

Hot Rock Limited ACN 120 896 3701

Notice of Extraordinary General Meeting and Explanatory
Memorandum

Date of Meeting: 15 September 2014

Time of Meeting: 10:00am (Brisbane time)

Place of Meeting: HopgoodGanim
Level 7 Waterfront Place
1 Eagle Street, Brisbane 4000

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of shareholders of Hot Rock Limited ACN 120 896 371 (**Company**) will be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000, on 15 September 2014 at 10.00am (Brisbane time).

Agenda

Ordinary business

Resolution 1 – Approval of the Proposed Transaction and to issue the Total Share Consideration

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

*“That subject to the passing of Resolutions 2 and 3 , for the purposes of item 7 of section 611 of the Corporations Act 2001 (Cth) and for all other purposes, the terms of the Share Sale Agreement between the Company, Integrated Holdings Group Pty Ltd ABN 69 163 669 118 (**Seller**), the New Shareholders and OCTIEF Pty Ltd ACN 163 772 478 (**OCT**) entered into 19 July 2014 (**SSA**) be approved and the Company be authorised, with effect from the passing of this Resolution 1, to proceed with:*

- (a) *The transaction contemplated by the SSA (**Proposed Transaction**);*
- (b) *The New Shareholders collectively obtaining a Relevant Interest in the Company from below 20% to more than 20% as a result of the Proposed Transaction; and*
- (c) *Without limitation to (a) or (b):*
 - (1) *The proposed acquisition by the Company of all the issued share capital of OCT;*
 - (2) *In consideration for the acquisition of OCT, the issue of up to a total of 641,508,710 fully paid ordinary shares in the Company (**HRL Shares**) to the New Shareholders in the tranches and proportions as set out in Tables 1, 5 and 7 in the Explanatory Memorandum (**Total Consideration Shares**); and*

pursuant to the terms and conditions of the SSA, the details of which are summarised in the Explanatory Memorandum accompanying this Notice.”

Notice of Extraordinary General Meeting

Notes:

For the purpose of section 611 of the Corporations Act, BDO has prepared an Independent Expert's Report on the Proposed Transaction which is **enclosed** with this Notice of Meeting in Annexure A. BDO has concluded that, in its opinion, the Proposed Transaction is fair and reasonable to all non-associated shareholders of the Company.

Further details regarding the SSA and Proposed Transaction are set out in the accompanying Explanatory Memorandum and Independent Expert's Report which the Directors recommend Shareholders read in full before making any decision in relation to Resolution 1.

Voting exclusion statement

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by:

- the Seller, the New Shareholders and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 1 is passed; and
- any associate of any the persons who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 1 is passed.

However, the Company need not disregard a vote if:

- it is cast by a person as 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 the direction on the proxy form to vote as the proxy decides.

Resolution 2 - Approval of Escrow Arrangements

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

"That, subject to the passing of Resolutions 1 and 3, for the purpose of item 7 of Section 611 of the Corporations Act and for all other purposes, approval be given for the Company to acquire a relevant interest in the Total Consideration Shares of the New Shareholders as a result of the Company's power to control the exercise of the power to dispose of the Escrow Shares by virtue of the voluntary escrow provisions of the Share Sale Agreement, as set out in the Explanatory Memorandum accompanying the Notice of this Meeting."

(Refer to the Explanatory Memorandum for further information.)

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Notes:

Further details regarding the SSA and Proposed Transaction are set out in the accompanying Explanatory Memorandum and Independent Expert's Report which the Directors recommend Shareholders read in full before making any decision in relation to Resolution 2.

Voting exclusion statement

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Resolution by:

- the Company, the Seller, the New Shareholders and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 2 is passed; and
- any associate of any of the persons who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 2 is passed.

However, the Company need not disregard a vote if:

- it is cast by a person as 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 the direction on the proxy form to vote as the proxy decides.

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Resolution 3 – Approval to Change of Scale of Activities

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That subject to the passing of Resolutions 1 and 2 for the purposes of Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to change the scale of its activities on completion of the acquisition by the Company of OCT pursuant to the SSA on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- any person who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 3 is passed; and
- any associate of any the persons who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 3 is passed.

However, the Company need not disregard a vote if:

- it is cast by a person as 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 the direction on the proxy form to vote as the proxy decides.

Special Business

Nil

General business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the board

Paul Marshall
Company Secretary
15 August 2014

1. Introduction

This Explanatory Memorandum is provided to Shareholders of Hot Rock Limited ACN 120 896 371 (**Company**) to explain the resolutions to be put to Shareholders at the Extraordinary General Meeting to be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000 on Monday 15 September commencing at 10:00am (Brisbane time).

Section 2 of this Explanatory Memorandum provides a comprehensive outline of the Proposed Transaction and includes all information required to be provided to Shareholders under item 7 of section 611 of the Corporations Act, ASIC Regulatory Guide 74 and ASX Listing Rules. Shareholders are also referred to the Independent Expert Report prepared by BDO that concludes that the Proposed Transaction is fair and reasonable to the non-associated Shareholders. A copy of the Independent Expert's Report is attached to this Notice and Shareholders are encouraged to consider the report before voting on Resolutions 1 and 2.

Section 3 of this Explanatory Memorandum outlines the legal and regulatory requirements in relation to each Resolution. Section 2 and Section 3 of the Explanatory Memorandum are to be read in conjunction with each other, as well as the Notice of Meeting.

The Directors recommend shareholders read the accompanying Notice of Meeting, this Explanatory Memorandum and the Independent Expert's Report in full before making any decision in relation to the resolutions.

Terms used in this Explanatory Memorandum are defined in Section 4.

2. The Proposed Transaction

2.1 Background to Proposed Transaction

As announced on Monday 21 July 2014, the Company entered into a formal share sale agreement dated 19 July 2014 (**SSA**) to acquire all of the shares on issue in OCTIEF Pty Ltd (**OCTIEF**), from the shareholders of OCTIEF. Currently, Integrated Holdings Group Pty Ltd (**Seller**) is the sole shareholder in OCTIEF (**Proposed Transaction**).

Under the SSA, in consideration for all of the shares on issue in OCTIEF (**OCT Shares**), HRL will issue shares in the Company (**HRL Shares**) to the following entities, who, upon completion of the Proposed Transaction will be the parties which hold the share in OCTIEF:

- (a) Craig Anderson and Amanda Anderson as trustees for the CA & AM Anderson Family Trust (**CA & AM Anderson Family Trust**);
- (b) Greg Anderson and Nancy Anderson as trustees for the GJ & NJ Anderson Family Trust (**GJ & NJ Anderson Family Trust**);
- (c) Tulla Property Partners Pty Ltd ACN 126 992 103 as trustees for the Tulla Property Partners Trust (**Tulla Property Partners Trust**), an entity associated with Kevin Maloney, a proposed director to be appointed upon completion of the Proposed Transaction; and
- (d) Darren Anderson and Julie Anderson as trustees for the DG & JE Anderson Family Trust (**DG & JE Anderson Family Trust**), an entity associated with Darren Anderson, a proposed director to be appointed upon completion of the Proposed Transaction.

(collectively, the **New Shareholders**)

The HRL Shares issued in consideration of the Proposed Transaction will be issued in three tranches upon the satisfaction of certain milestones by OCTIEF (**Milestone Shares**), as well as an initial issue of HRL Shares upon completion of the SSA (**Initial Payment Shares**).

The Initial Payment Shares and Milestone Shares (**Total Consideration Shares**) will be issued to the New Shareholders in the following proportions each time:

- (a) CA & AM Anderson Family Trust- 16.66%;
- (b) GJ & NJ Anderson Family Trust – 16.66%;
- (c) Tulla Property Partners Trust – 50%; and
- (d) DG & JE Anderson Family Trust – 16.66%.

The New Shareholders are associates of each other and as such the Relevant Interest (and subsequently the voting interest) that may be potentially obtained by the New Shareholders pursuant to the SSA has been considered both separately and collectively. Significant disclosure of the Relevant Interest of the New Shareholders, which is contingent on a number of factors, has been further outlined in paragraph 2.6(b) and Tables 4 – 7 set out below.

Resolution 1 therefore seeks Shareholder approval for the Proposed Transaction, specifically the issue of the Total Consideration Shares to the New Shareholders, and for the New Shareholders to subsequently obtain a Relevant Interest in the Company which is greater than 20% and may be up to 65%.

Pursuant to the SSA, the Total Consideration Shares will be subject to voluntary escrow for the period of 12 months from the date of the issue and allotment of each tranche of the Total Consideration Shares. Entry into a Voluntary Restriction Deed with each of the New Shareholders is required to be entered into before completion of the SSA.

Although the Company does not have any ownership interest in the Total Consideration Shares or an ability to control how they are voted, the Company will be considered to acquire a “relevant interest” in the Total Consideration Shares for the purposes of the Corporations Act by virtue of the contractual right to restrict the transfer of the Total Consideration Shares.

The purpose of Resolution 2 is to approve the acquisition by the Company under the SSA and the Voluntary Restriction Deeds of a relevant interest in the Shares held by the New Shareholders.

Resolution 3 seeks Shareholder approval in accordance with ASX Listing Rule 11.1.2 upon instruction from ASX to permit a change in the Company’s activities in its acquisition of OCT.

2.2 **Key Elements of the Proposed Transaction**

The Proposed Transaction contemplates the following key commercial terms for the Proposed Transaction.

(a) **Conditions Precedent:**

The completion of the Proposed Transaction is proposed to be subject to a number of conditions precedent, including

- (1) the Company, OCT, the Seller and the New Shareholders each being satisfied, in their absolute discretion with the results of their own due diligence. A due diligence period will run until 15 August 2014 (**Due Diligence Period**), during which the Company and OCT will have the exclusive right to undertake due diligence in relation to all aspects of the other party;
- (2) the Company being satisfied, in its absolute discretion, with the results of the Independent Experts Report required pursuant to s 611 item 7 of the Corporations Act;

- (3) approval of the Company's shareholders under item 7 of section 611 of the Corporations Act to the issue of the Total Consideration Shares;
- (4) obtainment of all necessary approvals, waivers and confirmations from ASX in respect of the Proposed Transaction;
- (5) obtainment of all necessary Board and shareholder approvals in respect of the Proposed Transaction by OCT and the Company respectively;
- (6) obtainment of any other regulatory approvals;
- (7) HRL effecting the Rights Issue;
- (8) Darren Geoffrey Anderson being appointed to the Board and entering into an executive services agreement with the Company;
- (9) the Company possessing a Working Capital of not less than \$1,250,000 on completion and OCTIEF possession a Working Capital of not less than \$200,000.

(b) **Consideration**

The initial consideration to be paid by the Company to the New Shareholders for the purchase of the OCT Shares, is the issue and allotment of a total of 320,754,355 HRL Shares each credited as fully paid ordinary shares in the Company and being 50% of the total maximum consideration of the Proposed Transaction (**Initial Payment Shares**);

The Company will issue further HRL Shares (in addition to the Initial Consideration Shares) to the New Shareholders upon satisfaction of each of the three identified milestones being achieved by the respective required date as follows:

Milestones		Milestone Shares	Date to be achieved
1	OCT achieving revenue for the 6 months to 31 December 2014 which equals or exceeds \$1.75m	160,377,178 being 25% of the total consideration for the Proposed Transaction.	31 December 2014
2	OCT establish a laboratory in Darwin.	96,226,306 being 15% of the total consideration for the Proposed Transaction.	31 December 2014
3	OCT achieve a revenue for the 12 months to 30 June 2015 which equals or exceeds \$4.25m	64,150,871 being 10% of the total consideration for the Proposed Transaction.	30 June 2015
Total Milestone Shares		320,754,355	

(together, the **Total Consideration Shares**)

Where either Milestone One or Milestone Three is not met by the respective milestone dates, the Milestone Shares for the respective tranche to be issued will be reduced on a pro-rata basis, but cannot be less than 75% of the full entitlement. In respect of Milestone One, this would amount to a minimum share issue of 120,282,884 Shares and respect of Milestone Three would amount to the issue of a minimum of 48,113,153 Shares.

The Total Consideration Shares will be issued to the New Shareholders in the following proportions each time:

- (1) CA & AM Anderson Family Trust- 16.66%;
- (2) GJ & NJ Anderson Family Trust – 16.66%;
- (3) Tulla Property Partners Trust – 50%; and
- (4) DG & JE Anderson Family Trust – 16.66%.

As such, the maximum number of Total Consideration Shares issued and allotted to the New Shareholders at each tranche in accordance with the above proportions is identified in the below table:

Table 1

New Shareholders	Initial Consideration Shares	Milestone 1 Shares	Milestone 2 Shares	Milestone 3 Shares
CA & AM Anderson Family Trust	53,459,059	26,729,530	16,037,718	10,691,811
GJ & NJ Anderson Family Trust	53,459,059	26,729,530	16,037,717	10,691,812
Tulla Property Partners Trust	160,377,178	80,188,589	48,113,153	32,075,436
DG & JE Anderson Family Trust	53,459,059	26,729,529	16,037,718	10,691,812
Total	320,754,355	160,377,178	96,226,306	64,150,871

(c) **Voluntary Escrow**

Pursuant to the SSA, the Total Consideration Shares will be subject to voluntary escrow for the period of 12 months from the date of the issue and allotment of each tranche of the Total Consideration Shares. Entry into a Voluntary Restriction Deed with each of the New Shareholders is required to be entered into before the completion of the SSA.

(d) **Board Composition**

The Company's Board is currently comprised of the three (3) directors:

- (1) Stanley Mark Elliott;
- (2) Michael John Sandy; and
- (3) Peter Rodney Barnett.

Pursuant to the SSA, upon completion of the Proposed Transaction, two (2) of the directors of the Board as at the date of the SSA will resign. Stephen Bizzell subsequently resigned from his position as director on 14 August 2014 leaving one further resignation required. The Seller will subsequently be able to nominate two (2) directors to the Board.

It is currently proposed that Mr Kevin Maloney and Mr Darren Anderson will join the board as the non-executive Chairman and Executive Director respectively. Relevant information regarding both Mr Maloney and Mr Anderson is outlined below.

Mr Kevin Maloney

Mr Kevin Maloney is the founder and Chairman of Australian investment entity Tulla Group and has built an extensive career in retail banking, finance and resources.

One of Kevin's numerous career highlights was as founder and Executive Chairman of The MAC Services Group (The MAC), which was sold to Oil States International in 2010 for \$651million. Kevin was heavily involved in all stages of The MAC's growth, including its move into mining services accommodation in 1996.

Kevin has been involved with numerous public companies as both an executive and director. After spending 20 years with ANZ Bank, Kevin joined Elders Resources Finance Limited in 1981, progressing to hold numerous positions including Chief Executive Officer.

Kevin is currently the Chairman of ASX listed Altona Mining Limited and Integrated Holdings Group Pty Ltd which is the parent company for software vendor OCTFOLIO™ Pty Ltd and environmental services group OCTIEF Pty Ltd. Kevin is also a director of Tulla Property Partners Pty Ltd, which is trustee for Tulla Property Partners Trust, one of the New Shareholders.

Mr Darren Anderson

Mr Darren Anderson was formerly the Executive Director and Chief Operating Officer of Diversified Mining Services Ltd which is an unlisted public company that at its peak in mid-2012 had consolidated revenue in excess of \$200 million and 850 personnel.

Previous career highlights include 15 years spent as founder and Managing Director of the Anderson Group of Companies, which grew from a single person operation in Mackay to a company with in excess of 300 employees and 12 operating divisions across both Queensland and New South Wales that serviced the Australian and international coal industries.

Darren is currently Managing Director of Integrated Holdings Group Pty Ltd which is the parent company for software vendor OCTFOLIO™ Pty Ltd and environmental services group OCTIEF Pty Ltd. Darren is a trustee, with his wife Julie Anderson, to the DG & JE Anderson Family Trust, one of the New Shareholders.

The Company's Board composition may subsequently change over time as appropriate to the Company's ongoing development.

2.3 Rationale of the Proposed Transaction

On 28 May 2014, the Victorian Government announced that all work plan approvals for onshore gas exploration would be placed on hold until more information was available from various studies that were being undertaken. As a result of this moratorium, the Company is currently not able to pursue drilling programmes on its GEPs in the Otway Sedimentary Basin of Victoria. These regulatory restrictions have required the Company to consider undertaking one or more acquisitions so as to utilise its core strengths and expertise in related markets which are not currently facing the same regulatory restrictions.

The Directors of the Company are of the view that the Commonwealth government's approach to renewable energy generated power is putting downward pressure on electricity pricing and is significantly increasing the commercial risk of geothermal projects in Australia. On the 23 June 2014, the latest modelling of the Renewable Energy Target (**RET**) on future electricity prices in Australia conducted by ACIL Allen for the Commonwealth government predicts that the RET could be reduced or abandon by the Federal Government. This could reduce the price for renewable energy including geothermal energy, potentially making it uneconomic in

the foreseeable future. The lack of interest by the Commonwealth and State governments to support renewable energy prices including abolishing the carbon tax will further increase risk in the commercial viability of renewable energy development. Due to the current and projected State and Commonwealth regulatory approach to geothermal production and the flow on effects, specifically to pricing, HRL is considering acquisitions which are not subject to the same commercial risk as ongoing private investment in geothermal projects.

The Proposed Transaction will assist the Company in remaining competitive and current in the industry, and will assist it in achieving and sustaining its targets of growth, profit and revenue so as to improve shareholder value and generate sustainable and profitable performance. The Directors are of the view that the Proposed Transaction complements the Company's current business activities, without being subject to the same regulatory restrictions as the Company's current projects are dictated by. As such, the Company would be able to continue operating in the sphere of the clean energy industry while awaiting progression in the legislative regime in Victoria that applies to its geothermal projects.

Acquiring OCTIEF provides the Company with a new opportunity which is based on market strength and revenue potential, while taking into consideration the current regulatory regime heavily dictating and restricting the Company's further development in the special area of geothermal energy. As a result, the Proposed Transaction will, given the complementary benefits in combining HRL and OCTIEF, produce significant synergistic benefits, which have been further outlined below.

OCTIEF currently operates substantially in the energy industry, with numerous projects involving the provisions of services to engineering and environmental sectors. Within these sectors, OCTIEF services include environmental studies, dust, noise and vibration sampling and monitoring, sampling water and soils for toxic materials such as asbestos, metals and other contaminants and analysis and their effect on the environment, as well as activities for safe removal or containment that have to be managed. These activities are all relevant and applicable in carrying the Company's work programs during its prefeasibility studies, feasibility studies, financial completion, construction and operations of geothermal sites.

As part of these services, OCTIEF provides renewable energy solutions to businesses. OCTIEF offers a number a specialised environmental services, which includes but is not limited to environmental compliance monitoring, contaminated land, ecological assessment and environmental auditing and project management, all of which contribute to geothermal exploration, development and operations.

OCTIEF also work fundamentally within sustainability, which includes providing an understanding, measurement and baseline of the footprint of an organisation including direct and indirect emissions, energy, water and waste.

Specifically, the Company's current geothermal projects are located in intense farming areas of south western Victoria where contaminated land areas and buildings exist. These contaminated sites may include machinery and work places where poisons (eg DDT, arsenic compounds), old lead petrol and oil storage sites and asbestos clad buildings and farm houses are present. This acquisition will aid HRLs strategy to vertically integrate key work areas that have traditionally been outsourced. Hot Rock is planning to become a geothermal developer and environmental consulting and hazardous materials analytical laboratory business.

The sector operation of OCTIEF and provision of services as outlined above, when considered in totality with the operations of the Company's productions, generate a combined function in the clean energy industry.

2.4 **About OCTIEF**

OCTIEF Pty Ltd is an Australian private company currently owned by Integrated Holdings Group Pty Ltd. OCTIEF operates an environmental consulting and hazardous materials analytical laboratory business with offices in Brisbane, Mackay and Darwin. OCTIEF currently

operates laboratory facilities in Brisbane and plans to setup a further facility in Darwin to meet growing demand.

OCTIEF is an Australia wide multidisciplinary consulting group which specialises in advising organisations in maintaining environmental and occupational compliance and managing related industry risks. Due to the increasing constraints and public awareness, environmental and occupational management is a significant issue for many organisations.

Recognising the impacts of these issues on business, OCTIEF aims to help maintain and improve performance by employing best environmental and workplace practices to manage resultant risks to people, property, business and government organisations.

Part of the services offered are industrial hygiene, asbestos and hazardous materials management, environmental services (air, water and soil including contaminated land), greenhouse gas emissions assessments, energy use assessments, building contamination assessment, and specialised NATA-accredited laboratory analysis and on-site testing.

In addition OCTIEF carry out studies, including mine sites, contaminated land sites, buildings, soils and water, which need to be done as part of government and council development approvals for new project developments. These studies are commonly part of project development stages such as prefeasibility, feasibility, construction, operations and site restoration post operations. In conjunction with these studies, OCTIEF undertakes ongoing testing of soils, noise, dust and vibration, water and materials for contamination issues and noise monitoring during operations.

2.5 Rights Issue

Pursuant to the SSA, the Company will undertake a capital raising by way of a non-renounceable pro rata Rights Issue pursuant to which Eligible Shareholders would be entitled to acquire 1 ordinary share in Hot Rock at \$0.006 each for every 4 ordinary shares held (**Rights Issue**). Based on the shares being issued at \$0.006 this would result in some 86,666,667 of fully paid ordinary shares in the Company being issued. It is proposed that the record date for the Rights Issue be prior to completion of the Proposed Transaction and as such the New Shareholders will not be eligible to participate. Although undertaking a Rights Issue by the Company is a Condition Precedent to the Proposed Transaction, the Proposed Transaction is not contingent upon the amount raised. The Rights Issue is not underwritten.

Carrying out the Rights Issue will afford all Shareholders the opportunity to maintain or even increase their current stake in HRL (subject to regulatory restrictions). It is intended that the Rights Issue will proceed on the basis that existing Shareholders may apply for more than their pro-rata entitlement and preference will be given by Directors to those shareholders with an unmarketable parcel of shares in Hot Rock enabling them to top up their holding. An unmarketable parcel of shares is a holding with a value less than \$2,000.

The funds raised under the Rights Issue (after payment of expenses in connection with the Rights Issue) and existing cash on hand will be used to continue to develop Hot Rock's businesses and meet its strategic goals of growing businesses in environmentally focussed activities particularly where HRL uses the services offered by OCTIEF.

More particularly, funds raised under the Rights Issue have been earmarked for the following exploration activities, ongoing environmental activities business, business development and working capital purposes over the course of the next 12 months:

Proposed use of funds	\$m	%
Exploration: To continue to develop HRLs GEPs by carrying out work programs which continue to reduce exploration risk, with a view to securing a	0.50	25.0%

Proposed use of funds	\$m	%
joint venture partner to advance its prospects to development.		
Business Development: For the investigation and advance business development opportunities for the Company and to meet HRLs strategic goals of growing businesses in environmentally focussed activities to improve the sustainability of the planet	0.65	32.5%
Environmental: to continue and expand ongoing environmental activities	0.40	20.0%
Working capital: to provide the Company with immediate corporate and working capital.	0.25	12.5%
Cost of issue: To fund the cost of the Proposed Transaction and Rights Issue (accounting, legal and other miscellaneous costs associated with the Proposed Transaction and Rights Issue)	0.20	10.0%
Total	2.00	100%

HRL intends to carry out work programs which continue to reduce exploration risk to be able to secure a joint venture partner to advance to development as quickly as possible.

If the full amount sought under the Rights Issue is not obtained, it is expected that funds raised will be applied in a manner which will allow HRL to maximise the value which it is anticipated will arise from the abovementioned exploration activities.

2.6 Effect of the Transaction on the Company

(a) Assets, equity, annual profit

Details of the estimated effect that the Proposed Transaction will have on the Company's total assets, total equity interests, annual revenue/annual expenditure and annual profit before tax and extraordinary items following completion of the Proposed Transaction are set out in **Schedule 1**.

Please note that the calculations are based on the audited accounts of the Company as at 30 June 2014.

(b) Issued capital

Schedule 2 sets out the current issued share capital of the Company, together with the potential effect that the issue of the Initial Payment Shares and Milestone Shares will have on the issued shares in the Company, assuming that each milestone is achieved, no existing options in the Company are exercised in this time and no additional HRL Shares are issued.

In summary if the Proposed Transaction is completed and all milestones are achieved, and there is no Rights Issue allowing existing Shareholders the opportunity to increase their holdings:

- (1) Up to 641,508,710 Total Consideration Shares would be issued to the New Shareholders by 30 June 2015 such that the New Shareholders would hold a maximum Relevant Interest of 65% of the issued capital of the Company. This is the maximum number of HRL Shares which the New Shareholders are able to obtain under the Proposed Transaction; and
- (2) existing shareholders of HRL would maintain their number of HRL Shares, being 345,427,767 HRL Shares, which would amount to approximately 35% of the total issued capital of the Company.

The spread of the shareholding among the New Shareholders is then identified in **Table 2 of Schedule 2**.

Conversely, as shown in **Table 1 of Schedule 3**, by undertaking the Rights Issue concurrently with the Proposed Transaction, the dilutionary effect on existing shareholders, being "Others", is less than if Shareholders were not to be provided the opportunity to increase their respective shareholdings prior to completion of the Proposed Transaction. Upon completion of the Proposed Transaction and assuming all milestones are achieved and the Rights Issue is fully subscribed by Shareholders (again assuming that each milestone is achieved, no existing options in the Company are exercised in this time and no additional HRL Shares are issued):

- (1) an additional 86,666,667 number of fully paid ordinary HRL Shares will be issued at an estimated price of \$0.006;
- (2) existing shareholders, being "Others" would increase their shareholding in HRL, to a number of 432,094,434 HRL Shares which would amount to approximately 40.25%; and
- (3) the maximum Relevant Interest that the New Shareholders would subsequently hold in the Company upon the issue of the Total Consideration Shares would be 59.75% of the total issued capital of the Company.

The spread of the shareholding among the New Shareholders is then identified in **Table 2 of Schedule 3**.

2.7 Independent Expert Report

The directors of the Company have commissioned the Independent Expert to prepare a report on the question of whether the Proposed Transaction is fair and reasonable to the Shareholders not associated with the proposal. That report is attached to this Explanatory Memorandum at Annexure A.

The Independent Expert has concluded that the terms of the Proposed Transaction are fair and reasonable to the Non-Associated Shareholders of the Company.

(a) Fairness

In forming their opinion in relation to the fairness of the Proposed Transaction, BDO has assessed the fair market value of the Company's Shares immediately prior to the Proposed Transaction on a controlling interest basis and compare this to the value of a share in HRL upon completion of the Proposed Transaction, assuming that the Proposed Transaction completes. Details of the fairness assessment of the Independent Expert are set out in section 10 of the Independent Expert's Report.

Based on BDO's preferred value, the value of one Share on a controlling basis prior to the completion of the Proposed Transaction is a low of **\$0.0049** and a high of **\$0.0062**.

In determining the value of the share in HRL upon completion of the Proposed Transaction, BDO have assumed that all Milestones are achieved and all Milestone Shares issued. As such, the value of one Share on a minority basis of low of **\$0.0054** and a high of **\$0.0068**.

(b) Reasonableness: Key Advantages and Disadvantages of Proposed Transaction

BDO has also considered the reasonableness of the Proposed Transaction in terms of the advantages and disadvantages of the Proposed Transaction. Details of the reasonableness assessment of the Independent Expert are set out in Section 11 of the Independent Expert's Report.

In forming the opinion that the Proposed Transaction is reasonable, BDO have noted the following:

The benefits to Non-Associated Shareholders of the Proposed Transaction include:

- (1) Increased capabilities and service offering
- (2) Deferred consideration component;
- (3) Revenue and profit generation due to Shareholders holding shares in a company which generated revenues and profit in FY2014; and
- (4) Potential increase in size, access to capital markets and liquidity.

The disadvantages to Non-Associated Shareholders of the Proposed Transaction include:

- (1) Dilution of shareholding and loss of control;
- (2) Limited recent operational history; and
- (3) Potential to deter takeover bid.

Further details regarding the analysis undertaken by the Independent Expert and the Independent Expert's conclusions are set out in the Independent Expert's Report. The Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum.

2.8 Other information

(a) Conditionality of Resolutions

Resolutions 1, 2 and 3 are each conditional upon the passing of each other, so that each will not have effect unless and until the other is passed.

(b) Plans for the Company if the Resolutions are passed

In the event that Resolutions 1, 2 and 3 are approved by Shareholders, the Company will comprise of the combined business operations of HRL and OCT upon completion of the SSA. As such, the Company will continue geothermal exploration and production, specifically but not limited to its current GEPs in the Ottway Basin, as well as the continued operation of the services of OCT.

The Company will continue to be named Hot Rock Limited.

There is currently no proposal or intention to transfer or otherwise deal with the current assets of the Company, nor any changes to the present employee arrangements of the Company, other than the changes to the Board as contemplated by the SSA and outlined above at paragraph 2.2(c). There are also no intentions to significantly change the financial policies of the Company.

(c) Plans for the Company if the Resolutions are not passed:

In the event that Resolutions 1, 2 and 3 are not approved, the Company will continue to focus on its existing geothermal projects in Victoria.

(d) Director recommendations

The Proposed Transaction constitutes a significant increase in the scale of activities undertaken by the Company.

The Board considers that the Proposed Transaction will complement its existing operations whilst giving the Company a suitable robustness of scale and breadth of operation.

All of the current Directors are independent of the Proposed Transaction. The Directors consider that acquiring OCT is in the best interests of the Company and recommend that Shareholders vote in favour of Resolutions 1, 2 and 3. Each of the Directors intend to vote their Shares in favour of Resolutions 1 and 3. As each of the Directors is considered to be an associate of the Company by virtue of s 11 Corporations Act, they will not vote their Shares in respect of Resolution 2.

3. Shareholder approvals

3.1 Resolution 1

(a) *Listing Rule 7.1 - Issues exceeding 15% of capital*

Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new equity securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (**15% Capacity**) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 7.1.

Exception 16 of Listing Rule 7.2 states that, where shareholder approval is being obtained for the purposes of Item 7 of section 611 of the Corporations Act, a company is not required to obtain shareholder approval pursuant to Listing Rule 7.1. The Company has therefore not sought shareholder approval under Listing Rule 7.1 in relation to the Proposed Transaction, only item 7 of section 611 (see below).

For completeness, we however note that the issue of the Milestone Shares in the Company to the New Shareholders will be issued on the same terms and conditions provided in this Explanatory Memorandum and the attached IER. Further, although the Company is seeking shareholder approval of all the Total Consideration Shares, this is the maximum total number of HRL Shares which could be issued to the New Shareholders under the Proposed Transaction, the actual issue of Milestone Shares is dependent upon satisfaction of the applicable milestones by OCT.

(b) *Chapter 6, section 611 (Item 7) of the Corporations Act*

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the acquisition would result in that person's voting power in the company increasing:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

However, there are certain specified exceptions to the takeover prohibition contained in the Corporations Act. In particular, under section 611 (Item 7) of the Corporations Act an acquisition will not contravene the takeover prohibition if shareholders approve the acquisition by passing a resolution at a general meeting, where:

- no votes were cast in favour of the resolution by the person proposing to make the acquisition or their associates; and
- shareholders were given all information known to the acquirer or the company that was material to the decision on how to vote.

ASIC Regulatory Guide 74: Acquisitions Approved by Members' (**ASIC RG 74**) also specifies certain requirements where a Company seeks an acquisition to be exempt under section 611 (Item 7).

3.2 Resolution 2- Approval to Voluntary Escrow Arrangements

(a) Purpose

As detailed in Section 3.1(b) of this Explanatory Memorandum, Section 606 of the Corporations Act generally restricts the acquisition of a “relevant interest” in more than 20% of issued voting shares in a company. Section 606 also provides that the restriction does not apply to an acquisition approved by the Company’s shareholders under Item 7 of Section 611 of the Corporations Act.

Pursuant to the SSA, the Total Consideration Shares will be subject to voluntary escrow for the period of 12 months from the date of the issue and allotment of each tranche of the Total Consideration Shares. Entry into a Voluntary Restriction Deed with each of the New Shareholders is required to be entered on and before by completion of the SSA. (**Escrow Arrangements**)

Although the Company does not have any ownership interest in the Total Consideration Shares or an ability to control how they are voted, the Company will be considered to acquire a “relevant interest” in the Total Consideration Shares for the purposes of the Corporations Act by virtue of the contractual right to restrict the transfer of the Total Consideration Shares.

(b) Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

Specific information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect to obtaining approval under Item 7 of Section 611 of the Corporations Act.

This information is summarised below. Some of the information usually relevant to a proposal to acquire relevant interests in voting shares is not relevant to an escrow arrangement under which the Company is deemed to be acquiring a relevant interest in its own shares but will not obtain any power to influence the exercise of a voting right attached to the Total Consideration Shares.

Shareholders are also referred to Section 2 of this Explanatory Memorandum and to the Independent Expert’s Report in respect of the Proposed Transaction attached as Annexure A to and forming part of this Explanatory Memorandum.

The Company can only acquire the same relevant interests and voting power held by the New Shareholders from time to time pursuant to the SSA and the Escrow Arrangements.

Tables 1 & 2 in Schedule 2 contain details of the approximate number and percentage of Shares in which the Company will acquire a relevant interest as a result of the Escrow Arrangements excluding any issue of Shares under the Rights Issue.

Tables 1 and 2 in Table 3 contain details of the approximate number and percentage of Shares in which the Company will acquire a relevant interest as a result of the Escrow Arrangements assuming the Rights Issue is successful.

(c) Timing

The Escrow Arrangements take effect as each tranche of the Total Consideration Shares are issued.

(d) Reasons for the voluntary escrow

The Company proposes the Escrow Arrangements to assist to align the interests of the New Shareholders with the interests of the Company and its other Shareholders. The rationale for the Company to undertake the Proposed Transaction is set out in Section 2.3 of this Explanatory Memorandum.

(e) *Directors' interests in Resolution 2*

None of the current Directors has a personal interest in the outcome of Resolution 2 except as a Shareholder.

(f) *If Resolution 2 is not approved*

Entry into the Escrow Arrangements, and Shareholder approval of Resolution 2 are required for the Company to proceed with the Proposed Transaction under the Sale Agreement. The Proposed Transaction may not proceed if the Resolution is not approved.

3.3 **Resolution 3 – Approval to Change of Activities**

(a) *Listing Rule 11.1*

Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable.

Under Listing Rule 11.1.2, if ASX requires, the entity must get the approval of shareholders and must comply with any requirements of ASX in relation to the notice of meeting.

The ASX have advised the Company that the change in the nature and scale of the Company's activities does not require the Company to re-comply with the admission requirements set out in Chapters 1 and 2 of the Listing Rules in accordance with Listing Rule 11.1.3.

ASX have however advised that the Company must seek Shareholder approve for the change in scale of activities which will result from the acquisition of OCT in accordance with Listing Rule 11.1.2.

As such, Resolution 3 seeks Shareholder approval for the Proposed Transaction under Listing Rule 11.1.2.

The Company intends to continue to develop, or otherwise realise value from, the Company's existing activities if the Proposed Transaction proceeds.

