

Joint ASX announcement

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Senex Energy and Stuart Petroleum agree to friendly merger

The Boards of Senex Energy Limited (Senex) and Stuart Petroleum Limited (Stuart) are pleased to announce an agreed merger transaction, to create a substantial oil and gas exploration and production company.

Under the terms of the agreement, Senex will make an offer for all the issued shares in Stuart on the basis of 2.5 Senex shares for each Stuart share.

Senex has entered into a pre-bid acceptance agreement with Stuart's largest shareholder in respect of 19.9 per cent of Stuart's issued shares.

The Offer

Senex (ASX:SXY) will make an offer to acquire all the issued shares of Stuart (ASX:STU), with Stuart shareholders to be offered 2.5 Senex shares for every 1 Stuart share (**the Offer**). The Offer implies a value of \$1.1375 per Stuart share or approximately \$77.8 million for the whole of Stuart's issued capital¹.

For Stuart shareholders, the Offer represents a substantial premium of:

- 62.5 per cent to the closing price of Stuart shares of \$0.70 on 18 February 2010, being the last trading day prior to the announcement
- 66.6 per cent to the one month volume weighted average price (**VWAP**) of Stuart shares of \$0.68 up to 18 February 2010
- 68.7 per cent to the three month VWAP of Stuart shares of \$0.67 up to 18 February 2010

The transaction will be implemented through an off-market takeover offer for Stuart, which will be subject to certain conditions summarised in Schedule 1, including a 50.1 per cent minimum acceptance condition.

Senex's bidder's statement has been provided to ASX with this announcement. The Offer is due to close at 5:00pm (Brisbane time) on 29 March 2011, unless extended.

¹ Implied values are calculated by multiplying the closing price of Senex shares on Friday, 18 February 2011 of \$0.455 by the offer ratio of 2.5 Senex shares for each Stuart share. Stuart has approximately 68.35 million shares on issue on a fully diluted basis.

The merged group

The boards of both companies consider there is a compelling strategic rationale for the transaction. Combining the complementary assets and technical expertise of both companies together with Senex's strong financial position will create a company with:

- a market capitalisation in excess of \$345 million²;
- net cash balance of \$56 million;
- net initial production of over 1,500 barrels of oil per day;
- combined net Proved and Probable (**2P**) oil reserves of 6.9 million barrels;
- combined net Proved, Probable and Possible (**3P**) oil reserves of 16.2 million barrels;
- net 2P gas reserves of 79 petajoules (12.8 million barrels of oil equivalent); and
- net 3P gas reserves of 249 petajoules (40.1 million barrels of oil equivalent).

Directors' unanimous recommendation

Stuart's directors have resolved to unanimously recommend that shareholders accept the Offer, in the absence of a superior proposal. The Offer is supported by Stuart's largest shareholder and director, Mr David Clarke, who has entered into a pre-bid acceptance agreement in respect of 19.9 per cent of Stuart's issued capital. The Stuart directors intend to accept the Offer for their own holdings of Stuart shares, in the absence of a superior proposal.

Stuart Chairman John Branson described the offer as a win-win arrangement for both companies and their shareholders.

"The merger creates a sizeable player in Australia's onshore oil production industry, with a significantly enhanced commitment to the South Australian oil and gas industry, and a business with the wherewithal to realise the potential of Stuart's substantial land position in the Cooper Basin. Senex's strong financial position and operational capabilities will provide for a rapid progression of the exploration and development of Stuart's acreage. In addition, Stuart's shareholders will gain the ability to share in any upside from exploration success through holding Senex shares," he said.

Senex Chairman Denis Patten said the Offer was compelling for both companies.

"Senex gains further exposure to acreage that is not only aligned geographically with our own, but that we believe also shares the geological characteristics, and consequently the same potential for upside that we see in our own acreage. This is true not only for conventional oil, but also for emerging resource plays such as shale gas. Stuart shareholders gain all of this as well as access to our cash resources and technical expertise to unlock the value of their assets," he said.

² Based on the closing price of Senex shares of \$0.455 on 18 February 2011.

Merger implementation agreement

Stuart and Senex have entered into a merger implementation agreement to progress the Offer. The agreement restrains Stuart from soliciting competing proposals and provides for a \$700,000 break fee payable to Senex in certain circumstances. There is also a \$500,000 reverse break fee payable to Stuart in certain circumstances.

A summary of the agreement is attached at Schedule 2.

Investor briefing scheduled for today, Monday 21 February at 1:00pm Brisbane local time / 1:30pm Adelaide local time / 2:00pm Sydney local time

Senex Managing Director Ian Davies will present an investor briefing via teleconference today at 1:00pm Brisbane local time.

To join the briefing:

- Phone 1800 354 715 (within Australia) or +612 8823 6760 (outside Australia)
- Enter conference number 4599 7281 and follow the prompts.

Senex has engaged RBS Morgans Corporate Limited as financial adviser and McCullough Robertson as legal adviser.

Stuart has engaged Gresham Advisory Partners Limited as financial adviser and Johnson Winter & Slattery as legal adviser.

