Note Deed);
- (e) the number of Shares on issue at the time of any conversion into Shares;
- (f) the number of Shares in which Cinu and its associates have a relevant interest at the time of any conversion into Shares.

An issue of Shares under the Convertible Note Deed (including any Shares issued in lieu of accrued capitalised interest) (**Convertible Deed Shares**) or issue of Option Deed Shares at the Lower Issue Price of \$0.02 may increase Cinu's voting power in the Company to more than 20%.

The approval under Resolution 3 is capped at that number of Shares which would result in Cinu achieving a voting power in Cinu of 39.0%. The Company has capped the approval at this level on the basis that it represents the expected percentage that would be held by Cinu if all of the Notes and the Option Notes were converted together with capitalised interest up to 31 December 2015 (a date selected by the Company for illustrative purposes only). However, depending on the variables described above, Cinu may not be able to achieve a voting power as a result of the Proposed Transaction as high as 39.0%. In that event, Cinu would only be permitted to increase its voting power to the extent that it is entitled to do so through the Proposed Transaction (or in other circumstances permitted by the Corporations Act), and Resolution 3 would not enable Cinu to increase its voting power to 39.0% by means not otherwise permitted under the Corporations Act.

Conversely, depending on the variables described above, Cinu may (but for the proposed 39.0% cap) be entitled under the terms of the Convertible Note Deed and the Option Deed to increase its voting power to more than 39.0% as a result of the Proposed Transaction. In that event, Cinu would only be able to rely upon Resolution 3 to increase its voting power to up to

39.0%. If a further conversion of Notes or Option Notes would result in Cinu acquiring a voting power more than 39%, Cinu would only be able to convert its Notes or Option Notes into Shares if such an acquisition complied with the Corporations Act (e.g. in accordance with a further shareholder approval under section 611, item 7, or under the exemption in section 611, item 9 (3% creep in 6 months)).

The following table illustrates the potential voting power of Cinu (and therefore also its associates) as a result of the Proposed Transaction on the basis of the assumptions contained in the footnotes to the table. Those assumptions are indicative only and do not represent the only circumstances in which Cinu could achieve a voting power in Larus of 39.0%. For instance, if Cinu capitalises a greater amount of accrued interest or the conversion price falls to less than A\$0.02 due to an Adjustment Event (and all other assumptions hold), Cinu may be able to reach a voting power of 39.0% without converting all of the Notes and Option Notes.

	Number of Shares in which Cinu or its associates have a relevant interest	Voting power of Cinu and its associates after acquisition
Existing Shares only	18,320,548	8.2%
Existing Shares and Convertible Deed Shares	81,941,836	28.4%
Existing Shares, Convertible Deed Shares and Option Deed Shares	131,941,836	39.0%

Notes:

1. The Company has 224,700,956 Shares currently on issue.
2. Table assumes no further Shares are issued by the Company, other than upon the conversion of any Notes or Option Notes.
3. Table assumes that Cinu does not become associated with any person that already has a relevant interest in Shares, and that Cinu and its associates do not obtain a relevant interest in any Shares other than upon conversion of Notes or Option Notes.
4. Assumes an issue price of Shares on conversion of A\$0.02 per Share.
5. The number of Convertible Deed Shares assumes that Larus does not pay any further interest on the Notes (meaning that interest continues to accrue at 15% per annum), that Cinu capitalises all unpaid interest on the Notes immediately after 31 December 2015, and that Cinu elects to convert all of its Notes. The Company would therefore be required to issue 50,000,000 Convertible Deed Shares in respect of the A\$1,000,000 original face value of those Notes plus 13,621,288 Convertible Deed Shares to Cinu in respect of \$272,425.76 in capitalised interest (being the interest forecast to have accrued on the Notes as at 31 December 2015).
6. The number of Option Deed Shares assumes that Cinu exercises all of its Options and elects to convert the Option Notes into Shares without having capitalised any interest on those Option Notes. The Company would therefore be required to issue 50,000,000 Option Deed Shares to Cinu in respect of the A\$1,000,000 face value of those Option Notes.
7. Voting power is rounded to the nearest tenth of one percent.
8. It is also possible that Option Notes, but not Notes, may be converted into Shares.

4.5 Potential impact on voting power of conversion of additional capitalised interest

The illustration in section 4.4 relied on assumptions that, amongst other things, no interest on Notes which accrued after 31 December 2015 would be capitalised, and that no interest on Option Notes would be capitalised at all. If additional interest accrues and is capitalised, Cinu would (but for the proposed 39.0% cap) become entitled to receive additional Shares on the conversion of Notes or Option Notes. As noted above, Cinu could become entitled to convert remaining Notes or Option Notes in other circumstances permitted by the Corporations Act (e.g. in accordance with a further shareholder approval under section 611, item 7, or under the exemption in section 611, item 9 (3% creep in 6 months)).



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The following table is intended to assist shareholders assess the potential impact of such further conversions on the total voting power of Cinu, on the basis of the same assumptions as were set out in section 4.4 above (except as reflected in the table below):

	Shares issued on conversion of additional interest payable	Aggregate number of Shares held by Cinu and its associates	Voting power of Cinu and its associates after acquisition
No additional interest	-	131,941,836	39.0%
A\$50,000 in additional interest	2,500,000	134,441,836	39.5%
A\$100,000 in additional interest	5,000,000	136,941,836	39.9%
A\$200,000 in additional interest	10,000,000	141,941,836	40.8%
A\$300,000 in additional interest	15,000,000	146,941,836	41.6%

4.6 Cinu’s intentions regarding its future shareholding

Cinu is a family-owned investment company that has supported and invested in Larus due to the potential it sees in Larus’ exploration permit PPL 326. Cinu has provided funding support to the Company where required. Cinu has no intention to change the business of Larus despite its potential increased shareholding in the Company. Approval of the Proposed Transaction will allow the Company to receive further capital investment by Cinu, through the exercise of the Options by Cinu and the subsequent issue of Option Notes by the Company up to a total face value of A\$1,000,000.

