

## SECTION 8: BUSINESS AND INVESTMENT RISKS

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These risks are not necessarily exhaustive.

**Proposing Investors should realise that any company with resource-based operations is subject to a wide range of risks, many of which may not be foreseeable.**

The business operations of the Company are subject to risks which may impact adversely on its future performance. These risks may adversely affect the value of any shares in the Company.

Proposing Investors should read this document carefully and in its entirety, with particular emphasis on the risk factors detailed herein, before deciding to invest in the Company.

Proposing Investors should understand that the value of any securities invested in by them after admission of the Company to the Official List of NSX will depend on factors beyond their control and beyond the immediate control of the Board of Directors of the Company. Proposing Investors face the risk that, while the Board will seek to achieve its stated aims, they may not be able to do so.

Proposing Investors should consider the contents of this Information Memorandum in light of their personal circumstances (including financial and taxation affairs) and seek professional advice from their accountant, lawyer or other professional adviser before deciding whether to invest.

In common with most resource companies, risks associated with investment in the Company include:

**Share price risks.** Proposing Investors should recognise that the prices of shares fall as well as rise. Many factors affect the price of shares including local and international stock markets, movements in interest rates, economic and political conditions and investor and consumer sentiment. Potential Investors will be aware that in the last 12 month period there has been an unprecedented level of volatility on world stock markets and that no predictions can be made as to when that period of volatility will end.

**Investment risks generally.** Investment is subject to risks of a general nature relating to investment in shares and securities and especially where the company in which the investment is made has a small market capitalisation, such as the case with the Company.

**Risks related to investment in resources.** Exploration and/or development of resources, particularly oil and gas, the area of the Company's activities, are subject to high levels of risk.

**Fiscal risks.** These risks involve the imposition of additional taxes, imposts and other charges by government from time to time relating to revenue or cash flow. Industry profitability can be affected by changes in tax policies and the interpretation and application thereof.

**Macro economic and political factors.** Apart from exchange risks, there are a wide range of other macro economic and political factors beyond the control of the Company which will affect the Company's operations. These include the consequences of terrorist and other activities, which themselves impact adversely on the global economy, demand for commodities, particularly oil and gas, and sharemarket conditions and share prices generally.

**Risks relating to commodity prices.** Commodities, particularly oil and to a lesser extent gas, are subject to high levels of volatility in price and demand. While oil prices rapidly increased over the past year, reaching record levels, Proposing Investors should understand that those prices can (and have) also decline with equal rapidity.

**Political and other factors.** These risks include those such as changes in levels of consumer confidence, which affect consumption patterns and consequently demand for a wide range of products, including commodities such as oil and gas. In the event of a major worldwide recession, demand for oil and gas would be affected, with consequent effects on prices which could impact on the viability of the Company's operations: even assuming that commercially exploitable reserves were established.

**Sufficiency of funding.** The Company will inevitably need to raise significant additional capital to implement and complete its business plans and meet all work and expenditure commitments on the Permits. This requirement to raise additional capital has two consequences for Proposing Investors. First, the requirement to raise additional capital will result in their shareholding in the Company (possibly) being diluted. Second, if additional capital is not raised then the Company's operations will not be able to be funded, with the result that their investment may significantly decrease in value. The total amount of capital that may be required to be

raised is not presently able to be ascertained, as it will depend on the success or otherwise of the Company's proposed operations. The work commitments and obligations in relation to the Permits is set out in Section 4, together with the statement in Section 5 that expenditure in 2009/2010 and subsequent periods will be dependent in part on the results of exploration activities from time to time, approval of work programs and budgets by the Company's Joint Venture partners and available working capital. It is also specifically stated in Section 5 that, when required, further funds will be obtained from a combination of sources which may include remaining working capital, farm outs, the proceeds of further share issues and the exercise of the existing options. In the case of field development capital expenditure, funding may need to be via project loan finance. The Directors consider it reasonable to anticipate that, if the Company achieves any significant level of success in its operations, the existing options would be exercised.

The success of the Company will also depend upon it having access to sufficient development capital (in the event of a commercial discovery), being able to maintain title to its Permits and obtaining all required approvals for its activities.