4. Interpretation

The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

ASIC means the Australian Securities & Investments Commission;

ASX means the ASX Limited;

BDO means BDO Corporate Finance (Qld) Ltd;

Corporations Act means the *Corporations Act 2001* (Cth);

Directors means the board of directors of the Company as at the date of the Notice of Meeting being those identified in paragraph 2.2(c);

Explanatory Memorandum means the explanatory memorandum accompanying this Notice;

HRL Shares means fully paid ordinary shares in the Company from time to time;

Independent Expert means BDO;

Independent Expert's Report or **IER** means the report of BDO on the fairness and reasonableness of Proposed Transaction, which is attached as Annexure A;

Initial Consideration Shares means 320,754,355 HRL Shares;

Listing Rules means the official listing rules of the ASX as amended from time to time;

Meeting or **EGM** means the Extraordinary General Meeting to be held on Monday 15 September 2014 as convened by the accompanying Notice of Meeting;

Milestone One Date means 31 December 2014;

Milestone One Performance Target means OCTIEF achieving gross revenue for the 6 months to 31 December 2014 which equals or exceeds \$1.75 million;

Milestone One Shares means 160,377,178 HRL Shares;

Milestone Shares means the sum of the Milestone One, Milestone Two and Milestone Three Shares;

Milestone Three Date means 30 June 2015;

Milestone Three Performance Target means OCTIEF achieving gross revenue for the 12 months to 30 June 2015 which equals or exceeds \$4.25 million;

Milestone Three Shares means 64,150,871 HRL Shares or such lower number determined pursuant to clause 4.4(c);

Milestone Two Date means 31 December 2014;

Milestone Two Performance Target means OCTIEF establishing a laboratory in Darwin;

Milestone Two Shares means 96,226,306 HRL Shares;

New Shareholders means each of the entities identified in paragraph 2;

Non-Associated Shareholders means the holders of the HRL Shares whose votes are not to be disregarded on Resolution 1;

Notice of Meeting or **Notice** means the notice of meeting giving notice to Shareholders of the Meeting, accompanying this Explanatory Memorandum;

OCT means OCTIEF Pty Ltd ACN 163 772 478 (OCT);

Proposed Transaction means the transactions contemplated by the SSA;

Resolution means a resolution set out in the Notice of Meeting;

Rights Issue means the capital raising intended to be undertaken by the Company by way of a non-renounceable pro rata Rights Issue which Shareholders are entitled to acquire 1 ordinary share in Hot Rock at \$0.006 each for approximately every 4 ordinary shares held;

SSA means the Share Sale Agreement dated 19 July 2014 between the Company, the Seller, the New Shareholders and OCT for the acquisition of the total issued capital in OCT from the New Shareholders by the Company;

Seller means Integrated Holdings Group Pty Ltd ABN 69 163 669 118;

Shareholders means a holder of HRL Shares in the Company;

Subsidiaries has the meaning given to that term in the Corporations Act;

Total Share Consideration means the sum of the Initial Consideration Shares and the Milestone Shares;

Working Capital means, on a particular day, the working capital as calculated as follows: $WC = C + RD - CR$ where:

WC is the working capital on that day;

C is the cash and cash equivalent assets held by the Buyer on that day (as determined in accordance with Account Principles);

RD is the value of the recoverable debtors of the Buyer on that day (as determined in accordance with the Accounting Principles); and

CR is the value of the current and non-current creditors of the Buyer on that day (as determined in accordance with Accounting Principles).

Voluntary Restriction Deed means a voluntary restriction deed in respect of the Total Share Consideration and entered into with the New Shareholders pursuant to the SSA.

Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Paul Marshall (Company Secretary):

GPO Box 216
Brisbane QLD 4001
Telephone: 07 3149 2113
Fax: 07 3212 9201

Explanatory Memorandum

Schedule 1

Table 1 - Assets, equity, annual profit (assuming no Rights Issue)

Particulars	Prior to Proposed Transaction ¹	Effect of Proposed Transaction	Post Proposed Transaction Analysis ²	Percentage Change due to Proposed Transaction	Scale of Change
Total Consolidated Assets	1,655,915	1,326,465	2,982,380	80%	1.80
Total Equity	1,626,109	766,216	2,392,325	47%	1.47
Revenue	20,858	4,874,188	4,895,046	23,368%	234.68
Profit (before tax and extraordinary items)	(871,253)	1,008,929	137,676	NA	NA
Total No. of shares	345,427,767	641,508,710	986,936,477 ³	186%	2.86
Total No. of options	21,000,000	-	21,000,000	-	NA
Budgeted exploration expenditure (next 12 months) on current activities	500,000	-	500,000	-	NA
Budgeted exploration expenditure (next 12 months) on activities to be disposed of	-	-	500,000	-	-

¹ Position of Company based on audited accounts as at 30 June 2014

² Pro forma

³ This assumes that the proposed Rights Issue has not taken place

Notice of Extraordinary General Meeting and Explanatory Memorandum

Table 2 - Assets, equity, annual profit (assuming Rights Issue)

Particulars	Prior to Proposed Transaction ⁴	Effect of Proposed Transaction	Post Proposed Transaction Analysis ⁵	Percentage Change due to Proposed Transaction	Scale of Change
Total Consolidated Assets	1,655,915	1,326,465	2,982,380	80%	1.80
Total Equity	1,626,109	766,216	2,392,325	47%	1.47
Half Yearly Revenue	20,858	4,874,188	4,895,046	23,368%	234.68
Half Yearly Profit (before tax and extraordinary items)	(871,253)	1,008,929	137,676	NA	NA
Total No. of shares	345,427,767	728,175,377	1,073,603,144 ⁶	211%	30.63
Total No. of options	21,000,000	-	21,000,000	-	NA
Budgeted exploration expenditure (next 12 months) on current activities	500,000	-	500,000	-	NA
Budgeted exploration expenditure (next 12 months) on activities to be disposed of	-	-	500,000	-	-

⁴ Position of Company based on audited accounts as at 30 June 2014

⁵ Pro-forma

⁶ Assumes the Rights Issue has proceeded at \$0.006 per share and is fully subscribed.

Explanatory Memorandum

Schedule 2

Table 1

Figures not including Rights Issue										
	Current Capital ⁷		Acquisition ⁸							
	Ordinary Shares	%	Initial Payment Shares		Milestone 1 Shares		Milestone 2 Shares		Milestone 3 Shares	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Others	345,427,767	100%	345,427,767	51.85%	345,427,767	41.79%	345,427,767	37.43%	345,427,767	35.00%
New Shareholders	Nil	0%	320,754,335	48.15%	481,131,533	58.21%	577,357,839	62.57%	641,508,710	65.00%
Total	345,247,767		666,182,122	100.00%	826,559,300	100.00%	922,785,606	100.00%	986,936,477	100.00%

⁷ This assumes that the Proposed Rights Issue is not undertaken by the Company.

⁸ This assumes that no other HRL Shares (other than HRL Shares issued pursuant to the Proposed Transaction) are issued, including an exercise of existing options. There are currently 21,000,000 existing options on issue.

Explanatory Memorandum

Table 2

Figures not including Rights Issue										
	Current Capital ⁹		Acquisition ¹⁰							
			Initial Payment Shares		Milestone 1 Shares		Milestone 2 Shares		Milestone 3 Shares	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
CA & AM Anderson Family Trust	Nil	0%	53,459,059	8.02%	80,188,589	9.70%	96,226,307	10.43%	106,918,118	10.83%
GJ & NJ Anderson Family Trust	Nil	0%	53,459,059	8.02%	80,188,589	9.70%	96,226,306	10.43%	106,918,118	10.83%
Tulla Property Partners Trust	Nil	0%	160,377,178	24.07%	240,565,767	29.10%	288,678,920	31.28%	320,754,356	32.50%
DG & JE Anderson Family Trust	Nil	0%	53,459,059	8.02%	80,188,588	9.70%	96,226,306	10.43%	106,918,118	10.83%
Existing Shareholders	345,427,767	100%	345,427,767	51.85%	345,427,767	41.79%	345,427,767	37.43%	345,427,767	35.00%
Total	345,427,767		666,182,122	100.00%	826,559,300	100.00%	922,785,606	100.00%	986,936,477	100.00%

⁹ This assumes that the proposed Rights Issue is not undertaken

¹⁰ This assumes that no other HRL Shares (other than HRL Shares issued pursuant to the Proposed Transaction) are issued, including an exercise of existing options. There are currently 21,000,000 existing options on issue.

Notice of Extraordinary General Meeting and Explanatory Memorandum

Schedule 3

Table 1

Figures including Rights Issue										
	Current Capital ¹¹		Acquisition ¹²							
	Ordinary Shares	%	Initial Payment Shares		Milestone 1 Shares		Milestone 2 Shares		Milestone 3 Shares	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Others	432,094,434	100%	432,094,434	57.39%	432,094,434	47.32%	432,094,434	42.80%	432,094,434	40.25%
New Shareholders	Nil	0%	320,754,355	42.61%	481,131,533	52.68%	577,357,839	57.20%	641,508,710	59.75%
Total	432,094,434		752,848,789	100.00%	913,225,967	100.00%	1,009,452,273	100.00%	1,073,603,144	100.00%

¹¹ This assumes that the proposed Rights Issue is undertaken at an assumed issue price of \$0.006 per share and the Rights Issue is fully subscribed by Shareholders resulting in the issue of some 86,666,667. As the terms and price of the Rights Issue are have not been finalised yet, these figures are subject to change in this regard

¹² This assumes that no other HRL Shares (other than HRL Shares issued pursuant to the Proposed Transaction) are issued, including an exercise of existing options. There are currently 21,000,000 existing options on issue.

Notice of Extraordinary General Meeting and Explanatory Memorandum

Table 2

Figures including Rights Issue										
	Current Capital ¹³		Acquisition ¹⁴							
			Initial Payment Shares		Milestone 1 Shares		Milestone 2 Shares		Milestone 3 Shares	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
CA & AM Anderson Family Trust	Nil	0%	53,459,059	7.10%	80,188,589	8.78%	96,226,307	9.53%	106,918,118	9.96%
GJ & NJ Anderson Family Trust	Nil	0%	53,459,059	7.10%	80,188,589	8.78%	96,226,306	9.53%	106,918,118	9.96%
Tulla Property Partners Trust	Nil	0%	160,377,178	21.30%	240,565,767	26.34%	288,678,920	28.60%	320,754,356	29.88%
DG & JE Anderson Family Trust	Nil	0%	53,459,059	7.10%	80,188,588	8.78%	96,226,306	9.53%	106,918,118	9.96%
Existing Shareholders	432,094,434	100%	432,094,434	57.39%	432,094,434	47.32%	432,094,434	42.80%	432,094,434	40.25%
Total	432,094,434		752,848,789	100.00%	913,225,967	100.00%	1,009,452,273	100.00%	1,073,603,144	100.00%

¹³ This assumes that the proposed Rights Issue is undertaken at an assumed issue price of \$0.006 per share and the Rights Issue is fully subscribed by Shareholders resulting in the issue of some 86,666,667. As the terms and price of the Rights Issue are have not been finalised yet, these figures are subject to change in this regard

¹⁴ This assumes that no other HRL Shares (other than HRL Shares issued pursuant to the Proposed Transaction) are issued, including an exercise of existing options. There are currently 21,000,000 existing options on issue.

Explanatory Memorandum

Annexure A



HOT ROCK LIMITED
Independent Expert's Report

14 August 2014

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Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

The following report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Hot Rock Limited ('Hot Rock' or 'the Company') in relation to the proposed acquisition of 100% of the issued shares of Octief Pty Ltd ('OCT') by Hot Rock ('the Proposed Transaction').

Further details relating to the Proposed Transaction are set out in Section 3.0 of this Report. The scope of this Report is set out in detail in Section 4.0 of the Report. This Report provides an opinion as to whether or not the Proposed Transaction is 'fair' and 'reasonable' to the shareholders of Hot Rock and has been prepared to provide information to Hot Rock shareholders to assist them to make an informed decision on whether to vote for or against the Proposed Transaction.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote for or against the Proposed Transaction is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.



Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of this Report will be approximately \$40,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of any of the matters to which the Report relates. Our fees do not include fees payable to other experts engaged to provide specialist services and reports which may have been considered in this Report.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not provided any services to Hot Rock in the past two years. However, a related entity, BDO Audit Pty Ltd, is the current auditor of Hot Rock and OCT.

BDO CFQ is not an associate of Hot Rock. The signatory to this Report does not hold any shares in Hot Rock and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.



Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

Glossary

Reference	Description
2D	Two dimensional
3D	Three dimensional
ABV	Asset based valuation
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO CFQ	BDO Corporate Finance (QLD) Ltd
CME	Capitalisation of maintainable earnings
Combined Entity, the	Hot Rock Limited post the Proposed Transaction (i.e. after the 100% acquisition of Octief Pty Ltd)
Company, the	Hot Rock Limited
Corporations Act, the	The Corporations Act 2001
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FSG	Financial Services Guide
FY	Financial year beginning on 1 July and ending 30 June the following year
GEP	Geothermal exploration permit
Hot Rock	Hot Rock Limited
Hot Dry Rocks	Hot Dry Rocks Pty Ltd
Hot Dry Rocks Report, the	Valuation report prepared by Hot Dry Rocks titled “GEP 6 & 8 Independent Expert Report” dated 27 July 2014
HRL	Hot Rock Limited
Initial Consideration Shares	320,754,355 HRL shares payable upon completion of the Proposed Transaction
Integrated	Integrated Holdings Group Pty Ltd
Jacobs	Jacobs Group (Australia) Pty Ltd
Jacobs Report, the	Valuation report prepared by Jacobs titled “Geothermal Exploration Permit Review GEP6 & GEP8” dated 25 July 2014
MBV	Market based valuation
Milestone Consideration, the	The Milestone One Payment, Milestone Two Payment and Milestone Three Payment
Milestone One Payment	160,377,178 HRL shares payable if revenue for the six month period ending 31 December 2014 is equal to or exceeds \$1.75 million
Milestone Three Payment	64,150,871 HRL shares payables if revenue for the twelve month period ending 30 June 2015 is equal to or exceeds \$4.25 million
Milestone Two Payment	96,226,306 HRL shares payable if a laboratory in Darwin is established prior to 31 December 2014
NABERS	National Australian Built Environment Rating System
NATA	National Association of Testing Authorities Australia
Notice of Meeting, the	The Notice of Meeting and Explanatory Memorandum prepared by Hot Rock
OCT	Octief Pty Ltd
Proposed Rights Issue, the	The proposed non-renounceable pro-rata rights issue to be undertaken by Hot Rock Limited immediately prior to the Proposed Transaction to raise up to \$0.52 million at

Reference	Description
	\$0.0060 per share
Proposed Transaction, the	The proposed acquisition of 100% of the issued shares in Octief Pty Ltd by Hot Rock Limited
Renewable Energy Act, the	The Renewable Energy (Electricity) Act 2000
Report, this	This independent expert's report prepared by BDO CFQ dated 8 August 2014
RET	Renewable energy target
RG 111	Regulatory Guide 111: Content of Expert Reports
RGs	Regulatory guides published by the Australian Securities and Investments Commission
VWAP	Volume weighted average price
We, us, our	BDO Corporate Finance (QLD) Ltd

The Shareholders
C/- The Directors
Hot Rock Limited
Level 5
10 Market St
Brisbane Qld 4000

14 August 2014

Dear Shareholders,

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ') has been engaged by the directors of Hot Rock Limited ('Hot Rock', 'HRL', or 'the Company') to prepare an independent expert's report ('this Report') to the shareholders of Hot Rock in relation to the proposed takeover of Octief Pty Ltd ('OCT') by Hot Rock ('the Proposed Transaction'). OCT is a private, Australian environmental consulting company which operates as a wholly owned subsidiary of Integrated Holdings Group Pty Ltd ('Integrated').

Broadly, the Proposed Transaction involves the acquisition of 100% of the shares on issue in OCT by Hot Rock in return for:

- 320,754,355 HRL shares upfront ('the Initial Consideration Shares');
- 160,377,178 HRL shares if OCT's revenue for the six month period ending 31 December 2014 is equal to or exceeds \$1.75 million ('the Milestone One Payment'). If OCT's revenue is less than \$1.75 million for the six month period ending 31 December 2014, the Milestone One Payment will be reduced on a pro-rata basis, but cannot be less than 75% of the full entitlement (i.e. 120,282,884 HRL shares);
- 96,226,306 HRL shares if a laboratory in Darwin is established by OCT prior to 31 December 2014 ('the Milestone Two Payment'); and
- 64,150,871 HRL shares if OCT's revenue for the 12 month period ending 30 June 2015 is equal to or exceeds \$4.25 million ('the Milestone Three Payment'). If OCT's revenue is less than \$4.25 million for the 12 month period 30 June 2015, the Milestone Three Payment will be reduced on a pro-rata basis, but cannot be less than 75% of the full entitlement (i.e. 48,113,153 HRL shares).

We collectively refer to the Milestone One Payment, the Milestone Two Payment and the Milestone Three Payment as 'the Milestone Consideration'. We note that while OCT is a wholly owned subsidiary of Integrated, the Initial Consideration Shares and the Milestone Consideration will not be paid to Integrated but rather paid directly to the shareholders of Integrated (referred to in this report as the OCT Shareholders).



For ease of reference, and to assist to differentiate between Hot Rock prior to the all-scrip acquisition of OCT shares and Hot Rock post the all-scrip acquisition of OCT shares, in this Report we refer to the company acquiring OCT as Hot Rock, HRL or the Company and we refer to the combined entity post the all-scrip acquisition as 'the Combined Entity'.

We understand that the Combined Entity will remain listed as Hot Rock immediately following the Proposed Transaction. Accordingly, all references to the Combined Entity set out in this Report, particularly those in relation to the issuance of shares, should be taken as references to 'Hot Rock following the Proposed Transaction'.

Immediately prior to the Proposed Transaction, Hot Rock intends to undertake a non-renounceable pro-rata rights issue to raise up to \$0.52 million at an issue price of \$0.006 per share ('the Proposed Rights Issue'). We note that while the Proposed Transaction has a condition precedent requiring the Proposed Rights Issue to be undertaken, the Proposed Transaction is not contingent upon the amount raised. We understand that the Proposed Rights Issue will not be underwritten.

A more detailed discussion of the Proposed Transaction is set out in Section 3. The scope of this Report and the basis for assessing the Proposed Transaction is set out in detail in Section 4.

This Report has been prepared to provide information to Hot Rock shareholders to assist them to make an informed decision on whether to vote for or against the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity. For completeness, we note that we have not provided an opinion in relation to the Proposed Rights Issue in this Report.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Hot Rock shareholders in conjunction with this Report, including the Notice of Meeting and Explanatory Memorandum prepared by Hot Rock ('the Notice of Meeting').

This Report does not address circumstances specific to individual Hot Rock shareholders. A Hot Rock shareholder's decision to vote for or against the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. Hot Rock shareholders should obtain their own professional advice in relation to their own circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

2.0 Summary of Opinion

This Report has been prepared to provide information to Hot Rock shareholders prior to voting on the Proposed Transaction. In this Report BDO CFQ has expressed an opinion as to whether the Proposed Transaction is ‘fair’ and ‘reasonable’ to the Hot Rock shareholders.

This section is a summary of our opinion only and cannot substitute for a complete reading of this Report. Our assessment of the Proposed Transaction is set out in detail in Sections 10 and 11.

2.1 Fairness of the Proposed Transaction

This section provides a summary of our assessment of the fairness of the Proposed Transaction. A more detailed assessment of the fairness of the Proposed Transaction is set out in Section 10.

To assess whether the Proposed Transaction is ‘fair’ to the Hot Rock shareholders we have:

- a) Calculated the value of a Hot Rock share immediately prior to the Proposed Transaction on a controlling interest basis; and
- b) Compared it to the value of a share in the Combined Entity following the Proposed Transaction, assuming that the Proposed Transaction is implemented, on a minority interest basis.

Table 2.1 below sets our valuation of a share in Hot Rock prior to the Proposed Transaction and for a share in the Combined Entity following the Proposed Transaction for the purpose of assessing the fairness of the Proposed Transaction.

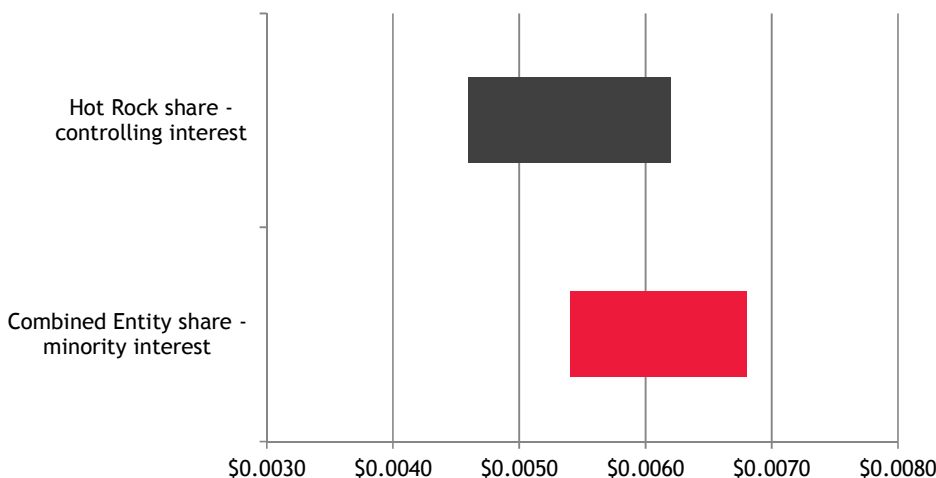
Table 2.1: Fairness of the Proposed Transaction

	Low	High
Value of a Hot Rock share - controlling interest	\$0.0046	\$0.0062
Value of a Combined Entity share - minority interest	\$0.0054	\$0.0068

Source: BDO CFQ analysis

The information set out in Table 2.1 above is illustrated in Figure 2.1 below.

Figure 2.1: Fairness of the Proposed Transaction



Source: BDO CFQ analysis

Having regard to the assessment of the Proposed Transaction set out above, we note that our calculated value range for a share in the Combine Entity following the Proposed Transaction on a minority interest basis falls within or above the range calculated for a Hot Rock share prior to the Proposed Transaction on a controlling interest basis.

Having regard to the above, it is our view that the Proposed Transaction is fair to the Hot Rock shareholders as at the date of this Report.

2.2 Reasonableness of the Proposed Transaction

This section provides a summary of our assessment of the reasonableness of the Proposed Transaction. A more detailed assessment of the reasonableness of the Proposed Transaction is set out in Section 11.

We note that, in accordance with *Regulatory Guide 111: Content of Expert Reports* ('RG 111'), a transaction is considered reasonable if it is fair. Notwithstanding this, we have also considered the reasonableness of the Proposed Transaction having regard to other significant factors to which Hot Rock shareholders may consider prior to voting for or against the Proposed Transaction. This assessment includes comparing the likely advantages and disadvantages of the Proposed Transaction with the position of Hot Rock shareholders if the Proposed Transaction does not proceed.

Table 2.2 below summarises the potential advantages to the Hot Rock shareholders in the event that the Proposed Transaction proceeds. The potential advantages of the Proposed Transaction are discussed in Section 11.1.

Table 2.2: Advantages of the Proposed Transaction

Advantage	Explanation
Increased capabilities and service offering	If the Proposed Transaction is approved, the Combined Entity will comprise of the business operations of Hot Rock and OCT. The Combined Entity will have a broader service offering relative to Hot Rock and will be able to operate the OCT business while continuing its exploration activities on Hot Rock's geothermal exploration permits ('GEPs'), if economically feasible.
The Proposed Transaction includes a deferred consideration component	A proportion of the total consideration payable under the Proposed Transaction is deferred and contingent on the Combined Entity achieving certain operational and performance targets. The structure of the Proposed Transaction consideration reduces the risk of the Proposed Transaction for Hot Rock shareholders as, if the Combined Entity does not meet the performance targets, the Hot Rock shareholders will retain a larger interest in the company.
Revenue and profit generation	If the Proposed Transaction is approved, Hot Rock shareholders will hold shares in a company which generated operating revenues and profit in FY2014

We note that Hot Rock reported net losses before tax from continuing operations of approximately \$2.25 million in FY2012, \$5.43 million in FY2013 and \$0.52 million in FY2014 (refer to Section 5.7).

Advantage	Explanation
The Proposed Transaction is the best offer currently available to Hot Rock	<p>The Directors have announced that Hot Rock has been in discussions with a number of parties in relation to possible investments, merger and acquisition opportunities, and the possibility of undertaking capital raising programs as part of any transaction. After considering the options available to the Company, the Directors of Hot Rock are of the view that the Proposed Transaction represents the best opportunity currently available to Hot Rock shareholders.</p> <p>Without significant further capital or the addition of a business which has the potential to generate cash flow such as OCT, Hot Rock would need significant capital to continue activities in its GEPs. The uncertainty associated with the viability of the GEPs development in the short to medium term has made this process difficult and it may remain difficult for the company to find capital to continue as a going concern in the long term.</p>
Potential increase in size, access to capital markets and liquidity	<p>The Proposed Transaction may result in the Combined Entity having a larger market capitalisation than Hot Rock. As a larger company, the Combined Entity may have:</p> <ul style="list-style-type: none"> • An improved profile in the Australian marketplace; • A greater number of shareholders than Hot Rock; • Greater analyst coverage than Hot Rock; • Greater liquidity than Hot Rock, enabling shareholders to more easily buy and sell the shares of the Combined Entity; and • Greater access to capital markets than Hot Rock, enhancing the Combined Entity's ability to raise capital for future investments and expansion.

Source: BDO CFQ analysis

Table 2.3 below summarises the potential disadvantages to the Hot Rock shareholders in the event that the Proposed Transaction proceeds. The potential disadvantages of the Proposed Transaction are discussed in Section 11.2.

Table 2.3: Disadvantages of the Proposed Transaction

Disadvantage	Explanation
Dilution of shareholding and loss of control	<p>Following the Proposed Transaction, OCT shareholders will hold an interest in the range of 53.1% and 65.0% of the Combined Entity's shares dependent upon the subscription rate under the Proposed Rights Issue and the satisfaction of the Milestone Consideration performance targets. The OCT shareholders' interest will represent a controlling interest in the Combined Entity.</p> <p>The issue of shares to OCT shareholders will dilute the exposure of Hot Rock shareholders to any potential upside which may be realised from the Company's future operations.</p>
Limited recent operational history	OCT purchased the OCT business from Octief Consulting & Laboratory Services Pty Ltd in May 2013. Given the relatively short period of time since the incorporation of OCT as a stand-alone business, there is less certainty in relation to the future cash flows of the OCT business relative to more established businesses.
Potential to deter takeover bid	Immediately following the Proposed Transaction, OCT shareholders will hold a combined interest in the range of 53.1% and 65.0% of the issued share capital of the Combined Entity. OCT shareholders will hold a 'blocking' stake in the Combined Entity and this may deter third parties from making takeover bids for the entity and existing shareholders realising a premium for control upon sale of their interest in the Combined Entity.

Source: BDO CFQ analysis



Having regard to the above, it is our view that the Proposed Transaction is **reasonable** to the Hot Rock shareholders as at the date of this Report.

Notwithstanding that it is our view that the Proposed Transaction is **fair and reasonable** to the Hot Rock shareholders, we strongly recommend that Hot Rock shareholders also have regard to the other considerations set out in Section 2.3 below.

2.3 Other Considerations

Before forming a view on the Proposed Transaction, we strongly recommend that Hot Rock shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them including this Report and the Notice of Meeting; and
- Consider their specific circumstances.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

The decision to vote for or against the Proposed Transaction is a separate decision to the investment decision to hold or divest shares in the Combined Entity in the event the Proposed Transaction is approved. We recommend shareholders consult their own professional advisers in relation to the decision on whether to hold or divest shares in the Combined Entity.

Hot Rock shareholders should refer to Section 11.3 for a more detailed discussion of the position of Hot Rock shareholders in the event that the Proposed Transaction is not approved and implemented.

3.0 Description of the Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 3.1 provides a description of the parties involved in the Proposed Transaction;
- Section 3.2 provides a description of the Proposed Transaction;
- Section 3.3 sets out the conditions of the Proposed Transaction; and
- Section 3.4 discusses the strategic rationale for the Proposed Transaction.

3.1 Parties Involved in the Proposed Transaction

3.1.1 Hot Rock

Hot Rock is an Australian Securities Exchange ('ASX') listed company which is involved in the identification and acquisition of Australian geothermal resources with the intent to develop and operate its assets to produce clean base load power. The Company currently holds two geothermal exploration permits ('GEPs') in the Otway Sedimentary Basin in Victoria which expire on 13 December 2018. Hot Rock's work programs for the GEPs include targeting high flow rate, hot water areas in fractured sedimentary aquifers, re-interpreting 2-dimensional ('2D') seismic data, completing 3-dimensional ('3D') seismic surveys, drilling and testing. A more detailed overview of Hot Rock is set out in Section 5.

3.1.2 OCT

OCT is an Australian multidisciplinary consulting group which specialises in advising organisations in maintaining environmental and occupational compliance and managing related industry risks. OCT offers industrial hygiene, asbestos and hazardous materials management, environmental services (air, water & soil including contaminated land), greenhouse gas emissions assessments, energy use assessments, building contamination assessment, and specialised NATA-accredited laboratory analysis and on-site testing. A more detailed overview of OCT is set out in Section 6.

3.2 Description of the Proposed Transaction

On 21 July 2014, Hot Rock announced that it had entered in a formal share sale agreement in relation to the acquisition of 100% of the shares on issue in OCT by Hot Rock in return for consideration consisting of:

- the Initial Consideration Shares of 320,754,355 HRL shares upon completion of the Proposed Transaction (i.e. 50% of the maximum number of shares which may be issued under the Proposed Transaction);
- the Milestone One Payment consisting of 160,377,178 HRL shares if OCT's revenue for the six month period ending 31 December 2014 is equal to or exceeds \$1.75 million. If OCT's revenue is less than \$1.75 million for the six month period ending 31 December 2014, the Milestone One Payment will be reduced on a pro-rata basis, but cannot be less than 75% of the full entitlement (i.e. 120,282,884 HRL shares);
- the Milestone Two Payment of 96,226,306 HRL shares if a laboratory in Darwin is established by OCT prior to 31 December 2014; and

- the Milestone Three Payment consisting of 64,150,871 HRL shares if OCT's revenue for the 12 month period ending 30 June 2015 is equal to or exceeds \$4.25 million. If OCT's revenue is less than \$4.25 million for the 12 month period ending 30 June 2015, the Milestone Three Payment will be reduced on a pro-rata basis, but cannot be less than 75% of the full entitlement (i.e. 48,113,153 HRL shares).

Pursuant to the terms of the Proposed Transaction, Hot Rock will issue the Initial Consideration Shares and the Milestone Consideration shares to the following entities in the following proportions:

- Craig Anderson and Amanda Anderson as trustees for the CA & AM Anderson Family Trust - 16.66%;
- Greg Anderson and Nancy Anderson as trustees for the GJ & NJ Anderson Family Trust - 16.66%;
- Tulla Property Partners Pty Ltd as trustees for the Tulla Property Partners Trust - 50.00%; and
- Darren Anderson and Julie Anderson as trustees for the DG & JE Anderson Family Trust - 16.66%.

Table 3.1 below sets out the maximum consideration shares which may be issued to each of the entities listed above under the Proposed Transaction.

Table 3.1: Consideration Shares to be Issued to each of the OCT Shareholders

Shareholder	Initial Consideration	Milestone One	Milestone Two	Milestone Three	Total
CA & AM Anderson Family Trust	53,459,059	26,729,530	16,037,718	10,691,811	106,918,118
GJ & NJ Anderson Family Trust	53,459,059	26,729,530	16,037,717	10,691,812	106,918,118
Tulla Property Partners Trust	160,377,178	80,188,589	48,113,153	32,075,436	320,754,356
DG & JE Anderson Family Trust	53,459,059	26,729,529	16,037,718	10,691,812	106,918,118
Total	320,754,355	160,377,178	96,226,306	64,150,871	641,508,710

Source: Notice of Meeting and Explanatory Memorandum

In this Report we collectively refer to the entities to receive Hot Rock shares under the Proposed Transaction, listed above, as the 'OCT Shareholders'.

Immediately prior to the Proposed Transaction, Hot Rock intends to undertake the Proposed Rights Issue to raise up to \$0.52 million at an issue price of \$0.006 per share. We note that while the Proposed Transaction has a condition precedent requiring the Proposed Rights Offer to be undertaken, the Proposed Transaction is not contingent upon the amount raised. We understand that the Proposed Rights Issue will not be underwritten.

Following the Proposed Transaction (assuming that it is approved and implemented) and dependent upon the outcome of the Proposed Rights Issue and the amount of the Milestone Consideration ultimately paid, the OCT Shareholders may hold between 53.1% and 65.0% of the total shares on issue in the Combined Entity.

Table 3.2 below shows the potential shareholding of the OCT Shareholders and current Hot Rock shareholders in the Combined Entity. For clarification we note that the ‘minimum’ scenario shows the minimum interest that the OCT Shareholders will hold in the Combined Entity following the Milestone Three Payment and assumes that the Proposed Rights Issue is fully subscribed and the minimum Milestone Consideration is paid. The ‘maximum’ scenario shows the maximum interest held by the OCT Shareholders in the Combined Entity and assumes that the Proposed Rights issue receives no subscriptions and that the full Milestone Consideration is paid.

Table 3.2: Potential Shareholding in the Combined Entity Post the Proposed Transaction

	Minimum		Maximum	
Existing HRL Shareholders				
Current shares outstanding	345,427,767	37.5%	345,427,767	35.0%
Rights issue shares	86,666,667	9.4%	-	0.0%
Total shares held by HRL shareholders	432,094,434	46.9%	345,427,767	35.0%
OCT Shareholders				
Initial Consideration Shares	320,754,355	34.8%	320,754,355	32.5%
Milestone one shares	120,282,884	13.1%	160,377,178	16.3%
Milestone two shares	-	0.0%	96,226,306	9.7%
Milestone three shares	48,113,153	5.2%	64,150,871	6.5%
Total shares held by OCT shareholders	489,150,392	53.1%	641,508,710	65.0%
Total shares outstanding	921,244,826	100.0%	986,936,477	100.0%

Source: BDO CFQ analysis

3.3 Conditions of the Proposed Transaction

Implementation of the Proposed Transaction is subject to the satisfaction a number of conditions, including:

- Hot Rock, OCT and Integrated each being satisfied, in their absolute discretion, with the results of their own due diligence;
- Hot Rock being satisfied with the conclusions reached by the independent expert (as set out in this Report) in relation to the Proposed Transaction;
- Attainment of all necessary approvals, waivers and confirmations from the ASX in respect of the Proposed Transaction;
- Attainment of all necessary board, shareholder and Australian Securities and Investments Commission (‘ASIC’) approvals in respect of the Proposed Transaction;
- Approval by Hot Rock shareholders pursuant to item 7 of section 611 of the Corporations Act (2001) for the Proposed Transaction;
- Approval by Hot Rock shareholders pursuant to ASX Listing Rule 7.1 for the issue of Hot Rock shares under the Proposed Transaction;
- Hot Rock undertaking the Proposed Rights issue to raise up to \$0.52 million by way of a non-renounceable pro-rata rights issue. We note that a minimum subscription under the Proposed Rights Issue is not required for the Proposed Transaction to proceed;

- OCT Shareholders agreeing to a 12 month voluntary escrow period for all shares that they may become entitled to under the Proposed Transaction;
- Execution of an Executive Services Agreement between Mr Darren Anderson and Hot Rock; and
- Hot Rock possessing working capital of not less than \$1.25 million and OCT possessing working capital of not less than \$0.2 million on completion of the Proposed Transaction.

3.4 Strategic Rationale of the Proposed Transaction

The Directors of Hot Rock are of the view that the policies that the current federal government is seeking to implement may result in price reductions for renewable energy products in Australia, potentially making some renewable projects uneconomical in the foreseeable future. In order to reduce the Company's commercial risk resulting from such potential legislative changes, the Directors of Hot Rock have considered a number of strategic options. The Company's focus has been on the identification of a target company which will complement Hot Rock's current business activities without being subject to the same regulatory risks.

The Directors of Hot Rock believe that the acquisition of OCT will provide the Company with a new opportunity which is based on market strength and potential, while taking into consideration the current political climate which has the potential to restrict Hot Rock's further development in the area of geothermal energy. It is the view of the Directors that the Proposed Transaction will assist Hot Rock in remaining competitive in the industry and will assist it in achieving and sustaining its target of growth, revenue and profit so as to improve shareholder value and generate sustainable performance. The broad sector operation of OCT and provision of services, when considered in totality with the operations of Hot Rock, generate a combined company with a focus in the clean energy industry.