Cinu’s intention is for Larus to operate sustainably whilst continuing to comply with relevant regulatory requirements wherever it operates. The Proposed Transaction does not result in any change to Cinu’s representation on the Larus’ board, nor its non-control over management and financial policies and non-control of free cash flows of Larus. Cinu will also not control any decision making regarding the acquisition and disposal of assets and the deployment of proceeds or the Company’s employees.

Cinu has no present intention to seek any significant change to the financial or dividend distribution policies of the Company. Cinu currently has no plans to inject further capital into the Company, and has not formed a view as to whether it will exercise the Options. Cinu has no present intention to seek any significant changes to future employment of present employees of the Company, nor to seek the redeployment of its fixed assets.

4.7 Information about Cinu

Cinu is an Australian proprietary company limited by shares. Cinu’s directors are Richard Gazal and Laura Jayne Gazal, who each own half of the shares in Cinu. Richard Gazal is a Director of the Company. Laura Gazal is his wife. Richard and Laura Gazal are the only associates of Cinu in relation to the Company, and do not have a relevant interest in Shares (other than through Cinu).



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4.8 Independent Expert's Report

Shareholders should carefully consider the accompanying Independent Expert's Report prepared by Hall Chadwick Corporate (NSW) Limited (**Hall Chadwick**) for the purpose of advising Shareholders of Larus (other than Cinu and its associates), whether the Proposed Transaction is fair and reasonable when considered in the context of the interests of those non-associated Shareholders.

The Independent Expert concludes that the proposed transaction is NOT FAIR, BUT REASONABLE to the non-associated Shareholders. Shareholders are recommended to review the Independent Expert's Report in its entirety and to consider the conclusions reached as well as the advantages and disadvantages of the Proposed Transaction identified by the Independent Expert before deciding how to vote.

4.9 Advantages and Disadvantages of the proposed issue of Shares

There are a number of advantages and disadvantages to the Company which Shareholders should consider in assessing the impact of the Proposed Transaction and corresponding increase in the relevant interests of Cinu, in deciding on how to vote on Resolution 3.

The Directors believe that the key advantages and disadvantages of the Proposed Transaction are:

Advantages

The Convertible Note Deed and the Option Deed were entered into at a time when the Company was in need of further funding and other sources of funding had proven difficult to obtain. Without the funding obtained, and on the terms it was obtained, the Company may have struggled to continue as a going concern.

The Convertible Deed Shares component of the Proposed Transaction enables the Company to significantly reduce its debt levels and associated costs by the amount of the Notes, and all accrued interest, which amounted to an unaudited liability of approximately \$1,196,800 as at 30 June 2015.

If Cinu exercises its Options, the funds received from the issue of the Option Notes totalling up to \$1,000,000 will contribute to Larus' need for future funding including part of the working capital required to continue to explore and develop its Petroleum Prospecting License 326 (PPL 326) in the Torres Basin, Papua New Guinea.

There will be a reduction in the interest expenses in Larus as a result of conversion of Notes or (if they are issued) Option Notes.

There will be no change in the primary operations of Larus.

The Larus Board, excluding Richard Gazal, is of the opinion that the Proposed Transaction is in the best interests of the Company's Shareholders. Richard Gazal has abstained from providing an opinion in this regard, owing to his interest in Cinu.

Disadvantages

Existing Shareholders' shareholdings will be diluted, and may be substantially diluted, by the Proposed Transaction.



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4.10 Consequences if Resolution 3 is not approved

Uncertainty of ability to repay loan amounts

If the Resolution is not passed, it is unclear, in light of the current capital structure of Larus, how it will repay the amounts it has drawn down under the Notes. This may lead to a further default under the Convertible Note Deed and expose the Company to a risk of Cinu enforcing its security over Larus' assets. Larus is not currently generating the cash flows that are sufficient to service and repay the amounts drawn down under the Notes in cash.

Likelihood of securing alternative financing arrangements

If the Resolution is not passed, there is no certainty that Larus will be able to secure alternate financing arrangements to repay the amounts advanced to it by Cinu. The ability of Larus to continue operating as a going concern is largely dependent on its ability to raise funds. Historically those fund raising activities have proven difficult.

Likelihood of securing future financing arrangements

If the Resolution is not passed, Larus may not be able to raise capital from other sources on terms as favourable as those provided under the Option Deed component of the Proposed Transaction, to enable it to continue its core business activities. If future financing arrangements are not secured, the Company may not be able to operate or develop PPL 326 and therefore participate in the forecast growth of Papua New Guinea's oil and gas sector.

4.11 Application of Chapter 2E of the Corporations Act

The Proposed Transaction is a related party transaction within the meaning of Chapter 2E of the Corporations Act. The Board has formed the view that Shareholder approval of the Proposed Transaction is not required under Chapter 2E of the Corporations Act because, for the purposes of section 210 of the Corporations Act, the Proposed Transaction is on arm's length terms and is reasonable in the circumstances.

Section 210 of the Corporations Act states:

"Member approval is not needed to give a financial benefit on terms that:

- (a) would be reasonable in the circumstances if the public company or entity and the related party were dealing at arm's length; or*
- (b) are less favourable to the related party than the terms referred to in paragraph (a)."*

In forming this view, the Board has given regard, among other things, to the fact that the terms of the Convertible Note Deed and the Option Deed were negotiated on arm's length terms and to the opinion of Hall Chadwick in the Independent Expert's Report that the issue of Shares under the Proposed Transaction is not fair but reasonable to all non-associated Shareholders.

4.12 Other information

The opinion of Larus is made at the date of this document and reflects circumstances and conditions as at that date. In particular, Larus provides no representations or warranties in relation to the future value of Shares.

