

19 June 2012

Company Announcements Office  
Australian Securities Exchange

**DESPATCH OF DOCUMENTS  
EUROPEAN GAS LIMITED - SELECTIVE BUY-BACK**

European Gas Limited (**Company**) advised on 4 June 2012 that it proposed to undertake a selective buy-back of its shares which will be subject to the approval of the Company's shareholders at an extraordinary general meeting to be held on 17 July 2012 (**EGM**).

We advise that in accordance with the timetable despatch of the following documents occurred yesterday Monday 18<sup>th</sup> June 2012.

- Chairman's Letter (A summary letter which will accompany the documents to be despatched to shareholders, and which outlines the process and reasoning behind the Company's decision);
- Notice of Meeting and Explanatory Memorandum for the EGM (including a Independent Experts Report); and
- the Prospectus for the selective buy-back of EPG shares which has been lodged with the Australian Securities and Investments Commission.

Yours sincerely  
On behalf of the Board of Directors of European Gas Limited



Mark Pitts  
Company secretary

## Letter from the Chairman

**The independent expert has concluded that the implementation of the Buy-back Offer is fair and reasonable to Shareholders.**

**4 June 2012**

Dear Shareholder,

On behalf of the Directors, I am pleased to offer you the opportunity to participate in European Gas Limited's (EGL) share Buy-back Offer whereby EGL is offering to purchase the ordinary shares you hold in EGL (EGL Shares) and, in exchange, offer you ordinary shares in EGL's wholly owned subsidiary, European Gas Limited (a private unlisted company incorporated in England and Wales) (EGL UK). EGL UK is the operating subsidiary of EGL that controls all of the exploration assets of EGL in Europe. If you accept the Buy-back Offer, you will receive 1 ordinary share in EGL UK for each EGL Share you sell back. The terms of the Buy-back Offer are set out in the enclosed Prospectus.

The Buy-back Offer is subject to shareholder approval at the extraordinary general meeting to be held at 1.00pm (Australian Eastern Standard Time) on 17 July 2012 at Stamford Plaza Hotel, corner of Edward Street and Margaret Street, Brisbane, Queensland Australia 4000 (EGM).

**EGL is currently:**

1. seeking your approval for the proposed Buy-back Offer at the EGM; and
2. inviting you participate in the Buy-back (subject to Shareholders approving the Buy-back at the EGM).

**Why is EGL undertaking the Buy-back?**

The Buy-back forms the latest part of EGL's restructuring exercise that started in Q4 2009 with the arrival of the current group of Directors, including the successful re-structuring of the company debt and re-capitalisation last year followed by a change of the management team finalised in September 2011.

The successful restructure has led EGL to its current stage where:

- the balance sheet is now completely clean with no remaining debt;
- the portfolio of assets in Europe has been enlarged over the past 3 years, making EGL one of the largest independent acreage holders in Western Europe;
- the management team has been significantly strengthened with world class oil and gas specialists with successful track records now running EGL;
- the strategic size of our resources has been certified, bringing the contingent resources number close to 8TCF; and

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- the evidence of EGL’s capability to extract gas in a commercial fashion in the French basin has been achieved with the successful results of our recent gas flow test announced on 14 May 2012.

EGL now needs to attract the necessary investment to enable its business to grow to the next stage through more extensive drilling campaigns. Management proposes a substantial drilling campaign on EGL’s assets in France over the next 18 months to prove gas reserves and deliver significant value to its shareholders. To finance this campaign, EGL will need to raise significant funds in the near future.

Given that all of the assets of the Group (apart from the Buru Royalty stream), the management team, all the employees, a large number of beneficial holders of EGL Shares and investment banks - interested in supporting EGL - are in Europe and the difficulties previously encountered to raise enough capital in the Australian market to develop our projects, the Board believes that future funding will most likely be available and on better terms from European investors through a European vehicle.

**EGL indeed strongly recommends** this Buy Back offer to be approved since the EGL board believes that the development of EGL through its operating entity in Europe is the most logical and viable path forward to attract the necessary capital to continue to develop its operations and create value for Shareholders.