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of the Report

An independent expert, in certain circumstances, must be appointed to meet requirements set out in the Corporations Act 2001 ('the Corporations Act'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission and in some cases, the listing requirements of the stock exchanges on which a company is listed. We have summarised the requirements of the Corporations Act and the ASX listing requirements in Sections 4.1.1 and 4.1.2 below respectively. We have summarised the guidance provided by the RGs in Section 4.2 below.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Proposed Transaction is fair and reasonable to the shareholders of Hot Rock.

This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting and Explanatory Memorandum to be sent to Hot Rock shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual Hot Rock shareholders. Before acting in relation to their investment, individual Hot Rock shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs (including their own taxation consequences). Shareholders should read in full the Notice of Meeting and Explanatory Memorandum.

The decision to vote for or against the Proposed Transaction is a matter for individual shareholders based on their expectations as to value and future market conditions, and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders should consult their own professional adviser in relation to these matters.

4.1.1 Requirements of the Corporations Act

Section 606 of the Corporations Act states that, subject to the exceptions set out in section 611, a 'relevant interest' in issued voting shares in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Broadly, a 'relevant interest' is defined as an interest giving the holder the power to control the right to vote or dispose of shares.

If the Proposed Transaction is approved, subject to the ultimate amount paid under the Milestone Consideration, OCT shareholders will be issued between 489.15 million and 641.51 million ordinary shares in Hot Rock which represents a relevant interest of between 53.1% and 65.0% of the total issued shares in Hot Rock. As the OCT shareholders will increase their shareholding from a starting point below 20% to more than 20% under the Proposed Transaction, there is a breach of section 606 of the Corporations Act. In order for the Proposed Transaction to proceed, an exemption from section 606 must therefore be sought under item 7 of section 611 of the Corporations Act.

Item 7 of section 611 allows a party to gain a relevant interest in shares of a public company that would otherwise be prohibited under section 606 of the Corporations Act if the Proposed Transaction is approved in advance by a resolution passed at a general meeting of the Company, and:

- (a) No votes are cast in favour of the resolution by the proposed acquirer/allottee (i.e. OCT shareholders) or respective associates; and

- (b) There was full disclosure of all information known by both the acquirer and the company in relation to the Proposed Transaction which was material to a decision on how to vote on the resolution.

We have been requested to prepare this Report to provide additional information to the shareholders of Hot Rock to assist them form a view on whether to vote for or against the Proposed Transaction.

4.1.2 Listing Requirements

The ASX Listing Rules do not require the preparation of an independent expert's report in relation to the Proposed Transaction. This Report has not been prepared to comply with the requirements of the ASX Listing Rules.

Hot Rock shareholders should refer to section 3 the Notice of Meeting and Explanatory Memorandum for information in relation to the requirements of the ASX Listing Rules.

4.2 Assessment Methodology

The Corporations Act does not provide any specific guidance in relation to the principles and content of an expert's report relating to the approval of a sale of securities under item 7 of section 611 of the Act. However, ASIC are of the view that the report should follow the requirements of other expert reports under the Act and ASIC have set out specific guidance in RG 111: Content of Expert Reports ('RG 111') in relation to the approval of the issue of securities under item 7 of section 611 of the Act.

RG 111 states that, in the event that a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged interest, the transaction should be analysed as if it was a takeover bid. In such circumstances, references to the 'bidder' (i.e. OCT shareholders) and 'target' (i.e. Hot Rock) should be taken to mean the 'allottee' and the 'company' respectively.

When analysing a takeover bid, RG 111 states that an expert is required to give an opinion as to whether the Proposed Transaction is 'fair and reasonable' to the shareholders. The expert's report should explain how the particulars of the proposal were evaluated as well as the results of the examination and evaluation. RG 111 also provides guidance on common valuation methodologies and certain matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.2.1 Step 1 - Assessment of Fairness

To assess whether the Proposed Transaction is 'fair', in our view it is appropriate to:

- (a) Determine the value of a share in Hot Rock, on a controlling interest basis, immediately prior to the Proposed Transaction;
- (b) Determine the value of a share in the Combined Entity, on a minority interest basis, assuming that the Proposed Transaction is approved and implemented; and
- (c) Compare the value determined in (a) with the value determined in (b).

Under RG 111, the Proposed Transaction will be considered 'fair' to Hot Rock shareholders if the value of a share of the Combined Entity determined in (b) above is equal to or greater than the value of a Hot Rock share determined in (a) above.

4.2.2 Step 2 - Assessment of Reasonableness

To assess whether the Proposed Transaction is 'reasonable', in our view it is appropriate to examine other significant factors to which Hot Rock shareholders may give consideration prior to deciding whether to vote in favour of or against the Proposed Transaction. This evaluation may involve comparing the likely advantages and disadvantages of approving the Proposed Transaction with the position of a Hot Rock shareholder if the Proposed Transaction is not approved, as well as a consideration of other significant factors.

4.2.3 Step 3 - Expert's Opinion

Upon completion of steps 1 and 2 above, it may be possible to conclude whether the Proposed Transaction is 'fair' and/or 'reasonable' to Hot Rock shareholders. We note that under RG 111, the Proposed Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Proposed Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Proposed Transaction may not be 'fair' to the Hot Rock shareholders.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or other advice in relation to the Proposed Transaction. Other advisors have provided advice on those matters to Hot Rock in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

5.0 Overview of Hot Rock

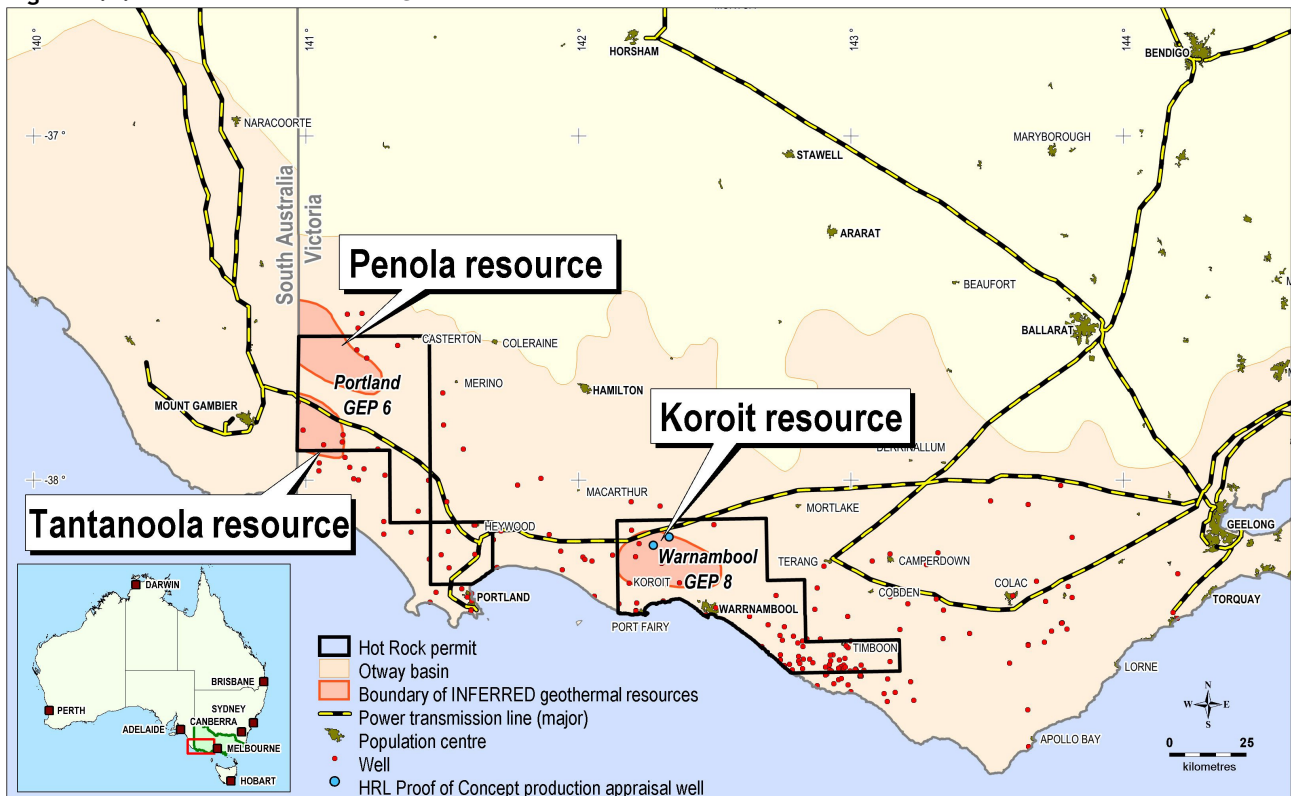
5.1 Hot Rock Company Description

Hot Rock is an Australian listed company involved in the identification and acquisition of Australian geothermal resources with the intent to develop and operate its assets to produce clean base load power. The Company currently holds two GEPs (GEP 6 and GEP 8) in the Otway Sedimentary Basin in Victoria which expire on 13 December 2018. Hot Rock’s work program for the GEPs include targeting high flow rate, hot water areas in fractured sedimentary aquifers, re-interpreting 2D seismic data, completing 3D seismic surveys, drilling and testing.

We note that during May 2014, the Victorian Government announced that all work plan approvals for onshore gas exploration would be placed on hold. As a result, as at the date of this Report Hot Rock is unable to pursue drilling programs on its GEPs.

Figure 5.1 below shows the location of Hot Rock’s GEPs.

Figure 5.1: Location of Hot Rock’s GEPs



Source: Hot Rock company website

5.2 Hot Rock Board of Directors

Table 5.1 below summarises the names and positions of the board of directors of Hot Rock.

Table 5.1: Hot Rock's Board of Directors

Name	Position
Dr Stanley Mark Elliott	Chairman
Mr Peter Rodney Barnett	Non-Executive Director
Mr Michael John Sandy	Non-Executive Director

Source: Hot Rock company website

5.3 Hot Rock Equity Structure

5.3.1 Securities Outstanding

Hot Rock is listed on the ASX under the symbol HRL. As at 15 July 2014, Hot Rock had the following securities outstanding:

- 345,427,767 ordinary shares; and
- 21,000,000 unlisted options with an exercise price of \$0.04 per option and expiring on 30 November 2015.

Table 5.2 below sets out the ownership interests of the top 10 shareholders of Hot Rock as at 15 July 2014.

Table 5.2: Top 10 Shareholders of Hot Rock as at 15 July 2014

Shareholder	Number of Shares Held	Ownership Interest
1 Elliott Nominees Pty Ltd	23,365,782	6.76%
2 Scintilla Strategic Investments Limited	15,355,000	4.44%
3 Bizzell Nominees Pty Ltd	11,988,472	3.47%
4 Lorraine Jean Zillman	11,100,000	3.21%
5 Barjaye Pty Ltd	10,376,220	3.00%
6 Downshire Investments Pty Ltd	8,021,059	2.32%
7 Mr Russell Neil Creagh	7,950,000	2.30%
8 N J Zillman & L J Zillman	7,933,333	2.30%
9 Leet Investments Pty Ltd	7,500,000	2.17%
10 P R Barnett & A B Barnett & M K Barnett	7,300,000	2.11%
Other shareholders	234,557,901	67.90%
Total shares on issue	345,427,767	100.00%

Source: Hot Rock share register as at 15 July 2014

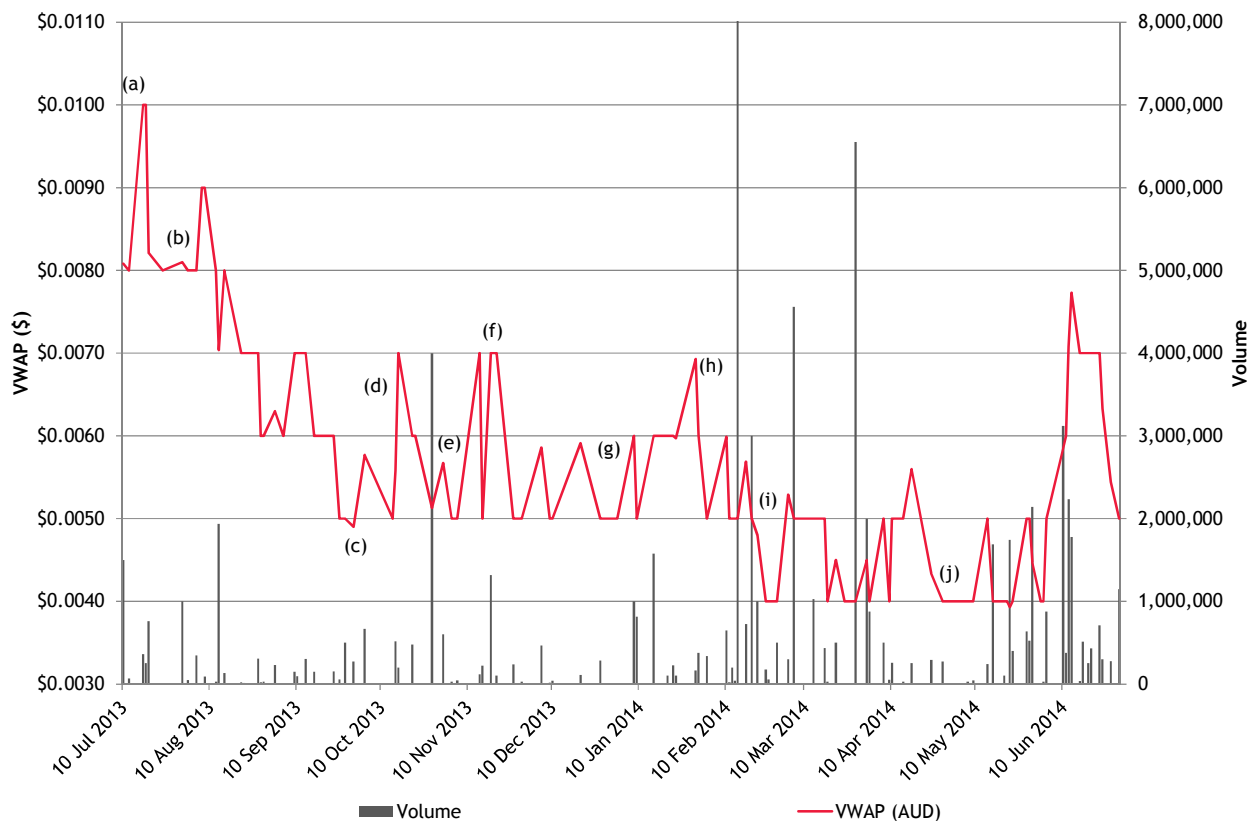
5.3.2 The Proposed Rights Issue

Immediately prior to the Proposed Transaction, Hot Rock will undertake the Proposed Rights Issue to raise up to \$0.52 million at \$0.006 per share. The number of ordinary shares which will be on issue in Hot Rock following the Proposed Rights Issue will be dependent on the extent to which eligible Hot Rock shareholders subscribe to the Proposed Rights Issue. We note that the Proposed Rights Issue is not underwritten and while the Proposed Transaction is conditional on the Proposed Rights Issue, there is no condition based on the amount raised under the Proposed Rights Issue (i.e. even if no money is raised under the Proposed Rights Issue, the Proposed Transaction can still proceed).

5.4 Hot Rock Share Market Performance

Figure 5.2 below shows the daily volume weighted average price ('VWAP') and daily volume of Hot Rock shares traded on the ASX over the period from 5 July 2013 to 4 July 2014 inclusive.

Figure 5.2: VWAP and Volume of Hot Rock Shares Traded from 5 July 2013 to 4 July 2014



Source: Capital IQ as at 7 July 2014

Over the period graphed in Figure 5.2 above, Hot Rock's daily VWAP shows a low of \$0.004 on various dates over the period and a period high of \$0.01 on 17 July 2013.

In addition to the share price and volume data of Hot Rock shown above, we have also provided additional information in Table 5.3 below to assist readers to understand the possible reasons for movements in Hot Rock's share price over the period analysed. The ASX announcement references in Table 5.3 below correspond to those displayed in Figure 5.2 above.

Table 5.3: Hot Rock ASX Announcement between 5 July 2013 and 4 July 2014

	Date	Announcement
(a)	15 Jul 2013	Hot Rock announces the results of a nationwide geothermal power development plan for Peru completed by Japan International Cooperation Agency ('JICA'). As part of the plan, JICA ranked nine of the most promising geothermal fields based on geological, geochemical and resource studies as having considerable early development potential for private development. Of these nine fields, Hot Rock had three out of the top four listed in the JICA report.
(b)	30 Jul 2013	Hot Rock released its quarterly activities and cash flow reports for the period ended 30 June 2013. In the reports, the Company announced the commencement of a strategic review of the Company and its projects. It was stated that the strategic plan may include potential options for a restructuring, cost cutting and a refocusing program for the Company's projects which may include sale or other disposal of projects held at the time.
(c)	30 Sep 2013	Hot Rock released its annual report for the year ended 30 June 2013. The Company reported a net loss of approximately \$7.6 million for the period. Refer to Section 5.7 for more information relating to the financial performance of Hot Rock over the period.
(d)	15 Oct 2013	Hot Rock announced that, with its joint venture partner Energy Development Cooperation, it had signed a binding letter of offer for the potential sale of the Company's stake in the Quellaapacheta Project and for some or all of Hot Rock's remaining Chilean and Peruvian assets along with the drill casing owned by the Company.
(e)	31 Oct 2013	Hot Rock released its quarterly activities and cash flow reports for the period ended 30 September 2013. In the reports, the Company reiterated its strategic review and provided an update on the Company's position in relation to the sale of its South American assets.
(f)	18 Nov 2013	Hot Rock announced that it had signed a sale agreement in relation to the sale of most of the Company's South American assets for total consideration of US\$3.0 million, with US\$0.5 million to be paid upfront and the remaining US\$2.5 million upon completion.
(g)	7 Jan 2014	Hot Rock announced that it had successfully completed the sale of the majority of its South American Geothermal Projects to Energy Development Corporation with the remaining US\$2.5 million of the total contract price of US\$3.0 paid in full.
(h)	31 Jan 2014	Hot Rock released its quarterly activities and cash flow reports for the period ended 31 December 2013. Highlights from the period included the completed sale of most of the South American Geothermal Projects, discussions in relation to the sale of the Company's wellheads located at Koroit, renewal of the geothermal tenements in Otway Basin and implementation of cost reduction measures.
(i)	3 Mar 2014	Hot Rock released its half yearly report for the period ended 31 December 2013. Hot Rock reported a profit of approximately \$2.2 million over the period, resulting primarily from the recognised gain on the sale of subsidiaries and equity accounted investment.
(j)	30 Apr 2014	Hot Rock released its quarterly activities and cash flow reports for the period ended 31 March 2014. Highlights for the quarter include the company's refocusing of exploration activities in the Otway Basin geothermal projects and the ongoing evaluation of joint venture and acquisition opportunities.

Source: Hot Rock ASX Announcements

In Table 5.4 below we have set out the VWAP of Hot Rock shares traded on the ASX for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 4 July 2014.

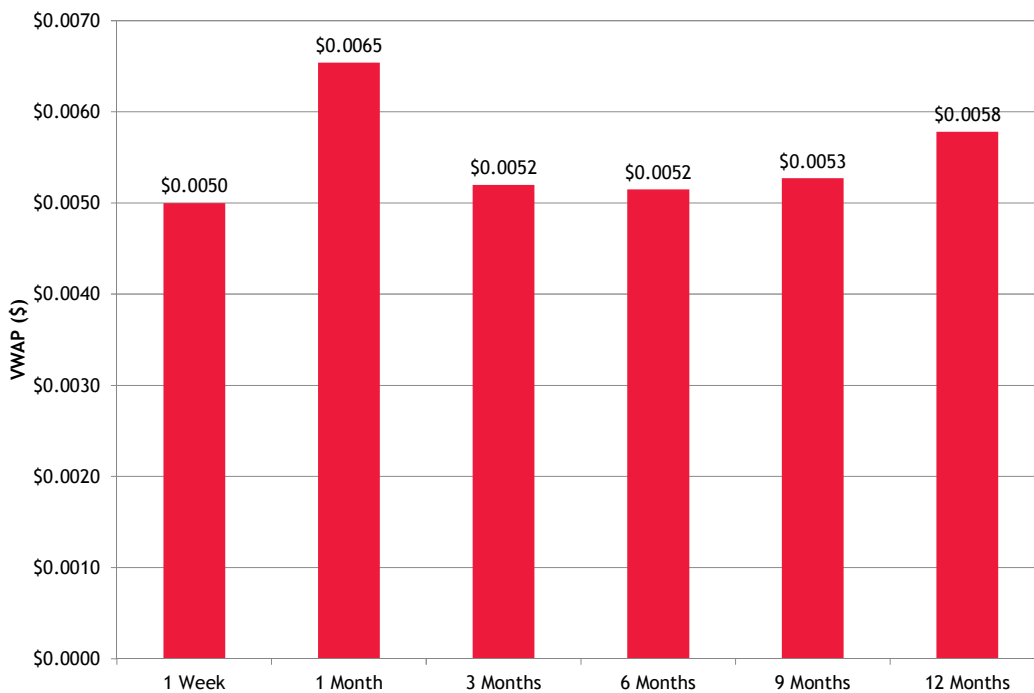
Table 5.4: Hot Rock’s VWAP for Specified Periods Prior to 4 July 2014

VWAP Period	Prior to 4 July 2014
1 week	\$0.0050
1 month	\$0.0065
3 months	\$0.0052
6 months	\$0.0052
9 months	\$0.0053
12 months	\$0.0058

Source: Capital IQ as at 7 July 2014

The information presented in Table 5.4 above is shown graphically in Figure 5.3 below.

Figure 5.3: Hot Rock’s VWAP for Specified Periods Prior to 4 July 2014



Source: Capital IQ as at 7 July 2014

5.5 Liquidity of Hot Rock Shares on the ASX

The rate at which equity instruments are traded is generally referred to as the ‘liquidity’ of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.5 below summarises the monthly liquidity of Hot Rock shares from July 2013 to June 2014. Liquidity has been summarised by considering the following:

- Volume of Hot Rock share trades per month;

- Value of total trades in Hot Rock shares per month;
- Volume weighted average price per month; and
- Number of shares traded per month as a percentage of total shares outstanding at the end of the month.

Table 5.5: Liquidity of Hot Rock Shares on the ASX

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
June 2014	12,079,500	\$80,090	345,427,770	3.50%	\$0.0066
May 2014	7,555,000	\$31,640	345,427,770	2.19%	\$0.0042
April 2014	4,521,210	\$19,120	345,427,770	1.31%	\$0.0042
March 2014	13,409,640	\$60,260	345,427,770	3.88%	\$0.0045
February 2014	21,195,570	\$104,900	345,427,770	6.14%	\$0.0049
January 2014	4,364,850	\$25,380	345,427,770	1.26%	\$0.0058
December 2013	916,340	\$4,590	345,427,770	0.27%	\$0.0050
November 2013	2,687,960	\$16,510	345,427,770	0.78%	\$0.0061
October 2013	5,872,770	\$30,240	345,427,770	1.70%	\$0.0051
September 2013	1,911,590	\$11,440	345,427,770	0.55%	\$0.0060
August 2013	2,992,700	\$21,640	345,427,770	0.87%	\$0.0072
July 2013	4,205,860	\$35,410	345,427,770	1.22%	\$0.0084
Total	81,712,990	\$441,220	345,427,770	23.66%	\$0.0054

Source: Capital IQ as at 7 July 2014

With 345,427,770 Hot Rock shares on issue over the period, approximately 23.66% of total shares on issue were traded over the twelve month period to June 2014. In our view, this indicates that Hot Rock shares display a relatively low level of liquidity.

5.6 Hot Rock Historical Financial Information

This section sets out the historical financial information of Hot Rock and its consolidated entities. As this Report contains only summarised historical financial information, we recommend that any users of this Report read and understand the additional notes and financial information contained in the full statements of comprehensive income, statements of financial position and statements of cash flows for Hot Rock.

Hot Rock's financial statements for the years ended 30 June 2012 and 30 June 2013 were audited by Crowe Horwath Brisbane. Hot Rock's financial statements for the 12 months ended 30 June 2014 were audited by BDO Audit Pty Ltd. BDO CFQ has not performed an audit or review of any type on the historical financial information of Hot Rock. We make no statement as to the accuracy of the information provided however, we have no reason to believe that the information is false or misleading.

5.7.1 Comprehensive Income

The consolidated statements of comprehensive income for Hot Rock for the 12 month periods ended 30 June 2012, 2013 and 2014 are summarised in Table 5.6 below.

Table 5.6: Hot Rock Statement of Comprehensive Income

	Year Ended 30 June 2012 Audited \$	Year Ended 30 June 2013 Audited \$	Year Ended 30 June 2014 Audited \$
Revenue	34,244	13,337	20,858
Gain on disposal of geothermal equipment	-	-	347,350
Employment and consultancy expenses	(1,018,218)	(1,024,102)	(606,281)
Depreciation and amortisation	(64,753)	(14,446)	(2,217)
Exploration costs expensed	(65,123)	-	-
Finance costs	(3,730)	(86)	-
Impairment of exploration expenditure	(108,927)	(3,912,271)	-
Administration expenses	(1,021,611)	(496,707)	(283,613)
Total expenses	(2,282,362)	(5,447,612)	(892,111)
Loss before income tax	(2,248,118)	(5,434,275)	(523,903)
Income tax benefit	164,000	-	-
Profit/(loss) from discontinued operations	-	(2,262,212)	2,671,728
Profit/(loss) after income tax	(2,084,118)	(7,696,487)	2,147,825
Other comprehensive income			
Foreign currency translation differences	(48,710)	107,611	34,891
Total comprehensive income	(2,132,828)	(7,588,876)	2,182,716

Source: Hot Rock 2012, 2013 and 2014 Annual Reports

In relation to the comprehensive income of Hot Rock set out in Table 5.6 above we note the following:

- Revenue received for each of the three years represents interest income on the Company's cash deposits;
- The gain on disposal of geothermal equipment in 2014 relates to the sale of the Company's drill casing and high pressure well to an overseas geothermal company. We understand that the wellheads and casing were surplus to the Company's needs and were previously impaired to a value of nil;
- The employment and consultancy expenses decreased in 2014 as a result of the Company's strategic plan, including various cost cutting measures;
- During the 2013 year, the Company failed to receive sufficient interest for funding or from joint venture partners to warrant further exploration on a number of its projects. As a result, the directors of Hot Rock resolved to impair these projects to nil. In addition the Company did not apply for renewal on GEP 23, GEP 9 and GEP 7, prospects located in the Otway Basin, Victoria;
- As noted in Table 5.3 above, during 2014 Hot Rock successfully completed the sale of most of its South American Projects. As these projects had been impaired to nil in the 2013 year, upon sale the Company realised a profit from discontinued operations of approximately \$2.7 million.

5.7.2 Financial Position

The consolidated statements of financial position of Hot Rock as at 30 June 2012, 2013 and 2014 are summarised in Table 5.7 below.

Table 5.7: Hot Rock Statement of Financial Position

	As at 30 June 2012 Audited \$	As at 30 June 2013 Audited \$	As at 30 June 2014 Audited \$
Current Assets			
Cash and cash equivalents	59,807	179,770	1,587,263
Trade and other receivables	35,926	8,534	25,181
Other current assets	24,678	15,298	11,559
Total current assets	120,411	203,602	1,624,003
Non-Current Assets			
Trade and other receivables	75,136	52,198	30,500
Equity accounted investments	1	197,619	-
Plant and equipment	62,542	3,629	1,412
Exploration expenditure	5,299,777	-	-
Total non-current assets	5,437,456	253,446	31,912
Total assets	5,557,867	457,048	1,655,915
Current Liabilities			
Trade and other payables	132,735	826,327	29,806
Interest bearing liabilities	5,509	-	-
Short-term provisions	151,018	187,328	-
Total current liabilities	289,262	1,013,655	29,806
Total liabilities	289,262	1,013,655	29,806
Net assets	5,268,605	(556,607)	1,626,109
Equity			
Issued capital	12,700,722	14,298,986	14,298,986
Reserves	890,326	1,163,337	165,400
Accumulated losses	(8,322,443)	(16,018,930)	(12,838,277)
Total equity	5,268,605	(556,607)	1,626,109

Source: Hot Rock 2012, 2013 and 2014 Annual Reports

In relation to the financial position of Hot Rock set out in Table 5.7 above we note the following:

- Hot Rock's cash balance increased in 2014 as a result of the cash received upon the sale of the Company's South American geothermal projects;
- During 2013 Hot Rock impaired its capitalised exploration expenditure to nil following the Company's failed attempts to receive funding or any other sufficient interest from joint venture partners to warrant further exploration on a number of its projects; and
- During 2013 Hot Rock completed the following share issues:

- Share placement - 2,000,000 shares at a price of \$0.015 per share;
- Rights issue - 97,578,418 shares at a price of \$0.015 per share; and
- Directors' and Management Fee Plan - 13,814,134 shares at \$0.0144 per share.¹

5.7.3 Cash Flows

The consolidated statements of cash flows of Hot Rock for the 12 month periods ended 30 June 2012, 2013 and 2014 are summarised in Table 5.8 below.

Table 5.8: Hot Rock Statement of Cash flow

	Year Ended 30 June 2012 Audited \$	Year Ended 30 June 2013 Audited \$	Year Ended 30 June 2014 Audited \$
Cash flows from Operating Activities			
Payments to suppliers and employees	(1,942,451)	(824,890)	(1,373,478)
Interest received	32,164	5,695	19,086
Finance costs	(3,730)	(86)	-
Income tax benefit received	164,000	-	-
Operating cash flows from discontinued operations	-	(674,219)	(645,858)
Net cash flows from operating activities	(1,750,017)	(1,493,500)	(2,000,250)
Cash Flows from Investing Activities			
Proceeds from the sale of plant and equipment	-	20,000	-
Refund of security deposits	-	23,783	9,500
Proceeds from the sale of geothermal equipment	-	-	347,350
Payments for plant and equipment	(31,518)	-	-
Payments for exploration and evaluation assets	(756,436)	(82,935)	-
Investing cash flows from discontinued operations	-	236,777	3,119,777
Net cash flows from investing activities	(787,954)	197,625	3,476,627
Cash Flows from Financing Activities			
Proceeds from the issue of shares	1,894,140	1,463,676	-
Capital raising expenses	(104,304)	(93,899)	-
Proceeds from borrowings	25,000	310,000	260,366
Repayment of borrowings	(54,073)	(280,508)	(320,366)
Net cash flows from financing activities	1,760,763	1,399,269	(60,000)
Net increase/(decrease) in cash and cash equivalents	(777,208)	103,394	1,416,377
Net foreign exchange differences	(51,797)	16,569	(8,884)
Cash and cash equivalents at the beginning of the period	888,812	59,807	179,770
Cash and cash equivalents at the end of the period	59,807	179,770	1,587,263

Source: Hot Rock 2012, 2013 and 2014 Annual Reports

In relation to the cash flows of Hot Rock set out in Table 5.8 above we note the following:

¹ Under the Directors' and Management Fee Plan, directors and management may elect to receive up to 50 percent of their remuneration in Hot Rock ordinary shares. The shares are issued quarterly at the volume weighted average price over the three months prior to issue.

- Operating and investing cash flows from discontinued operations relates to the Company's South American projects which were sold in FY2014;
- During 2012 Hot Rock raised share capital from the following share issues:
 - Share placement - 33,600,000 shares at a price of \$0.025 per share; and
 - Share purchase plan - 42,165,600 shares at a price of \$0.025 per share; and
- During 2013 Hot Rock raised share capital from following share issues:
 - Share placement - 2,000,000 shares at a price of \$0.015 per share; and
 - Rights issue - 97,578,418 shares at a price of \$0.015 per share.

6.0 Overview of OCT

6.1 OCT Company Description

OCT is an Australian consulting group which specialises in environmental and occupational compliance and the management of associated risks. The company offers a broad range of services to public and private sector organisations throughout Australia. Table 6.1 below summarises the key services provided by OCT.

Table 6.1: OCT Service Offering

Service	Description
Asbestos and hazardous materials	Provides asbestos and hazardous materials testing, site management, auditing and surveying, exposure assessment, NATA accredited analysis, fibre counting, asset management and clearance inspections.
Occupational and industrial hygiene	Provides occupational exposure assessment, program development and site monitoring, reviews of exposure standards and site hazards, risk assessment and management, assessment of workplace stressors and risk communication.
Asbestos and environmental laboratory	Provides laboratory and on-site testing services including water, air, soil, microbiological, gas, volatile organic compounds, odours, stack emissions, landfill emissions, workplace contaminants, hazardous materials, asbestos and silica.
NABERS ratings for buildings	OCT has a number of National Australian Built Environment Rating System ('NABERS') accredited assessors who provide assessment ratings for Australian buildings, tenancies and homes.
Environmental consulting and management	Provides a number of services including environmental monitoring of air, soil, water, noise and dust, as well as environmental site management, construction management, environmental management systems and project management.

Source: OCT company website

OCT is a wholly owned subsidiary of Integrated Holdings Group Pty Ltd ('Integrated'). OCT was registered on 15 May 2013 and on 7 June 2013 acquired the OCT business from Octief Consulting & Laboratory Services Pty Ltd ('OCLS'). At the time of the transaction, we understand OCLS was operating under a Deed of Company Arrangement with administrators appointed, due to the poor performance of other businesses operating within OCLS.

We note that Octoflio Pty Ltd, another wholly owned subsidiary of Integrated, owns an asbestos information management platform software package that is used by OCT customers. We understand however that the core business operations of OCT are not reliant on the use of the Octfolio software.

The Proposed Transaction relates to the acquisition of Octief Pty Ltd only.

6.2 OCT Historical Financial Information

This section sets out the historical financial information of OCT. With reference to the information set out in Section 6.1 above, we note that OCT was established and commenced its business operations in its current form on 15 May 2013. As such, historical financial information for OCT is available only for the year ended 30 June 2014.

While prior period financial information is available for OCLS (the entity which previously operated the OCT business), in our view this information is not representative of the current financial and operational position of OCT for reasons which include the following:

- OCLS had operations other than those currently undertaken by OCT, including the business of developing the Octofolio software package currently held by Octfolio Pty Ltd;
- We have made enquiries of management of OCT and understand that the poor financial performance of OCLS resulted from company activities outside of its core offering (i.e. services other than direct environmental consulting and asbestos auditing). We understand that business operations other than the OCT business were not operated profitably and significantly negatively impacted the financial results and position of OCLS;
- We have been instructed that the historical financial statements for OCLS were not prepared on an operating segment basis and that financial statements for only the OCT business are not available.

Having regard to the above, we have not included the prior period information in this Report (other than the information relating to the 2014 financial year).

OCT's financial statements for the period starting 15 May 2013 and ended 30 June 2014 have been audited by BDO Audit Pty Ltd. BDO CFQ has not performed an audit or review of any type on the historical financial information of OCT. We make no statement as to the accuracy of the information provided, however we have no reason to believe that the information is false or misleading.

6.2.1 Profit and Loss

The consolidated statement of profit and loss for OCT for the period commencing 15 May 2013 and ended 30 June 2014 is summarised in Table 6.2 below.

Table 6.2: OCT Statement of Profit and Loss

	15 May 2013 to 30 June 2014 Audited \$
Revenue	4,871,400
Other income	2,379
Employee benefits expense	(2,020,802)
Raw materials and consumables used	(286,211)
Other expenses	(893,642)
Legal settlement costs	(283,113)
Transaction costs on business combination	(126,440)
Gain on loan forgiveness - Integrated	670,068
Gain on bargain purchase	128,950
Loss on sale of property, plant and equipment	(6,443)
Depreciation	(221,888)
Net interest income/(expense)	(26,311)
Profit before tax	1,807,947

Source: OTC financial statements

With reference to Table 6.2 above, we note the following:

- OCT had revenues of approximately \$4.87 million and generated a pre-tax profit of approximately \$1.81 million;

- Legal settlement costs and transaction costs on business combination relate to OCT's purchase of the OCT assets and business from OCLS;
- The financial information presented in Table 6.2 does not include certain management remuneration and associated costs. We have been instructed that these expenses were paid out of other entities in the Integrated Group, and totalled approximately \$0.15 million in FY2014; and
- We understand that OCT has a property rental agreement with a related party. We have made enquiries of management of OCT, reviewed the terms of the rental agreement and conducted our own research, and understand that the rental agreement is on commercial terms.