Shareholders who are in any doubt as to the action they should take should consult their own independent professional adviser.



LARUS ENERGY LIMITED
ACN 140 709 360

4.13 Recommendations of Directors

The non-associated Directors (being all of the directors excluding Richard Gazal), unanimously believe that the Proposed Transaction is in the best interest of Larus Shareholders and recommend that Larus Shareholders vote in favour of Resolution 3. Each of them intends to vote all Shares controlled by them in favour of Resolution 3.

Owing to his interest in Cinu, Richard Gazal does not make any recommendation in connection with Resolution 3.

5. Resolution 4 – Amendment to Constitution

Paragraph 3.1 of the Company's Constitution permits the Directors to issue and allot, or dispose of Shares, on terms and at an issue price determined by the Directors, and whether to members in proportion to their existing shareholdings and to such other persons as determined by the Directors. This power under the Company's Constitution is expressed to be subject to the provisions in the Corporations Act, the ASX Listing Rules and the other terms of the Company's Constitution.

While the limitations provided under the Corporations Act, such as the prohibition on providing a financial benefit to related parties of the Company without shareholder approval, or the requirement for Directors to act in good faith and for a proper purpose, provide a fetter on the absolute power of the Directors to issue Shares under paragraph 3.1, following concerns raised by Shareholders regarding actions of previous boards of the Company, and as agreed by the existing board in the interest of good corporate governance, the Company considers it appropriate to add a specific paragraph into the Company's Constitution clarifying that the issue and allotment of Shares to Directors for nil consideration is prohibited, except where such issue is permitted under the Corporations Act, for example where the issue of Shares to a Director is reasonable remuneration to that Director, being one of the exceptions to the related party benefit rules in Chapter 2E of the Corporations Act.

Each of the Directors recommends Shareholders vote in favour of Resolution 4. The Chairman of the meeting intends to vote undirected proxies in favour of Resolution 4.



LARUS ENERGY LIMITED
ACN 140 709 360

Independent Expert's Report

22 June 2015

The Directors
Larus Energy Limited
Level 28, 140 St Georges Terrace
PERTH 6000 Australia

Dear Sirs,

Independent Expert's Report on the proposed issue of shares in the Company

1. INTRODUCTION

Background

- 1.1 Larus Energy Limited ("Larus" or "the Company") is an Australian public unlisted petroleum exploration company, incorporated in New South Wales on 23 November 2009. Larus operates Petroleum Prospecting License 326 ("PPL 326") in the Torres Basin, Papua New Guinea and has positioned itself to participate in the forecast growth of PNG's oil and gas sector.
- 1.2 On 18 September 2013 Larus entered into a Secured Convertible Note Deed ("Deed") with Cinu Investments Pty Ltd ("Cinu"), a company owned by Richard Gazal, Larus Non-Executive Chairman. Notes were issued under the Deed to Cinu for the total amount advanced to the Company of \$1,000,000. The terms of the Deed and Notes are detailed in section 2.
- 1.3 Conversion to ordinary shares of the Notes and accrued interest owing to Cinu ("Note Conversion") will result in Cinu holding an interest in the Company above 20%. The Deed includes reference to an Option Agreement which grants Cinu the right to invest up to a further \$1,000,000 in the Company in return for Cinu shares ("Option Shares") on the same terms and conditions as the Deed.
- 1.4 The Note Conversion and issue of Option Shares is referred to in this report as the "Transaction", which is subject to Larus obtaining Shareholder approval.

Purpose of Report

- 1.5 You have requested Hall Chadwick Corporate (NSW) Limited ("HCC") to prepare an Independent Expert's Report to advise the shareholders of Larus other than those associated with the proposed issue of Larus shares to Cinu ("Non-Associated Shareholders"), whether the proposed Transaction is fair and

HALL CHADWICK
CORPORATE (NSW) LIMITED

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reasonable when considered in the context of the interests of Non-Associated Shareholders and to set out the reasons for our conclusions.

- 1.6 HCC understands and has agreed that this report will accompany the notice to convene a meeting of Larus shareholders, to assist the Non-Associated Shareholders in their consideration of the resolutions to be put at a General Meeting.

Opinion

- 1.7 In our opinion, the proposed Transaction is ***not fair but reasonable*** to the Non-Associated Shareholders of Larus.
- 1.8 The ultimate decision however on whether to accept the proposed Transaction should be based on Larus shareholders own assessment of their circumstances.

2. THE PROPOSED TRANSACTION

- 2.1 On 18 September 2013 Larus entered into the Deed with Cinu, a company owned by Richard Gazal, Larus Non-Executive Chairman. Notes were issued under the Deed to Cinu for the total amount of drawdowns advanced to the Company of \$1,000,000. Terms of the Notes include the following:
- a) The Notes will convert into ordinary shares in Larus at the discretion of the Noteholder (Cinu) at a price not exceeding \$0.05 per share. In the event that the Company issues ordinary shares, after the Notes are issued, at a price per share lower than \$0.05, that lowest price will be the issue price per share under the Note Conversion.
 - b) The Maturity Date for the Notes is four years after the Issue Date, as per the Amending Deed which varied the original Maturity Date in the Deed of two years.
 - c) A Coupon Rate of 8% of their face value per annum payable monthly in arrears. The accrued interest has been capitalised and added to the value of the Notes subject to conversion. If the Company defaults in payment of interest a penalty rate of 15% per annum will apply on the amount outstanding.
- 2.2 The lowest price at which shares have been issued since the date of the Deed was \$0.02 for shares issued to Cinu on the conversion of a short term loan in 2014. We are advised that this was an arm's length transaction in which associated parties abstained from voting on the approval of the loan, and the remaining Board members accepted the loan and conversion terms. If the Company issues Shares at a price lower than \$0.02 prior to the conversion date Cinu has the right to convert the Notes at the issue price of those Shares. However, for the purposes of this report a conversion price of \$0.02 is being assumed (the "Lower Issue Price").
- 2.3 The Deed includes reference to an Option Agreement which grants Cinu the right to invest up to a further \$1,000,000 in the Company in return for Cinu shares ("Option Shares") on the same terms and conditions as the Deed.
- 2.4 Approval is being sought from Shareholders to issue the number of fully paid ordinary shares to Cinu as will result in Cinu achieving a voting power in the Company of up to 39.0%, pursuant to the terms of:
- (a) the Secured Convertible Note Deed dated 18 September 2013 between the Company and Cinu; and
 - (b) the Option Deed entered into on or about 16 April 2014 between the Company and Cinu,
- 2.5 The approval for the Transaction is capped at that number of Shares which would result in Cinu achieving a voting power in the Company of 39.0%. The Company has capped the approval at this level on the basis that it represents the expected percentage that would be held by Cinu if all of the Notes and the Option Notes were converted together with capitalised interest up to 31 December 2015 (a date selected by the Company for illustrative purposes only).
- 2.6 Cinu currently hold 18,320,548 Larus shares equating to an 8.2% equity interest. Assuming a Note Conversion price of \$0.02 per share, the Note Conversion (including the face value of the Note plus accrued interest totalling \$1,272,426 to 31 December