**Contract risks.** The Company will operate through a series of contractual relationships with operators, technical experts, project managers and contractors generally. All contracts carry risks associated with the performance by the parties of their obligations as to time and quality of work performed. Given that the Company is in joint venture with various other parties and has, or will, enter into farm out agreements where its obligations are assumed by others, the incapacity of those joint venturers or farminees to meet contracted obligations would adversely affect the Company's capacity to carry out its own activities.

**Regulatory risks.** Operations by the Company may require approvals from regulatory authorities which may not be forthcoming, either at all or in a timely manner, or which may not be able to be obtained on terms acceptable to the Company. While the Company can reasonably believe that all requisite approvals will be forthcoming, and whilst the Company's obligations for expenditure will be predicated on any requisite approvals being obtained, Proposing Investors should be aware that the Company cannot guarantee that any or all requisite approvals will be obtained. A failure to obtain any approval would mean that the ability of the Company to participate in or develop any project, or possibly acquire any project, may be limited or restricted either in part or absolutely. Although the Company can reasonably believe that relevant approvals will be forthcoming, no certainty exists that this will be so.

**Litigation.** The Company is presently not involved in litigation and the Directors are not aware of any basis on which any litigation against the Company may arise. However, there is always the risk that litigation may occur as a result of differing interpretations of obligations or outcomes.

**Exploration and drilling risks.** Petroleum exploration involves significant inherent risks in predicting the location and nature of potential petroleum accumulations in the sub-surface. The Company cannot give any assurance that its exploration programme will result in the discovery of any accumulation of oil or gas, nor that any discovery will be commercially viable or recoverable. Risks in relation to drilling operations include breakdowns, delays due to weather or sea conditions and shortages of critical equipment or materials. There are also the financial and environmental risks of drilling incidents such as blow-outs, fires and oil spills. The Company mitigates these risks via its safety and environmental policies, plans and procedures and will arrange appropriate insurances for particular risks. The Company gives no assurance against the occurrence of any of these or other adverse events.

In the event that exploration programmes prove to be unsuccessful, this will likely lead to: a diminution in the value of any of the Company's Permits subject to such unsuccessful exploration activities; a reduction in the cash reserves of the Company by virtue of the costs of such activities; possible increased difficulty in raising additional funds following any such unsuccessful activity (particularly drilling); and possible relinquishment of Permits.

**Discovery risks.** Any discovery may not be commercially viable or recoverable. For a wide variety of reasons, not all discoveries are commercially producible.

**Production risks.** The Company currently has no petroleum production interests. It must also be understood that no reserves, resources or contingent resources have been defined within any of the Permits in which the Company has an interest.

Therefore, there can be no assurance given that the Company will achieve production from any of the Permits it has an interest in as referred to in this Information Memorandum. Even if a discovery well is drilled on any of the Permits, the capacity of the Company to achieve production will depend on a wide range of factors in addition to a successful exploration outcome. These factors include (but are not limited to) development

decisions, capital costs and operating costs that may be applicable to the individual projects and the capacity of the Company to fund those costs.

If production is achieved then unanticipated problems may increase extraction costs and reduce anticipated recovery rates. In some cases, increases in costs, whether in conjunction with falling prices or otherwise, may result in the discovery of a hydrocarbon accumulation not being commercial or ceasing to be commercial.

**Reserve calculation risks.** The Company has no reserves at present. However, even if it is successful at some time in the future in establishing reserves from any future discovery, it should be recognised that there are numerous difficulties inherent in estimating reserves. Any future statements by the Company as to reserves, which might follow on any future discovery, when and if made by the Company, should at best be regarded as preliminary indications or possibilities and not be relied on. The variables on which estimates of reserves are made include a number of factors and assumptions such as historical production, comparisons with production from other producing areas, assumed effects of regulation by government agencies, assumptions regarding future oil and gas prices and future operating costs, all of which may vary considerably from actual results. Assumptions that affect either the cost of recovery or the viability of recovery of any resource will affect any calculation of reserves.