6.2.2 Financial Position

The consolidated statement of financial position for OCT as at 30 June 2014 is summarised in Table 6.3 below.

Table 6.3: OCT Statement of Financial Position

	As at 30 June 2014 Audited \$
Current Assets	
Cash and cash equivalents	8,049
Trade and other receivables	659,049
Other current assets	39,050
Total current assets	706,148
Non-Current Assets	
Plant and equipment	185,431
Deferred tax asset	52,016
Intangibles	382,870
Total non-current assets	620,317
Total assets	1,326,465
Current Liabilities	
Trade and other payables	513,129
Provisions	47,120
Total current liabilities	560,249
Total liabilities	560,249
Net assets	766,216
Equity	
Issued capital	1
Retained earnings	766,215
Total equity	766,216

Source: OCT financial statements

With reference to Table 6.3 above, we note the following:

- As at 30 June 2014, OCT was in a net asset position of approximately \$0.77 million; and

- Reported intangible assets relate to customer contracts, licenses and accreditations and other intangibles.

6.3 OCT Forecast Statement of Profit and Loss

We have been provided with a budget statement of profit and loss for OCT for the period ending 30 June 2015. The budget has been prepared by, and is the responsibility of, the Directors of OCT. We understand that the budget is the Directors' current estimate of the future performance of OCT at the current time.

We understand that the Directors consider the financial information relating to financial year ('FY') 2015 to be a forecast rather than a projection in that the results represent the Directors best estimates of performance in FY2015 and, in their view, the forecast does not adopt assumptions which might be considered to be hypothetical.

Forecasts are, by their very nature, inherently uncertain. BDO CFQ does not provide any opinion or assurance that the results in the budget, based on the assumptions utilised, will be achieved. We have not reviewed or audited the financial information as defined by the Australian Accounting Standards or Australian Auditing Standards.

We note that many of the assumptions adopted in the budget are subjective and, given the volatility of current markets, some or many of the assumptions applied as at the date of this Report may be subject to material change in short periods of time.

The budgeted statement of profit and loss for OCT for the year ending 30 June 2015 is summarised in Table 6.4 below.

Table 6.4: OCT Budgeted Statement of Profit and Loss for the Year Ending 30 June 2015

	Year Ending 30 June 2015 Budget \$
Revenue	5,099,433
Employee benefits expense	(2,053,617)
Raw materials and consumables used	(240,000)
Accreditation expenses	(24,000)
Insurance	(96,000)
Legal fees	(12,000)
Motor vehicles	(92,400)
Administration	(18,000)
Rent	(206,300)
Staff amenities	(53,082)
Telephones	(84,000)
Travel	(96,000)
Corporate costs (including management remuneration)	(300,000)
Other	(308,473)
EBITDA	1,515,561

Source: OTC directors and management

With reference to Table 6.4 above we note the following:

- The directors of OCT have budgeted OCT's FY2015 revenues to be approximately \$5.1 million, representing growth of approximately 11.6% from actual FY2014 revenues (refer to Table 6.2);
- FY2015 operating expenses are assumed to increase to approximately \$1.29 million from \$0.87 million in FY2014. The increase in operating expenses is due primarily to corporate costs (including management remuneration and associated costs) which were not included in the FY2014 financial statements of OCT; and
- OCT FY2015 budgeted EBITDA is approximately \$1.52 million.

7.0 Overview of the Combined Entity

7.1 Company Overview

Following the Proposed Transaction the Combined Entity will comprise of the business operations of Hot Rock and OCT. The Combined Entity will continue to be named Hot Rock Limited and will be listed on the ASX under the symbol HRL. The nature of the Combined Entity's business operations will be consistent with those of OCT, however the Combined Entity will also continue the exploration and development of geothermal projects if assessed by the Combined Entity as commercially feasible.

Refer to Sections 5 and 6 of this Report for more detailed information in relation to the Hot Rock and OCT business operations which will be consolidated in the Combined Entity following the Proposed Transaction.

7.2 Board of Directors

Under the terms of the Proposed Transaction, one director of Hot Rock will resign and two new directors will be appointed by OCT. Table 7.1 below sets out the name and position titles of the proposed board of directors of the Combined Entity.

Table 7.1: The Combined Entity Board of Directors

Name	Position
Mr Kevin Maloney	Non-Executive Chairman
Dr Stanley Mark Elliott	Non-Executive Director
Mr Peter Rodney Barnett	Non-Executive Director
Mr Darren Anderson	Executive Director

Source: Notice of Meeting and Explanatory Memorandum

8.0 Valuation of Hot Rock Prior to the Proposed Transaction

This section sets out our valuation of Hot Rock shares prior to the Proposed Transaction and is set out as follows:

- Section 8.1 sets out our view of the most appropriate methodology to value each Hot Rock share;
- Section 8.2 sets out our calculation of the value of each Hot Rock share using the asset based valuation methodology;
- Section 8.3 sets out our calculation of the value of each Hot Rock share using the market based valuation methodology; and
- Section 8.3 sets out our view on the most appropriate value per Hot Rock share prior to the Proposed Transaction to adopt for the purpose of assessing the fairness of the Proposed Transaction.

8.1 Valuation Approach

Table 8.1 below summarises our view of the most appropriate valuation methodology to apply when calculating the value of Hot Rock shares. A summary of each of the valuation methodologies listed in Table 8.1 is contained in Appendix C of this Report.

Table 8.1: Common Valuation Methodologies

Methodology	Appropriate?	Explanation
Discounted cash flow ('DCF')	✓ Incorporated in ABV analysis	The DCF valuation methodology requires projections of the forecast earnings of the Company. We understand that the Directors of Hot Rock have prepared a financial model which sets out forecast earnings of the Company's assets. Jacobs Group (Australia) Pty Ltd has prepared a DCF valuation using the projected cash flows in the financial model to assist with determining an appropriate value for GEP 6 and GEP 8. We have considered Jacob's DCF valuation in completing our ABV of Hot Rock prior to the Proposed Transaction.
Capitalisation of maintainable earnings ('CME')	✗	Hot Rock does not currently have a maintainable earnings stream suitable for consideration in a CME valuation methodology. We are of the view that there are more appropriate valuation methodologies than the CME valuation methodology which can be adopted for the purposes of valuing Hot Rock in this Report.
Asset based valuation ('ABV')	✓	In our view, it is appropriate to have regard to an asset based valuation methodology for the purposes of valuing Hot Rock in this Report. The assets of Hot Rock can be identified and it is possible to determine the fair value of those identifiable assets with a reasonable degree of accuracy.

Methodology	Appropriate?	Explanation
Market based valuation ('MBV')	✓ Cross-check	<p>The shares of Hot Rock are listed on the ASX. It is possible to cross-check the valuation of Hot Rock using the market based valuation methodology as there is a readily observable market for the trading of shares in Hot Rock (refer to Section 5.4). We note that the MBV provides a valuation of Hot Rock shares on a minority interest basis.</p> <p>For completeness, we note that a significant amount of time has passed since Hot Rock raised a material amount of capital. The last significant raising was the Rights Offer (and associated shortfall provision) which closed on 31 August 2012, raising \$1,463,000 at \$0.015 per share for a total of 97,578,418 shares (or 42% of the shares on issue prior to the raising).²</p> <p>Information relating to more recent trading data is available and has been referred to in this Report (refer to Section 5.4).</p> <p>In our view, it is appropriate to have regard to the market based valuation methodology as a cross-check to our asset based valuation methodology in this Report.</p>

Source: BDO CFQ analysis

Having regard to the above, we are of the view that it is appropriate to value Hot Rock using an ABV methodology with a MBV methodology as a crosscheck.

8.2 Asset Based Valuation of Hot Rock

In order to complete an asset based valuation of Hot Rock we have had regard to the value of Hot Rock's assets and liabilities as set out in the Company's statement of financial position as at 30 June 2014 and the value of Hot Rock's GEPs as determined by Hot Dry Rocks Pty Ltd and Jacobs Group (Australia) Pty Ltd. BDO CFQ has not performed any audit or review work on the historical financial information of Hot Rock. Accordingly, we make no statement as to the accuracy of the information provided however, we have no reason to believe that the information is false or misleading.

The key elements of our asset based valuation can be broadly summarised as follows:

- The value of Hot Rock's geothermal exploration permits (refer to Section 8.2.1 below); and
- The value of Hot Rock's other assets and liabilities including cash, trade and other receivables, plant and equipment, trade and other payables and current provisions (refer to Section 8.2.2 below).

² We note that shares were most recently issued as part of a redundancy package and in lieu of fees for Directors and management between October 2012 and March 2013 (as announced on 4 April 2013). These shares totalled 13,814,134 (approximately 4% of the shares on issue at the time). The value determined for the shares issued was between \$0.0132 and \$0.01587 per share.

8.2.1 Value of the Geothermal Exploration Permits

We have engaged Hot Dry Rocks Pty Ltd to assist with a technical valuation of GEP 6 and GEP 8 for consideration in this Report. Hot Dry Rocks is a geothermal consulting firm which provides advice on hydrothermal, enhanced geothermal systems and hot sedimentary aquifers. Hot Dry Rocks has prepared a report titled “GEP 6 & 8 Independent Expert Report” dated 27 July 2014 (‘the Hot Dry Rocks Report’). We understand that in the preparation of the Hot Dry Rocks Report every effort has been made to comply with the Valmin Code (2005).³ Notwithstanding this, we note that the Hot Dry Rocks Report states “geothermal exploration permits are neither Mineral nor petroleum assets, and as such are not strictly governed by the Valmin Code.”

The Hot Dry Rocks Report considers the valuation of Hot Rock’s GEPs set out in a report prepared by Jacobs Group (Australia) Pty Ltd titled “Geothermal Exploration Permit Review GEP6 & GEP8” dated 25 July 2014 (‘the Jacobs Report’). Jacobs is a specialist firm which provides a range of services including fair value estimation across a broad range of asset classes including energy exploration tenements. Jacobs was engaged by Hot Rocks to prepare the Jacobs Report which sets out Jacob’s view on the fair market value of GEP 6 and GEP 8.

The Hot Dry Rocks Report and the Jacobs Report set out their views on the fair market value of GEP 6 and GEP 8. Fair market value has been defined as the price that the projects would change hands in an unrestricted market between a willing buyer and a willing seller in an arm’s length transaction with each party acting with full information, prudently and without compulsion.

We are of the view that it is appropriate for us to refer to the Hot Dry Rocks Report and the Jacobs Report when determining an appropriate value for the GEPs held by Hot Rock. The Hot Dry Rocks Report is attached as Appendix F of this Report (the Jacobs Report is attached as an appendix to the Hot Dry Rocks Report).

The Hot Dry Rocks Report determines the fair market value of GEP 6 and GEP 8 having regard to the use of the GEPs as either power generation assets or for direct use thermal power. In order to determine the value of the GEPs as power generation assets, the Hot Dry Rocks Report refers to the discounted cash flow valuation of the GEPs set out in the Jacobs Report, which assumes the drilling of production and injection wells, the installation of steam field equipment, and the construction and subsequent operation of a power station with a nameplate rating of 65 megawatts (‘MW’). We note that the discounted cash flow valuation of the GEPs prepared by Jacobs relies on a financial model provided by the Directors of Hot Rock.

As set out in both the Jacobs Report and the Hot Dry Rocks Report, based on a DCF valuation of the GEPs being developed as power generation assets, the value of the GEPs is considered to be nil for the following reasons:

- Jacobs analysed a number of scenarios in its DCF valuation of the GEPs and under all scenarios calculated a negative net present value (i.e. negative value for the GEPs);

³ The Valmin Code (2005) provides a set of fundamental principles and supporting recommendations regarding good professional practice to assist those involved in the preparation of independent expert reports that are public and required for the assessment of mineral and petroleum assets and securities.

- The project economics are not attractive to investors under the current and foreseeable energy policy in Australia (including renewable energy policy). This is substantiated by the fact that, as advised by Hot Rock, the Company has been unable to secure funding for its Otway Basin geothermal projects; and
- An ongoing commitment exists from an ownership of the GEPs associated with the permit holder to continue the exploration of the tenements. It is noted however that the GEPs may be relinquished at any time for nil cost which would reduce the commitment of ownership to nil.

Hot Dry Rocks also considered the value of the GEPs assuming their potential for direct use geothermal energy. Based on a hypothetical scenario which assumes the development of a district heating and spa resort in the area of GEP 8, Hot Dry Rock calculates a nominal value for the GEPs. The Hot Dry Rocks Report notes that the direct use geothermal energy valuation is based on a hypothetical situation and that no potential acquirer and developer of the tenements has been identified as at the date of the Hot Dry Rocks Report.

Having regard to the valuations of the GEPs held by Hot Rocks set out in the Hot Dry Rocks Report and the Jacobs Report (summarised above), enquiries of management of Hot Rock and our own analysis in relation to the feasibility of the GEPs, in our view the value of the GEPs is nominal. For the purpose of the analysis set out in this Report, we have adopted a value for the GEPs in the range of nil to \$200,000.

8.2.2 Value of Hot Rock's Other Assets and Liabilities

As outlined above, we have been provided with Hot Rock's statement of financial position as at 30 June 2014 which sets out values of the Company's other assets and liabilities. In order to determine an appropriate value for Hot Rock's other assets and liabilities, we have considered the values set out in the Company's statement of financial position as at 30 June 2014 and have made enquiries of the Directors and management of Hot Rock in relation to any material adjustments required to be made to reflect the fair market value of these assets and liabilities for the purposes of this Report.

Having regard to the information provided to us by Hot Rock's management, we have made adjustments to the balances set out in Hot Rock's statement of financial position for the purpose of the analysis set out in this Report. We have made the following adjustments to the financial position of Hot Rock:

- Cash and cash equivalents - We have adjusted the value of cash and cash equivalents for cash which may be received from the Proposed Rights Issue and the costs incurred in undertaking the Proposed Rights Issue and the Proposed Transaction. We have adopted a 'low' and 'high' scenario as follows;
 - Low scenario - Hot Rock raises no cash under the Proposed Rights Issue and incurs \$0.2 million of costs to undertake the Proposed Rights Issue and the Proposed Transaction. Under the low scenario we have reduced the cash and cash equivalents of Hot Rock for transaction costs of \$0.2 million; and
 - High scenario - Hot Rock receives full subscriptions of \$0.52 million under the Proposed Rights Issue and incurs \$0.2 million of costs to undertake the Proposed Rights Issue and the Proposed Transaction. Under the high scenario we have increased the value of cash and cash equivalents by \$0.32 million, being \$0.52 million raised under the Proposed Rights Issue less transaction costs of \$0.2 million.

Table 8.3 below sets out our adopted valuation of Hot Rock's other assets and liabilities for the purposes of the valuation work set out in this Report.

Table 8.3: Adopted Valuation of Hot Rock's Other Net Assets (Liabilities)

	Low \$	High \$
Cash received from the Proposed Rights Issue	-	520,000
Transaction costs	(200,000)	(200,000)
Cash	1,587,263	1,587,263
Trade and other receivables	55,681	55,681
Trade and other payables	(29,806)	(29,806)
Other assets and liabilities	12,971	12,971
Adopted value of Hot Rock's other net assets (liabilities)	1,426,109	1,946,109

Source: Hot Rock 2014 Annual Report (set out in Section 5.7), Hot Rock Management and BDO CFQ Analysis

With reference to Table 8.3 above, we have calculated the value of Hot Rock's other assets and liabilities to be in the range of \$1.43 million to \$1.95 million.

8.2.3 Asset Based Value of Hot Rock on a Controlling Interest Basis

Table 8.4 below sets out our valuation of Hot Rock using the ABV methodology.

Table 8.4: Assets Based Valuation of Hot Rock

	Low \$	High \$
GEPs	-	200,000
Other net assets	1,426,109	1,946,109
Asset based value of Hot Rock	1,426,109	2,146,109
Number of shares on issue	345,427,767	432,094,434 ^(a)
Asset based value of Hot Rock on a per share basis	\$0.0041	\$0.0050

Source: BDO CFQ analysis

(a) We have assumed that approximately 432.1 million shares will be on issue being the sum of the 345.43 million shares on issue prior to the Proposed Rights Issue and the 86.7 million shares which could potentially be issued as part of the Proposed Rights Issue.

With reference to Table 8.4 above, the value of Hot Rock prior to the Proposed Transaction calculated using an ABV methodology is within the range of approximately \$1.43 million and \$2.15 million on a controlling interest basis. This valuation equates to a range of \$0.0041 to \$0.0050 per ordinary share on a controlling interest basis.

We have excluded the impact of Hot Rock's options on issue prior to the Proposed Transaction as the impact of these options is considered to be immaterial given that they have an exercise price of \$0.04 and are deeply 'out of the money'.

8.3 Market Based Valuation of a Share in Hot Rock Prior to the Proposed Transaction

This section sets out our market based valuation of Hot Rock and considers the Company's share trading performance over recent periods. In relation to Hot Rock's share market performance, we have considered a range of factors including:

- The VWAP of Hot Rock shares traded on the ASX for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 4 July 2014 ranged from \$0.0050 to \$0.0065. Section 5.4 of this Report sets out further information in relation to the trading of Hot Rock shares on the ASX;
- For a significant amount of time over the six month period prior to 7 July 2014, the daily VWAP of Hot Rock shares was within the range of \$0.0040 to \$0.0050 (refer to Figure 5.2);
- In our view, the market for Hot Rock shares exhibits a relatively low level of liquidity (refer to Section 5.5). The share trading information should therefore be interpreted with caution; and
- We note that the share trading information of Hot Rock’s shares currently observable on the ASX is quoted prior to the issue of any shares under the Proposed Rights Issue.

Having regard to the factors set out above, it is our view that the value of each Hot Rock ordinary share under a market based valuation methodology is in the range of \$0.0040 and \$0.0055 on a minority interest basis as at the date of this Report.

The value of Hot Rock determined directly above is calculated on a minority interest basis. We note that a minority interest in a company is generally regarded as being less valuable than that of a controlling interest as a controlling interest may provide the owner with the following:

- Control over the operating and financial decisions of the company;
- The right to set the strategic direction of the company;
- Control over the buying, selling and use of the company’s assets; and
- Control over appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. Empirical research suggests that control premiums are typically within the range of 20% to 40% which is consistent with recent transactions in Australia (refer to Appendix D for our control premium research).

To determine a controlling interest market based valuation, we consider it appropriate to adopt a control premium of 30% which is the mid-point of the range summarised above. Table 8.5 below summarises the market based valuation of a Hot Rock share prior to the Proposed Transaction on a controlling interest basis.

Table 8.5: Value per Hot Rock Share on a Controlling Interest Basis

	Low	High
Value per Hot Rock share on a minority interest basis	\$0.0040	\$0.0055
Control premium	30.0%	30.0%
Value per Hot Rock share on a controlling interest basis	\$0.0052	\$0.0072

Source: BDO CFQ analysis

With reference to Table 8.5 above, the value of Hot Rock prior to the Proposed Transaction calculated using a MBV methodology is within the range of approximately \$0.0052 and \$0.0072 per share on a controlling interest basis.

8.4 The Proposed Rights Issue

As discussed in Sections 3 and 5.3 of this Report, Hot Rock will seek to raise up to \$0.52 million (approximately \$0.5 million net of costs) via the Proposed Rights Issue immediately prior to the Proposed Transaction. In relation to the Proposed Rights Issue, we have considered a range of factors including:

- The Proposed Rights Issue will seek to raise \$0.52 million at an issue price of \$0.006 per share and will be undertaken immediately prior to the Proposed Transaction. The Proposed Rights Issue will not be underwritten and there will be no minimum subscription amount;
- The Proposed Rights Issue is not conditional on the approval of the Proposed Transaction. That is, irrespective of whether or not the Proposed Transaction is approved, Hot Rock will undertake the Proposed Rights Issue;
- The Proposed Transaction is conditional on Hot Rock undertaking the Proposed Rights Issue but not on the amount raised (i.e. even if no shares are subscribed for under the Proposed Rights Issue, this condition precedent will still be satisfied if the Proposed Rights Issue process is undertaken);
- If the Proposed Rights issue is fully subscribed, Hot Rock will issue 86.67 million new Hot Rock shares which will represent approximately 20.1% of the total Hot Rock shares on issue, if the Proposed Transaction is not approved and implemented;
- If the Proposed Rights Issue is fully subscribed and the Proposed Transaction is approved and implemented, the shares issued under the Proposed Rights Issue will represent between 8.1% and 9.4% of the total shares outstanding in the Combined Entity (dependent upon the Milestone Consideration amount paid); and
- The ultimate subscriptions received under the Proposed Rights issue will depend on the Hot Rock shareholders view as to the value of the shares, including the shareholders' view as to the probability of the approval and completion of the Proposed Transaction.

Having regard to the above, while we have considered the subscription price of the Proposed Rights Issue, in our view it is difficult to ascertain Hot Rock shareholders' views of:

- The probability of the approval and completion of the Proposed Transaction; and
- The value accretion (or otherwise) which may result from the Proposed Transaction.

The Proposed Rights Issue is to occur immediately prior to the Proposed Transaction and, as at the date of this Report, has not yet occurred. As such, we have not relied on the Proposed Rights Issue subscription price as a primary indicator of the value of a share in Hot Rock or the Combined Entity.

Notwithstanding the above, we note that we have made adjustments to the ABV of Hot Rock to account for the net cash amount which may be received and the number of shares which may be issued under the Proposed Rights Issue (refer to Section 8.2.2).



8.5 Value of a share in Hot Rock prior to the Proposed Transaction

Having regard to our valuation of Hot Rock shares using the ABV and MBV methodologies as set out in Section 8.2 and Section 8.3 above, in our view, for the purpose of our assessment of the Proposed Transaction it is appropriate to adopt a value in the range of \$0.0046 and \$0.0062 per Hot Rock share on a controlling interest basis. We note that our value range adopted in this Report is based on the mid-points of our asset based valuation (low value) and market based valuation (high value) of Hot Rock.

9.0 Valuation of OCT as a Hot Rock Business Unit

In preparing this Report we have assumed that OCT will operate as a business unit of Hot Rock following the Proposed Transaction. We have made this assumption as our valuation of OCT is required to assist us to value a share in the Combined Entity following the Proposed Transaction.

This section is set out as follows:

- Section 9.1 sets out our view of the most appropriate methodology to value the OCT business unit;
- Section 9.2 sets out our calculation of the maintainable earnings for use in the valuation of the OCT business unit;
- Section 9.3 sets out our calculation of the multiple range appropriate for application to the earnings calculated for the OCT business unit; and
- Section 9.4 sets out our view on the most appropriate value for the OCT business unit using the inputs from the previous sections.

9.1 Valuation Approach

Table 9.1 below summarises our view of the most appropriate valuation methodology to apply when calculating the value of OCT. A summary of each of the valuation methodologies listed in Table 9.1 is contained in Appendix C.

Table 9.1: Common Valuation Methodologies

Methodology	Appropriate?	Explanation
Discounted cash flow ('DCF')	✘	<p>The DCF methodology relies on projections of the expected future cash flows of a company using assumptions about the company's future performance.</p> <p>OCT has not prepared and we have not been provided with a projection of future cash flows over a sufficiently long enough period to perform a DCF valuation of OCT.</p> <p>Having regard to the information which is available, in our view it is more appropriate to adopt a valuation methodology other than the DCF methodology for the purpose of valuing OCT in this Report.</p>
Capitalisation of maintainable earnings ('CME')	✓	<p>In our view, sufficient information exists to estimate a maintainable earnings figure for OCT. In order to estimate a maintainable earnings figure for OCT we have had regard to historic and future earnings of OCT, discussions with management and our own assessment of the future revenue drivers of the business.</p> <p>In our view, it is appropriate to adopt the CME methodology for the purpose of valuing OCT in this Report.</p>
Asset based valuation ('ABV')	✘	<p>The assets and liabilities of OCT can be identified and their values determined. The book value of the assets and liabilities of OCT is included in our CME valuation along with intangible assets associated with the business.</p>

Methodology	Appropriate?	Explanation
Market based valuation ('MBV')	x	OCT is not listed on a stock exchange where market prices for OCT shares can be readily observed. We are of the view that the MBV valuation methodology cannot be adopted for the purposes of valuing OCT in this Report.

Source: BDO CFQ analysis

For reasons outlined in Table 9.1 above, we are of the view that it is appropriate to adopt a CME methodology for the purpose of valuing the OCT business in this Report.

9.2 Maintainable Earnings

9.2.1 Forecast Financial Information

To assist us with the valuation of OCT, we have been provided with a budget for the year ended 30 June 2015 (refer to Section 6.3). The budget has been prepared by, and is the responsibility of, the Directors of OCT. We understand that the budget is the Directors' best estimate of the future performance of OCT at the current time.

We understand that the Directors consider the financial information relating to FY2015 to be a forecast rather than a projection in that the results represent the Directors best estimates of performance in FY2015 and, in their view, the forecast does not adopt assumptions which might be considered to be hypothetical.

We have considered the financial information set out in the budget to assist with determining an appropriate maintainable earnings estimate for use in our CME valuation of OCT.

Forecasts are, by their very nature, inherently uncertain. BDO CFQ does not provide any opinion or assurance that the results in the budget, based on the assumptions utilised, will be achieved. We have not reviewed or audited the financial information as defined by the Australian Accounting Standards and Australian Auditing Standards.

9.2.2 Maintainable Earnings

This section sets out a summary of the maintainable earnings we have adopted in the valuation of OCT. We have selected EBITDA as an appropriate measure on which to calculate our multiples based valuation. The EBITDA measure of earnings is independent of earnings impacts flowing from the capital structure and taxation. EBITDA also assists in removing irregularities that may arise from differences in depreciation and amortisation accounting policies of different companies.

As the financial statements for OCT set out in Section 6.2 include the period from 15 May 2013 to 30 June 2014 (13.5 months), we have annualised the FY2014 EBITDA (normalised EBITDA multiplied by 12 divided 13.5). Table 9.2 below summarises our calculation of the annualised FY2014 EBITDA of OCT.

Table 9.2: FY2014 Annualised EBITDA

	\$
Net profit before tax	1,807,947
Add: net interest expense	26,311
Add: depreciation and amortisation	221,888
Subtract: gain on loan forgiveness	(670,068)
Subtract: gain on bargain purchase	(128,950)
Add: legal settlement costs	283,113
Add: transaction costs on business combination	126,440
Add: loss on sale of asset	6,443
EBITDA	1,673,124
Factor to annualise earnings (12/13.5)	0.889
Annualised EBITDA	1,487,221

Source: OCT 2014 financial statements and BDO CFQ analysis

With reference to Table 9.2 above, we have calculated the annualised EBITDA of OCT for period ended 30 June 2014 to be approximately \$1.49 million.

To determine a value for OCT's maintainable earnings as part of the Combined Entity following the Proposed Transaction, we have made enquiries in relation to further adjustments required to normalise the FY2014 EBITDA and FY2015 forecast EBITDA. Our further normalisation adjustments include the following:

- We have deducted \$150,000 from the FY2014 EBITDA of OCT to represent the notional employee related expenses of management personnel which were not included in the FY2014 reported statement of profit and loss. As detailed in Section 6.3, OCT management were remunerated through a separate entity of the Integrated Group for their services associated with OCT;
- We have subtracted \$40,000 from the FY2014 and FY2015 EBITDA of OCT for notional costs associated with the company's listing on the ASX, share registry fees and other regulatory costs (ASIC etc.);
- We have subtracted \$25,000 from the FY2014 and FY2015 EBITDA of OCT for notional costs associated with the audit of annual and half-yearly financial reports;
- We have subtracted \$15,000 from the FY2014 and FY2015 EBITDA of OCT for notional costs associated with holding an annual general meeting for the Combined Entity; and
- We have subtracted \$186,000 from the FY2014 and FY2015 EBITDA of OCT for remuneration and other employee related costs for board members and Hot Rock employees who will remain employed by the Combined Entity following the Proposed Transaction.

We note that the adjustments set out above have been provided by the Directors and management of Hot Rock and OCT and are based on their best estimates of the adjustments required to the EBITDA of the OCT business unit as part of the Combined Entity following the Proposed Transaction.

Table 9.3 below sets out a summary of the normalised EBITDA of OCT, having regard to the adjustments we have made.

Table 9.3: Maintainable Earnings of OCT

	Historical FY2014 \$	Forecast FY2015 \$
EBITDA	1,487,221	1,515,561
<i>Subtract: Notional employee expenses (management)</i>	(150,000)	-
<i>Subtract: ASX, share registry and regulatory costs</i>	(40,000)	(40,000)
<i>Subtract: Audit and compliance costs</i>	(25,000)	(25,000)
<i>Subtract: AGM costs</i>	(15,000)	(15,000)
<i>Subtract: Employee expenses (Hot Rock)</i>	(186,000)	(186,000)
Normalised EBITDA	1,071,221	1,249,561
Weighting	50%	50%
Maintainable EBITDA		1,160,391

Source: OCT 2014 financial statements and 2015 budget

We note that we have calculated the normalised EBITDA for FY2014 and forecast FY2015 to be approximately \$1.07 million and \$1.25 million respectively. We are of the view that it is appropriate to evenly weight the historical and forecast earnings to calculate the maintainable earnings of OCT and have adopted a normalised EBITDA of \$1.16 million for the purposes of valuing the OCT business unit in this Report.

9.3 Capitalisation Multiple Adopted

To select an appropriate multiple we have considered information including the following:

- Multiples derived from share market prices of broadly comparable listed companies;
- Prices and multiples derived from sales transactions of broadly comparable companies; and
- Other market research and reports.

9.3.1 Comparable Share Market Multiples

In Appendix E we have set out our research in relation to the trading multiples of companies which may be considered to be broadly comparable to OCT. Table 9.3 below summarises the trading multiples of the companies which, in our view, are broadly comparable to OCT. A description of the companies set out in Table 9.3 can be found in Appendix E.

Table 9.3: Broadly Comparable Company Multiples

Company	Country Exchange	EV A\$m	EV/EBITDA FY2013	EV/EBITDA FY2014	EV/EBITDA FY2015
ALS Limited	Australia	4316.9	13.3	n.a.	11.7
Cardno Limited	Australia	1210.0	9.0	8.3	7.1
Coffey International Limited	Australia	135.8	8.1	4.9	4.4
Pacific Environment Limited	Australia	7.2	6.0	n.a.	n.a.
Resource Development Group Limited	Australia	5.1	1.4	n.a.	n.a.
Choksi Laboratories Ltd	India	3.3	4.6	n.a.	n.a.
Environmental Control Center Co.,Ltd.	Japan	53.0	11.8	n.a.	n.a.
Grontmij NV	Netherlands	509.0	13.9	9.7	7.5

Company	Country Exchange	EV A\$m	EV/EBITDA FY2013	EV/EBITDA FY2014	EV/EBITDA FY2015
Sporton International Inc.	Taiwan	409.2	14.2	15.5	n.a.
RPS Group plc	United Kingdom	1136.0	8.4	7.6	7.0
Hyder Consulting PLC	United Kingdom	299.2	7.6	n.a.	6.8
Tetra Tech Inc.	United States	1924.4	13.2	7.8	7.1
EQM Technologies & Energy, Inc.	United States	16.4	221.3	n.a.	n.a.
Minimum		3.3	1.4	4.9	4.4
Maximum		4316.9	221.3	15.5	11.7
Average		771.2	9.3^(a)	9.0	7.4
Median		299.2	8.7^(a)	8.0	7.1

Source: Capital IQ as at 10 July 2014

(a) Adjusted mean and median exclude EQM Technologies & Energy Inc.

n.a.: Many companies are not covered by analysts and therefore forward multiples are not available.

With reference to Table 9.3 above, we note the following:

- Enterprise values were calculated as the sum of the market capitalisation as at 10 July 2014 and each company's most recent net borrowings, as reported;
- The companies set out above are all listed on a stock exchange;
- The adjusted average and median historic EV/EBITDA FY2013 multiple is 9.3 times and 8.7 times respectively;
- The average and median forward EV/EBITDA FY2014 multiple is 9.0 times and 8.0 times respectively;
- The average and median forward EV/EBITDA FY2015 multiple is 7.4 times and 7.1 times respectively;
- There are significant size differences between many of the companies in Table 9.3 and OCT;
- Smaller companies listed in Table 9.3 generally trade at lower multiples relative to the larger companies (measured by enterprise value);
- The services, or mix of services, provided by each of the companies in Table 9.3 is different to those of OCT;
- The geographic regions in which the companies in Table 9.3 operate are different to those of OCT; and
- The data in Table 9.3 relates to trading in minority interest parcels, or quantities of shares that do not afford the purchaser the ability to control the entity in which shares are purchased. Accordingly, the multiples in Table 9.3 are not likely to include any control premium which may be applied to the entities listed should a controlling stake in the entities be sold.

9.3.2 Transaction Evidence

In Appendix E of this Report we have set out our research in relation to the multiples implied by transactions involving companies which may be considered to be broadly comparable to OCT. Table 9.4 below summarises information relating to these transactions, including the multiples implied by the acquisition price. More detailed information relating to each of the transactions set out in Table 9.4 can be found in Appendix E.

Table 9.4: Broadly Comparable Transaction Multiples

Date	Target Country	Target	Acquirer	Deal Value A\$m	EBITDA multiple
06/20/2014	United Kingdom	Testconsult Limited	James Fisher and Sons Public Limited	14.5	5.7
08/28/2013	Australia	Greencap Limited	Wesfarmers Industrial And Safety Pty Ltd.	21.2	5.0
08/16/2013	United States	National Technical Systems Inc.	Aurora Capital Group	372.9	14.7
10/01/2012	United Kingdom	Clouds Environmental Consultancy Ltd.	Utilitywise Plc	1.6	5.5
03/08/2012	United States	Thermo Fluids, Inc.	Nuverra Environmental Solutions, Inc.	230.8	8.1
02/06/2012	United States	ATC Group Services, Inc.	Cardno USA, Inc	98.7	6.6
07/20/2011	United States	Nalco Holding Co.	Ecolab Inc.	7,634.2	11.3
Minimum				1.6	5.0
Maximum				7,634.2	14.7
Average				1,196.3	8.1
Median				98.7	6.6

Source: Capital IQ as at 10 July 2014

We note the following with regard to the multiples observed from the selected transactions set out in Table 9.4 above:

- The selected transactions related to acquisitions of 100% of the issued shares in the target company and are likely to be inclusive of a premium (i.e. the multiples in Table 9.4 are on a controlling interest basis);
- The companies listed in Table 9.4 are generally larger than OCT, and a number of the companies are significantly larger than OCT;
- With the exception of Greencap Limited, all of the companies set out above operate in jurisdictions outside of Australia; and
- The implied EBITDA multiples of the comparable transactions ranged from 5.0 times to 14.7 times with an average of 8.1 times and median of 6.6 times.

9.3.4 Other Market Research and Reports

We have also considered publicly available industry reports and research carried out by private research companies. Bizexchange is a data subscription service which reports transaction values for private business sales on a quarterly basis. Based on data from the March 2014 report, sales of businesses with turnover of between \$5 million and \$15 million achieve an EBIT multiple of between 2.4 times and 6.2 times. We note that the reported multiples from the March 2014 report are consistent with those reported in the previous quarter's reports. We also note that EBITDA multiples are generally lower than EBIT multiples.

9.3.4 Selected Multiple

Based on the above, together with our own assessment of OCT's financial performance, risk and growth prospects, in our view, it is appropriate to apply an EBITDA multiple within the range of 3.5 times to 4.5 times to our maintainable earnings estimate to calculate the value of OCT on a minority interest basis.

9.4 Enterprise Value of the OCT Business Unit

Table 9.5 below summarises our calculation of the enterprise value of OCT having regard to a CME valuation methodology.

Table 9.5: OCT Enterprise Value

	Low	High
Maintainable earnings	\$1,160,391	\$1,160,391
Multiple	3.5x	4.5x
Enterprise value	\$4,061,369	\$5,221,760

Source: Hot Rock, OCT and BDO CFQ analysis

In our opinion, on the basis of a CME valuation methodology, the enterprise value of the OCT business unit is within the range of approximately \$4.06 million and \$5.22 million.