**EGL wants to allow its existing Shareholders to continue to participate in the development of its unconventional oil and gas projects in Europe** and to remain investors in the Group. Therefore, EGL intends to fund the Buy-back by offering to transfer its shares in EGL UK as consideration to Shareholders who accept the Buy-back Offer.

After completion of the Buy-back Offer, **EGL Shareholders who have validly accepted the Buy-back Offer will become shareholders of EGL UK.** Shareholders who do not accept, or are not eligible to participate in, the Buy-back Offer will remain shareholders of EGL.

There are a number of features of the off-market Buy-back Offer that I would like to highlight:

- Participation in the Buy-back is entirely voluntary. You can choose to:
  - Sell your EGL Shares by accepting the Buy-Back Offer and become shareholders of EGL UK;  
or
  - Do nothing, thereby retaining your current shareholding and an indirect interest in EGL UK and the European coal bed methane assets through your shareholding in EGL.
- All EGL Eligible Shareholders are given an equal opportunity to participate in the Buy-back on the same terms.
- Depending on the level of acceptances of the Buy-back Offer, there is a risk that following completion of the Buy-back ASX may exercise its discretion to require EGL to delist from ASX if EGL cannot meet minimum spread requirements.

- There are certain risks involved in accepting the Buy-back Offer in respect of your EGL Shares, such as:
  - reduced liquidity as EGL UK is a private unlisted company;
  - reduced shareholder protections as EGL Eligible Shareholders who validly accept the Buy-back Offer will be shareholders of an English private unlisted company, as opposed to shareholders of an Australian public listed company. For example, there will be less disclosure requirements and there will be reduced protections in relation to any potential takeovers of EGL UK by any person;
  - acceptance of the Buy-back Offer may result in an unfunded Australian tax liability for those Australian resident Shareholders who accept the Buy-back Offer. EGL has submitted a class ruling application to the ATO to confirm whether a part of the consideration to be paid to the Shareholders for the disposal of their EGL Shares (which is in the form of the EGL UK Shares) will be treated as a dividend for income tax purposes. The tax implications for Shareholders will depend upon the value of the EGL UK Shares, as determined by the ATO, and the capital/dividend split of the Buy-back; and
  - it may be inconvenient for Shareholders who are not based in the UK or Europe to attend shareholder meetings of EGL UK.
- Potential up-side is participating directly and actively in EGL UK, the operating entity, which is going to drive the future development of the EGL group's business.

### **Buy-back Documents**

The following Buy-back documents are enclosed in this pack and contain important information about the Buy-back:

- a Notice of Meeting, an Explanatory Memorandum and proxy form for the EGM at which the Resolutions in connection with the Buy-back Offer will be voted on;
- an Independent Expert's Report prepared by Ernst & Young Transaction Advisory Services Limited in Australia; and
- a Prospectus setting out the terms and conditions of the Buy-back Offer and which includes your personalised acceptance forms which you will need to complete if you wish to accept the Buy-back Offer.

You should read all of these documents carefully before (1) voting on the Resolutions, and (2) deciding whether or not to accept the Buy-back Offer in respect of your EGL Shares.

**Your Directors strongly recommend that you vote in favour of the Resolutions**

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The EGL Board believes that the proposed Buy-back Offer, which will allow investors to own shares directly in EGL UK which, as a company incorporated in England and Wales, will be better placed to raise the necessary capital to continue to develop its large unconventional oil and gas assets in Europe.

In deciding how to vote, you should consider the matters outlined in the Explanatory Memorandum to the Notice of Meeting. You should also consider the Independent Expert's Report prepared by Ernst & Young Transaction Advisory Services in Australia. The expert has concluded that the implementation of the Buy-back is fair and reasonable to Shareholders. Having regard to the nature of the Buy-back Offer, **it is the opinion of the independent expert that, on balance, Shareholders as a whole are likely to be better off if the Buy-back Offer is implemented than if it is not implemented.**

**Your Directors believe that the proposed Buy-back is in the best interests of the Group's business and recommend that you vote in favour of the Resolutions to approve the Buy-back.** The Buy-back Offer cannot proceed unless more than 75% of votes cast at the EGM either in person or by proxy are cast in favour of it. If you vote in favour of the Resolutions, you will not be required to accept the Buy-back Offer, but may choose whether or not to accept the Buy-back Offer based on your own individual circumstances.