**Environmental compliance and risks.** In carrying out operations, the Company and its Joint Venture partners will be required to comply with the *Environment Protection and Biodiversity Conservation Act 1999* (Cwth) ("EPBC Act") which specifies and regulates the environmental protections needed to be put in place by operators to avoid and minimise adverse environmental impact from those operations. The EPBC Act sets out stringent conditions which must be complied with by operators and imposes rigid conditions which must be met before operations can commence. In the event of breaching any such conditions, the Company may be liable to prosecution and the imposition of penalties.

Further, following cessation of any production from future operations, the Company will be required to participate in clean-up programmes resulting from any contamination from operations in which it participates, removal of disused plant and equipment and where necessary, restoration of the environment that has been disturbed in the course of operations. The cost of that participation may be considerable if operations result in significant environmental liabilities being incurred. In such a case, any allowance made for rehabilitation could possibly be inadequate.

**Operational risks.** These include the possibility of environmental accidents, the risk of unexpected mechanical failure or equipment breakdown resulting in loss of production and additional expense generally, unexpected interruption to or imposition of onerous conditions on access, industrial disputes and resultant increases in costs of operation.

**Climatic and geographic risks.** All of the Company's Permits are situated in offshore areas. Operations in these areas are generally more prone to being affected by adverse climatic conditions: whether tropical, as in offshore Western Australia; or cool temperate, such as in Bass Strait. In all such locations local weather conditions can have adverse effects on the ability to operate.

**Insurance.** The Company's operations will expose it to risks and hazards typically associated with exploration for and development and production of hydrocarbons. In accordance with customary industry practices, the Company intends to maintain insurance against various of the risks associated with drilling. The availability of insurance and the rates at which insurance may be available will determine which losses are insured against and in what amount. The occurrence of any significant event which is not insured against could seriously harm the Company and its operations and adversely impact on its financial condition.

**Title and tenement risks.** A risk exists that some or all of the tenements (i.e. Permits) that the Company holds or has interests in may, when required to be renewed, not be renewed by the regulatory authorities for various reasons. Interests in tenements in Australia are governed by the respective State government legislation and are evidenced by the granting of tenements through the issuing of a lease or licence. Each lease or licence is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the Company could lose title to, or its interests in, tenements if licence conditions are not met or if sufficient funds are not available to meet expenditure commitments. Any failure to comply with the expenditure conditions or with the other conditions on which the licences are held exposes the licences to forfeiture. If the Company does not spend sufficient funds on its tenements as is required by the relevant State governments then those tenements could be cancelled, with the Company receiving no compensation.

In the event that the Company is successful in making a commercial discovery, it will have the right to apply for a production licence over that discovery. The grant of such a licence is also subject to the relevant petroleum

legislation in each State and will only be granted on the terms and conditions that the relevant Minister considers appropriate. Once granted, such production licences are liable to forfeiture on breach of any of its conditions.

Finally, even though the terms of any Joint Operating Agreement (“JOA”) to which the Company is a party (see Material Agreements in Section 10.1.2) in relation to any tenement interest may impose obligations on the other joint venturers to meet cash calls and pay their share of expenditure, their failure to do so may leave the Company with rights under the relevant JOA against any such co-venturers that may be effectively valueless because the Company may not have the funds to exercise any such rights as permit it to fund and acquire any defaulting co-venturer’s interest.

Even where the terms of a JOA are such as they enable non-operator co-venturers the right to remedy any defect, the Company may not have sufficient funds to do so.

**Native Title.** One of the Company’s Permits is subject to Native Title Applications - see Section 4 where limited details are provided. The Company’s view is that its operations are unlikely to be adversely affected in a material way by Native Title Applications as all Permit interests are located in offshore waters within the jurisdiction of Australia. However, Prospective Investors should access the National Native Title Tribunal website [www.nntt.gov.au](http://www.nntt.gov.au) to obtain full details of the Applications referred to in Section 4.

**No Valuation.** No formal or informal valuation has been carried out on the assets of the Company and the Company makes no representation as to the value of those assets. All Proposing Investors and their advisers should make their own assessments as to valuation after having regard to all of the matters contained in this Information Memorandum.