9.5 Equity Value of the OCT Business Unit

A valuation of a company applying an EBITDA valuation approach excludes, amongst other issues, the impact of the company's interest revenue and expense on the financial results. To calculate the value of a company using this methodology it is appropriate to subtract (add) the value of the corresponding interest bearing liabilities (assets). We note that as at 30 June 2014, OCT had cash and cash equivalents of \$8,049 and no interest bearing debt. In order to calculate the equity value of the OCT business unit, we have added the value of cash to the enterprise value calculated in Section 9.4 above.

Table 9.6 below summarises our calculated equity value for OCT having regard to a CME valuation methodology.

Table 9.6: Summary of Equity Value of OCT

	Low \$	High \$
Enterprise value	4,061,369	5,221,760
Add: Cash	8,049	8,049
Equity value	4,069,418	5,229,809

Source: BDO CFQ Analysis



With reference to Table 9.6 above, we have calculated the equity value of the OCT business as part of the Combined Entity following the Proposed Transaction to be in the range of approximately \$4.07 million to \$5.23 million on a minority interest basis.

10.0 Assessment of the Fairness of the Proposed Transaction

This section sets out our opinion on the fairness of the Proposed Transaction to Hot Rock shareholders and is set out as follows:

- Section 10.1 summarises the value we have adopted for a Hot Rock share prior to the Proposed Transaction on a controlling interest basis;
- Section 10.2 summarises our valuation of a share in the Combined Entity following the Proposed Transaction on a minority interest basis; and
- Section 10.3 sets out our assessment of the fairness of the Proposed Transaction.

10.1 Value of a Hot Rock Share Prior to the Proposed Transaction

Our valuation of Hot Rock prior to the Proposed Transaction is set out in Section 8. We have calculated the value of a Hot Rock share to be in the range of \$0.0046 to \$0.0062 on a controlling interest basis.

10.2 Value of a Combined Entity Share Following the Proposed Transaction

In our view it is appropriate to value a share in the Combined Entity on a minority interest basis following the Proposed Transaction as follows:

- a) Adopt our valuation of Hot Rock prior to the Proposed Transaction on a minority interest basis (refer to Section 8);
- b) Add the value of OCT on a minority interest basis assuming that it was operating as a separate business unit of the Combined Entity following the Proposed Transaction (refer to Section 9); and
- c) Divide the sum of a) and b) above by the number of shares expected to be on issue in the Combined Entity following the Proposed Transaction. We note that the number of shares which may be on issue following the Proposed Transaction is dependent on the number of shares ultimately issued under the Proposed Rights Issue and the amount of the Milestone Consideration paid. In order to determine the value per share following the Proposed Transaction, we have considered two scenarios as follows:
 - Scenario 1 - Scenario 1 assumes that the Proposed Rights Issue is not subscribed; and
 - Scenario 2 - Scenario 2 assumes that the Proposed Rights issue is fully subscribed.

For the purpose of assessing the fairness of the Proposed Transaction in this Report, we have assumed that all of the Milestone Consideration performance targets will be achieved and that all of the Milestone Consideration shares will be issued.

Our valuation of the Combined Entity following the Proposed Transaction is set out in table 10.1 below.

Table 10.1: Value of a Combined Entity Share on a Minority Interest Basis

	Scenario 1	Scenario 2
Value of Hot Rock - controlling interest	1,588,968	2,678,985
Minority discount ^(a)	23.1%	23.1%
Value of Hot Rock - minority interest	1,222,283	2,060,758
Value of the OCT business unit - minority interest	4,069,418	5,229,809
Value of the Combined Entity - minority interest	5,291,700	7,290,567
Shares outstanding	986,936,477	1,073,606,144
Value per share - minority interest	\$0.0054	\$0.0068

Source: BDO CFQ analysis

(a) A minority discount of 23.1% is the inverse of a 30% control premium.

With reference to Table 10.1 above, we have calculated the value of a share in the Combined Entity to be within the range of \$0.0054 and \$0.0068 on a minority interest basis.

For completeness, we note that the values presented in Table 10.1 above are on a fully diluted basis after all Milestone Consideration payments are made. While we recognise that there may be a significant amount of time which passes between the completion of the Proposed Transaction and the payment of the Milestone Three Payment (due after 30 June 2015), in our view it is appropriate to consider the value of a share in the Combined Entity on a fully diluted basis for the purpose of this Report.

We note that we have not considered the value of the options outstanding in Hot Rock as the value of the options is considered to be immaterial given that they have an exercise price of \$0.04 and are deeply 'out of the money'.

10.3 Assessment of Fairness

In our view, to assess the fairness of the Proposed Transaction in accordance with RG 111, it is appropriate to compare the value per Hot Rock share prior to the Proposed Transaction on a controlling interest basis with the value of a Combined Entity share following the Proposed Transaction on a minority interest basis.

Table 10.2 below illustrates a comparison of our value per Hot Rock share prior to the Proposed Transaction on a controlling interest basis with our valuation of a Combined Entity share following the Proposed Transaction on a minority interest basis, as set out in Sections 10.1 and 10.2 above.

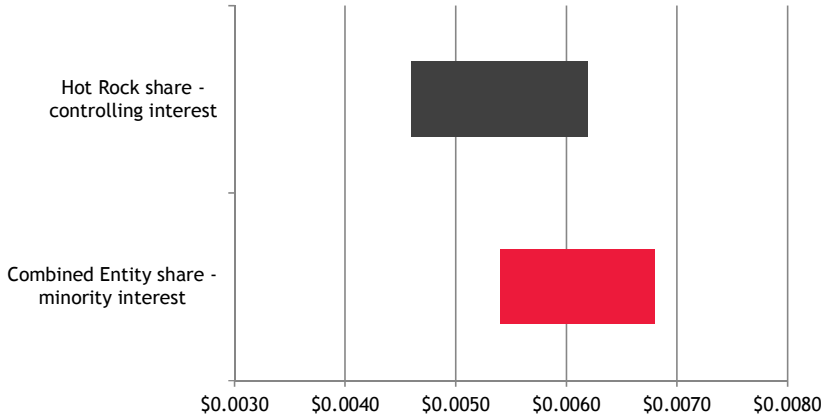
Table 10.2: Comparison of the Value per Hot Rock Share with a Combined Entity Share

	Low	High
Hot Rock share - controlling interest	\$0.0046	\$0.0062
Combined Entity share - minority interest	\$0.0054	\$0.0068

Source: BDO CFQ analysis

The information set out in Table 10.2 above is illustrated graphically in Figure 10.1 below.

Figure 10.1: Fairness of the Proposed Transaction



Source: BDO CFQ analysis

Having regard to the assessment of the Proposed Transaction set out above, we note that our calculated value range for a share in the Combined Entity following the Proposed Transaction on a minority interest basis falls within or above the range calculated for a Hot Rock share prior to the Proposed Transaction on a controlling interest basis. It is our opinion that the Proposed Transaction is **fair** to Hot Rock Shareholders.

Hot Rock Shareholders should also refer to Section 11.0 of this Report which sets out additional matters that Hot Rock Shareholders should consider when deciding whether to vote for or against the Proposed Transaction.

11.0 Assessment of the Reasonableness of the Proposed Transaction

This section is set out as follows:

- Section 11.1 outlines the advantages of the Proposed Transaction to Hot Rock shareholders;
- Section 11.2 outlines the disadvantages of the Proposed Transaction to Hot Rock shareholders;
- Section 11.3 considers the position of Hot Rock shareholders in the event the Proposed Transaction is not approved; and
- Section 11.4 provides our assessment of the reasonableness of the Proposed Transaction.

11.1 Advantages of the Proposed Transaction

Table 11.1 below outlines the potential advantages to Hot Rock shareholders in the event that the Proposed Transaction is approved and implemented.

Table 11.1: Advantages of the Proposed Transaction

Advantage	Explanation
Increased capabilities and service offering	If the Proposed Transaction is approved, the Combined Entity will comprise of the business operations of Hot Rock and OCT. The Combined Entity will have a broader service offering relative to Hot Rock and will be able to operate the OCT business while continuing its exploration activities on Hot Rock's GEPs, if economically feasible.
The Proposed Transaction includes a deferred consideration component	As discussed in Section 3, a proportion of the total consideration payable under the Proposed Transaction is deferred and contingent on the Combined Entity achieving certain operational and performance targets. The structure of the Proposed Transaction consideration reduces the risk of the Proposed Transaction for Hot Rock shareholders as if the Combined Entity does not meet the performance targets, the Hot Rock shareholders will retain a larger interest in the company.
Revenue and profit generation	<p>If the Proposed Transaction is approved, Hot Rock shareholders will hold shares in a company which generated revenues and profit in FY2014.</p> <p>We note that Hot Rock reported net losses before tax from continuing operations of approximately \$2.25 million in FY2012, \$5.43 million in FY2013 and \$0.52 million in FY2014 (refer to Section 5.7).</p>
The Proposed Transaction is the best offer currently available to Hot Rock	<p>The Directors have announced that Hot Rock has been in discussions with a number of parties in relation to possible investments, merger and acquisition opportunities, and the possibility of undertaking capital raising programs as part of any transaction. After considering the options available to the Company, the Directors of Hot Rock are of the view that the Proposed Transaction represents the best opportunity currently available to Hot Rock shareholders.</p> <p>Without significant further capital or the addition of a business which has the potential to generate cash flow such as OCT, Hot Rock would need significant capital to continue activities in its GEPs. The uncertainty associated with the viability of the GEPs development in the short to medium term has made this process difficult and it may remain difficult for the company to find capital to continue as a going concern in the long term.</p>

Advantage	Explanation
Potential increase in size, access to capital markets and liquidity	<p>The Proposed Transaction may result in the Combined Entity having a larger market capitalisation than Hot Rock. As a larger company, the Combined Entity may:</p> <ul style="list-style-type: none"> • Have an improved profile in the Australian marketplace; • A greater number of shareholders than Hot Rock; • Greater analyst coverage than Hot Rock; • Greater liquidity than Hot Rock, enabling shareholders to more easily buy and sell the shares of the Combined Entity; and • Greater access to capital markets than Hot Rock, enhancing the Combined Entity's ability to raise capital for future investments and expansion.

Source: BDO CFQ analysis

11.2 Disadvantages of the Proposed Transaction

Table 11.2 below outlines the potential disadvantages to Hot Rock shareholders in the event that the Proposed Transaction is approved and implemented.

Table 11.2: Disadvantages of the Proposed Transaction

Disadvantage	Explanation
Dilution of shareholding and loss of control	<p>Following the Proposed Transaction, OCT shareholders will hold an interest in the range of 53.1% and 65.0% of the Combined Entity's shares dependent upon the subscription rate under the Proposed Rights Issue and the satisfaction of the Milestone Consideration performance targets. The OCT shareholders' interest will represent a controlling interest in the Combined Entity.</p> <p>The issue of shares to OCT shareholders will dilute the exposure of Hot Rock shareholders to any potential upside which may be realised from the Company's future operations.</p>
Limited recent operational history	OCT purchased the OCT business from Octief Consulting & Laboratory Services Pty Ltd in May 2013. Given the relatively short period of time since the incorporation of OCT as a stand-alone business, there is less certainty in relation to the future cash flows of the OCT business relative to more established businesses.
Potential to deter takeover bid	Immediately following the Proposed Transaction, OCT shareholders will hold a combined interest in the range of 53.1% and 65.0% of the issued share capital of the Combined Entity. OCT shareholders will hold a 'blocking' stake in the Combined Entity and this may deter third parties from making takeover bids for the entity and existing shareholders realising a premium for control upon sale of their interest in the Combined Entity.

Source: BDO CFQ analysis

11.3 Position of Hot Rock Shareholders if the Proposed Transaction does not Proceed

Table 11.3 below summarises the possible impacts on Hot Rock shareholders in the event that the Proposed Transaction is not approved. We note that the Proposed Transaction may not proceed for a number of reasons including, but not limited to, Hot Rock and OCT not satisfying the conditions precedent to the Proposed Transaction which are set out in Section 3.3 above.

Table 11.3: Position of Hot Rock Shareholders if the Proposed Transaction does not Proceed

Position	Potential Impact on Hot Rock Shareholders
Hot Rock shareholders will continue to collectively hold 100% of the issued shares in Hot Rock	If the Proposed Transaction is not approved, OCT shareholders will not be issued with the shares in Hot Rock. Existing Hot Rock shareholders' interest in the Company (following the Proposed Rights Issue) will not change and they will continue to be exposed to the risks and opportunities of holding Hot Rock shares.
Hot Rock will be required to consider alternative strategic options	Prior to the announcement of the Proposed Transaction, Hot Rock had undertaken a number of cost cutting measures in order to minimise its cash spend and increase the available time to undertake a strategic financing or operational transaction. If the Proposed Transaction does not proceed, Hot Rock may be required to consider alternative strategic options to enable to business to continue operating as a going concern into the foreseeable future.
Hot Rock may be required to raise additional capital	<p>Under the Proposed Rights Issue, Hot Rock is aiming to raise up to \$0.52 million at an issue price of \$0.006 per share. The amount of capital being raised is based on the Directors view of the Company's cash funding requirements in the near term having regard to the future operating expenses of the Company and the prospect of completing the Proposed Transaction.</p> <p>If the Proposed Transaction is not approved, we note that Hot Rock does not currently have any cash generating operations and any funds raised from the Proposed Rights Issue may not be sufficient to meet the Company's ongoing requirements. Hot Rock may be required to complete another capital raising or an alternative transaction to fund its operations.</p> <p>Any additional capital raised may be required to be raised at a discount to the prices at which Hot Rock shares are trading at the time of the capital raising, or the \$0.006 price of the Proposed Rights Issue, and may result in further dilution in the ownership interest of Hot Rock shareholders.</p>
Effect on Hot Rock share price	In the event that the Proposed Transaction does not proceed, the share price of Hot Rock may differ materially from the share price following the announcement of the Proposed Transaction.
Non-recoverable costs	Hot Rock will incur some transaction costs in relation to the Proposed Transaction irrespective of whether or not the Proposed Transaction is approved. Hot Rock will not be able to recover the costs that it has incurred in relation to the Proposed Transaction in the event that the Proposed Transaction is not approved.

Source: BDO CFQ analysis

11.4 Reasonableness of the Proposed Transaction

In our opinion, after considering all of the issues set out in this Report, it is our view that in the absence of any other information, the Proposed Transaction is **reasonable** to the Hot Rock shareholders as at the date of this Report.

12.0 Sources of Information

This Report has been prepared using information from the following sources:

- Hot Rock annual report for the 12 months ended 30 June 2012;
- Hot Rock annual report for the 12 months ended 30 June 2013;
- Hot Rock annual report for the 12 months ended 30 June 2014;
- Hot Rock Company Website - www.hotrockltd.com;
- Hot Rock share register as at 15 July 2014;
- Internal due diligence reports relating to the Proposed Transaction provided by the directors of Hot Rock;
- Valuation report prepared by Jacobs Group (Australia) Pty Ltd titled “Geothermal Exploration Permit Review GEP6 & GEP8” dated 25 July 2014;
- Valuation report prepared by Hot Dry Rocks Pty Ltd titled “GEP 6 & 8 Independent Expert Report” dated 27 July 2014;
- Hot Rock’s ASX Announcements;
- OCT financial statements for the period ended 30 June 2014;
- OCT Company Website - www.octief.com.au;
- IBISWorld Industry Report M6925: Environmental Science Services in Australia, March 2014;
- IBISWorld Industry Report D2619: Wind and Other Electricity Generation in Australia, March 2014;
- Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report;
- Various transaction documents including the Notice of Meeting and Explanatory Memorandum, and the Agreement for Sale of Shares in relation to the Proposed Transaction; and
- Various discussions and other correspondence with Hot Rock and OCT management and their advisors.

13.0 Indemnities, Representations & Warranties

Hot Rock has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

13.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Hot Rock has agreed to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of its partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Hot Rock is not responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Hot Rock has agreed to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Hot Rock (including but not limited to the Directors and advisers of Hot Rock) as part of this engagement.

Hot Rock has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

13.2 Representations & Warranties

Hot Rock has recognised and confirmed that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons have used and relied on publicly available information and on data, material and other information furnished to BDO Persons by Hot Rock, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.



14.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Hot Rock in relation to the proposed takeover of OCT by Hot Rock. This Report has been prepared to provide information to Hot Rock shareholders prior to voting on the Proposed Transaction. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Transaction, it is strongly recommended that Hot Rock shareholders obtain their own taxation advice, tailored to their own particular circumstances.



APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 14 August 2014.

BDO Corporate Finance (QLD) Ltd

A handwritten signature in black ink, appearing to read 'Steven Sorbello', is written over a faint, circular watermark or stamp.

Steven Sorbello
Director

Appendix A - Environmental Science Services Industry Information

As discussed in Section 6 of this Report, OCT is an Australian consulting group which specialises environmental and occupational compliance and the management of associated risks. Following the Proposed Transaction, the Combined Entity will carry on the business operations of OCT while, if assessed by Hot Rock to be economically feasible, continuing the exploration of the company's GEPs.

This appendix provides a summary of the Australian Environmental Science Services industry in which OCT operates. This summary is not intended to be a comprehensive analysis of the Australian Environmental Science Services industry. We recommend that Hot Rock shareholders refer to the original sources of information and any other information they believe to be relevant to their decision in relation to the Proposed Transaction. This appendix should be referred to as a broad guide only.

Not all services that OCT provides may be classified as within the Australian Environmental Science Services industry.

The information presented in this appendix has been compiled from a range of publicly available sources, including but not limited to, IBISWorld Industry Report M6925: Environmental Science Services in Australia, March 2014.

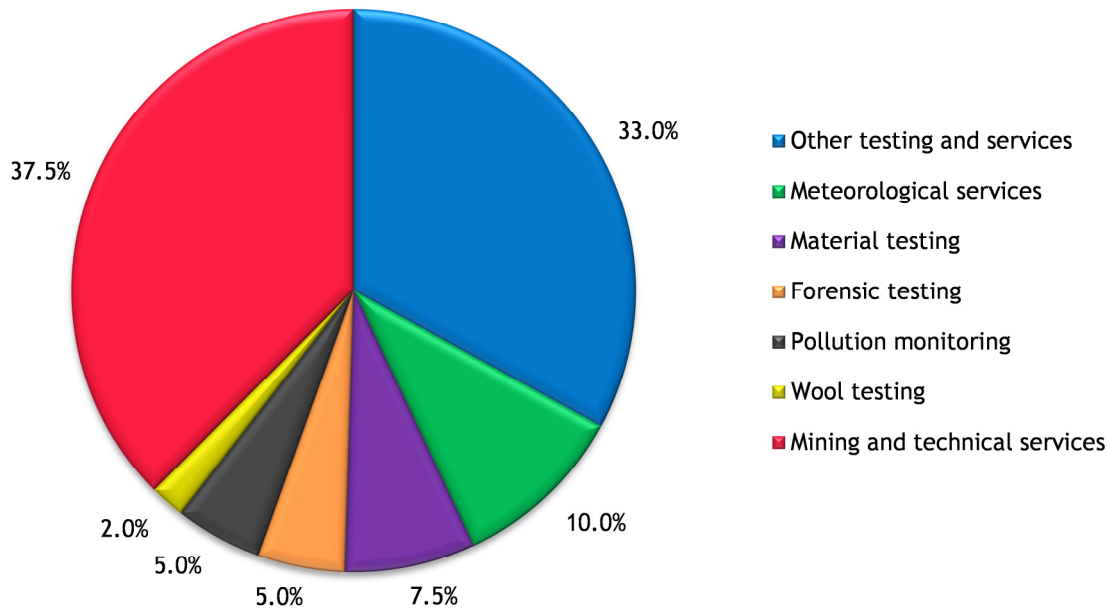
A.1 Industry Overview

The Environmental Science Services industry consists of companies which provide the following products and services:

- Scientific testing services for the agricultural, mining, manufacturing and construction sectors;
- Collection, analysis and forecasting of meteorological information; and
- Pollution monitoring, forensic sciences, and other laboratory operations, including testing for product safety and quality.

In Australia, approximately 5,730 companies operate in the Environmental Science Services industry generating total market revenue of approximately \$5.4 billion in FY2014. Figure A.1 below illustrates the revenue segmentation by product and service offering for FY2014.

Figure A.1: Products and Services Segmentation - FY2014 Total Revenue \$5.4 billion



Source: IBISWorld Industry Report M6925: Environmental Science Services in Australia, March 2014

As illustrated above, the key service offering provided by Australian Environmental Science Service companies is mining and technical services, which contributed approximately 37.5% or \$2.02 billion to total FY2014 industry revenue. Pollution monitoring (monitoring of industrial waste production, air, noise and water pollution) and other testing and services (chemical, medical and construction material testing) accounted for approximately 38.0% or \$2.05 billion of FY2014 revenue.

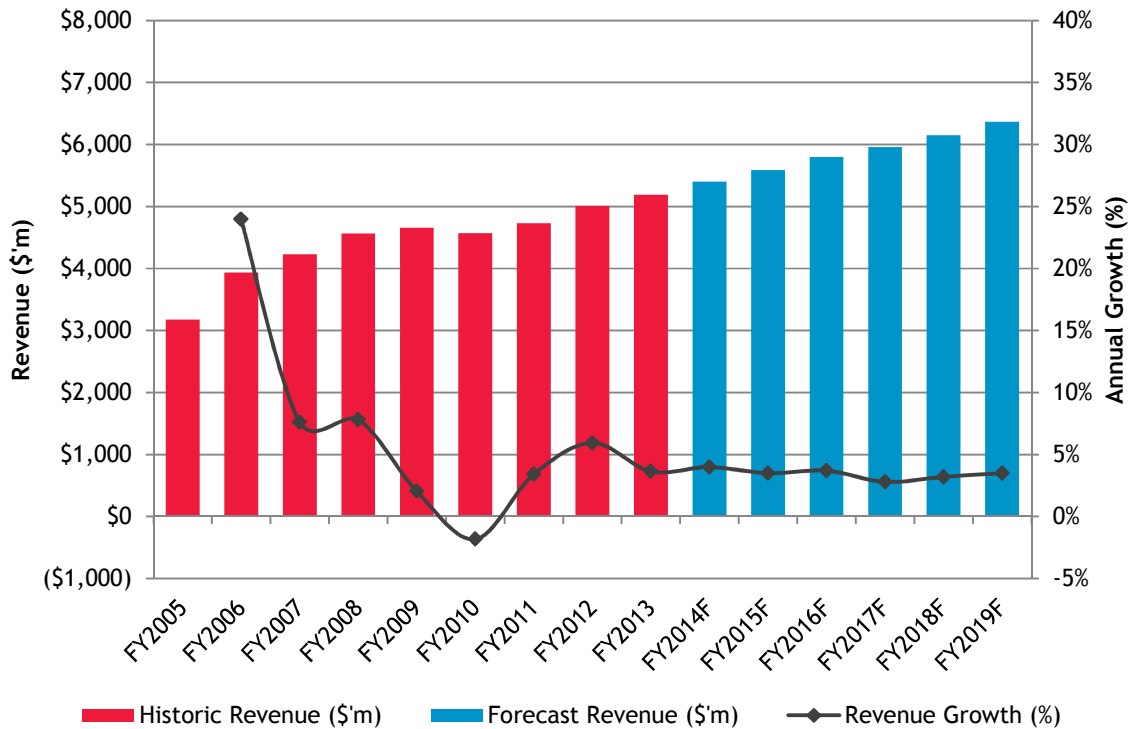
A.2 Industry Growth

The Environmental Science Services industry has experienced steady growth of approximately 3.0% per annum over the five year period to June 2014. Underpinning this growth is strong demand from the mining and energy sectors, with an increase in mining exploration leading to an uplift in the provision of geological and geophysical consulting services. Growth in scientific research services, including agricultural, biological and social sciences, has also driven demand for industry testing and analysis over the past five years.

The heightened environmental awareness and push towards corporate and industrial environmental responsibility is expected to pressure governments to continue to tighten regulations and create future growth opportunities for companies providing environmental consulting and testing services. This future opportunity appears to have been identified by market participants with the National Association of Testing Authorities Australia ('NATA') receiving an increased number of requests for accreditation from offshore laboratories in FY2014.

Figure A.2 below illustrates the historical market revenues and annual revenue growth from FY2005 to FY2013, and the forecast industry revenue to FY2019 as estimated by IBISWorld.

Figure A.2: Industry Revenue FY2005 to FY 2019



Source: IBISWorld Industry Report M6925: Environmental Science Services in Australia, March 2014

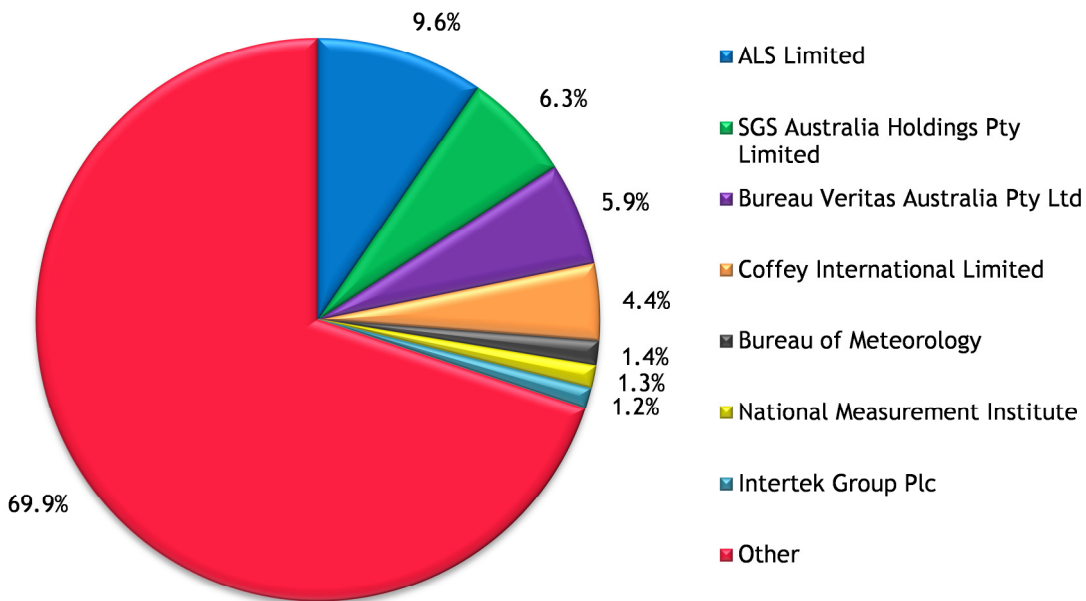
As illustrated above, the Environmental Science Service industry has achieved steady revenue growth over the period analysed. IBISWorld has forecast industry revenues to grow to approximately \$6.4 billion in FY2019, representing an average annual growth rate of approximately 3.3%.

A.3 Market Concentration

The Environmental Science Services industry is characterised by a low level of market concentration, with the largest four market participants accounting for approximately 26% of total industry revenues. As the industry covers a broad spectrum of products and services, the industry is highly fragmented with many small companies providing specific services or targeting specific industries. It is expected that the industry concentration will increase over the next five years due to growth in competition and increasing demand from customers in relation to pricing and services.

Figure A.3 below illustrates the key companies (by FY2014 revenue) which operate in the Australian Environmental Science Services industry.

Figure A.3: Major Companies by Revenue Market Share - FY2014 Total Revenue \$5.4 billion



Source: IBISWorld Industry Report M6925: Environmental Science Services in Australia, March 2014

A.4 Key Success Factors

Factors which contribute to the success of companies which operate in the Environmental Science Services industry, as identified by IBISWorld, include but are not limited to the following:

- Accreditation from authoritative source - companies which have laboratory and quality systems accreditation as well as gaining accreditation with government departments may have a competitive advantage which will assist in generating new and repeat business;
- Effective cost controls - profitability may be boosted by companies that can maximise efficiency by standardising equipment, procedures, staff utilisation and other facilities;
- Access to the latest available and most efficient technologies - companies may benefit from having access to the latest available and most efficient technology and techniques which can improve the speed and accuracy of testing results; and
- Prompt delivery to market - being able to deliver quick testing results to market may increase customer satisfaction and improve repeat and new business.

The Environmental Science Services industry currently exhibits a relatively low level of competition, however this is expected to increase over the next five years. Competition in the industry is generally determined by price and service differentiation, with clients choosing between companies based on their reputation in terms of testing quality and timeliness of delivery. As laboratories must comply with a range of industry and government imposed standards, holding quality accreditation from NATA along with suitable equipment and qualified personnel may assist companies with gaining a competitive advantage over its peers.

Appendix B - Renewable Electricity Generation Industry Information

As discussed in Section 5 of this Report, Hot Rock is involved in the identification and acquisition of Australian geothermal resources with the intent to develop and operate its assets to produce clean base load power. Geothermal energy generation refers to the production of energy from naturally occurring sources of heat under the Earth’s surface and is classified as a renewable energy source.

This appendix provides a summary of the Australian Wind and Other Electricity Generation industry in which Hot Rock operates. This summary is not intended to be a comprehensive analysis of the Australian Wind and Other Electricity Generation industry. We recommend that Hot Rock shareholders refer to the original sources of information and any other information they believe to be relevant to their decision in relation to the Proposed Transaction. This appendix should be referred to as a broad guide only.

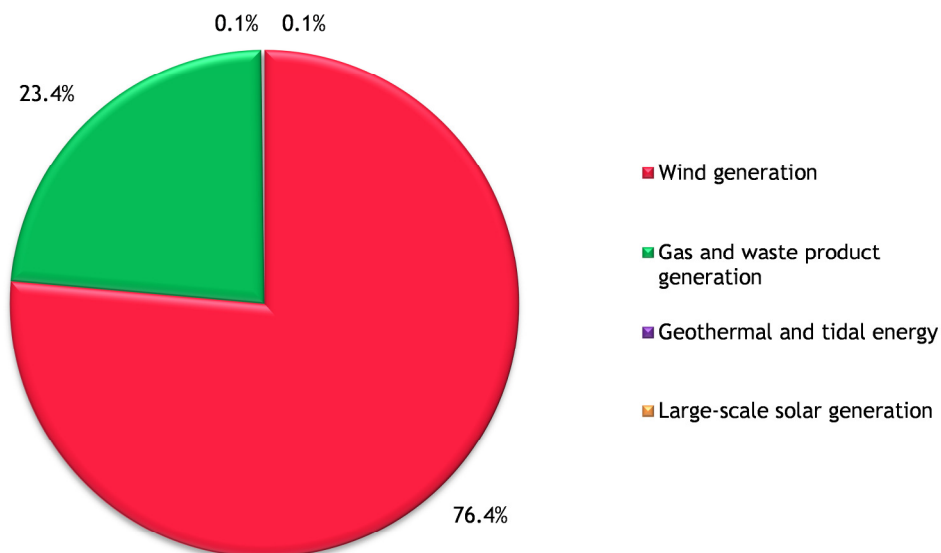
The information presented in this appendix has been compiled from a range of publicly available sources, including but not limited to, IBISWorld Industry Report D2619: Wind and Other Electricity Generation in Australia, March 2014.

B.1 Industry Overview

Companies which operate in the Wind and Other Electricity Generation industry use a range of renewable inputs to generate electricity. The primary methods used by companies operating in this industry include, wind, tidal, solar, geothermal and biomass electricity generation. While the industry has historically been dominated by companies focussed on wind electricity generation, the generation mix is expected to change over the next five years with a number of large-scale solar projects expected to be completed.

In Australia, approximately 76 companies operate in the Water and Other Electricity Generation industry generating total market revenue of approximately \$705.4 million in FY2014. Figure B.1 below illustrates the revenue segmentation by product and service offering for FY2014.

Figure B.1: Major Companies by Revenue Market Share - FY2014 Total Revenue \$705.4 million



Source: IBISWorld Industry Report D2619: Wind and Other Electricity Generation in Australia, March 2014

As illustrated in Figure B.1 above, the Water and Other Electricity Generation industry is dominated by wind generation and gas and waste product generation companies. Geothermal and tidal energy generation companies accounted for only 0.1% or \$705,000 of market revenues in FY2014.

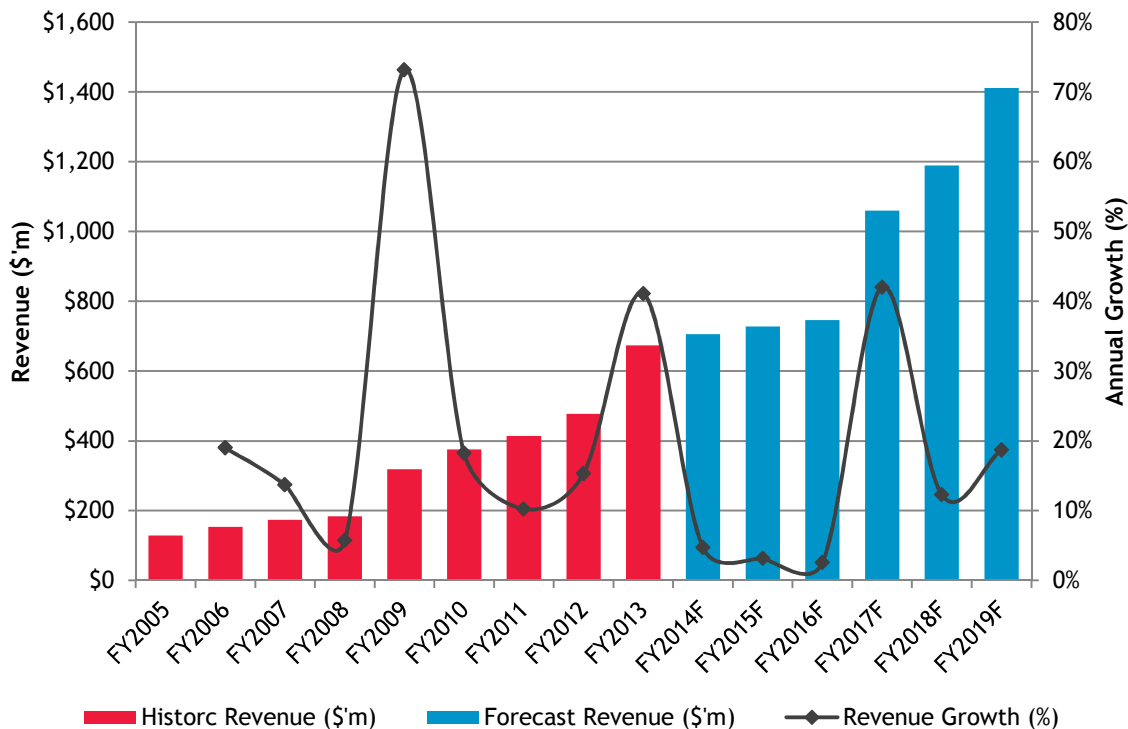
As stated in the IBISWorld report, Australia faces geographical constraints in the use of geothermal technologies, as resources are not as close to the surface of the earth as in countries where these technologies have been commercially developed. It is expected that over the next few years revenue generated by geothermal and tidal energy generation companies is expected to come from government research and development grants.

B.2 Industry Growth

The Wind and Other Electricity Generation industry has experienced strong growth over the five year period to June 2014, with market revenue growing from \$317.9 million in FY2009 to expected revenue of \$705.4 million in FY2014. Underpinning this historical growth was favourable government policy which targeted the barriers faced by industry participants. However the change of Federal Government in FY2013 came with a commitment to review policy settings which may affect future growth in the industry (for more information refer to Section B.4 below).

Figure B.2 below illustrates the historical market revenues and annual revenue growth from FY2005 to FY2013, and the forecast industry revenue to FY2019 as estimated by IBISWorld.