I encourage you to consider the matters set out in the Buy-back Documents carefully before deciding how to vote on the Buy-back.

#### **Your decision on whether to accept the Buy-back Offer**

Your Directors strongly recommend that you consult your advisers in this matter and read the accompanying Prospectus for the Buy-Back Offer carefully for more details about the Buy-back and its terms and advantages. Shareholders wishing to participate in the Buy-back should follow the instructions set out in the Prospectus.

#### **If you beneficially hold your EGL Shares through an Australian nominee**

If you beneficially hold your EGL Shares through an Australian nominee shareholder, you should contact your nominee to confirm whether they are able to hold shares in a company that is incorporated in England and Wales on your behalf should you wish to accept the Buy-back Offer.

If you are in any doubt as to the action you should take in either voting on the Resolutions or deciding on whether to accept the Buy-back Offer in respect of your EGL Shares, please contact your professional adviser.

Yours sincerely,



**Julien Moulin**  
Chairman  
European Gas Limited

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# European Gas Limited

ACN 075 760 655

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

### EXPLANATORY MEMORANDUM

#### PROXY FORM

Date of EGM: 17 July 2012

Time of EGM: 1.00pm (AEST)

Place of EGM: Stamford Plaza Hotel  
Corner of Edward Street and Margaret Street  
Brisbane Queensland 4000

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**The Directors unanimously recommend that you  
vote in favour of the Resolutions.**

**The independent expert has concluded that the  
implementation of the Buy-back Offer is fair and  
reasonable to Shareholders.**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This document should be read in its entirety. If you are in doubt about what you should do, or if you do not understand anything in this Notice and Explanatory Memorandum, you should consult your legal, investment, taxation or other professional adviser without delay.

# European Gas Limited

ACN 075 760 655

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting of shareholders of European Gas Limited ACN 075 760 655 (**Company**) (**Shareholders**) will be held at 1.00pm (AEST) at Stamford Plaza Hotel, corner of Edward Street and Margaret Street, Brisbane, Queensland 4000, on 17 July 2012 (**EGM**).

The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting (**Notice**):

- provides additional information concerning the Resolutions to be considered at the EGM; and
- contains a glossary of defined terms used in this Notice and in the Explanatory Memorandum.

## AGENDA

### RESOLUTIONS

To consider, and if thought fit, to pass, the following resolutions:

#### 1. Resolution 1 – Buy-back Offer

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

*“That, for the purposes of section 257D of the Corporations Act and for all other purposes, the holders of ordinary shares of the Company authorise and approve:*

- the Company to undertake a buy-back of its ordinary shares, in accordance with the Listing Rules and on the terms set out in the Explanatory Memorandum which accompanies this Notice; and*
- the terms of the Buy-back Offer as set out in the Explanatory Memorandum.”*

#### **Voting exclusion statement**

No voting exclusions apply to Resolution 1.

#### 2. Resolution 2 – disposal of main undertaking

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

*“That, for the purposes of Listing Rule 11.2 and for all other purposes, the holders of ordinary shares of the Company authorise and approve the Company disposing of ordinary shares held by it in the capital of EGL UK, in accordance with the terms of the Buy-back Offer described in Resolution 1, to shareholders of the Company who validly accept the Buy-back Offer in accordance with its terms.”*

#### **Voting exclusion statement**

No voting exclusions apply to Resolution 2.

#### 3. Resolution 3 – disposal of a substantial asset to substantial holders and associates

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

*“That, for the purposes of Listing Rule 10.1 and for all other purposes, and to the extent that approval is required under Listing Rule 10.1, the holders of ordinary shares of the Company authorise and approve the Company transferring the ordinary shares held by it in the capital of EGL UK, in accordance with the terms of the Buy-back Offer described in Resolution 1, to*

*substantial holders as described in Listing Rule 10.1.3 and their associates who validly accept the Buy-back Offer in accordance with its terms.”*

**Voting exclusion statement**

No voting exclusions apply to Resolution 3.