2015) will result in Cinu being issued with a total of 63,621,288 Larus shares (“Note Conversion Shares”), to hold an equity interest in the Company of **28.4%**. Issue of Option Shares at \$0.02 per share would result in Cinu’s equity interest in the Company increasing to **39.0%**.

- 2.7 The following table shows the effect on the share capital of Larus after the Transaction based on the illustrative example of Notes (including accrued interest) and Option Shares being converted on 31 December 2015:

Effect on Ordinary Shares of Larus	Number of Shares
Shares currently on issue	224,700,956
Note Conversion Shares to Cinu (including accrued interest) ¹	63,621,288
Option Shares to Cinu ¹	<u>50,000,000</u>
Total proposed ordinary shares on issue	338,322,244

¹ Assumes an issue price for the Note Conversion Shares and Option Shares of \$0.02.

STRUCTURE OF REPORT

Our report is set out under the following headings:

- 3 PURPOSE OF REPORT
- 4 OPINION
- 5 BASIS OF EVALUATION
- 6 OVERVIEW OF LARUS
- 7 VALUATION METHODOLOGIES
- 8 VALUE OF LARUS
- 9 ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION
- 10 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

APPENDICES

- I SOURCES OF INFORMATION
- II STATEMENT OF DECLARATION & QUALIFICATIONS
- III FINANCIAL SERVICES GUIDE

3 PURPOSE OF REPORT

- 3.1 The purpose of this report is to advise the Non-Associated Shareholders of Larus of the fairness and reasonableness of the Transaction.
- 3.2 This report provides an opinion on whether or not the terms and conditions in relation to the Transaction are fair and reasonable to the Larus shareholders whose votes are not to be disregarded in respect of the transaction (that is, the Non-Associated Shareholders).
- 3.3 The ultimate decision whether to accept the terms of the Transaction should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Transaction or matters dealt with in this report, shareholders should seek independent professional advice.
- 3.4 For the Transaction to be fair, the value of the consideration being provided must be equal to or greater than the value of the Larus ordinary shares to be issued. To be reasonable the shareholders must obtain an overall benefit if the Transaction proceeds.
- 3.5 This report has been prepared to satisfy the requirements of the Corporations Act 2001 ("Corporations Act").

Corporations Act Requirements

- 3.6 If the Transaction is approved and completed Cinu will have a relevant equity interest in Larus' issued ordinary shares of up to 39.0%.
- 3.7 Section 606(1) of the Corporations Act states that a person must not acquire a relevant interest in issued voting shares in a listed company if that person's or any other person's voting power increases to above 20%, or increases from a starting point that is above 20% and below 90%. Section 606(1) therefore prohibits Cinu from acquiring a relevant interest in the issued ordinary shares in Larus under the Transaction, unless one of the exemptions under Item 7 of Section 611 of the Corporations Act applies.
- 3.8 The exceptions set out in Item 7 of Section 611 of the Corporations Act include an acquisition that is approved by a resolution of shareholders of Larus passed at a general meeting as per Section 611. This is the exception which Larus is seeking to rely on to be able to issue the Note Conversion Shares. At the general meeting of Larus no votes will be allowed to be cast by Cinu or their associates.
- 3.5 Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111 "Content of Experts Reports" requires, amongst other things, that directors of a company need to provide shareholders with an analysis of whether a proposed transaction is fair and reasonable, when considered in the context of the interests of the non-associated shareholders. Regulatory Guide 111 recommends that this analysis should include an independent expert's report. The independent expert is required to state whether, in their opinion, the proposal is fair and reasonable having regard to the interests of non-associated shareholders and state the reasons for forming that opinion. This report provides such an opinion.

4. OPINION

4.1 In our opinion, the proposed Transaction is *not fair but reasonable* to the Non-Associated Shareholders of Larus.

4.2 Our opinion is based solely on information available as at the date of this report.

4.3 The principal factors that we have considered in forming our opinion are summarised below.

Fair

4.4 For the Transaction to be fair, the consideration or price of the Note Conversion Shares and Option Shares being issued to Cinu must be equal to or greater than the value of the Larus shares to be issued.

4.4.1 Based on the analysis contained in Section 8.2 of this report, the indicative value of the Larus shares for the purpose of this report, inclusive of a 5% premium for control, is as follows:

	Low	High
Larus Shares	0.021	0.053

4.4.2 The Lower Issue Price of the shares to be issued to Cinu is \$0.02 per share. As this price is below the valuation range determined for the Larus shares, the Transaction is *not fair*.