Figure B.2: Industry Revenue FY2005 to FY 2019



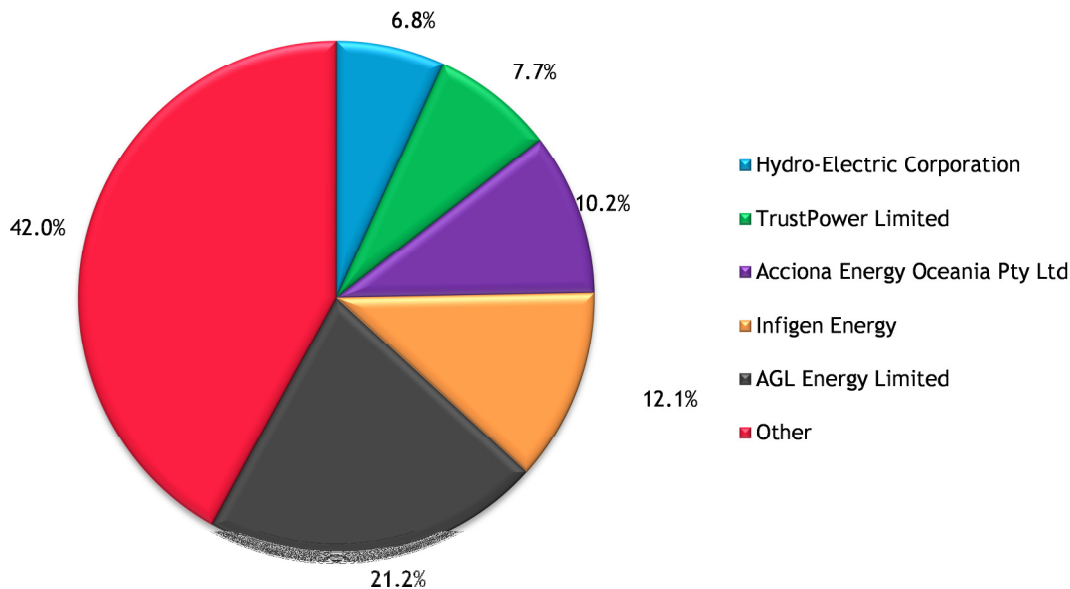
Source: IBISWorld Industry Report D2619: Wind and Other Electricity Generation in Australia, March 2014

B.3 Market Concentration

The Wind and Other Electricity Generation industry is characterised by a high level of market concentration and competition amongst participants. The largest four market participants in the industry account for approximately 26% of total industry revenues. As the industry covers a broad spectrum of products and services, the industry is highly fragmented with many small companies providing specific services or targeting specific industries. It is expected that the industry concentration will increase over the next five years due to growth in competition and increasing demand from customers in relation to pricing and services.

Figure B.3 below illustrates the key companies (by FY2014 revenue) which operate in the Australian Wind and Other Electricity Generation industry.

Figure B.3: Major Companies by Revenue Market Share - FY2014 Total Revenue \$705.4 million



Source: IBISWorld Industry Report D2619: Wind and Other Electricity Generation in Australia, March 2014

B.4 Current Regulatory Environment

The Australian Wind and Other Electricity Generation industry is highly regulated and operates under legislation targeting environmental outcomes, governance and the energy market. Market participants are required to satisfy multiple layers of federal and state laws relating to environmental impacts and planning permissions for projects.

The federal government’s renewable energy target (‘RET’), i.e. that 20% of Australia’s electricity will be sourced from renewable sources by 2020, is a mechanism which has driven high investment in the industry leading to significant growth and price competition. However the industry now faces a shifting renewable energy policy, with the recently elected government undertaking a review of the RET during 2014.

The review is to examine the operation, costs and benefits of the Renewable Energy (Electricity) Act 2000 (‘the Renewable Energy Act’) and related legislation and regulations, and the RET scheme constituted by these instruments. We understand that the review will include the consideration of the following:

- The economic, environmental and social impacts of the RET scheme, in particular the impacts on electricity prices, energy markets, the renewable energy sector, the manufacturing sector and Australian households;
- The extent to which the formal objects of the Renewable Energy Act are being met; and
- The interaction of the RET scheme with other Commonwealth and State/Territory policies and regulations, including the Commonwealth Government's commitment to reduce business costs and cost of living pressures.

As at the date of this Report, we understand that many renewable energy projects are on hold as industry participants await the results of the governments review and understand the potential impact on the economic feasibility of their projects.

B.5 Geothermal Energy in Australia

Geothermal Energy is the energy stored as heat in the earth. Energy is brought to the earth's surface by extracting hot water that is circulating amongst the sub surface rocks, or by pumping cold water into the hot rocks and returning the heated water to the surface, to drive steam turbines and produce electricity. Geothermal resources may also be used directly for heating, drying and in chillers.

There are two broad categories of geothermal resources, convective and conductive resources. We have summarised each of these below:

- Convective geothermal resource - heat is moved through the earth by the movement of water or steam. These resources are typically high temperature and associated with volcanic activity and/or tectonic plate boundaries; and
- Conductive geothermal resource - heat flows through the earth without any movement of material or fluid. These resources tend to have lower temperatures or greater depths than convective geothermal resources.

All geothermal energy generation systems have three common components, being the geothermal resource (sub surface heat), access to the resource (wells), and the heat utilisation activity (direct use or power generation facility).

Australian geothermal resources include:

- Shallow direct-use resources, typically in the 500 metre to 1,500 metre depth range that target aquifers with low to moderate temperatures;
- Deep natural reservoir resources that are typically greater than 1,500 metres deep and target sedimentary or naturally fractured aquifers; and
- Enhanced geothermal systems resources, where the underground reservoir has to be stimulated before it can deliver commercially viable energy.

As compiled in a 2014 Australian Energy Resource Assessment report, in energy terms, Australia's geothermal resource is equivalent to approximately 16 billion tonnes of black coal.

Appendix C - Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in *RG 111: Content of Expert Reports*. The methodologies include those mentioned directly below.

C.1 Discounted Future Cash Flows

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

C.2 Capitalisation of Future Maintainable Earnings

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

C.3 Asset Based Valuation

Asset based valuations are used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

C.4 Market Based Valuation

Market based valuations relate to the valuation of an entity where its shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

Appendix D - Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

Generally, control premiums may be impacted by a range of factors including the following:

- Specific acquirer premium and/or special value that may be applicable to the acquirer;
- Level of ownership in the target company already held by the acquirer;
- Market speculation about any impending transactions involving the target and/or the sector that the target belongs to;
- The presence of competing bids; and
- General market sentiment and economic factors.

To form our view of an appropriate range of control premium applicable to Hot Rock, OCT, and the Combined Entity for the purposes of this Report, we have considered information which includes:

- Control premiums implied in merger and acquisition transactions in the Environmental Consulting and Research and Consulting Services industries as classified by Capital IQ which indicate median control premiums of approximately 35%;
- Control premiums implied by merger and acquisition transactions in the Energy Exploration industry as classified by Capital IQ which indicate median control premiums in the range of approximately 35% to 40%;
- Recent independent expert's reports which apply control premiums in the range of 10% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to the information set out above, in our view, it is appropriate to consider control premiums within the range of 20% to 40% for the purposes of assessing the Proposed Transaction within the context of this Report. For the purposes of the calculations set out in this Report we have adopted a control premium of 30%, being the mid-point of the control premium range that we consider is appropriate based on our research.

Appendix E - Comparable Company Research

In valuing OCT and the Combined Entity for the purposes of this Report, we have had regard to the trading multiples of listed companies which, in our view, can be considered to be broadly comparable to the OCT and Combined Entity. Our valuations of OCT and the Combined Entity are set out in Sections 9 and 10 of this Report.

This section sets out our comparable company research and is set out as follows:

- Section E.1 sets out our trading multiples research; and
- Section E.2 sets out our transaction multiples research.

Our references to comparable companies in this section of this Report should be read as including broadly comparable companies. All information is used as a guide to our calculations and opinion.

E.1 Trading Multiples Research based on Comparable Companies

It is useful to analyse the trading multiples of exchange listed comparable companies to assist with the determination of an appropriate capitalisation multiple for OCT and the Combined Entity. Generally speaking, comparable multiples need to be treated with caution as not all companies operating in comparable industries can be readily compared to OCT or the Combined Entity. With this as a caveat, the usual step in applying a multiple based methodology is to construct a multiple from market information. The multiple is then adjusted for specific company differentiators.

We have conducted research into trading multiples of publicly listed companies engaged in environmental management and consulting services which may be regarded as broadly comparable to OCT and the Combined Entity. We note that many of the companies that we have been able to identify are significantly larger and have a significantly broader range of products and operations compared to OCT and the Combined Entity.

E.1.1 Company Descriptions

Table E.1 below provides a description of each of the companies which may be considered to be broadly comparable to OCT and the Combined Entity.

Table E.1: Comparable Company Descriptions

Company	Description
ALS Limited	ALS Limited provides analytical and testing services. The company's minerals segment provides testing services for the mining industry in the service areas of geochemistry, metallurgy, mine site services, and inspection. Its life sciences segment offers analytical testing and sampling, and remote monitoring services for the environmental, food, pharmaceutical, and consumer products markets. The company's energy segment provides technical solutions and products to the coal, and oil and gas industries. This segment also offers field and laboratory services, exploration, resource characterization, production enhancement, quality management, and trade-related services. The company's industrial segment offers diagnostic testing and engineering solutions for the energy, resources, transportation, and infrastructure sectors. ALS Limited was founded in 1863 in Brisbane, Australia and operates in approximately 60 countries.

Company	Description
Cardno Limited	Cardno Limited, an infrastructure and environmental services company, provides professional services in the development and improvement of physical and social infrastructure for communities worldwide. The company offers a range of integrated services in the market sectors of buildings, land, coastal and ocean, environment, emerging markets, management services, mining and energy, transportation, water, and defence. Its services include technical and economic feasibility studies of a project; planning services consisting of statutory planning, urban development, master planning and design, mapping and surveying, and transportation planning; environmental consulting in the areas of natural systems assessment and management, environmental impact assessment and monitoring, agricultural development, climate change management, conservation, and rehabilitation; engineering design of functional structures, spaces, and systems; and landscape architecture services. Cardno Limited was founded in 1945 and is headquartered in Fortitude Valley, Queensland, Australia.
Coffey International Limited	Coffey International Limited provides consulting services in the geosciences, international development, and project management areas. The company's geosciences segment offers a range of geotechnical engineering services and environmental and mining consulting services. Its international development segment offers consulting and training services to governments and donor agencies. The company's project management segment provides project management and advisory services to public and private sector customers across the property and infrastructure project lifecycles. Coffey International Limited offers its services primarily in Australia, New Zealand, the Americas, the United Kingdom, Africa, and the Middle East. The company was founded in 1959 and is based in Sydney, Australia.
Pacific Environment Limited	Pacific Environment Limited provides environmental consulting and technology services primarily in Australia. The company offers a web-based system that forecasts, watches, and analyses various aspects of a site's environmental management. It also provides air quality and meteorology services, including air quality modelling and assessment, odour and dust specialization, forecasting and analysis, emissions estimation and inventories, pollution reduction programs, process design optimization, regulatory compliance and reporting, and transport emissions assessment. In addition, the company offers emissions monitoring, odour sampling and analysis, process and environmental monitoring, workplace monitoring, employee and client training, and vehicle and mine site vehicle emission testing services. Further, it analyses, estimates, and reports emissions, conducts carbon audits, examines climate risks, and design mitigation strategies. Additionally, the company provides environmental and human health risk assessment and offers regulatory support. The company is headquartered in North Sydney, Australia.
Resource Development Group Limited	Resource Development Group Limited provides engineering, construction, and consulting services for mining companies in Australia, Africa, and Ecuador. The company offers environmental management and biological science consultancy services for resources, energy, and infrastructure sectors; and studies and detailed engineering solutions, as well as engineering, procurement, and construction management services to the resources and infrastructure sectors to develop and deliver their mining projects into production. The company is headquartered in Perth, Australia. Resource Development Group Limited is a subsidiary of Lightshare Investments Pty Ltd.
Choksi Laboratories Ltd	Choksi Laboratories Limited provides contract testing and analysis laboratory services in India and internationally. It offers contract laboratory services, environment management, environment laboratory, waste water management, and air pollution monitoring services. Further, the company provides clinical research services, such as bio-availability and bio-equivalence studies, and consultancy and allied services, such as training and auditing, third-party inspection, and laboratory set-up and management. Choksi Laboratories Limited was founded in 1982 and is based in Indore, India.

Company	Description
Environmental Control Center Co.,Ltd.	Environmental Control Center Co., Ltd. provides environmental consulting services for public and private organizations in environmental management projects in Japan. It provides environmental research analysis, soil investigation, anti-stink, dioxin analysis, environmental hormone analysis, tap water quality survey, environmental work, recycled plastic wastepaper-analysis, consulting, working environment measurement, sick building investigation, waste survey and consulting, and natural environment research. Environmental Control Center Co., Ltd. was founded in 1971 and is headquartered in Hachioji, Japan.
Grontmij NV	Grontmij N.V. provides consultancy, design and engineering, and management services in various market sectors related to the built and natural environment. It offers planning and design services; transportation and mobility; and water and energy services. The company focuses on energy, highways and roads, light rail, sustainable buildings, and water segments. It is involved in the development of waste-to-energy plants that generate power from refuse to shore-to-ship power supplies that reduce portside emissions and the processing of liquid biogas into fuel for heavy-goods vehicles. The company is also engaged in the creation and maintenance of highways and roads; offers transport systems; undertakes projects for new and existing buildings; and provides management and design services for water, wastewater treatment, industry, and sustainable industrial processes. The company was founded in 1915 and is headquartered in De Bilt, the Netherlands.
Sporton International Inc.	Sporton International Inc. provides product testing and certification services in Taiwan and internationally. It offers mobile device certification services, including design consultation, training, testing, and certification services that allow its customers to acquire certificates and promote products. In addition, it offers wireless products testing and microwave point to point testing services, antenna performance and certification services, and certification services for controlled telecommunications radio frequency equipment. The company was founded in 1986 and is headquartered in New Taipei, Taiwan.
RPS Group plc	RPS Group PLC provides advice for the exploration and production of oil and gas and other natural resources; and development and management of the built and natural environment. The company's built and natural environment segment offers consultancy services to various aspects of the property and infrastructure development and management sectors. This segment's consultancy services comprise environmental assessment and management, transport and infrastructure, water resources management, health and safety, risk management, town and country planning, building, architecture and landscape, urban design and regeneration, engineering, surveying, transport planning, laboratory testing, asbestos consulting, air quality, noise and property, and oceanographic and mining services. Its Energy segment provides integrated technical, commercial, and project management support and training services in the fields of geoscience, engineering and health, safety, and environment to the energy sector. RPS Group PLC is headquartered in Abingdon, the United Kingdom.
Hyder Consulting PLC	Hyder Consulting PLC provides infrastructure, property, and environmental solutions. It offers building and infrastructure, information communications technology, and utilities services, environmental services, and geosciences services, including contaminated land, geotechnical engineering, and land reclamation services. The company also provides property services in the areas of acoustics, architecture, civil/development approval, facades, landscape, and urban planning. It serves property, transport, water and environment, energy, industry, resources, and technology market sectors in Asia, Australia, the Middle East, Germany, and the United Kingdom. The company is headquartered in London, the United Kingdom.

Company	Description
Tetra Tech Inc.	Tetra Tech, Inc. provides consulting, engineering, program management, construction management, and technical services for water, environment, energy, infrastructure, and natural resources sectors. The company operates in three segments: Engineering and Consulting Services, Technical Support Services, and Remediation and Construction Management. The ECS segment provides front-end science, consulting engineering, and project management. The TSS segment offers management consulting and engineering services, and strategic direction in the areas of environmental assessments/hazardous waste management, climate change, international development, and international reconstruction and stabilization. The RCM segment offers construction and construction management services. Tetra Tech, Inc. was founded in 1966 and is headquartered in Pasadena, California.
EQM Technologies & Energy, Inc.	EQM Technologies & Energy, Inc. provides environmental consulting, engineering, program management, clean technology, remediation and construction management, and technical services to government and commercial business in the United States. The company's environmental consulting services include air services, community relations, environmental due diligence, environmental health, safety, and security auditing, greenhouse gases consulting, industrial hygiene and safety, multimedia environmental compliance assessment services, storm water engineering, water management, and energy engineering, consulting, and waste-to-energy services. EQM Technologies & Energy, Inc. was founded in 1990 and is headquartered in Cincinnati, Ohio.

Source: Capital IQ as at 10 July 2014

E.1.2 Trading Multiples of Comparable Companies

Table E.2 below sets out the enterprise value ('EV') and historical and forecast EV/EBITDA multiple of the companies which, in our view, may be considered to be broadly comparable to OCT and the Combined Entity.

Table E.2: Broadly Comparable Company EV/EBITDA Multiples

Company	Country	EV A\$m	EV/EBITDA FY2013	EV/EBITDA FY2014	EV/EBITDA FY2015
ALS Limited	Australia	4316.9	13.3		11.7
Cardno Limited	Australia	1210.0	9.0	8.3	7.1
Coffey International Limited	Australia	135.8	8.1	4.9	4.4
Pacific Environment Limited	Australia	7.2	6.0		
Resource Development Group Limited	Australia	5.1	1.4		
Choksi Laboratories Ltd	India	3.3	4.6		
Environmental Control Center Co.,Ltd.	Japan	53.0	11.8		
Grontmij NV	Netherlands	509.0	13.9	9.7	7.5
Sporton International Inc.	Taiwan	409.2	14.2	15.5	
RPS Group plc	United Kingdom	1136.0	8.4	7.6	7.0
Hyder Consulting PLC	United Kingdom	299.2	7.6		6.8
Tetra Tech Inc.	United States	1924.4	13.2	7.8	7.1
EQM Technologies & Energy, Inc.	United States	16.4	221.3		

Company	Country	EV A\$m	EV/EBITDA FY2013	EV/EBITDA FY2014	EV/EBITDA FY2015
Minimum		3.3	1.4	4.9	4.4
Maximum		4316.9	221.3	15.5	11.7
Average		771.2	9.3 ^(a)	9.0	7.4
Median		299.2	8.7 ^(a)	8.0	7.1

Source: Capital IQ as at 10 July 2014

(a) Adjusted mean and median exclude outliers - EQM Technologies & Energy Inc.

With reference to Table E.2 above, we note the following:

- Enterprise values were calculated as the sum of the market capitalisation as at 10 July 2014 and each company's most recent net borrowings, as reported;
- The companies set out above are all listed on exchanges in Australia, India, Japan, Netherlands, Taiwan, United Kingdom and the United States of America;
- The adjusted average and median historic EV/EBITDA FY2013 multiple is 9.3 times and 8.7 times respectively;
- The average and median forward EV/EBITDA FY2014 multiple is 9.0 times and 8.0 times respectively;
- The average and median forward EV/EBITDA FY2015 multiple is 7.4 times and 7.1 times respectively;
- There are significant size differences between the companies in Table E.2 and OCT or the Combined Entity;
- Smaller companies listed in Table E.2 generally trade at lower multiples relative to the larger companies (measured by enterprise value);
- The services, or mix of services, provided by each of the companies in Table E.2 is different to those of OCT or the Combined Entity;
- The geographic regions in which the companies in Table E.2 operate are different to those of OCT and the Combined Entity; and
- The data in Table E.2 relates to trading in minority interest parcels, or quantities of shares that do not afford the purchaser the ability to control the entity in which shares are purchased. Accordingly, the multiples in Table E.2 are not likely to include any control premium which may be applied to the entities listed should a controlling stake in the entities be sold.

E.2 Comparable Transactions

To assist us in determining the most appropriate multiple to apply to the earnings of OCT, it is useful to analyse sale transactions of companies which would be considered broadly comparable. Generally, the price achieved in mergers or acquisitions of companies provides reliable evidence of earnings multiples for a valuation. The acquisition price is often regarded to represent the market value of a controlling interest (including a control premium where a majority ownership results from the purchase) in the company being analysed.

Each sales transaction is a product of a combination of factors which may or may not be specific to the transaction, including:

- Economic factors;
- Regulatory framework;
- General investment and share market conditions;
- Synergy benefits specific to the acquirer; and
- The number of potential buyers.

We have conducted research into comparable transactions using numerous research publications to which we subscribe. We note that the information needs to be considered with caution for reasons which include the following:

- Businesses for which publicly available information is available upon sale are generally much larger than OCT in terms of enterprise value;
- Many transactions which are publicly announced relating to businesses that may be considered broadly comparable to OCT do not provide financial data (e.g. earnings multiples) in public announcements; and
- Few businesses for which public sale information is available are directly comparable to OCT.

Notwithstanding the above issues, details regarding the transactions identified and the calculation of the merger and acquisition earnings multiples are provided in Table E.3 below.

Table E.3: Broadly Comparable Transaction Multiples

Date	Target Country	Target	Acquirer	Deal Value A\$m	EBITDA multiple
06/20/2014	United Kingdom	Testconsult Limited	James Fisher and Sons Public Limited	14.5	5.7
08/28/2013	Australia	Greencap Limited	Wesfarmers Industrial And Safety Pty Ltd.	21.2	5.0
08/16/2013	United States	National Technical Systems Inc.	Aurora Capital Group	372.9	14.7
10/01/2012	United Kingdom	Clouds Environmental Consultancy Ltd.	Utilitywise Plc	1.6	5.5
03/08/2012	United States	Thermo Fluids, Inc.	Nuverra Environmental Solutions, Inc.	230.8	8.1
02/06/2012	United States	ATC Group Services, Inc.	Cardno USA, Inc	98.7	6.6
07/20/2011	United States	Nalco Holding Co.	Ecolab Inc.	7,634.2	11.3
Minimum				1.6	5.0
Maximum				7,634.2	14.7
Average				1,196.3	8.1
Median				98.7	6.6

Source: Capital IQ as at 10 July 2014

We note the following with regard to the multiples observed from the selected transactions set out in Table E.3 above:

- The selected transactions related to acquisitions of a 100% interest in the target company; and
- The multiples shown in Table E.3 are on a controlling interest basis and are inclusive of a premium (i.e. the multiples in Table E.3 are on a controlling interest basis).

A summary description of the target entities for the transactions listed in Table E.3 is included in Table E.4 below.

Table E.4: Comparable Transactions

Target	Deal Comments
Testconsult Limited	James Fisher and Sons Public Limited Company acquired Testconsult Limited for £8.0 million in June 2014. Testconsult Limited provides structural materials testing, structural investigation, foundation testing, and instrumentation and monitoring services in the United Kingdom and Ireland. The company offers concrete materials, soils and aggregate, bituminous materials, pyrite, chemical, and specialist testing. It also provides environmental monitoring services, including noise monitoring, vibration monitoring, and wind farm noise assessment.
Greencap Limited	Wesfarmers Industrial And Safety Pty Ltd. entered into an agreement to acquire Greencap Limited from a group of investors for A\$21.2 million in cash in August 2013. Greencap Limited provides professional consulting services, and advice in relation to a range of risk management services primarily in Australia and Southeast Asia. The company's risk management services include workplace health and safety, property risk management, business continuity management, sustainability, environmental, asbestos and hazardous materials risk management, contaminated sites management, and fire safety and engineering services, as well as training, testing, and Web based risk management solutions.
National Technical Systems Inc	Aurora Capital Group acquired National Technical Systems Inc. for approximately \$270 million in cash in August 2013. As per the terms of the agreement Aurora Capital Group acquired 11.7 million shares at an offer price of \$23 per share of National Technical Systems. Aurora Capital Group also acquired all outstanding options of National Technical Systems namely, 0.35 million options at an offer price of \$23 per share. National Technical Systems, Inc. provides testing and engineering services to the aerospace, defence, telecommunications, automotive, energy, consumer products, commercial and industrial products, and medical markets worldwide. The company performs management registration services and certification services, and provides engineering, product certification, product safety testing, and product evaluation services, as well as offers supply chain management services.
Clouds Environmental Consultancy Ltd	Utilitywise Plc acquired Clouds Environmental Consultancy Ltd for £1.04 million in October 2012. The total consideration consisted of £0.36 million in cash and £0.3 million in Utilitywise Plc' shares upfront and the balance payable over the 12 months following the transaction, depending on certain EBITDA targets being met. Clouds Environmental Consultancy Ltd., provides energy and environmental management services to clients in public and private sector companies in the United Kingdom. It offers carbon management services, energy management services, and environmental management services.

Target	Deal Comments
Thermo Fluids Inc	Heckmann Corporation entered into a definitive stock purchase agreement to acquire Thermo Fluids, Inc. for approximately \$250 million in cash and stock in March 2012. The consideration consisted of approximately \$230 million of cash and \$17.5 million in Heckmann Corporation shares. Thermo Fluids, Inc. operates as an environmental services and oil recycling company in the western United States. The company's green shield services include used oil recycling, used oil filter recycling, antifreeze recycling and sale of remanufactured antifreeze/coolant products, commercial and industrial wastewater recycling, parts washing and solvent recycling. Its industrial waste management services comprise industrial recycling, vacuum services, hazardous and universal waste management, used empty drum removal and recycling, lab pack services, paint waste liquids and solids, spill clean-up, tank clean outs, pressure washing, sand blasting, tank certifications, on-site remediation, environmental reporting, on-site recycling, on-site sampling and analysis, ash caustic or acid cleaners, asbestos abatement, and refinery waste management.
ATC Group Services Inc	Cardno USA, Inc. acquired ATC Group Services Inc. for approximately \$110 million in February 2012. Under the transaction, Cardno paid \$101 million upfront with the balance of \$5 million payable 18 months after completion. ATC Group Services, Inc., provides integrated services in environmental consulting, industrial hygiene, geotechnical engineering, government services, environmental health and safety training, construction materials testing, and special inspection in the United States.
Nalco Holding Co	Ecolab Inc acquired Nalco Holding Co for \$5.4 billion in cash and stock in July 2011. Nalco Holding Co. provides water treatment and process improvement services. It offers energy services, such as refinery and petrochemical processing services, water treatment services for natural gas, petroleum, and petrochemical industries. The company also offers analytical, automation and remote monitoring, consulting, delivery and inventory, environmental hygiene, integrated water management, online, outsourcing, and water pre-treatment services, and equipment solutions.

Source: Capital IQ as at 10 July 2014



Appendix F - Technical Expert's Report



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SERVICES

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Project Development
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Grant Applications

GEP 6 & 8

Independent Expert Report

Prepared for BDO Corporate Finance (QLD) Ltd

27 July 2014

Dr Graeme Beardsmore

Executive Summary

The purpose of this report is to provide an independent expert opinion on the technical value of two Geothermal Exploration Permits (GEPs) held by Hot Rock Ltd (HRL) in Victoria at the date of this report. Specifically, this report considers the current value of GEP-6 near Portland and GEP-8 near Warrnambool.

There are two major possible revenue streams from the tenements. The first is through the conversion of geothermal power to electrical power, with subsequent sale of electricity and associated 'green products'. The second is through the direct sale or utilisation of the thermal power.

I concur with a previous valuation on the electricity generating potential of the tenements by Jacobs Engineering Group Incorporated (attached to this report as an appendix) that the value of the geothermal tenements due to their electrical power potential is **zero** for the following reasons:

- i) The project economics are not attractive to investors under the current and foreseeable energy policy (including renewable energy policy) in Australia. This is substantiated by the fact that, as advised by HRL, HRL has been unable to secure a funding partner for its Otway Basin geothermal projects in spite of five years of searching;
- ii) HRL has written down the value of the Geothermal Exploration Permits to zero in its financial accounts;
- iii) An ongoing financial liability exists from ownership of the Geothermal Exploration Permits associated with the requirement for the permit holder to continue exploration of the tenements (such as through exploration drilling). However, the tenements can be rescinded at any time at no cost to HRL so this financial liability can be reduced to zero.

I further conclude that there is a mean positive value for the tenements of **\$100,000** due to their potential for direct use of the geothermal energy. The following reasons underpin this conclusion:

- i) There are credible development scenarios and precedents for commercially successful district heating and spa resort projects elsewhere

in Victoria and internationally that could be replicated in GEP-8 (and possibly GEP-6);

- ii) The market value of the licences are substantially less than the potential value of the projects because the projects would have some flexibility over location, timing and geothermal fluid temperature, each of which could avoid the need for obtaining the geothermal licences from HRL.

The actual value that a purchaser might attach to GEP-8 (or GEP-6) would depend entirely on his or her own development plans, projected financial performance, flexibility with respect to location and reservoir temperature, and appetite for risk. There is a wide range of possible permutations of these variables, but the value in any specific circumstance is unlikely to vary outside the range \$50,000–\$200,000.

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1.0 Introduction

The purpose of this report is to provide an independent expert opinion on the technical value of two Geothermal Exploration Permits (GEPs) held by Hot Rock Ltd (HRL) in Victoria at the date of this report. Specifically, this report considers the current value of GEP-6 near Portland and GEP-8 near Warrnambool, whose geographical extents are illustrated in Figure 1 below.

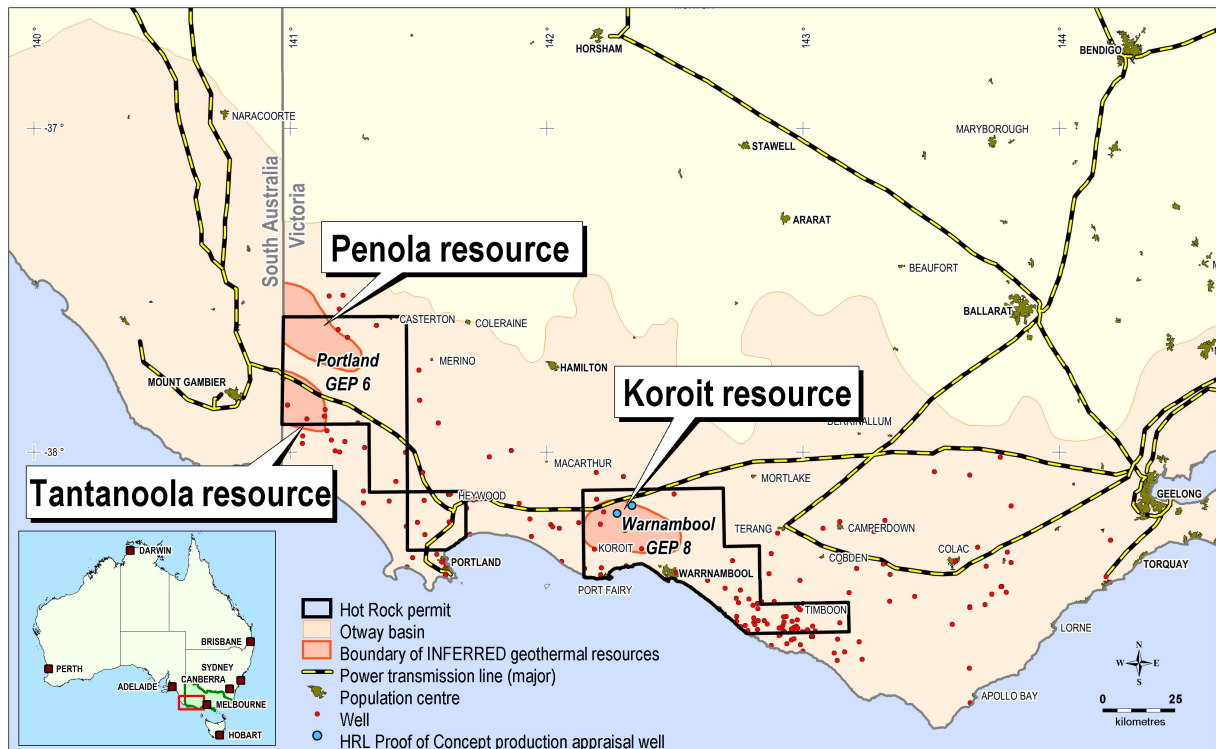


Figure 1. GEP-6 and GEP-8 within the Otway Basin in western Victoria.

The Victorian government first awarded GEP-6 and GEP-8 to HRL for a period of five years in April 2007. After the conclusion of that first period, the Victorian government extended the permits (with a required $\geq 50\%$ reduction in size) for a further period of five years expiring 13 December 2018.

To reach my conclusions on the technical value of the tenements, I reviewed a number of relevant documents and primary sources of data. These included:

- A discounted cash flow model for a 65 MWe (gross) power plant at Koroit (in GEP-8) prepared by HRL;

- Barnett, P. (10 July 2014). Notes to accompany HRL financial model for a 65 MWe (gross) plant at Koroit;
- Barnett, P. (June 2010). Characterization and Assessment of Geothermal Resources in GEP-23 & GEP-6;
- Barnett, P. (Sept 2009). Statement of Estimated Geothermal Resources for the Koroit Geothermal Power Project, Victoria, GEP-8.
- Jacobs Engineering Group Inc. (July 2014). Geothermal Exploration Permit Review GEP6 & GEP8;
- Well completion reports for key petroleum wells.

Over and above those documents, my own experience and work over the past decade has provided me with a firm understanding of the temperatures and geothermal potential expected within the Otway Basin. This work has included:

- Geothermal Resource Statement for Greenerth Energy Ltd in the eastern Otway Basin¹;
- Geothermal Resource Statements for Panax Geothermal Ltd in the western Otway Basin².

2.0 Geological setting

GEP-6 and GEP-8 lie within the Otway Basin in western Victoria (Figure 1). The Otway Basin initiated during crustal extension on the now southern margin of the Australian mainland in the Cretaceous. Its stratigraphy can be summarised from Boulton and Hibbert (2002)³ as follows.

The top of the stratigraphy is Tertiary in age and composed of limestone and interbedded poorly consolidated sandstone and mudstone. The Late Cretaceous

¹ **Beardsmore, G.** (Dec 2008). Anglesea Geothermal Play GEP-10, Statement of Inferred Geothermal Resources. Prepared for Greenerth Energy Ltd.

² **Beardsmore, G.** (Feb 2009). Limestone Coast Project: Penola Geothermal Play Statement of Geothermal Resources. Prepared for Panax Geothermal Ltd.

³ **Boulton, P.J. and Hibbert, J.E.** (Eds), 2002. The petroleum geology of South Australia. Vol. 1: Otway Basin. 2nd ed. South Australia Department of Primary Industries and Resources. Petroleum Geology of South Australia Series, Vol. 1.

Sherbrook Group lies unconformably beneath the Tertiary unit. It is a post-rift sequence deposited on the continental margin during seafloor spreading between Australia and Antarctica. The formations of the Sherbrook Group are dominantly medium to coarse-grained quartz sandstone; silty mudstone; laminated, black, carbonaceous and pyritic shale; carbonaceous and micaceous siltstone.

The Early Cretaceous Eumeralla Formation consists of laminated, carbonaceous claystone with minor sandstone interbeds. The uppermost boundary is an angular unconformity with the Sherbrook Group. It exceeds 1,500 m in thickness in many places and is the dominant 'thermal blanket' in the Otway Basin.

The Crayfish Group consists of a system of channels and flood basin deposits with minor episodes of fluvial deposition, strongly controlled by fault locations. It is separated from the overlying Eumeralla Formation by an angular unconformity. The Upper Crayfish Group is a shale and siltstone suite that is alternatively known as the Laira Formation.

Below the Laira Formation lies the Early Cretaceous Pretty Hill Formation. It is typically a quartz-feldspar litharenite with varying proportions of siltstone to shale interbeds. Accessory minerals include mica, garnet, zircon, tourmaline, rutile, monazite, ilmenite, leucoxene, sphene, apatite and opaque grains.

The Casterton Formation lies at the base of the Otway Basin sequence. It is regarded as a pre-rift or early syn-rift deposit, with strong structural controls on deposition and contemporaneous volcanism. It is a mix of shale, sandstone and volcanic lithologies lying unconformably below the Pretty Hill Formation.

3.0 Estimated Recoverable Heat

Table 1 below reproduces a summary of the estimated recoverable heat from GEP-6 and GEP-8 from a report by Jacobs Engineering Group Incorporated (attached as an appendix to this report). The estimates were derived from calculations originally made by Hot Rock Ltd.

Table 1. Summary of estimated recoverable heat from GEP-6 and GEP-8.