**BY ORDER OF THE BOARD**

Mark Pitts  
Company Secretary  
4 June 2012



## PROXY INSTRUCTIONS

A proxy form is attached to this Notice. Shareholders are advised that:

- each shareholder has a right to appoint a proxy to attend and vote for them;
- the proxy need not be a shareholder of the Company; and
- a shareholder who is entitled to cast two or more votes may appoint either one or two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for two proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half of the votes.

The shareholder may specify the manner in which the proxy is to vote on each resolution or may allow the proxy to vote at his or her discretion.

In accordance with section 250BA of the Corporations Act, the Company specifies that the proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be:

- posted or delivered to the Share Registry:

**Computershare Investor Services Pty Limited  
GPO Box 52 Melbourne, Victoria 3001 Australia**

- send by facsimile to:

**(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555**

Those documents must be received by the Company by the time and date specified on the proxy form.

The proxy form must be signed in the manner set out in the proxy form.

If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way; and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is Chairman, the proxy must vote on a poll and must vote that way; and
- if the proxy is not the Chairman, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in any way that the proxy sees fit.

## VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the EGM, EGL Shares will be taken to be held by the persons who are registered as holding the EGL Shares at 1.00pm (AEST) on **15 July 2012**. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the EGM.

## GLOSSARY

Words which are defined in the Explanatory Memorandum have the same meaning when used in this Notice unless the context requires otherwise. For assistance in considering the Notice, the following words are also defined here:

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means the ASX Limited ACN 008 129 164 and where the context permits the Australian Securities Exchange Limited operated by ASX Limited.

**Buy-back** means the buy-back to be conducted by the Company as detailed in the Explanatory Memorandum.

**Buy-back Offer** means the offer under the Prospectus to buy back EGL Shares from EGL Eligible Shareholders on the terms and conditions set out in Appendix 1 to the Explanatory Memorandum.

**Company** means European Gas Limited ACN 075 760 655.

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

**EGL Share** means a fully paid ordinary share in the capital of the Company.

**EGL UK** means European Gas Limited, a private limited company incorporated in England and Wales (company number 05321791).

**EGM** means the extraordinary general meeting of shareholders of the Company to be held at Stamford Plaza Hotel, corner of Edward Street and Margaret Street, Brisbane, Queensland 4000, on 17 July 2012.

**Explanatory Memorandum** means the notice of meeting of Shareholders and explanatory memorandum (including any supplement to it or replacement of it) prepared by the Company and despatched to Shareholders which contains the Resolutions and information regarding the proposed Buy-back Offer as required by the Corporations Act, the Listing Rules and the applicable policies of ASIC and ASX.

**Listing Rule** means a listing rule of the ASX.

**Share Registry** means Computershare Investor Services Pty Limited.

# European Gas Limited

ACN 075 760 655

## EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the resolutions contained in the accompanying Notice.

The Directors recommend that Shareholders read this Explanatory Memorandum in full before deciding how to vote on the Resolutions. If you are in doubt as to how to deal with this Explanatory Memorandum, you should consult your legal, financial or other professional adviser as soon as possible. This Explanatory Memorandum is not intended to provide financial or tax advice and has been prepared without taking into account the personal circumstances of any person. Each Shareholder should obtain their own independent professional advice before making any decisions regarding the content of this Explanatory Memorandum or the Notice or how to vote on any Resolution.

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# 1 Overview of the Buy-back Offer

## 1.1 Summary

The Company is proposing to offer to buy back up to 100% of the ordinary shares held in the capital of the Company (**EGL Shares**) by each ordinary shareholder of the Company who is eligible to participate in the Buy-back on the terms and conditions set out in Appendix 1 (**Buy-back Offer**). For each EGL Share bought back, the Company proposes to offer as consideration 1 ordinary share in EGL UK, a wholly-owned subsidiary of the Company.