Reasonable

4.5 ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

4.5.1 We have concluded that the Transaction is reasonable. In forming our opinion we have considered the following relevant factors:

- The Note Conversion enables the Company to significantly reduce their debt levels and associated costs by the amount of the Notes and accrued interest (estimated at \$1,272,426 to 31 December 2015);
- The funds received from the Option Shares totalling \$1,000,000 will contribute to the working capital required to continue to explore and develop PPL 326;
- The Transaction will result in an increase in Larus' net assets by the amount of the debt on the Notes to be capitalised and provides an opportunity for Larus to increase shareholder value and put the Company in a better financial position with the lower debt level and cash injection from the Option Shares;
- If the Notes are not converted and the Option Shares not issued, there is a risk that the Company may not be able to continue as a going concern and therefore it may be

unable to realise its assets and extinguish its liabilities in the normal course of business;

- The Larus Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders.

4.6 *Accordingly, in our opinion, the Transaction is not fair but reasonable to the Non-Associated Shareholders of Larus.*

5 BASIS OF EVALUATION

- 5.1 In our assessment of whether the Transaction is fair and reasonable to Larus Non-Associated Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 “Acquisitions Agreed to by Shareholders”, Regulatory Guide 111 “Content of Experts Reports” and Regulatory Guide 112 “Independence of Experts Reports”.
- 5.2 ASIC Regulatory Guide 74 requires, amongst other things, that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed Transaction is fair and reasonable. Under Regulatory Guide 111, a transaction is “fair” if the value of the asset being acquired is equal to or greater than the value of the shares being issued. Additionally, under Regulatory Guide 111 an offer is “reasonable” if it is fair. It is possible for an offer to be reasonable despite being unfair, if after considering other non-financial factors the shareholders should still accept the offer.
- 5.3 Our report has compared the likely advantages and disadvantages to Non-Associated Shareholders if the Transaction is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the consideration to be paid under the proposal and the value of the shares being issued is only one element of this assessment.
- 5.4 Additionally we have considered whether any shareholder will obtain a level of control in Larus as a result of the proposed transaction. In the event that a change in control arises from the proposed transaction, proportionately greater benefits to non-associated shareholders must be demonstrated. In this case Cinu will obtain a level of control of Larus which needs to be considered in comparing the value received by Non-Associated Shareholders in comparison to the value being provided.
- 5.5 Normal valuation practice is to determine the fair market value of an asset assuming a counter party transaction between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm’s length. We have adopted this approach in determining the market value of Larus.
- 5.6 In evaluating the Transaction, we have considered the value of the Larus shares being issued and compared this to the value of consideration to be provided by Cinu. We consider that the Transaction will be fair and reasonable if, on balance, the Non-Associated Shareholders in Larus will be better off if the Transaction is approved. We will also consider the Non-Associated Shareholder’s interests should the Transaction not proceed.
- 5.7 In our assessment of the Transaction we have considered, in particular the following:
- The operational and financial position of Larus;
 - The value of Larus shares;
 - Any control premium associated with the Transaction;
 - The advantages and disadvantages associated with approving the Transaction;
 - Share trading history of Larus shares;
 - The likely value and liquidity of Larus shares in the absence of the acquisition.
- 5.8 The documents and information relied on for the purpose of this valuation are set out in Appendix I. We have considered and relied upon this information and believe that the

information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit or more extensive examination might disclose. None of these additional tasks have been undertaken.

- 5.9 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.10 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5.11 HCC are not the auditors of Larus. We have analysed and reviewed information provided by the Directors of Larus and made further enquiries where appropriate.
- 5.12 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report.

6. OVERVIEW OF LARUS

6.1 Business Overview

- 6.1.1 Larus is an Australian public unlisted petroleum exploration company, incorporated in New South Wales on 23 November 2009.
- 6.1.2 Larus is an oil and gas exploration company committed to maximising results through the effective identification, acquisition, exploration and management of quality conventional oil and gas assets.
- 6.1.3 Larus is solely focused on PPL 326 and holds a 100% interest in the license through its wholly owned subsidiary, Larus Energy (PNG) Limited, which was granted PPL 326 on 27 August 2009. PPL 326 lies to the south-east of Port Moresby and has both onshore and offshore targets across a highly prospective area covering over 16,752 km².
- 6.1.4 The area covered by PPL 326 has had minimal exploration work undertaken. Larus is conducting an intensive exploration program in PPL 326 to identify a number of drillable prospects and drill one or more wells to test the prospectivity. PPL 326 is described as a frontier area as no hydrocarbon exploration wells have been drilled in the region and previous exploration has been limited to surface geological mapping and a very small amount of reconnaissance seismic survey data acquisition.
- 6.1.5 In 2011 Larus conducted a 1000km Baramatta Seismic survey and in 2012 the 300km Abau OBC TZ survey was completed, along with establishment of an in country operational office at Kupiano in Central Province.
- 6.1.6 The initial term of PPL 326 is for 6 years which expires on 26th August 2015. The licence can be renewed for a further 5 years, but only for 50% or less of the existing area. Work commitments under the licence are specified for each 2 year period within the term of the licence. The third 2-year period commenced 27th August 2013. With a work commitment variation request approved by the Minister for Petroleum and Energy, the amended work commitment for the third 2-year period comprises the following activities:
- Acquire 400 km of seismic data (onshore or offshore);
 - Conduct complete license review to establish a summary of license prospectivity;
 - Decide on future of license.
- 6.1.7 Management advise that the Company maintains a strong relationship with the PNG government and has kept the Department advised of progress. The Company is committed to meeting its minimum work commitments under its licence, which it has achieved since PPL326 was granted.
- 6.1.8 In December 2014 the Company received approval for a PPL326 work commitment variation request, removing an exploration well commitment and requiring 400km of seismic acquisition to close out the final period of the exploration license and move into a 5 year retention license.
- 6.1.9 PPL 326 is in close proximity to InterOil's existing Napa Napa refinery and the PNG LNG facility operated by a consortium led by ExxonMobil both of which are near Port Moresby. There are several other major oil companies already active within the north

western Papuan Fold Belt region. Management advise that major infrastructure is planned, or in the construction phase, including pipelines, refineries and LNG plants. The close proximity of this infrastructure presents an opportunity for efficient commercialisation of any discoveries in PPL 326, subject to commercial agreements being negotiated.