Tenement	Reservoir area (km ²)	Reservoir volume (km ³)	Assumed recoverability factor	P50 estimated recoverable heat (PJ)	Estimated electrical generation potential (MWe)
GEP-8	450	390	10%	6,660	1,240
GEP-6	298	315	10%	5,670	480
GEP-6	180	130	5%	1,100	180
TOTALS	928	835		13,430	1,900

Original source: HRL (15 Feb 2013), *The Case for Hot Sedimentary Aquifer (HSA) Geothermal exploration in the Otway Basin*

I reviewed the methodology, assumptions and much of the basic data that HRL relied upon to estimate the recoverable heat. HRL's methods and calculations were performed in accordance with methods recommended in the Australian Geothermal Reporting Code (2010)⁴, and derived from a probabilistic monte carlo calculation of 'stored heat' with an assumed 'recoverability factor' of either 5% or 10%. The numbers quoted are the 'expected', or 50% likelihood (P50), values from the monte carlo simulations.

I can confirm from my review that:

- i) HRL's calculations were performed according to best practice recommendations of the Australian Geothermal Energy Association;
- ii) Borehole temperature data, formation thicknesses and other relevant parameters referred to in HRL's calculations were consistent with the primary data sources in all cases that I independently verified;
- iii) The estimated recoverable thermal energy is sufficient to support a 65 MWe (gross) power plant within each of GEP-6 and GEP-8.

4.0 Estimated Value

The legislation controlling the exploration and extraction of geothermal energy in Victoria is contained within the Geothermal Energy Resources Act (2005) and the

⁴ Australian Geothermal Reporting Code Committee. The Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves, Second Edition (2010).
http://www.agea.org.au/media/docs/the_geothermal_reporting_code_ed_2.pdf

Geothermal Energy Resources Regulations (2006). These documents ensure that Hot Rock Ltd owns the rights to all thermal energy contained within rocks and fluids deeper than 1,000 m and hotter than 70°C beneath GEP-6 and GEP-8. Neither the Act nor the Regulations stipulate how the thermal energy must be used after extraction. There are, therefore, two major possible revenue streams from extracted thermal energy. The first is through the conversion of the thermal power to electrical power, with subsequent sale of that power. The second is through the direct sale or utilisation of the thermal power. I consider below the present value pertaining to each of these possible markets.

4.1 Electricity generation

Hot Rock Ltd's principal focus is to realise the geothermal potential of GEP-8 through the construction and commissioning of a 65 MWe (gross) geothermal power plant at Koroit. The proposed power plant would export 50 MWe of power into the National Electricity Market. Revenue would come from the sale of electricity and associated 'green' products such as renewable energy certificates. If commercially successful, HRL would construct a similar plant within GEP-6.

In assessing the value of the geothermal licences related to these power generation plans, I studied in detail a valuation of HRL's Koroit project carried out by Jacobs Engineering Group Incorporated and attached as an appendix to this report. Jacobs' valuation was based on an estimate of the net present value of the power plant project using a discounted cash flow model provided by HRL. Major capital costs included drilling of production and injection wells, installation of steam field equipment, and construction of the power plant. Predicted revenue came from electricity generated plus products such as renewable energy certificates.

Jacobs' critically assessed HRL's predicted expenses and revenue streams. They reviewed inputs to that model against industry benchmarks for costs and industry projections for revenue. Importantly, Jacobs confirmed the veracity of key calculations and ran a number of different modelling scenarios to assess the sensitivity of HRL's findings to specific, highly uncertain, input variables.

I concur with Jacobs' conclusion that the value of the geothermal tenements due to their electrical power potential is zero for the following reasons:

- i) The project economics are not attractive to investors under the current and foreseeable energy policy (including renewable energy policy) in Australia. This is substantiated by the fact that, as advised by HRL, HRL has been unable to secure a funding partner for its Otway Basin geothermal projects in spite of five years of searching;
- ii) HRL has written down the value of the Geothermal Exploration Permits to zero in its financial accounts;
- iii) An ongoing financial liability exists from ownership of the Geothermal Exploration Permits associated with the requirement for HRL to continue exploration of the tenements (such as through exploration drilling). However, the tenements can be rescinded at any time at no cost to HRL so this financial liability can be reduced to zero.

4.2 Direct use of heat

There are alternative revenue streams that could conceivably be pursued using the geothermal energy over which HRL holds the rights. These include the direct use of heat for space heating or recreation. There are good examples of two such projects in Victoria. A geothermal district heating system previously operated in Portland by extracting 60°C water from a formation at about 1,200 m depth and passing the water through hydronic heating systems in a number of buildings and a public swimming pool. The system was decommissioned in 2006, but moves are now afoot for the Glenelg Shire Council to recommission, own and operate the system.⁵ When in operation, the system could reportedly saved the Glenelg Shire Council in excess of \$300,000 per year on heating bills.⁶ At 60°C, that aquifer is excluded from the Geothermal Energy Resources Regulations (2006) and so is not owned by HRL. However, it does suggest that commercial value might be attached to any aquifer hotter than 70°C (and thus regulated), beneath (for example) Warrnambool, if it could be harnessed for less than about \$5,000,000. This could be feasible with a single borehole system like that proposed for Portland.

⁵ www.glenelg.vic.gov.au/Media_Release_Geothermal_Bore_to_Be_Entirely_Council_Owned_and_Managed

⁶ www.energybusinessnews.com.au/energy/geothermal/glenelg-shire-campaigns-for-portland-geothermal-redevelopment/

Another potential commercial opportunity for exploiting the geothermal potential of GEP-8 (and possibly GEP-6) might lie in the development of a geothermal spa resort similar to the successful Peninsula Hot Springs on the Mornington Peninsula. The Peninsula Hot Springs extracts 50°C water from a depth of about 670 m, and uses it in open air and private hot bathing pools. Personal communications with the Peninsula Hot Springs owner suggest that the facility employs in excess of 200 people, caters to over 200,000 visitors annually, and turns over in the order of \$15 million annually. While exploitation of that aquifer falls outside the Geothermal Energy Resources Regulations (2006), a resort in close proximity to the Great Ocean Road and with access to an aquifer >90°C could potentially generate its own power as well as derive substantial revenue from tourism. An international example of this type of eco-resort is the Bad Blumau hotel and spa in Austria, which generates its own power, space heating and hot spa water from a 3,000 m deep aquifer at 110°C⁷.

The location of GEP-6 makes it less attractive for direct use developments because of its smaller population centres and greater distance from popular tourist routes. My valuation therefore considers only GEP-8. In assessing the likely value of GEP-8, I adopt the same definition of market value as Jacobs in their valuation attached as an appendix to this report: “the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.” This definition assumes that a potential buyer exists and that negotiations are possible to reach a mutually acceptable sale value.

I used the following simplistic scenario (loosely modelled on the Peninsula Hot Springs) to estimate what this value might be. A potential purchaser wishes to develop an eco-resort that will generate its own power, provide spa treatments and thermal pools for relaxation and tourism. The development will cost \$10 million for drilling and power plant, plus \$25 million for constructing the resort itself. The entire \$35 million will be funded through a loan at 10% interest, drawn down over three years and paid off in equal instalments over an 18-year period. Major construction will take two years, with revenue beginning in the third year while construction and

⁷ Legmann, H. (2003). The Bad Blumau geothermal project: a low temperature, sustainable and environmentally benign power plant. *Geothermics*, 32(4/6), 497–503.

expansion continues for another seven years. Ongoing expenses include \$5 million in wages and \$1 million in maintenance annually (both indexed at 3% annually).

Revenue is from 130,000 visitors in the first year of business, increasing at 2% per year. Each visitor in the first year spends an average of \$75, indexed at 3% for subsequent years. Figure 2 below summarises the revenue, expenses and cash flow of the project over 20 years.

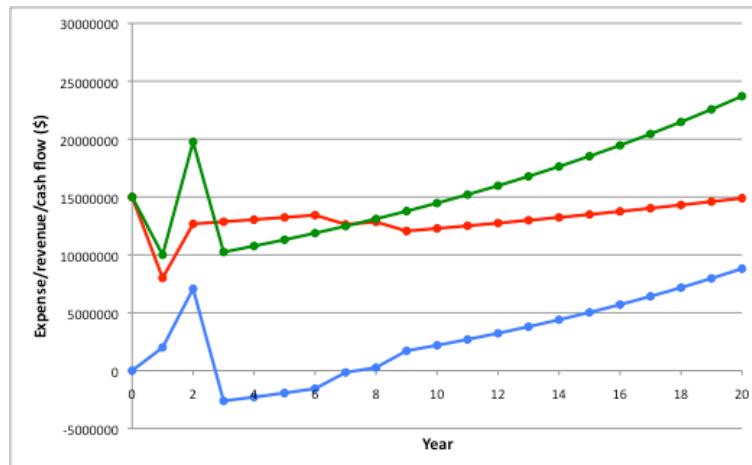


Figure 2. Revenue (green), expense (red) and cash flow (blue) per year of the example project.

For the scenario described above and a discount rate of 14% (for consistency with Jacob's assessment of power plant economics), the net present value (NPV) for the 20-year project would be \$10.3 million.

The NPV arguably represents a base value for the tenement, but this would be modified significantly downwards by a number of factors:

- i) The purchaser could choose to wait four years until HRL's tenements expired or were relinquished. By deferring the beginning of the project by four years, the NPV reduces to \$6.1 million. This suggests that there is a \$4.2 million advantage to beginning the project immediately, which puts a new upper limit on the present value of the tenement.
- ii) The developer could relocate the project outside the limits of GEP-8 and thus away from Warrnambool. This might reduce initial visitor numbers from 130,000 to 125,000, which would reduce NPV from \$10.3 to \$7.4

million. This represents a \$2.9 million advantage to being inside GEP-8, which puts a new upper limit again on the present value of the tenement.

- iii) The developer would be in a strong bargaining position because they could choose instead to target an aquifer <70°C (at the cost of forgoing generation of their own power) and thus circumvent the requirement for a geothermal licence. The economics of the project would be very different, but the success of the Peninsula Hot Springs demonstrates that a lower temperature aquifer can still provide for a profitable project.
- iv) GEP-8 currently has an associated work commitment to the value of \$9,970,000 over the life of the permit. Any purchaser intending to develop a spa resort would need to renegotiate the terms of the licence with the state government. There is no guarantee that the government would grant any amendments to the work plan, which would represent an almost \$10 million risk to the purchaser.

Given the points above, I conclude that the current market value for GEP-8 with respect to direct use of geothermal energy for space heating or spa facilities is only a small fraction of the NPV calculations for the hypothetical project described above. The risk inherent in the work program tied to the tenement, coupled with alternative location and project options that a developer would have to remove him from the requirement for GEP-8, would limit the market value of the tenement to about 1% of the NPV of a potential project, or \$100,000.

Note that no potential developer has been identified, so this valuation is based on a hypothetical situation at present.

5.0 Uncertainties

All predictions of the future performance of commercial projects contain inherent uncertainties that impact on the conclusions of financial models. The assessment described above is based on a hypothetical project loosely modelled on the successful Peninsula Hot Springs on the Mornington Peninsula. The value of \$100,000 was derived using the assumptions listed above. The actual value that a

purchaser might attach to GEP-8 (or GEP-6) would depend entirely on his or her own development plans, projected financial performance, flexibility with respect to location and reservoir temperature, and appetite for risk. There is a wide range of possible permutations of these variables, but the ultimate value to the purchaser is unlikely to vary beyond the range 50%–200% of the stated value, or \$50,000–\$200,000.

6.0 Declaration of interest

No one involved in the production of this report holds any interest in HRL or in the company it is proposing to acquire. Payment for this report is a fixed fee that is not dependant on any additional fee or incentive payable by HRL or another party based on the conclusions reached.

7.0 Additional notes

The sole purpose of this report is to provide a valuation of GEP-6 and GEP-8 in accordance with the scope of services agreed between Hot Dry Rocks Pty Ltd and BDO Corporate Finance (QLD) Ltd. In preparing this report, the author has relied upon information provided by HRL and/or from other sources. The author independently verified the accuracy of a random sample of such information by reference back to primary data sources. If other information is subsequently determined to be false, inaccurate or incomplete then it is possible that the author's observations and conclusions as expressed in this report may change.

The author's conclusions are valid at the date of this report. The passage of time or impacts of future events may require further examination of the project, with re-evaluation of the data, findings, observations and conclusions expressed in this report. The author prepared this report with the usual care and thoroughness of the consulting profession, for the sole purpose described above and by reference to applicable standards, guidelines, procedures and practices at the date of issue of this report. For the reasons outlined above, however, no other warranty or guarantee, whether expressed or implied, is made as to the data, observations and findings expressed in this report, to the extent permitted by law.

This report should be read in full and no excerpts are to be taken as representative of the findings. The author accepts no responsibility for use of any part of this report in any other context.

8.0 Valmin Code compliance

The purpose of the Valmin Code (2005)⁸ is “to provide a set of fundamental principles and supporting recommendations regarding good professional practice to assist those involved in the preparation of Independent Expert Reports that are public and required for the assessment and/or valuation of Mineral and Petroleum assets and securities.” Geothermal exploration permits are neither Mineral nor Petroleum assets, and as such are not strictly governed by the Valmin Code. In spite of this, every effort has been made to voluntarily comply with the Valmin Code in the preparation of this report, especially its fundamental principles of materiality, competence, independence and transparency.

Dr Beardsmore, the author of this report, has over 10 years experience relevant to the style and type of geothermal play under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the Second Edition (2010) of the ‘Australian Code for Reporting Exploration Results, Geothermal Resources and Geothermal Reserves’. At the time of publication, he appears on the Register of Practicing Geothermal Professionals maintained by the Australian Geothermal Energy Group Incorporated, and abides by its code of ethics.

Dr Beardsmore made no site visits to the tenements referred to in this report, relying on material provided by Hot Rock Ltd, material in the public domain, and his own previous experience.

Dr Beardsmore consents to the public release of this report in its entirety.

Signed: 

 Graeme Beardsmore

27 July 2014
 Date

⁸ Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code)

Appendix

Jacobs Engineering Group Inc. (July 2014).
Geothermal Exploration Permit Review GEP6 & GEP8.

Geothermal Exploration Permit Review

GEP6 & GEP8

VF00020-OOT-RP-0001 | 1

25 July 2014



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A	19/07/14	First Draft	C. Allen		
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1	26/07/14	Final Report	C. Allen	S Hinchliffe	S Hinchliffe

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Appendix A. Terms of Engagement

Appendix B. Curriculum Vitae

Executive summary

Jacobs has been engaged by Hot Rock Limited Australia (“HRL”) to provide a view on the value for Geothermal Exploration Permits 6 and 8 located in the Otway Sedimentary Basin of Victoria. These two tenements have been most recently renewed by HRL in 14 May 2013.

The valuation is based on the cost of developing the geothermal resource in each tenement and the expected value of the electricity generated including the value of “green products” such as renewable energy certificates (“RECs”). Primary costs include the drilling of production and injection wells, the installation of steamfield equipment, and the construction of a power station with a nameplate rating of 65 MW.

The valuation also relies on a financial model provided by HRL for a 65 MW power station. The inputs to that model have been reviewed for reasonableness against industry benchmarks for costs and industry projections for unit revenue. Scenarios have been run to allow for the relatively high degree of uncertainty for various inputs. Jacobs has not performed a formal audit of the model but has reviewed the inputs and checked key calculations for errors. The technical and financial inputs to the model are provided in Attachment C.

Jacobs has also reviewed tenement information provided by HRL in support of the resource potential within the areas to support the construction of the modelled power station. A list of documents reviewed is provided in Section 4. Jacobs has only verified that the conclusions drawn in these reports support the development of a 65 MW power station in both GEP-6 and GEP-8. A generous assumption has been made regarding the possible location of the power plant. In both tenements, it is assumed that the power plant can be sited no more close to a high voltage major transmission line.

The renewals of GEP-6 and GEP-8 came with a schedule of geothermal exploration activities that the permit owner, HRL, is required to carry out within the permit area as a condition of retaining the permit. The cost of carrying out these activities is provided in the renewal notice as \$9,650,000 for GEP-6 and \$9,970,000 for GEP-8. Based on the results of the financial model for a variety of scenarios, Jacobs has determined that, under all reasonable cases, HRL’s compliance with the conditions of the permits would provide no economic benefit to HRL or its shareholders and would collectively result in an unrecoverable loss of almost \$20,000,000. This view is based on a discount cash flow evaluation method of a fully developed site using a discount rate of 10.5%. Application of that method is described in Section 6.

Jacobs is of the opinion that the value of the geothermal tenements is, from a materiality consideration, zero for the following reasons:

- 1) The DCF demonstrates that the project economics are not attractive to investors since, under the current and foreseeable energy (including renewable energy) policy in Australia. This is substantiated by the fact that, as advised by HRL, HRL has been actively searching for a joint venture (funding) partner for our Otway Basin geothermal projects to assist in the funding of a drilling and testing program for over 5 years without success. They have undertaken many search campaigns during this period involving their own efforts and employing external consultants, which has involved contacting many hundreds of potential partners in Australia and overseas. This experience is consistent with that of Jacobs in its efforts in supporting other geothermal developers in Australia raise funding for similar projects;
- 2) Whilst there may be an opportunity to provide heating through direct geothermal energy use, Jacobs is of the view that the exploration drilling costs for such, bearing in mind that the typical success factor for an exploration well is 50 to 60% for conventional geothermal wells¹. Given that conventional geothermal wells are typically more shallow than the wells proposed to be drilled by HRL, and that there is much greater exploration experience in conventional geothermal exploration than with Hot Sedimentary Aquifers, Jacobs is of the view that the success rate for Hot Sedimentary Aquifer exploration wells is likely to be sub 50%. As such, and in Jacobs’ opinion, this would make the cost for drilling exploration wells for direct geothermal heating applications prohibitive.
- 3) HRL has advised that it has written down the value of the Geothermal Exploration Permits to zero value in its financial accounts;
- 4) An ongoing financial liability exists from ownership of the Geothermal Exploration Permits associated with the requirements of the permits for the permit holder to commit an agreed amount of expenditure for continued exploration of the tenement and furthering of the geothermal project (such as through exploration drilling). This coupled with the economic non-viability of the project under the current and foreseeable

¹ Success of Geothermal Wells: A Global Study, International Finance Corporation, A World Bank Group, June 2013

energy policy and renewable energy pricing mechanism in Australia, in itself, results in the Geothermal Exploration Permits having a negative financial value;

- 5) However, given the fact that the Geothermal Exploration Permits can be rescinded at no cost to the license holder then this financial liability can be reduced to zero, thereby resulting in a zero market value for the geothermal tenement.

Jacobs is also of the opinion that the value of any intellectual property (IP) owned by HRL in relation to its business of developing geothermal projects in Australia is zero for the following reason:

- 1) The IP largely resides in knowledge of the geothermal resource (ie the geothermal resource evaluation). Given that the economics of any project that would utilise that geothermal resource are non-viable, then the IP associated with that resource has no economic value.
- 2) HRL has no employees and hence has retained no in-house 'know how' with respect to geothermal development, relying solely on external consultants.

1. Introduction

1.1 Valuation approach

The valuation approach taken in this document is the determination of a “market value” for the tenements as recognised by the Australian Tax Office (“ATO”). While this report is not completely aligned with all ATO requirements of a market valuation report, it is consistent with the approach.

The ATO provides the following guidance on the requirements of a market valuation and the associated market valuation report:

A valuation should:

- be replicable - in effect, this means the valuation should be documented and explained well enough that another person or valuer can understand how the value was determined, and
- preferably be undertaken by a suitably qualified and experienced person in relation to the asset being valued

A valuation report should:

- be understandable, and
- objectively demonstrate the valuation process undertaken in accordance with valuation industry practices

If a valuation report does not adequately explain the process undertaken then the ATO may not accept that the value reached by that process is the market value.

1.2 Market value

Current tax law does not define market value in any general provision. As a result, ‘market value’ usually takes the ordinary meaning when applied to non-real property as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Further, market value should be assessed at the ‘highest and best use’ of the asset as recognised by the market.

Fair value is an accounting concept specifically used for financial reporting purposes. It is not always an identical concept to market value, although it is generally defined in a similar way to market value. Fair value is defined in International Financial Reporting Standards 3, Appendix A, as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction”.

International accounting and valuation standards bodies have adopted 'fair value' for financial reporting purposes as a means of relating financial statements to market-based values.

Fair value can be measured in reference to the:

- quoted market price in an active and liquid market, if available
- current or recent market prices for the same asset or similar assets
- net present value (if an established cash flow can be identified), and
- depreciated replacement cost (DRC) - for specialised assets that are not traded in an active and liquid market

Where an asset has been declared surplus to requirements, fair value will be represented by its 'market selling price' or 'market value at the highest and best use'.

The net present value (“NPV”) approach has been used to estimate fair value or market value in the case of GEP-6 and GEP8. It is noted that for these assets, there is no existing cash flow. However, NPV approach is an accepted industry method for valuing power station projects even in the concept stage and pre-feasibility

stages of development. Power station development in GEP-6 and GEP-8 is in the concept stage of development.

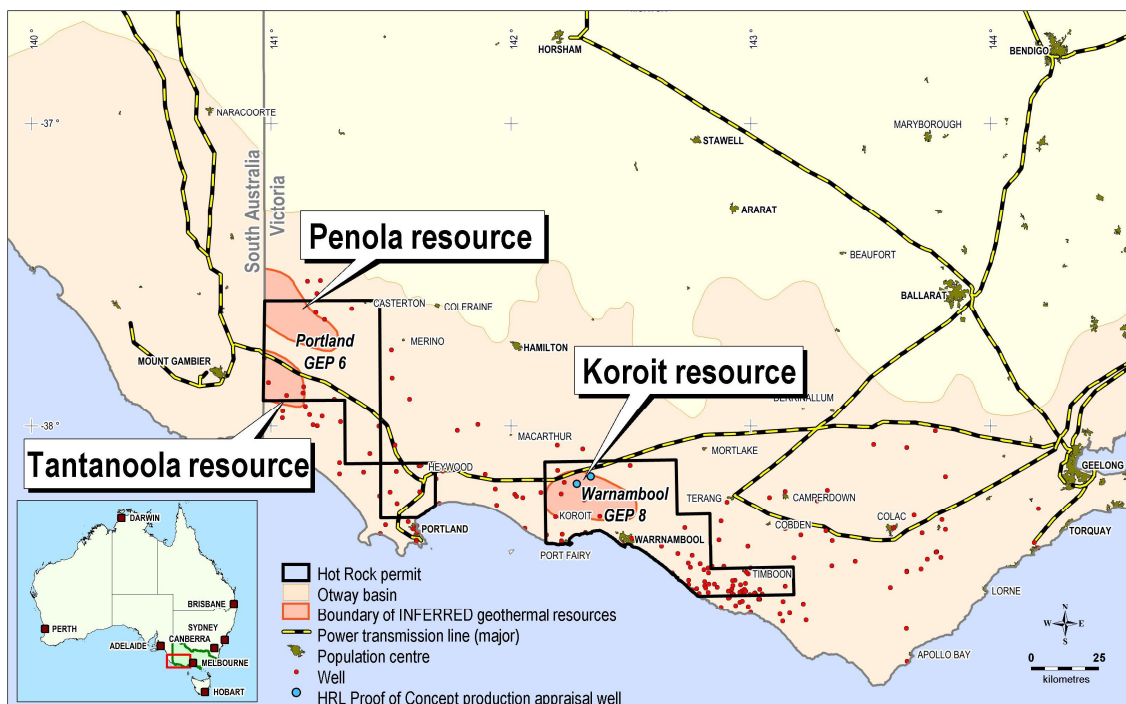
2. Description of the assets

2.1 Tenement and resource locations

The geothermal resources in GEP-6 and GEP-8 are reportedly large and are ideally located for power generation as the resources are close to both major electrical transmission lines and power markets. The geology is favourable, with good temperatures and evidence for both primary and secondary types of permeability. This is expected to provide high well production flow rates and relatively efficient geothermal electricity generation.

Figure 1 shows the assumed location of the generation plants that are modelled in light blue. These locations are within known geothermal resource areas and within 10 km of the high voltage (“HV”) transmission lines shown as dotted lines. The resource area in GEP-6 is Tantanoola and for GEP-8 is Koroit. GEP-6 also contains an additional geothermal resource area known as Penola. Penola is a larger resource than Tantanoola at only a slightly further distance for transmission.

Figure 1 - GEP-6 and GEP-8 showing assumed site and HV transmission



Source: Hot Rock Limited website: <http://www.hotrockltd.com/irm/content/otway-basin.aspx?RID=210>

2.2 Expected geothermal resource potential

The geothermal resource potential of GEP-6 and GEP-8 is provided in Table 1. It is noted that several areas with each tenement’s geothermal resource(s) are shown to be significantly greater than that required to support the 65 MW power station that is modelled. Therefore, the value of the tenements will be a multiple of the value that can be shown for the development of a single power station, time value adjusted for the expected schedule for developing multiple sites.

Table 1 - GEP-6 and GEP8 resource assessments

Resource	Tenements	Resource Area	Resource volume	Estimated Resource Recovery Area	P50 Estimates of Recoverable Heat			Estimated Electrical Generation Potential
					Indicative Resource	Inferred Resource	Total resource	
		km ²	km ³		PJ	PJ	PJ	MWe
Koroit	GEP-8	50	47	10%	760			140
Koroit	GEP-8	400	340	10%		5,900		1,100
Total GEP-8	GEP-8	450	390		760	5,900	6,660	1,240
Penola	GEP-6	8	9	10%	170			10
Penola	GEP-6	290	306	10%		5,500		470
Tantanoola	GEP-6	180	130	5%		1,100	1,100	180
Total GEP-6		478	445		170	6,600	6,770	660
TOTALS		928	835		930	12,500	13,430	1,900

Source: *The Case for Hot Sedimentary Aquifer (HAS) Geothermal exploration in the Otway Basin, 15 February 2013, HRL.*

2.3 Development schedule and tenement carrying cost

It is often the case that energy resources that are uneconomic to develop during a certain period can become economic to develop during a later period. Advances in technology can provide ways to extract, process, or deliver energy where previously it was not possible or can decrease the cost of extraction, processing or delivery. Fracking technology, for instance, has provided for the economic development of coal seam gas which was not extractable in the 1990's. Rising energy values can also result in improved economics for energy reserves as can favourable tax treatment for development and Government subsidies. Because of this, an energy resource that is uneconomic to develop today may still hold significant value due to the possibility of viable exploitation in the future.

In valuing GEP-6 and GEP-8, consideration must be given to the potential for improved economics in the future as well as the ongoing holding cost of the asset. If a tenement which contains an energy resource which is uneconomic to develop but which has a zero holding cost then it would almost always be the case that the tenement would have some market value to a buyer.

Exploration permits such as GEP-6 and GEP-8 typically have holding costs or development obligations that must be met by the permit owner. In the case of costs, these can be modelled using the NPV method by assuming a range of times before the development becomes economic. In the case of development obligations, the permit owner is prohibited from waiting until the project economics become more favourable before expending capital in exploration. The costs incurred for the exploration activities will have to be carried by the permit owner until such time as a final project can be constructed.

HRL successfully extended their permits for GEP-6 and GEP-8 in January 2014 and these extensions carry obligations for exploration activities to take place over the next 5 years. In the financial model of the 65 MW power station, these costs are ignored since they could be spread over multiple power station sites. It is noted that this creates an overly optimistic result from the model, particularly given that these costs are to be incurred well in advance of the power station development and will therefore have a greater impact on the outcome due to the time value of money.

The purpose of this section is not only to demonstrate the additional cost of compliance with the permit but also to demonstrate that significant costs must be incurred by the permit owner in order to retain the permits. Table 2 provides the permit obligations.

Table 2 - Permit conditions for GEP-6 and GEP-8

Year	Year End	Work Program	Expenditure (\$000)	Work Program	Expenditure (\$000)
1	13/12/2014	Undertake thermal and structure history focusing on fracture permeability studies plus new targeting method	150	Undertake thermal and structure history focusing on fracture permeability studies plus new targeting method	150
2	13/12/2015	Re-interpret existing 2D and well data also using new data from Year 1	250	Re-interpret existing 2D and 3D seismic and well data also using new data from Year 1	350
3	13/12/2016	Complete 20km ² 3D seismic survey and interpretation over target area	1,000	Complete 30km ² 3D seismic survey and interpretation over target area	1,300
4	13/12/2017	Correlate detailed 3D seismic stratigraphic, structural and thermal models to select drill target	250	Drill and test one slim hole to a depth of not less than 3000m	8,000
5	13/12/2018	Drill and test one slim hole to a depth of not less than 3000m	8,000	Assess result for further drilling and testing	170
Permit Total			9,650		9,970
Total for GEP-6 and GEP-8					19,620

Source: *Suspension of conditions and extension of term of geothermal exploration permits (GEP-6 and GEP-8), both granted 16 January 2014.*

3. Valuation

3.1 Purpose and context of the valuation

It is understood that HRL is considering an expansion of its business and corporate strategy that will continue to investigate the potential to development of the geothermal resources in GEP-6 and GEP-8. These tenements have been studied by HRL for several years with the intention of developing the geothermal resources there for power generation. This development has previously been supported by several government initiatives promoting generation of electricity through renewable or low carbon energy sources.

The understood shift in corporate strategy to expand its business is justified given the reduced Government interest in supporting renewable and low carbon generation. This is demonstrated through the discontinuation of major funding for the Australian Renewable Energy Agency and the repeal of the carbon pricing scheme, or carbon tax, which became effective on 1 July 2012.

In addition, HRL has been unsuccessful in raising the funds required to develop the tenements. In some ways, the failure to raise funds is itself a reasonable market test for demonstrating the value of the tenements. However, given that funds were sought as an investment into HRL, which includes activities unrelated to the tenements, it is not a direct test of tenement value.

Jacobs understands that HRL has commissioned BDO to undertake work on its behalf in this respect and, to that end, Jacobs understands that BDO will refer to this report in the work that it undertakes for HRL.

3.2 Date of valuation

The valuation exercise is based on costs and revenues estimated on or about 1 July 2014.

3.3 Method or methods used

Jacobs has used the discounting of projected cash flows (DCF) method to determine the value of tenements GEP-6 and GEP-8. This method produces the NPV result introduced in Section 1.2. The DCF method of valuation of an asset provides for the appropriate weighting of future revenues and costs through application of an asset suitable discount rate. Because of this, it is the most commonly used method for valuation of power generation asset either under development or in operation. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of fixed terms contracts (which are typical in the energy sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement based on knowledge and experience in the development of geothermal resources is required in estimating development costs, and future plant performance and operating costs. Medium to long-term revenue projection can be even more difficult to estimate. It is common in geothermal developments to use Monte Carlo simulations to determine expected costs and performance of power stations. This is due to its limited deployment and level of resource uncertainty when compared to more traditional generation sources generation. In this case, however, sensitivities have been run to test for low probability outcomes.

The appropriate discount rate for money is not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, it is also necessary in many cases to determine a terminal or continuing value of the asset can make up a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation).

The net present value of an asset can be extremely sensitive to relatively small changes in underlying assumptions. The broad assumptions that need to be made and the magnitude of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are the most commonly valuation method in the power industry. Given that the value of the tenements is based on the value of generation assets which it can support, DCF is an appropriate method, in this case, for determining the value of the tenements.

The financial model for the 65 MW power station has been developed by HRL. Key cost and revenue inputs have been reviewed by Jacobs. This model is based on a large number of assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of HRL. Jacobs has provided alternative scenarios based on higher revenues which could occur within a reasonable period. The financial model inputs are discussed in more detail in the following sections of this report.

3.4 Comparable multiple approach

A more straightforward way of valuing land, resources, or tenements is to estimate the value by comparison to transactions involving similar assets and then making reasonable adjustments to reflect value relevant differences in the assets. While this may be an alternative approach, Jacobs does not have market data on transactions involving similar tenements.

3.5 Estimated power station and tenement value

The total value for the 65 MW (nameplate) power station using this approach is estimated by HRL at negative A\$407 million. Based on Jacobs' view of: a slightly higher price for the completed plant; a higher discount rate; and a somewhat higher price for electricity sold results in a projected NPV of negative A\$299 million. Neither case resulted in a positive internal rate of return.

Two additional cases were considered. The first provides for the continued availability of revenue from renewable energy certificates and results in a value of negative A\$74 million. The second determined that required revenue per MWh required for an acceptable return is \$230 escalated at 2.5%. This is 3.5 times greater than the base case expected revenue of A\$65 escalated at 2.5%.

This broad range of results does not support the continued expenditure in funds required to comply with the conditions for retaining the permits GEP-6 and GEP-8. The value of the permits, given that they may be relinquished without further cost, is zero.

As a note, the higher discount rate has the effect of improving the value of a project with a negative NPV where future costs are greater than future revenue. In discussion of specific model inputs, the higher discount rate is used which, by itself, will change the HRL base case to negative A\$204 million.

Jacobs is therefore of the opinion that the value of the geothermal tenements is, from a materiality consideration, zero for the following reasons:

- 1) The DCF demonstrates that the project economics are not attractive to investors since, under the current and foreseeable energy (including renewable energy) policy in Australia. This is substantiated by the fact that, as advised by HRL, HRL has been actively searching for a joint venture (funding) partner for our Otway Basin geothermal projects to assist in the funding of a drilling and testing program for over 5 years without success. They have undertaken many search campaigns during this period involving their own efforts and employing external consultants, which has involved contacting many hundreds of potential partners in Australia and overseas. This experience is consistent with that of Jacobs in its efforts in supporting other geothermal developers in Australia raise funding for similar projects;
- 2) Whilst there may be an opportunity to provide heating through direct geothermal energy use, Jacobs is of the view that the exploration drilling costs for such, bearing in mind that the typical success factor for an exploration well is 50 to 60% for conventional geothermal wells². Given that conventional geothermal wells are typically more shallow than the wells proposed to be drilled by HRL, and that there is much greater exploration experience in conventional geothermal exploration than with Hot Sedimentary Aquifers, Jacobs is of the view that the success rate for Hot Sedimentary Aquifer exploration wells is likely to be sub 50%. As such, and in Jacobs' opinion, this would make the cost for drilling exploration wells for direct geothermal heating applications prohibitive.
- 3) HRL has advised that it has written down the value of the Geothermal Exploration Permits to zero value in its financial accounts;
- 4) An ongoing financial liability exists from ownership of the Geothermal Exploration Permits associated with the requirements of the permits for the permit holder to commit an agreed amount of expenditure for continued exploration of the tenement and furthering of the geothermal project (such as through exploration

² Success of Geothermal Wells: A Global Study, International Finance Corporation, A World Bank Group, June 2013

drilling). This coupled with the economic non-viability of the project under the current and foreseeable energy policy and renewable energy pricing mechanism in Australia, in itself, results in the Geothermal Exploration Permits having a negative financial value;

- 5) However, given the fact that the Geothermal Exploration Permits can be rescinded at no cost to the license holder then this financial liability can be reduced to zero, thereby resulting in a zero market value for the geothermal tenement.

Jacobs is also of the opinion that the value of any intellectual property (IP) owned by HRL in relation to its business of developing geothermal projects in Australia is zero for the following reason:

- 1) The IP largely resides in knowledge of the geothermal resource (ie the geothermal resource evaluation). Given that the economics of any project that would utilise that geothermal resource are non-viable, then the IP associated with that resource has no economic value.
- 2) HRL has no employees and hence has retained no in-house 'know how' with respect to geothermal development, relying solely on external consultants.