The Buy-back Offer will be available to EGL Eligible Shareholders (as described in Part 1.8). EGL Eligible Shareholders may elect to accept the Buy-back Offer in respect of their EGL Shares at their discretion. EGL Eligible Shareholders who participate in the Buy-back Offer will become shareholders of EGL UK (**EGL UK Shareholders**), and those who do not elect to accept the Buy-back Offer will remain shareholders of the Company.

The Buy-back Offer requires Shareholders' approval.

**Shareholders who vote in favour of the Buy-back and the Resolutions are not obliged to accept the Buy-back Offer in respect of their EGL Shares. If the Resolutions are passed and the Buy-back is approved, EGL Eligible Shareholders have a choice of whether or not to accept the Buy-back Offer based on their individual investment objectives, financial situation and needs, regardless of whether they voted in favour of it or against it at the EGM.**

## 1.2 What is a buy-back?

Under a buy-back, a company buys back shares from shareholders who elect to participate in the buy-back offer. Any shares bought back are cancelled, with the result that the number of shares that the company has on issue is reduced by the number of shares bought back.

## 1.3 Why is the Buy-back Offer being proposed?

The proposed Buy-back Offer is designed to better enable the Group to attract the necessary capital to enable it to grow its business.

The Board believes that fund raising for the Group is too difficult in the Australian market. Given that all of the assets of the Group (apart from the Buru Royalty stream), the management team, all the employees and a large number of beneficial holders of EGL Shares are in Europe and the difficulties previously encountered to raise enough capital in the Australian market to develop our projects, the Board believes that future funding will most likely be available from European investors.

In its current corporate structure, the Company has difficulty accessing funding from European investors. The Company's target investors, being sovereign wealth funds and large institutional investors in Continental Europe, are unable or unwilling to invest in a non-European domiciled company due to reasons such as regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area and a lack of tax benefits that would otherwise be available to sovereign wealth funds in Europe.

The Board believes that the proposed Buy-back Offer and restructure, which will result in EGL UK becoming the holding company in which investors may directly invest (as shown in the corporate structure diagram for the Group after implementation of the Buy-back in Appendix 2), will address investor concerns and that EGL UK, as a company incorporated in England and Wales, will be better placed to raise money in European and other international financial centres if required (for further details on the reasons in support of the proposed Buy-back Offer, see Part 4).

For further details of the effect of the Buy-back Offer, see Part 3.

#### 1.4 Corporate structure of the Group

The Company is the parent company of EGL UK, in which it has a 100% interest. EGL UK has 2 wholly owned subsidiaries, HPL and EG SAS. EGL UK and/or HPL hold almost 100% of the assets of the Group, most of which are located in France. The only asset that is held directly by the Company and has a connection with Australia is a small royalty income stream (a 2% and 3% net well-head royalty) which the Company receives in relation to permits held by Buru Energy Limited in the Canning Basin in Western Australia (**Buru Royalty**).

After implementation of the proposed Buy-back, EGL Eligible Shareholders who validly accept the Buy-back Offer and become shareholders of EGL UK will have substantially the same interest in the underlying assets of the Group (with the exception of the Buru Royalty which will continue to be held by the Company). Shareholders who remain with the Company will have an interest in the Buru Royalty and the underlying assets of the Group through the Company's remaining shareholding in EGL UK. It is expected that, after implementation of the proposed Buy-back, the Company's remaining shareholding in EGL UK will be at a level below a controlling level and that the Company will not be EGL UK's largest shareholder. While the size of the Company's shareholding in EGL UK is not known and is dependent on the acceptance levels of the Buy-back Offer, the Company undertakes to provide an update on the acceptance levels to Shareholders at the EGM.

Appendix 2 contains diagrams showing the current corporate structure of the Group (prior to implementation of the proposed Buy-back) and the corporate structure of the Group after implementation of the proposed Buy-back. For further details on the assets of EGL UK, see Part 2.6. For further details on the assets and liabilities of the Company after implementation of the proposed Buy-back, see Part 3.4.