6.2 Financial Information

6.2.1 Set out below is the Audited Consolidated Profit and Loss Statements of Larus for the financial years ended 31 December 2013 (“FY 2013”) and 31 December 2014 (“FY 2014”).

LARUS ENERGY LIMITED		
CONSOLIDATED PROFIT AND LOSS STATEMENT		
	FY 2014	FY 2013
Revenues	869,137	2,032
Administration costs	(44,267)	(360,266)
Corporate costs	(389,101)	(470,133)
Depreciation	(56,357)	(77,540)
Employment costs	(458,432)	(1,545,673)
Foreign currency gain	-	(186)
Investor and public relations	-	(1,927)
Occupancy costs	(25,650)	(54,302)
Exploration expenditure	(128,224)	-
Other expenses	-	(108,290)
Loss before income tax	(232,894)	(2,616,285)
Income tax benefit	-	-
Net loss after income tax expense	(232,894)	(2,616,285)
Exchange differences on translating foreign controlled entities	644,846	(445,540)
Total comprehensive income attributable to members of the parent entity	411,952	(3,061,825)

6.2.2 Set out below is the Audited Consolidated Statement of Financial Position of Larus as at 31 December 2014.

LARUS ENERGY LIMITED	
STATEMENT OF FINANCIAL POSITION	
AS AT 31 DECEMBER 2014	
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	149,559
Trade and other receivables	26,490
	176,049
<u>NON-CURRENT ASSETS</u>	
Trade and other receivables	46,501
Exploration and evaluation expenditure	9,227,099
Plant and equipment	153,410
	9,427,010
TOTAL ASSETS	9,603,059
<u>CURRENT LIABILITIES</u>	
Trade and other payables	486,412
	486,412
<u>NON-CURRENT LIABILITIES</u>	
Borrowings ¹	1,122,426
	1,122,426
TOTAL LIABILITIES	1,608,838
NET ASSETS	7,994,221
<u>EQUITY</u>	
Issued capital	15,848,195
Foreign currency translation reserves	189,647
Accumulated losses	(8,043,621)
TOTAL EQUITY	7,994,221

¹ Borrowings represent Notes and accrued interest as at 31 December 2014 which will convert to equity as part of the Transaction.

6.2.3 The Audit Report for Larus contained the following Emphasis of Matter regarding the going concern of the Company due to the net losses incurred and net cash outflow from operations: “In the event the Group is unable to raise additional funding by way of capital raisings, or loses the support of its shareholders including the convertible note holder, there is a material uncertainty as to whether the Group may be able to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.”

7. VALUATION METHODOLOGIES

7.1 Selection of Methodology

7.1.1 In order to assess the fairness of the Transaction a value needs to be attributed to Larus shares.

7.1.2 In assessing the value of Larus we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- Comparable Market Transactions: the identification of comparable sale transactions;
- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings;
- Discounted Cash Flow: the net present value of future cash flows;
- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realisation of assets.

We consider each of these valuation methodologies below.

7.1.3 Comparable Market Transactions

This methodology involves the identification of comparable sale transactions to a similar company or business to that being valued.

We have considered the value and timing of prior share issues by Larus.

7.1.4 Capitalisation of Future Maintainable Earnings

Under the earnings based valuation method, the value of the business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiplier of earnings. The multiple is a coefficient, representing the risk that the business may not achieve projected earnings.

This method is appropriate in valuing a business when there is a history of earnings, the business is established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

Larus has incurred net losses in prior years and currently has no earnings prospects therefore an earnings based method is not appropriate for the valuation of Larus.

7.1.5 Discounted Cash Flow – Net Present Value

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flows that will be generated from the business over its life. The cash flows are discounted to reflect the time value of money and the risk involved with achieving the forecast cash flows. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date to give an overall value of the business.

Although the discounted cash flow approach relies on the availability of long-term earnings and cash flow forecasts, it is particularly suited to situations where cash flows are not stable or where significant cash outflows will be incurred prior to cash inflows being earned. The forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operational cycle for more cyclical industries.

Larus is unable to prepare forecast cash flows on which a valuation can be based. Therefore the use of the discounted cash flow method has not been selected for Larus.

7.1.6 *Realisation of Assets*

The net assets or cost based approach to value is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the entity. The net asset value is determined by marking every asset and liability on and off the company's Statement of Financial Position to current market values.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital. It is often used as a cross check to assess the relative riskiness of the business.

Larus is predominantly a revenue based business. The book value of its assets may therefore not be representative of the inherent value of the business.

7.2 **Premium for Control**

7.2.1 When considering transactions involving a substantial equity holding of a company, it is appropriate to address whether a premium for control should attach to the transaction. A premium for control is the difference between the price for each share that a buyer would be prepared to pay to obtain a controlling interest in a company and the price per share that would be required to purchase a share that does not carry with it a controlling interest. In most cases, the value of a controlling interest in the shares in a company significantly exceeds the market value of the shares. This reflects the fact that:

- a) the owner of a controlling interest in the shares in a company obtains access to all free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder;
- b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds;
- c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company;
- d) the entity taking over the company is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

7.2.2 Our experience suggests that the premium for control (over and above the market price of the Company's shares) ranges, on average, between 20% and 35%. However, the appropriate premium for control depends on the specific circumstances and, in particular, the level of synergy benefits able to be extracted by potential acquirers and the degree of confidence about the level and achievability of potential synergies and their timing.