4. Information provided by HRL which was relied on

The following documents were provided by HRL for consideration in the valuation of GEP-6 and GEP-8:

- Statement of Estimated Geothermal Resources for the Koroit Geothermal Power Project, Victoria Geothermal Exploration Permit (GEP) 8, 30 September 2009
- GeothermEx letter of 12 July 2010, Review of the GEP-23 and GEP-6 Report
- GeothermEx letter of 29 September 2009, Review of the Koroit Project Report
- GEP-6 Annual Report 2012-13, HRL
- GEP-6 Annual Report 2012-13, HRL
- Suspension of conditions and extension of term of geothermal exploration permits (GEP-6)
- Suspension of conditions and extension of term of geothermal exploration permits (GEP-8)
- The Case for Hot Sedimentary Aquifer (HSA) Geothermal exploration in the Otway Basin, presentation 15 February 2013, HRL
- Notes to accompany HRL Financial Model for a 50MWe Plant at Koroit, HRL
- HRL Koroit Financial Model June 2014 Rev 2, HRL excel model

5. Assumptions relied on

5.1 Revenue assumptions

5.1.1 Electricity sale price

Revenue for the 65 MW power station can flow from provision of two services; (i) electrical energy sold into the national electricity market (“NEM”), and (ii) provision of green products such as renewable energy certificates. Changes to the HRL estimate are a reduction to the starting price by \$5/MWh to account for the repeal of the carbon tax and the smoothing of the curve by applying an inflation escalation of 2.5% per annum.

Figure 2 - Estimated value of electricity sold into the NEM

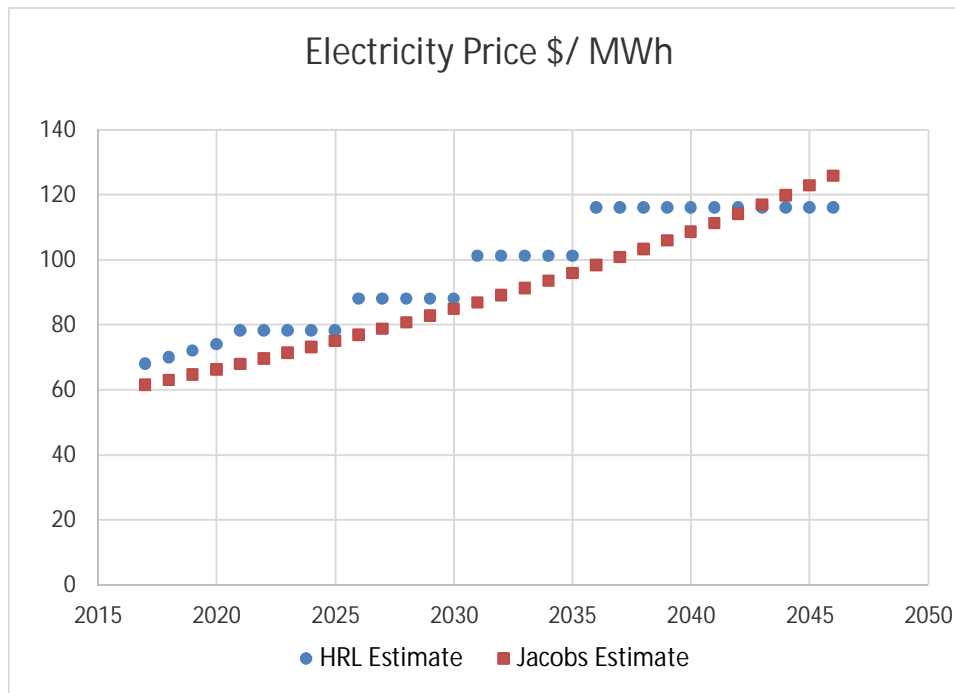
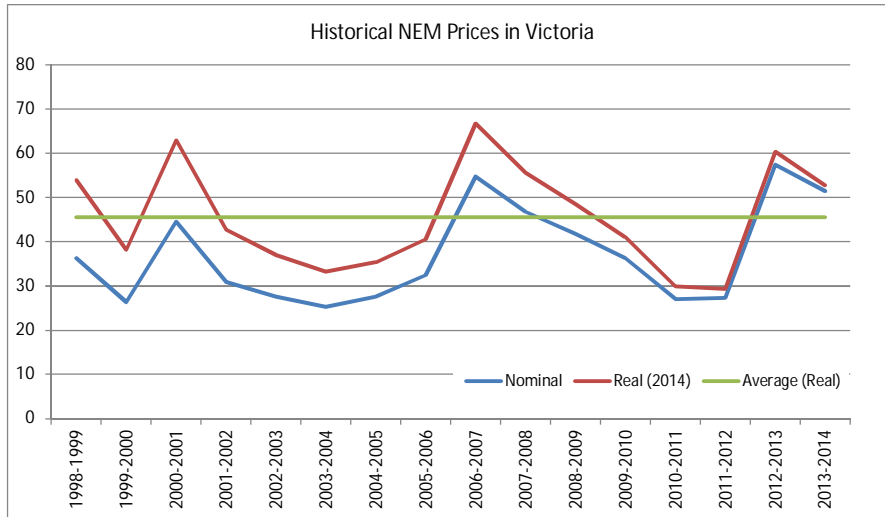


Figure 3 shows historical prices in Victoria since the beginning of the NEM in financial year 1999. The average for this period, when adjusted for inflation, is approximately A\$45.50 per MWh. While there is significant variation between individual years, there is a clear mean to the variations around the mid A\$40 range. It is interesting to note that the price in financial year 2014 is within A\$2 of the inflation adjusted price at the beginning of the market in 1999. It is the case that short term contracts are typically struck slightly above the expected market price. It is not clear that can be counted on for longer periods such as would be required for the geothermal plant.

Figure 3 - Historical NEM prices in Victoria



There are some considerations that will cause difficulty for the plant in securing a contract for its full output. Generators typically do not contract their entire generation capacity. Portions of the capacity, particularly individual units, are reserved as a hedge against unscheduled outages. For this reason, it is overly optimistic to expect the entire output of the plant could be contracted the way that it has been modelled by HRL. There is additional optimism in that no market or network related fees are considered in the revenue assumption. For these reasons it would be reasonable to assume a lower starting price.

Table 3 - Electricity sale price scenarios

	Starting Price (\$/MWh)	NPV (14%) (A\$M)
HRL Base Case	66	-279
Jacobs Base Case	61	-299
Historical Victoria Prices	45	-363

5.1.2 Sale of green products

A primary attraction of geothermal generation is that it does not rely on fossil fuels and as such can often be rewarded for this either through capital funding provided by governments, credits based on generation, tax concessions, or avoidance of carbon related fees that are applied to coal or gas fired generation.

As revenue, the primary green product income for renewable generation in Australia has been the renewable energy certificates (“REC”). The REC scheme was introduced in Australia as part of the Australian Renewable Energy (Electricity) Act 2000. RECs are provided to renewable generation on a MWh basis meaning each MWh generated will provide 1 REC.

Pricing for RECs in the past four years has been in the upper A\$30 range. However the Federal Government is not supportive of the REC scheme. It would not be possible with the current uncertainty in the market to find a long term buyer for RECs at prices approaching its historical value. Nevertheless, a REC case has been run which provides for a long term A\$35 price for RECs as shown in Table 4.

Table 4 - REC sale price scenarios

	Starting Price (\$/MWh)	NPV (14%) (A\$M)
Jacobs Base Case	0	-299
\$35 REC Case	35	-89

6. Cost assumptions

6.1 Capital expenditure

It is noted that there has not been a pre-feasibility run for a 65 MW geothermal power station and that the modelled plant is only in concept stage. It is accepted practice at this stage of development to use unit rates known for existing plant as a basis for estimating cost for a new plant of similar size, technology, and configuration. In this case, HRL has relied on published costs of plants being built in Turkey by Atlas Copco and Exergy which are of in the 65 MW size range. The cost per MW of these plants, only the power station component, is listed as US\$1,700/kWh and this is the price used in the HRL model.

It is Jacobs' view that these cost are slightly low, perhaps given the lower cost of construction in Turkey compared to Australia. In addition, the total project cost per MWh in the HRL model is A\$6,200/kWh. Jacobs believes that this value should be in the range of A\$7,000 to A\$7,500/kWh and has therefore selected \$7,200/kWh as the base case for capital expenditure.

Table 5 – Capital cost scenarios

	Capital Cost (\$/kW)	NPV (14%) (A\$M)
HRL Estimate	6,200	-239
Jacobs Base Case	7,200	-299
Break-even Case	2,500	0

For the project to break even, it would require a capital cost of approximately one-third the estimated construction cost. Given that the plant is so far from a break even capital cost, this report will not discuss the potential for Government funding during construction. The current Government is ending renewable energy funding programs and, even if these were continuing as in previous years, the amount required to make this project viable would be too large to consider.

6.2 Plant Life

The plant is modelled to run for a period of 30 years after construction. A longer period of time may be possible but would have a negligible effect on the project returns. Similarly, there has been no assumption made regarding a terminal value of plant.

6.3 Discount rate

6.3.1 CAPM background

A Capital Asset Pricing Model "CAPM" analysis was performed by HRL and reviewed by Jacobs. This is the relevant rate to apply to equity returns (pre-tax) for the project. The CAPM is a widely accepted methodology for determining the cost of equity. More sophisticated models which include consideration of additional risk factors are available, however, there is no evidence that such models produce more accurate value estimates and their use is limited. The theory underlying the CAPM is rigorous and it has broad application. However, the actual valuation that market buyers and sellers are subject to many considerations not captured in the CAPM approach or any other methodology. Two particular shortcomings of the CAPM methodology are that it:

- uses historical data as a guide to future outcome;
- relies on risk premiums and betas the calculation of which carries a meaningful level of statistical uncertainty

The expected return on a capital asset can be established using the CAPM as follows:

$$E(R_i) = R_f + \beta_i(E(R_m) - R_f)$$

Where:

- $E(R_i)$ is the expected return on the subject capital asset (65 MW station)

- R_f is the risk-free rate of return
- β_i (the beta) is the sensitivity of the expected excess asset returns to the expected excess market returns. This is defined mathematically as the covariance of the return on the market portfolio (R_m) and the subject asset (R_i), with the return on the subject asset estimated by the selection of divided by the
- $E(R_m)$ is the expected return of the market

A key aspect of this calculation is the determination of an appropriate asset beta.

6.3.2 Beta (β_i)

A common approach to determining an appropriate beta is to find representative companies that are publically traded and which have risk profiles that are as close as possible to the subject asset. The covariance of returns for these example companies to the market can be calculated from historical stock prices. The publically listed companies in Table 6 were viewed by HRL as having the closest comparable risk profiles to a new power station. Associated betas of the comparison companies and HRL were calculated using available data over a 14 year period for comparison companies and a 2-year period for HRL.

Table 6 - Betas for traded equities related to power generation

Comparison Equities	Market Capitalisation	Market β
	US\$M	
Geothermal Inc.	45	1.65
Ram Power	37	1.55
US Geothermal	46	1.62
Alterra Power	135	1.54
Collection Average		1.59

HRL has used a beta of 0.6 in their model which is similar as calculated above.

6.3.3 Risk free rate (R_f)

It is accepted practice to use the 10-year Australian Government bond rate as a benchmark for the risk free rate. As at June 2014, the 10-year bond rate was 3.70%³. The HRL DCF modelling used 7.25%.

6.3.4 Expected market risk premium ($E(R_m) - R_f$)

Expected market returns are not generally calculated independently given that market returns will naturally vary with changes in the risk free rate. Instead, estimates are made on the market risk premium. This is the return expected in the market above the risk free rate. A 2013 survey⁴ performed by KPMG observed that:

“Survey participants overwhelmingly are using an equity (market) risk premium (EMRP) for Australia of 6 percent, with some bias towards 7 percent.”⁵

Jacobs has also noted that the AER typically uses values of 6-6.5% for market risk premium. 6.5% has therefore been assumed as a reasonable EMRP for the purposes of this study.

³ www.rba.gov.au/statistics/tables/xls/f02hist.xls

⁴ Valuation Practices Survey 2013, KPMG

⁵ Valuation Practices Survey 2013, KPMG, p.16

6.3.5 Expected return ($E(R_i)$)

The expected return for the subject asset is determined using the CAPM equation in Section 6.3.1 and inserting values above as follows:

$$E(R_i) = R_f + \beta_i(E(R_m) - R_f)$$

$$0.148 = 0.037 + 1.59 * (.07)$$

By applying the risk free rate of 3.7% the expected return is 14.8%.

Jacobs has taken a conservative view and used 14% as an expected return and used this as the project discount rate. This compares with 8% that has been used in the HRL DCF model. The 14% discount rate used is applied in the above scenarios to the after tax cash flow.

6.3.6 Discount rate summary

Expected return on equity for the subject asset using the CAPM approach is 14.8%. Based on experience alone, an appropriate value to be used as a discount rate in the DCF model for a project of this type is 12-16%.

14% is therefore credible discount rate to apply to the valuation model's equity returns.

7. Uncertainty

The matters which introduce the most uncertainty to the valuation are outlined below. Although Jacobs have exercised care expected of a professional services provider, there is uncertainty in the valuation provided and this qualified throughout our report. Modelling and forecasting is not a precise science. Forecasts are only an indication of what might happen in the future and they may not be achieved. They rely upon complex sets of input data and assumptions. There is no guarantee that these assumptions will in fact be correct or accurate and there are numerous factors which can influence the actual financial outcome of a business enterprise, many of which are beyond the control or reasonable foresight of the forecaster. For example, changes in government and policy which alters customer behaviour. Whilst the risk of inaccuracies cannot be eliminated, it can be reduced through a detailed process, including, but not limited to the adoption of reasonable assumptions, the use of accepted modelling standards and techniques, peer review and appropriate sensitivity testing.

7.1 Discount rate

Selection of the appropriate discount rate to apply to the forecast cash flows of a particular asset is a matter of judgement and experience. Generation assets do not change hands very often and when they do, each interested party will have their own view of the appropriate discount rate to apply. The CAPM provides some formality to the establishment of an appropriate return but is limited in the ability to determine an appropriate beta based on available information. Despite the growing acceptance and application of various theoretical models, it is Jacobs` experience that many companies rely on less sophisticated approaches. Many businesses use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct.

7.2 Estimation of revenues

The estimation of revenues for the subject project relies on the estimation of the future NEM pricing. In this, Jacobs has relied on history to be the guide. As with any market, future values can only be estimated no matter how complex the modelling. The approach taken is believed to be the most reasonable based on information available and the stage of project development.

7.3 Estimation of costs

The estimation of costs is not as uncertain as the estimation of revenue but is nevertheless subject to future uncertainty and can only be applied on a unit basis. The subject asset is not well developed and does not have a well-defined maintenance requirement.

7.4 Other material risks

Other material risks which could impact the value of project include changes in the operations of the electricity market and changes in environmental regulation.

7.5 Modelling Limitations

Modelling and forecasting is not a precise science. Forecasts are only an indication of what might happen in the future and they may not be achieved. They rely upon complex sets of input data and assumptions. There is no guarantee that these assumptions will in fact be correct or accurate and there are numerous factors which can influence the actual financial outcome of the geothermal power projects, many of which are beyond the control or reasonable foresight of the forecaster. For example, changes in government and policy which alters customer behaviour. Whilst the risk of inaccuracies cannot be eliminated, it can be reduced through a detailed process, including, but not limited to the adoption of reasonable assumptions, the use of accepted modelling standards and techniques, peer review and appropriate sensitivity testing.

8. Scope and Terms of the engagement

The scope and terms of engagement are provided as Appendix A.

9. Disclaimers and indemnities

The sole purpose of this report and the associated services performed by Jacobs is to provide a GEP-6 and GEP-8 in accordance with the scope of services set out in the contract between Jacobs and HRL. That scope of services, as described in this report, was developed with the Client.

In preparing this report, Jacobs has relied upon, and presumed accurate, any information (or confirmation of the absence thereof) provided by HRL and/or from other sources. Except as otherwise stated in the report, Jacobs has not attempted to verify the accuracy or completeness of any such information. If the information is subsequently determined to be false, inaccurate or incomplete then it is possible that our observations and conclusions as expressed in this report may change.

Jacobs derived the data in this report from information sourced from HRL (if any) and/or available in the public domain at the time or times outlined in this report. The passage of time, manifestation of latent conditions or impacts of future events may require further examination of the project and subsequent data analysis, and re-evaluation of the data, findings, observations and conclusions expressed in this report. Jacobs has prepared this report in accordance with the usual care and thoroughness of the consulting profession, for the sole purpose described above and by reference to applicable standards, guidelines, procedures and practices at the date of issue of this report. For the reasons outlined above, however, no other warranty or guarantee, whether expressed or implied, is made as to the data, observations and findings expressed in this report, to the extent permitted by law.

This report should be read in full and no excerpts are to be taken as representative of the findings. No responsibility is accepted by Jacobs for use of any part of this report in any other context.

Jacobs has not undertaken an audit of the DCF model developed by HRL nor has Jacobs developed any new information related to revenues or costs.

This report has been prepared on behalf of, and for the exclusive use of HRL and is subject to, and issued in accordance with, the provisions of the contract between Jacobs and the Client. Jacobs accepts no liability or responsibility whatsoever for, or in respect of, any use of, or reliance upon, this report by any third party.

10. Declaration of interest

No one involved in the production or review of this report holds any interest in HRL or in the Company they are proposing to acquire.

Payment for the production of this report is a fixed pre-agreed fee which is not dependant on any additional fee or incentive payable by HRL or another party based on the conclusions reach or on the outcome of the proposed acquisition.

11. Valuer details

Jacobs has extensive experience in providing valuations and due diligence reviews for power stations and other major infrastructure. Table 7 provides examples of previous work providing OPEX and CAPEX estimates for power stations, including open cycle gas turbines, as well as revenue estimates through electricity market modelling.

Table 7 - Previous valuation and electricity market engagements

Project	Client	Year	Description
Networks asset valuation	Power and Water Authority	2014	Provided an asset valuation for Power and Water network assets. Power and Water.
ODRC asset valuation of network assets	Power and Water Authority	2013	Undertake an ODRC asset valuation of the electricity network of the Power and Water Authority in the Northern Territory
Pelican Point Terminal due diligence and valuation	ANZ Banking Group	2012	Technical and environmental review of the project in order to form a view on asset valuation and life expenditure.
Ergon Energy valuation of isolated networks	ERGON Energy	2012	To conduct an asset valuation in accordance of AASB accounting standards of isolated area generation and distribution networks in Queensland and Torres Strait, including the distribution network in Weipa
Valuation of Intergen assets for insurance purpose	Intergen	2012	Provide updates of 2009 valuations of Millmerran and Callide C Power Stations for insurance purposes
Transend asset valuation	Transend Networks	2011	To conduct an ODRC asset valuation under Australian Accounting Standards AASB116 and AASB 136, and to reconcile the results with the financial system to be introduced on 1 July 2011
Update of market price drivers	CS Energy	2013	Provide an update of market price drivers relating to power station construction to assist CS Energy with its insurance renewals.
CS Energy OEM EPC market price driver update	CS Energy	2012	Provided CS Energy with market forecast data as part of asset valuations for insurance purposes.
Yabulu, Kemerton and Collinsville Power Stations	Transfield Services	2007	Provided a valuation of Yabulu, Kemerton and Collinsville Power Stations for taxation purposes.
Gladstone, Collinsville, Yabulu power stations for stamp duty	Transfield Services	2006	Conducted a valuation of Gladstone, Collinsville and Yabulu power stations for stamp duty purposes.
Kwinana Power Station valuation	Transfield Services	2006	Provided a valuation of Kwinana cogeneration power station for stamp tax liability purposes.

The persons responsible for preparing this report on behalf of Jacobs are Charles Allen BE(Elect) MBA and Stephen Hinchliffe MEng (Electrical and Electronic) PhD (Elect) MBA LLM (Comm. Law) FIET CEng RPEQ. Curriculum vitae for each are provide as Appendix B.

Appendix A. Terms of Engagement

Subject: Valuation of GEP-6 Portland and GEP-8 Warrnambool

The approach of the valuation is to determine the potential for the geothermal resources contained within these tenements to support the economic generation of electrical power delivered to the national electricity market. Information provided by Hot Rock Limited Australia (HRL), will be used as a basis for the indicative valuation.

Method

The valuation will be based on the high level analysis of the economics of a 50 MW power station with consideration of appropriate locations within the tenement. The analysis will consider the cost of resource development, power station, and transmission, the revenue potential from the sale of electricity and related green products, and the potential for government funded capital contributions.

Initial information required from HRL

The following information will be provided by HRL:

- Annual reports for each tenement
- Resource assessments for each tenement
- HRL financial ;model and associated documentation

Other information may be requested.

Other information to be used

Jacobs will provide the update of the financial model based in its experience in the development of geothermal resources and the economics of the electricity market.

Deliverables

Jacobs will provide a brief report which will include:

- Method(s) for determining the current indicative, order-of-magnitude value/range for each tenement
- External sources that have been used as a basis for these values
- The resultant indicative, order-of-magnitude valuation broken down, where suitable, into major components

No third party will be able to rely on the report. The report is provided for use by HRL in relation to corporate activities currently being considered.

Appendix B. **Curriculum Vitae**

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT MANAGER



CURRENT POSITION

Geothermal Development Manager

QUALIFICATIONS

Master of Engineering (1st Class Honours) Electrical and Electronic, Loughborough University of Technology, England

Doctor of Philosophy, Power Engineering, Loughborough University of Technology, England

Master of Business Administration, Heriot Watt University, Scotland

Master of Law (Commercial), Glasgow University, Scotland

PROFESSIONAL MEMBERSHIPS AND AFFILIATIONS

Chartered Engineer, Engineering Council, UK

Fellow of the Institution of Engineering and Technology UK

EXPERTISE

- Insert details

Summary of Competencies

Stephen has over 18 years' experience in renewable energy and embedded generation project development and project management, grid connection and power purchase agreement development and negotiation, planning and environmental approvals processes. He has extensive experience in the delivery of project implementation services from feasibility stage to operation. Specific competences include:

- geothermal energy systems feasibility and development, hydrothermal, engineered geothermal systems and hot sedimentary aquifer systems
- wind farm development feasibility studies, wind farm connection studies, wind farm operation and maintenance management
- renewable and embedded generation project option and feasibility studies, project development and operational support
- energy efficiency and embedded generation option studies and business case development
- regulatory, electricity market rules and energy retail mechanisms
- business plan development
- business process review and structured business systems analysis
- capital project financial modelling
- project planning and management and management of capital projects and multi-disciplinary engineering studies
- technical and commercial due diligence of energy assets and businesses

Career history

Jacobs SKM, Australia, 2006 to present

Role: Geothermal Development Manager (Australia)

Sinclair Knight Merz, UK, 2006 to present

Role: Group Manager, Generation and Renewable Energy sections also Wind Farm Operation and Management Manager

ScottishPower pcl, vertically integrated utility, 1993 to 2002

Commercial Projects Manager, responsible for implementing a contract energy management business and developing embedded generation projects up to 60MW. Responsible for managing a £200M generation project capital works programme.

Stanelco Products Ltd, Manufacturer of bespoke electro process heating equipment

Role: Managing Director, previously Engineering Manager

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

Recent relevant experience

PLN and PERTAMINA project

Role: Study Manager

Key achievements

- Geothermal tariff study, evaluating capital and operating costs for 9 geothermal sites in Indonesia and development of a mechanism and financial model to generate the required tariff for an agreed project internal rate of return

Somerset Dam hydro scheme

Client: SeqWater

Key achievements

- Economic analysis of viability of refurbishing Somerset Dam hydro scheme following flood damage

Strategic advice on business models for direct use geothermal applications

Client: Green Rock Energy

Magmatic geothermal project, Philippines

Client: Greenerth Energy

Role: Project Director

Key achievements

- Review of a magmatic geothermal project opportunity in the Philippines including development of financial model;

Geothermal development projects, Indonesia

Client: Confidential

Key achievements

- Technical due diligence of three geothermal development projects

Cost evaluation

Client: Australian Geothermal Energy Association

Key achievements

- Evaluation of cost differential between direct use geothermal and conventional plant for district heating and cooling applications;

Geothermal energy projects, Western Australia

Client: •Green Rock Energy

Role: Project Director

Key achievements

- Market evaluation and market modelling study, including energy provision agreement evaluation for direct use geothermal energy

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

18MW power station – option study

Client: •MOD Defence Estates

Key achievements

- Option study on the development of a replacement 18MW power station to supply military establishments including evaluation of renewable energy options

Geothermal resource assessments

Client: Various

Key achievements

- Project management of geothermal resource assessments for several Australian geothermal companies;

12 MWe Hot sedimentary aquifer geothermal power plant, Victoria

Client: •Greenearth Energy

Role: Project Manager

Key achievements

- Feasibility work and preliminary design work, and well drilling preparation work, including environmental consenting for a 12 MWe hot sedimentary aquifer geothermal power plant

Azacualpa Power Plant – feasibility study

Client: Confidential

Key achievements

- Review and development of financial models and technical due diligence report for geothermal feasibility study for the Azacualpa Power Plant, Honduras;

Magmatic geothermal project, Indonesia

Client: Greenearth Energy

Key achievements

- Feasibility study including development of financial model for a magmatic geothermal project

Geothermal energy and hydro-electric project, Papua New Guinea

Client: Origin Energy

Key achievements

- Evaluation of geothermal energy project and hydro-electric project opportunities in Papua New Guinea including analysis of 'ease of doing business' in PNG and development of 'Board' presentation;

Development of geothermal drilling policy

Client: CNE (Chile)

Key achievements

- Support for development of a geothermal drilling policy for Chilean government

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

Xylowatt gasification – due diligence

Client: Nord LB

Key achievements

- Due diligence on an Xylowatt gasification system based biomass gasification co-generation plant including review of financial model and technical assumptions;

Methane Emission reduction in sewerage treatment works

Client: SA Water Corporation

Key achievements

- Advice on methane emissions reduction in sewerage treatment works, including use of biogas for on-site generation

Evaluation of renewable energy resource potential, Victoria

Client: Department of Primary Industries, Victoria

Geothermal industry development framework

Client: Department of Resources Energy and Tourism

Role: Project Manager

Key achievements

- Development of a geothermal industry development framework and Technology Roadmap for the Federal Government through and industry consultation process

Hot sedimentary aquifer geothermal energy project, Western Australia

Client: •Green Rock Energy

Role: Project Manager

Key achievements

- Development of economic model technical inputs for a hot sedimentary aquifer geothermal energy project

Australian government Renewable Energy Development Program grant application support

Client: Greenearth Energy

Key achievements

- Australian government Renewable Energy Development Program grant application support for a sedimentary aquifer geothermal project including financial modelling of plant options and development of forward price curves for energy wholesale prices and renewable energy certificates and development of implementation timelines including writing of grant application;

Design audit review, Cooper Basin

Client: Geodynamics

Role: Project Director

Key achievements

- Design audit review for re-design and workover of a deep geothermal well in the Cooper Basin;

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

Australian Government Geothermal Drilling Program grant application

Client: •Greenearth Energy

Role: Project Manager

Key achievements

- Project Manager for Australian Government Geothermal Drilling Program grant application including resource assessment, well design, environmental and technical risk assessment and mitigation and project cost and program development;

Deep geothermal well, Cooper Basin

Client: Geodynamics

Key achievements

- Workshop facilitation and ongoing technical support for remediation of a deep geothermal well in the Cooper Basin

Geothermal well control incident

Client: •Geodynamics

Role: Project Director

Key achievements

- Root cause technical and institutional investigation into a geothermal well control incident

Victorian Government Energy Technology Innovation Scheme (ETIS) grant application

Client: Greenearth Energy

Role: Project Manager

Key achievements

- Development of a Victorian Government Energy Technology Innovation Scheme (ETIS) grant application for a 12 MW geothermal power plant

Geothermal plant concept development

Client: Greenearth Energy

Role: Project Manager

Key achievements

- Peer review of geothermal plant concept development, support in developing a Renewable Energy Development Program federal grant application

Geothermal well design and drilling program management

Client: Greenearth Energy

Role: Project Manager

Cost evaluation

Client: Australian Geothermal Energy Association

Key achievements

- Evaluation of cost differential between direct use geothermal and conventional plant for district heating and cooling applications;

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

Greenearth Energy peer review

Client: Greenearth Energy

Role: Project Manager

Key achievements

- Peer review of work undertaken by Greenearth Energy in developing their geothermal licence areas in Australia and development of follow on work program

Wind farm asset sale – due diligence

Client: AGL

Key achievements

- Vendor technical due diligence for proposed wind farm asset sale, includes review of performance of operating assets and projection of forward O&M cost

Colgar wind farm – technical review

Client: Garrad Hassan

Key achievements

- Technical review of the Colgar wind farm power purchase agreement (WA)

CHP projects

Client: ScottishPower (UK).

Key achievements

- Project management of development of multiple CHP projects ranging up to 60 MW including management of technical design team, project delivery team and negotiation of power off-take agreements, environmental consents and primary fuel purchase agreements

Mount Millar wind farm, SA

Client: Transfield Services

Key achievements

- Transmission connection dispute support for Mount Millar wind farm, SA

Wind farm sale – due diligence

Client: AGL

Role: Project Manager/Technical Advisor

Key achievements

- Development of a sale due diligence technical report for sale of a wind farm in South Australia including review of Transmission Connection Agreement, EPC contract, OPEX and CAPEX projections, energy yield analysis and turbine technology;

Various wind farm asset – technical due diligence

Client: Transfield Services

Key achievements

- Transfield Services: Wind farm asset vendor technical due diligence of five wind farms in Australia;

Technical and commercial proposals and submission papers

Dr Stephen Hinchliffe

GEOTHERMAL DEVELOPMENT
MANAGER

Client: ScottishPower (UK)

Key achievements

- Development of technical and commercial proposals and Board submission papers for on-site co-generation projects

Proposed 120 MW wind farm scheme, Sicily

Client: Investec

Key achievements

- Technical and commercial due diligence of a proposed 120MW wind farm scheme in Sicily, including turbine technology assessment, annual energy yield predictions and turnkey contract review;

OFGEM projects

Client: •OFGEM

Key achievements

- Scotland developments including review of distribution network limitations;

Development of new energy and demand side management business unit

Client: •ScottishPower

Key achievements

- Development of the strategy and business case for the establishment of a new energy and demand side management business unit providing energy and emissions management services



Charles Allen

SENIOR EXECUTIVE STRATEGIC CONSULTANT

Summary of competencies

Charles Allen has broad experience in major infrastructure projects and assets. He has held senior roles in infrastructure developments, due diligences, tenders, acquisitions, financing, and feasibility studies. Charles has negotiated and managed numerous related commercial agreements and has provided commercial and technical reviews for proposed and existing facilities. Charles has worked projects in the US, Australia, Philippines, Indonesia, and Thailand.

Recent project experience

SKM - Senior Executive Strategic Consultant

PROJECT | Commercial due diligence related to Macquarie Generation privatisation

Client: Confidential

Role: Study Manager

Key achievements:

- Successfully managed due diligence on the 900 MW agreement between Tomago Aluminium and Macquarie Generation. Study included an analysis of Tomago's long term viability and sensitivities of various contract scenarios.

PROJECT | Oakey Power Station due diligence

Client: ERM

Role: Study Manager

Key achievements:

- Successfully managed technical and commercial due diligence on the 332 MW Oakey Power Station. Study included a technical review of plant condition and long term maintenance plan as well as a market study on the value of its operation as a peaking plant.

Consultant - Brisbane

PROJECT | Commercial and technical due diligence, Bandana Energy related coal infrastructure

Client: GMR Group

Role: Study Manager

Key achievements:

- Managed due diligence on infrastructure related to Bandana Energy coal resources in Bowen and Galilee Basins. The study included assessment of asset selection, capital costs, operating costs, risk, and access for road, rail, load outs, and Abbott Point and Wiggins Island coal terminals. The project was brought in on time and within budget.

QUALIFICATIONS

Bachelor Degree in Electrical Engineering (Power Systems) 1985, Georgia Institute of Technology, Atlanta

Master of Business Administration (Finance) 1992, University of Colorado

CURRENT POSITION

Senior Executive Strategic Consultant

EXPERTISE

- Infrastructure asset valuation
- Infrastructure due diligence
- Infrastructure acquisition and financing
- Power procurement and generation
- Fuel supply and power purchase agreement structuring and negotiation
- Renewable energy

Charles Allen

SENIOR EXECUTIVE STRATEGIC CONSULTANT

PROJECT | Commercial due diligence, Mt Isa Power Station

Client: Xstrata

Role: Study Manager

Key achievements:

- Provided detailed statistical analysis of historical dispatch of Mt Isa units of varying efficiencies to show economic performance of the power station as compared to station obligations under contractual dispatch protocol compliance. This included a technical review of each unit's condition and capability.

PROJECT | Upstream Power System Model – Design and First Phase Implementation

Client: QCLNG

Role: Project Manager

Key achievements:

- Successful development of power forecast model for 450 MW of LNG upstream field equipment including joint venture gas and power allocations and field operations. Model allows for future integration with GIS and network metering data.

PROJECT | 70 MW fast track power supply study, Queensland, Australia

Client: QCLNG

Role: Study Manager

Key achievements:

- Provided economic analysis of available options for short term supply of 70 MW for upstream LNG power. Options included gas and diesel fuel under purchased and rented generators.

PROJECT | 60 MW power supply procurement for Seminco copper project, Philippines

Client: Copper Developed Corporation

Role: Study Manager

Key achievements:

- Developed complete procurement plan for remote area copper mine and processing plant which required the construction of greenfield coal fired generation. Scope included advice on structuring, drafting and running a tender for coal fired power plant sponsor selection, and setting power purchase agreement terms.

PROJECT | Development of Indonesian renewable energy sites

Client: E.On

Role: Director

Key achievements:

- Successfully negotiated agreement with Government owned plantation companies for land and feedstock for 8 biogas power project. Negotiated related power purchase agreements with Government owned electricity company.

Charles Allen •

SENIOR EXECUTIVE STRATEGIC CONSULTANT

Babcock & Brown Australia – Infrastructure Developer

PROJECT | South Australia coal fired power stations due diligence and acquisition

Role: Commercial and Technical Lead

Key achievements:

- Managed technical due diligence, HR optimisation, and financial analysis underpinning the successful acquisition of Northern and Playford coal fired power stations (760MW total) and associated mine and rail. Work included oversight of technical and commercial due diligence for power station operations, mine operations, capital and operating budgets and risk assessment.

PROJECT | Thailand MW tender

Role: Commercial and Technical Lead

Key achievements:

- Managed within budget the technical and commercial aspects of tender for single unit 800 MW coal fired power station. Scope of work included coal contracting, storage, handling, and offloading jetty.

PROJECT | Development of Indonesian biogas projects

Role: Project Director

Key achievements:

- Successful origination, development, construction, and commissioning of two clean development mechanism power generation projects in Indonesia based on biogas from tapioca starch wastewater.

PROJECT | Biomass Power Station due diligence and acquisition

Role: Commercial and Technical lead

Key achievements:

- Managed technical and commercial due diligence related to the successful acquisition and refurbishment of 30 MW biomass generator in Queensland.



HOTROCK LIMITED
ACN 120 896 371

LODGE YOUR VOTE

By mail:
Hot Rock Limited
GPO Box 216
Brisbane QLD 4001

By fax: 07 3212 9201

All enquiries to: Telephone: 07 3149 2113



X99999999999

SHAREHOLDER PROXY FORM

I/We being a member(s) of Hot Rock Limited and entitled to attend and vote hereby appoint:

STEP 1 APPOINT A PROXY

the Chairman of the Meeting (mark box) OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at **10:00am on Monday, 15 September 2014, at HopgoodGanim, Level 7 Waterfront Place, 1 Eagle Street, Brisbane 4000** and at any adjournment or postponement of the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an

STEP 2 VOTING DIRECTIONS

	For	Against	Abstain*
Resolution 1 Approval of the Proposed Transaction and to issue the Total Share Consideration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Approval of Escrow Arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval to change scale of activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual) <input type="text"/>	Joint Shareholder 2 (Individual) <input type="text"/>	Joint Shareholder 3 (Individual) <input type="text"/>
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HRL PRX401



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company. A proxy may be an individual or a body corporate.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Saturday, 13 September 2014**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



by mail:

Hot Rock Limited
GPO Box 216
Brisbane QLD 4001
Australia



by fax:

07 3212 9201



by hand:

delivering it to Hot Rock Limited, C/- HopgoodGanim, Level 8 Waterfront Place, 1 Eagle Street, Brisbane QLD 4000.

If you would like to attend and vote at the General Meeting, please bring this form with you.
This will assist in registering your attendance.