#### 1.5 Key dates

Subject to obtaining Shareholders' approval for the Buy-back Offer at the EGM, the Buy-back Offer will be implemented in accordance with the key dates set out in Table 1.

*Table 1: Key dates of the proposed Buy-back Offer*

<b>Date</b>	<b>Event</b>
4 June 2012	Announcement of proposed Buy-back Offer.
14 June 2012	Record Date for the Buyback. Shareholders holding EGL Shares at 7.00pm (AEST) on this day are eligible to participate in the Buy-back Offer.
19 June 2012	Buy-back Offer opens (conditional on obtaining Shareholders' approval at the EGM).
17 July 2012	EGM. Shareholders vote on the Resolutions to approve the proposed Buy-back Offer.
24 July 2012	Closing Date. Buy-back Offer closes – acceptances must be received by 7.00pm (AEST).
26 July 2012	Buy-back Date. Completion of the Buy-back Offer and cancellation of EGL Shares. Transfer of EGL UK Shares and notification sent to EGL Eligible Shareholders who validly accept the Buy-back Offer. Closing announcement.
Approximately 2-4 weeks after completion of the Buy-back Offer	EGL Eligible Shareholders who validly accept the Buy-back Offer will be registered as shareholders of EGL UK.

These key dates are indicative only. Subject to law, the Company reserves the right to amend the timetable without prior notice to Shareholders.

## **1.6 Prospectus**

The Company has issued a prospectus in connection with the Buy-back Offer as EGL UK Shares are being offered as consideration for the Buy-back Offer (**Prospectus**). A copy of the Prospectus is enclosed with this Explanatory Memorandum and is also available from the Company's website ([www.europeangas.com.au](http://www.europeangas.com.au)) or the ASX website ([www.asx.com.au](http://www.asx.com.au)).

## **1.7 Terms of the Offer**

The proposed terms of the Buy-back Offer are set out in Appendix 1 of this Explanatory Memorandum.

## **1.8 EGL Eligible Shareholders**

The Buy-back Offer is open to all registered EGL Eligible Shareholders who have bought EGL Shares on ASX prior to the Ex-Date and continue to hold EGL Shares on the Record Date.

"EGL Eligible Shareholders" means those shareholders who have their registered address on the Share Register as being in jurisdictions where the Company is aware that the laws of the jurisdiction would allow the Buy-back Offer to be made to those shareholders or the acceptance of the Buy-back Offer by those shareholders, being:

- (a) all Shareholders who have their address on the Share Register as being in Australia, France, Luxembourg, Switzerland and the United Kingdom; and
- (b) any Shareholder who has their address on the Share Register as being in a jurisdiction outside of Australia, France, Luxembourg, Switzerland and the United Kingdom, except any Excluded Foreign Shareholder, who is able to warrant that they are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they have their address on the Share Register; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they have their address on the Share Register,by submitting an Acceptance Form in accordance with the terms of the Buy-back Offer.

## **1.9 Excluded Foreign Shareholders**

Excluded Foreign Shareholders will not be eligible to participate in the Buy-back Offer. "Excluded Foreign Shareholders" means any person holding EGL Shares who has their address on the Share Register as being in the United States of America.

## **1.10 Transfer of EGL UK Shares and registration as shareholders of EGL UK**

On the Buy-back Date, the Company will:

- (a) enter into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buy back and cancel EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfer EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

As noted in the timetable in Part 1.5, this date is expected to be on or about 26 July 2012.

However, under the laws of England and Wales, EGL Eligible Shareholders who validly accept the Buy-back Offer may only be registered as shareholders of EGL UK after payment of any applicable UK stamp duty and after the stock transfer form for the transfer of EGL UK Shares is stamped by HM Revenue & Customs. This process may take between 2 to 4 weeks or longer. In the period between the Buy-back Date and the EGL UK Share Registration Date the Company, as transferor, will be deemed to hold the relevant EGL UK Shares on trust (but not as nominee) for the relevant EGL Eligible Shareholders.