- 7.2.3 The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The control premium is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors.
- 7.2.4 A shareholder or group of associated shareholders are deemed to influence a company when they have control of more than 20% of the issued shares in a company. At this time a premium for control should normally be considered.
- 7.2.5 As a result of the Transaction, Cinu's equity interest in Larus will increase from 8.2% to up to 39.0%. We have assessed that a 5% premium for control is appropriate for the purpose of this report due to the following:
- a) Cinu will not obtain full control of Larus. Non-Associated Shareholders will still hold a controlling interest in Larus of 61.0% and therefore may have a future opportunity to obtain a premium from the sale of their shares;
 - b) Cinu is a company controlled by a Director of Larus. The Transaction does not result in any change to Cinu's board representation or its control over management policy, control of free cash flows of Larus, decision making regarding the acquisition and disposal of assets and the redeployment of the proceeds;
 - c) Larus has incurred losses in prior years of operation and is currently in a negative tangible net asset position; and
 - d) We are advised that recent raisings from third parties have not reached raising targets, which suggests that the prices of the raisings may have been too high. We believe that a premium for control greater than 5% may overstate the value that a potential investor is willing to pay to obtain an interest in the Company.

8. VALUE OF LARUS

8.1 General

8.1.1 This section sets out our assessment of the underlying value of Larus shareholdings.

8.1.2 We have selected the comparable market transactions as the valuation methodology for Larus as detailed in section 7. Due to the losses historically incurred by Larus and its negative tangible net asset position no secondary valuation approach is appropriate for Larus.

8.2 Comparable Transactions

8.2.1 Larus has undertaken the following share issues in the last 12 months, excluding the issue of shares to Directors:

Raising Description	Shares Issued	Amount (\$)	Price per Share (\$)
Capital raising – early 2014	325,000	32,500	0.100
Shares issued to creditors pursuant to settlement of debts	995,500	99,550	0.100
Conversion of Cinu short term loan ^{8.2.3}	10,320,548	206,411	0.020
Capital raising – late 2014 ^{8.2.4}	20,228,691	505,717	0.025
Capital raising – early 2015 ^{8.2.5}	17,880,000	894,000	0.050

8.2.2 The Larus share issue prices have varied significantly and recent raisings have been significantly lower than those undertaken in prior years. Management advise that the main reason was the risk attached to approval of the work commitment variation from the DPE (PNG) detailed at section 6.1.8. The approval was received on 22 December 2014. Prior to this date Larus was required to complete an offshore well by August 2015, which management advise as an impossible task which if left incomplete would likely lead to Larus losing the license and rendering the company worthless.

8.2.3 The lowest price at which shares have been issued since the date of the Deed was \$0.02 for shares issued to Cinu on the conversion of a short term loan in 2014.

8.2.4 Management advise that the target for the \$0.025 raise in late 2014 was for \$1,000,000 and the Company only raised half this total. After this raise the Company received the work commitment variation approval, significantly reducing the risk profile of the Company.

8.2.5 The Company has recently raised \$894,000 through the issue of shares at \$0.05 per share. The target was \$3,000,000 which was not achieved and may indicate the valuation was too high. Management believe that market conditions in the oil and gas sector may have influenced the success of the raisings also.

8.2.6 For the purpose of this report we conclude that the value of the Larus share on a minority interest basis is within the range of prices attributable to the most recent share issues of between \$0.020 and \$0.050 per share. Inclusive of a 5% premium for control, the value of the Larus share on a controlling interest basis is between **\$0.021 and \$0.053 per share**.

9. ADVANTAGES & DISADVANTAGES OF THE TRANSACTION

9.1 Approach to assessing Fairness and Reasonableness

HCC has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Transaction. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Non-Associated Shareholders if the Transaction proceeds.

9.2 Advantages of the Transaction

- 9.2.1 The Note Conversion enables the Company to significantly reduce their debt levels and associated costs by the amount of the Notes and accrued interest (estimated at \$1,272,426 to 31 December 2015).
- 9.2.2 The funds received from the Option Shares totalling \$1,000,000 will contribute to the working capital required to continue to explore and develop PPL 326.
- 9.2.3 The Transaction will result in an increase in Larus' net assets by the amount of the debt on the Notes to be capitalised and provides an opportunity for Larus to increase shareholder value and put the Company in a better financial position with the lower debt level and cash injection from the Option Shares.
- 9.2.4 If the Notes are not converted and the Option Shares not issued, there is a risk that the Company may not be able to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business.
- 9.2.5 The Larus Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders.

9.3 Disadvantages of the Transaction

- 9.3.1 The Transaction will result in the dilution of Non-Associated Shareholders ownership interest from 91.8% to 61.0% following approval of the Transaction and the issue of the Note Conversion Shares and Option Shares.

10. CONCLUSION AS TO FAIRNESS AND REASONABLENESS

10.1 Fairness

10.1.1 For the Transaction to be fair, the price of the Note Conversion Shares and Option Shares being issued to Cinu must be equal to or greater than the value of the Larus shares to be issued.

10.1.2 Based on the analysis contained in Section 8.2 of this report, the indicative value of the Larus shares for the purpose of this report, inclusive of a 5% premium for control, is as follows:

	Low	High
Larus Shares	0.021	0.053

10.1.3 The Lower Issue Price of the shares to be issued to Cinu is \$0.02 per share. As this price is below the valuation range determined for the Larus shares, the Transaction is *not fair*.

10.2 Reasonableness

10.2.1 ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

10.2.2 We have concluded that the Transaction is reasonable. In forming our opinion we have also considered the following relevant factors.