For further information please contact:

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Background information on Senex and Stuart

About Senex

Senex Energy Limited is the new name for Victoria Petroleum NL - a respected energy business with more than a quarter of a century of experience in Australia's oil and gas industry. In July 2010 the company was rejuvenated with the appointment of a new management team, the relocation of its head office from Perth to Brisbane, and the decision to focus the business on its valuable acreage on Australia's east coast. The dynamic energy business is pursuing rapid growth in its oil production business in the Cooper Basin, and is working to build a valuable and highly profitable east coast gas business.

Find out more by visiting www.senexenergy.com.au.

About Stuart

Stuart Petroleum Limited is engaged in the exploration, development, and production of conventional and unconventional oil and gas in Australia, within the Cooper/Eromanga Basin in South Australia. Stuart is also planning to develop a fuel import, storage and distribution business at Port Bonython, South Australia.

Further information on Stuart is available at www.stuartpetroleum.com.au

Compliance statement

This announcement contains information on Senex and Stuart's reserves. Information about Senex's reserves estimates has been compiled by Dr Steven Scott BSc (Hons), PhD who is General Manager – Exploration, a full time employee of Senex. Information about Stuart's reserves has been compiled by Mr Mark Mussared, who is a full time employee of Stuart. Both Dr Scott and Mr Mussared are qualified in accordance with ASX listing rule 5.11 and have consented to the inclusion of this information in the form and context in which it appears.

Schedule 1: Offer conditions

The Offer is subject to the following key conditions:

- Senex obtaining a relevant interest in at least 50.1 per cent of Stuart shares;
- any necessary regulatory approvals being obtained and remaining in full force and effect;
- no regulatory action adversely affecting the Offer, the acquisition of Stuart shares or the operation of Stuart's business; and
- no Stuart prescribed occurrences, Stuart regulated events or Stuart material adverse changes occurring.

Senex may waive certain of the conditions in accordance with the terms of the Offer.

This is only a summary of the key conditions. The full conditions to the Offer are set out in schedule 2 of the bidder's statement, a copy of which has been provided to ASX along with this announcement.

Schedule 2: Key terms of the Merger Implementation Agreement

Senex and Stuart have entered into a merger implementation agreement (**MIA**) in connection with the Offer.

The terms of the MIA include:

- a break fee of \$700,000 is payable by Stuart to Senex in the circumstances explained below;
- a break fee of \$500,000 is payable by Senex to Stuart in circumstances which are also explained below; and
- Stuart is required to comply with no shop and no talk conditions and notify Senex of any approaches it receives in respect of potential competing proposals.

Break fee payable by Stuart

Stuart has agreed to pay Senex a break fee of \$700,000 if:

- any director of Stuart indicates that he does not support the Offer or supports a competing proposal;
- a superior proposal for Stuart eventuates and a director of Stuart recommends that proposal;
- any person other than Senex (or an associate) acquires a relevant interest in more than 50 per cent of Stuart shares;
- an insolvency event occurs in respect of Stuart; or
- Stuart breaches a term of the MIA and that breach results in the termination of the agreement by Senex.

Break fee payable by Senex

Senex has agreed to pay Stuart a break fee of \$500,000, if:

- an insolvency event occurs in respect of Senex;
- Senex breaches a term of the MIA and that breach results in the termination of the agreement by Stuart;
- Senex withdraws the Offer (except as a result of a breach by Stuart or where a superior proposal for Stuart has been made); or
- a Senex prescribed occurrence occurs.

Exclusivity arrangements

Stuart has agreed not to:

- take any action which may lead to a competing proposal (no shop condition); or
- participate in negotiations or discussions, or give or make available information (including access to perform due diligence) in respect of a competing proposal (no talk condition).

The no talk condition is subject to a customary fiduciary carve-out.

Stuart has agreed to promptly notify Senex if it becomes aware of any negotiations or discussions or attempts to initiate negotiations or discussions in respect of a competing proposal.

Other limitations

Stuart has agreed to conduct its business in the ordinary course and will not, without Senex's consent (such consent not to be unreasonably withheld):

- initiate drilling operations on any of Stuart's tenements except where its share of expenditure incurred does not exceed \$800,000 in aggregate and Stuart has obtained Senex's prior approval of the well proposal; or
- undertake or agree to undertake capital expenditure in excess of \$200,000 in aggregate (in addition to any expenditure on drilling operations).

Termination

Either party may terminate the MIA where:

- a superior proposal for Stuart eventuates and a director of Stuart recommends that proposal;
- the other party is in material breach of the MIA and such breach continues after ten business days notice;
- Senex withdraws its Offer for any reason;
- a government agency has taken action restraining or has refused to approve the acquisition of Stuart shares by Senex;
- an insolvency event occurs in respect of either party; or
- the conditions to the Offer have not been satisfied by the end of the Offer period.

In addition, Stuart may terminate the MIA if a Senex material adverse change or prescribed occurrence occurs.

A more detailed summary of the MIA is included in section 10.1 of the bidder's statement, a copy of which has been provided to ASX along with this announcement.