### **1.11 Independent Expert's Report**

Ernst & Young Transaction Advisory Services Limited, in its capacity as an independent expert (**Independent Expert**), has prepared a report concluding that, having regard to the advantages and disadvantages of the Buy-back Offer, the implementation of the Buy-back Offer is fair and reasonable to Shareholders (**Independent Expert's Report**). A copy of the Independent Expert's Report is attached as Annexure 1 to this Explanatory Memorandum.

The Independent Expert's Report is available on the Company's website at [www.europeangas.com.au](http://www.europeangas.com.au), as an annexure to the Notice of Meeting and Explanatory Memorandum. You may contact us on + 61 8 9316 9100 for a hard copy of the Independent Expert's Report which will be provided at no cost.

### **1.12 Risks**

Depending on the level of acceptances of the Buy-back Offer, there is a risk that following completion of the Buy-back, ASX may exercise its discretion to require EGL to delist from ASX if EGL cannot meet minimum spread requirements.

Shareholders may face the following risks if they accept Buy-back Offer in respect of their EGL Shares:

- (a) reduced liquidity as EGL UK is a private, unlisted company;
- (b) reduced shareholder protections as EGL Eligible Shareholders who validly accept the Buy-back Offer will be shareholders of an English private, unlisted company, as opposed to shareholders of an Australian public listed company. For example, there will be less disclosure requirements and there will be reduced protections in relation to any potential takeovers of EGL UK by any person;
- (c) Australian resident Shareholders who accept the Buy-back Offer may have an unfunded Australian tax liability if part of the consideration paid to those Shareholders in connection with the Buy-back is taken to be a dividend for income tax purposes. Whilst the Company does not expect that such a liability will arise, this position cannot be confirmed until the Class Ruling is issued by the Australian Taxation Office (**ATO**) (see Part 6 of this Explanatory Memorandum); and
- (d) it may be inconvenient for Shareholders who are not based in the UK or Europe to attend shareholder meetings of EGL UK.

Please refer to Part 5 of this Explanatory Memorandum for further details on the risks and disadvantages of the Buy-back Offer.

### **1.13 Purpose of this Explanatory Memorandum**

The purpose of this Explanatory Memorandum is to provide material information on the proposed Buy-back to help Shareholders make an informed decision on whether to vote in favour of the Buy-back and the Resolutions proposed in the Notice, by:

- (a) explaining the effect and implications of the Resolutions and the Buy-back Offer that will be made to EGL Eligible Shareholders if the Resolutions are passed; and
- (b) providing the information prescribed in:
  - (i) the Corporations Act;
  - (ii) ASIC Regulatory Guide 110; and
  - (iii) the Listing Rules (including Listing Rules 11.2 and 10.1).

This Explanatory Memorandum does not take into account Shareholders' individual investment objectives, financial situation and needs. It does not constitute advice, whether financial, legal, tax or professional, on whether EGL Eligible Shareholders should elect to accept the Buy-back Offer, and should not be relied upon as the sole basis for any investment decision on whether to accept the Buy-back Offer, in the event that the Resolutions are passed at the EGM. In deciding whether to vote in favour of the Resolutions and/or accept the Buy-back Offer, EGL Eligible Shareholders should consider their own individual circumstances and may wish to seek their own independent financial, legal, tax and/or professional advice.

## **2 Information about EGL UK**

### **2.1 Description of EGL UK**

EGL UK is a private limited company incorporated in England and Wales and is not listed on a securities exchange. After completion of the Buy-back Offer, EGL Eligible Shareholders who have validly accepted the Buy-back Offer will become shareholders of EGL UK.

EGL UK has an issued share capital of 297,272,505 ordinary shares. It only has 1 class of shares.

### **2.2 Summary of Articles of Association of EGL UK**

The Articles of Association of EGL UK were adopted by a special resolution of EGL UK passed on 15 May 2012. A summary of the key provisions is provided below.