- The Note Conversion enables the Company to significantly reduce their debt levels and associated costs by the amount of the Notes and accrued interest (estimated at \$1,272,426 to 31 December 2015);
- The funds received from the Option Shares totalling \$1,000,000 will contribute to the working capital required to continue to explore and develop PPL 326;
- The Transaction will result in an increase in Larus' net assets by the amount of the debt on the Notes to be capitalised and provides an opportunity for Larus to increase shareholder value and put the Company in a better financial position with the lower debt level and cash injection from the Option Shares;
- If the Notes are not converted and the Option Shares not issued, there is a risk that the Company may not be able to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business;
- The Larus Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders.

10.2.3 Accordingly, in our opinion, having considered the advantages of the Transaction and the alternatives of not proceeding with the Transaction, in our opinion the Non-Associated Shareholders of Larus should benefit if the Transaction proceeds and therefore, in our opinion, the Transaction is *reasonable*.

Yours faithfully
Hall Chadwick Corporate (NSW) Limited

A handwritten signature in black ink, appearing to be 'Drew Townsend', written in a cursive style.

DREW TOWNSEND

APPENDIX I - SOURCES OF INFORMATION

- Larus Energy Limited Audited Financial Report for the years ended 31 December 2013 and 31 December 2014;
- Secured Convertible Note Deed between Larus Energy Limited and Cinu Investments Pty Ltd dated 18 September 2013 and Amending Deed;
- Larus Energy Limited Notice of General Meeting and Explanatory Memorandum;
- Larus Company registry details;
- Publicly available information on Larus;
- Regulatory Guide 74 ‘Acquisitions Agreed to by Shareholders’;
- Regulatory Guide 111 ‘Content of Expert Reports’;
- Regulatory Guide 112 ‘Independence of Expert’s Reports’; and
- APES 225 ‘Valuation Services’.

APPENDIX II - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement HCC determined its independence with respect to Larus with reference to ASIC Regulatory Guide 112 (RG 112) titled “Independence of Expert’s Reports”. HCC considers that it meets the requirements of RG 112 and that it is independent of Larus.

Also, in accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with Larus, its related parties or associates that would compromise our impartiality.

Mr Drew Townsend, a director of Hall Chadwick Corporate (NSW) Limited, who is a registered company auditor, has prepared this report. Neither he nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of this Transaction nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

HCC provided a draft copy of this report to the Directors and management of Larus for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of HCC alone. Changes made to this report, as a result of the review by the Directors and management of Larus have not changed the methodology or conclusions reached by HCC.

Reliance on Information

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report HCC has relied upon information provided on the basis it was reliable and accurate. HCC has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. HCC evaluated the information provided to it by Larus as well as other parties, through enquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base the report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards. HCC does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

The sources of information that we relied upon are outlined in Appendix I of this report.

Larus has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by Larus to HCC in preparation of this report.

Qualifications

Hall Chadwick Corporate (NSW) Limited (“HCC”) carries on business at Level 40, 2 Park Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients. HCC’s representatives are therefore qualified to provide this report.

Consent and Disclaimers

The preparation of this report has been undertaken at the request of the Directors of Larus. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose than to accompany the Notice of General Meeting to be sent to Larus shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of HCC’s opinion as to whether or not the Proposed Transaction is fair and reasonable. HCC consent to the issue of this report in the form and context in which it is included in the Notice of General Meeting to be sent to Larus shareholders.

Shareholders should read all documents issued by Larus that consider the proposed Transaction in its entirety, prior to proceeding with a decision. HCC had no involvement in the preparation of these documents, with the exception of our report.

This report has been prepared specifically for the Non-Associated Shareholders of Larus. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than an Non-Associated Shareholder of Larus, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS).

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for HCC to update this report for information that may become available subsequent to this date.

APPENDIX III - FINANCIAL SERVICES GUIDE

Dated 22 June 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by Hall Chadwick Corporate (NSW) Limited ABN 28 080 462 488, Australian Financial Services Licence Number 227902 (HCC).

This FSG includes information about:

- HCC and how they can be contacted
- the services HCC is authorised to provide
- how HCC are paid
- any relevant associations or relationships of HCC
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that HCC has in place.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of dealing in the particular financial product.

Financial services that HCC is authorised to provide

HCC holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of finance products.

HCC's responsibility to you

HCC has been engaged by the independent directors of Larus Energy Limited ("Larus" or the "Client") to provide general financial product advice in the form of a Report to be included in the Notice of Meeting (Document) prepared by Larus in relation to the proposed issue of shares by Larus (the "Transaction").

You have not engaged HCC directly but have received a copy of the Report because you have been provided with a copy of the Document. HCC nor the employees of HCC are acting for any person other than the Client.

HCC is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As HCC has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees HCC may receive

HCC charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay HCC \$15,000 (excluding GST and out of pocket expenses) for preparing the Report. HCC and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Report.

HCC officers and representatives receive a salary or a partnership distribution from Hall Chadwick Sydney professional advisory and accounting practice (the Hall Chadwick Sydney Partnership). Remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

HCC does not pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures HCC is controlled by and operates as part of the Hall Chadwick Sydney Partnership. HCC's directors may be partners in the Hall Chadwick Sydney Partnership. Mr Drew Townsend, a director of HCC and partner in the Hall Chadwick Sydney Partnership, has prepared this report. The financial product advice in the Report is provided by HCC and not by the Hall Chadwick Sydney Partnership.

From time to time HCC, the Hall Chadwick Sydney Partnership and related entities (HC entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

HC entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of the Client or has other material financial interests in the Transaction.

Complaints resolution

If you have a complaint, please let HCC know. Formal complaints should be sent in writing to:
The Complaints Officer
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001

If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer, Drew Townsend, on 02 9263 2600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing,

External complaints resolution process

If HCC cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Financial Ombudsman Service Limited
GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 06
Facsimile (03) 9613 6399
Email: info@fos.org.au

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

HCC has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact HCC at:
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001
Telephone: 02 9263 2600
Facsimile: 02 9263 2800