#### **(a) Share issues**

The directors of EGL UK may exercise any power of EGL UK to allot shares, or grant options over, offer or otherwise deal with or dispose of any new shares or rights to subscribe for or convert any security into shares, to any person (including the directors themselves) on such times, terms and conditions as the board of EGL UK may decide, provided that no share shall be issued at a discount to its nominal value.

The Articles of Association have disapplied the operation of section 561 of the Companies Act 2006, with the effect that the directors may allot shares without first making an offer of shares in EGL UK to existing shareholders in proportion to their holdings.

#### **(b) Shareholders' reserved matters**

The following matters require the prior approval of the shareholders by ordinary resolution:

- (i) **(related party transactions)** certain related party transactions as defined in the UK Listing Rules;



- (ii) **(put and call options)** an acquisition or disposal pursuant to a put or call option in respect of which the consideration (which for these purposes shall be deemed to be the aggregate of the issue price and the exercise price of the option) has a value equal to at least 5% or more of the equity value of EGL UK;
- (iii) **(directors remuneration)** any increase to the aggregate amount payable by EGL UK as remuneration (in whatever form) to the directors of EGL UK or by any subsidiary company of EGL UK in respect of remuneration payable to its respective directors;
- (iv) **(employee incentive scheme)** any granting or issuing of options or any other rights to acquire shares in EGL UK or a subsidiary company of EGL UK to a director or an associate of a director pursuant to an employee share scheme or long term incentive scheme;
- (v) **(change in the nature of business)** any material change to the nature or scope of the business, operations and activities of EGL UK or a subsidiary company of EGL UK, including the introduction or discontinuance of any material field or activity or the relocation or expansion of any material operation or activity by EGL UK or subsidiary company of EGL UK;
- (vi) **(significant transactions)** any transaction or arrangement undertaken by EGL UK or a subsidiary of EGL UK which would be deemed to be a Class 1 transaction pursuant to rules 10.2.2 to 10.2.10 of the UK Listing Rules which includes:
  - certain reverse takeovers
  - certain indemnities and similar arrangements which are exceptional
  - certain break fees, if the total value of the fee or the fees in aggregate exceeds 1% of the value of the company.

(c) **General meetings**

General meetings may be convened by the board of EGL UK, whether it thinks fit, or on an EGL UK Shareholder's requisition. Notice of general meetings of EGL UK shall be given to all EGL UK Shareholders who are under the Articles of Association entitled to receive notice, to the directors of EGL UK, its auditors and any other person who may be entitled to receive it.

The quorum for a general meeting is 2 or more EGL UK Shareholders (or their proxy or authorised representative) who hold in aggregate at least 1/3 of the nominal amount paid up on the issued shares.

(d) **Voting rights**

A resolution put to a vote at a general meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is duly demanded.

In general, at any general meeting, every shareholder who is present shall have 1 vote on a show of hands and 1 vote for each EGL UK Share held by the shareholder on a poll.

This general rule is subject to the provisions of the Companies Acts, to any special terms as to voting on which shares may be issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles of Association, and to the special voting rights of "Original Members".

Any member who is an “Original Member” on the date of the relevant general meeting or the date on which the resolution is passed shall have 1 vote on a show of hands and 2 votes for each EGL UK Share held by the “Original Member” on a poll or written resolution.

EGL UK currently has the medium term intention to attempt to raise funds in the future by seeking a listing on a securities exchange in Europe (but there is no guarantee that a listing would occur in the medium term or at all). There is a possibility that the rules of the relevant securities exchange would not allow EGL UK to continue to give the Original Members enhanced voting rights following the listing.

An “Original Member” means (i) EGL, or (ii) any shareholder of EGL UK who immediately prior to becoming the legal or beneficial owner of EGL UK Shares was a legal or beneficial owner of EGL Shares.

If 2 or more persons are joint holders of an EGL UK Share, then in voting on any question, the vote of the senior who tenders a vote (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders. Seniority is determined by the order in which the names of the joint holders stand on EGL UK’s register of shareholders.

Every proxy who has been appointed by one or more EGL UK Shareholders entitled to vote on the resolution shall:

- on a show of hands, have 1 vote, unless 1 or more EGL UK Shareholders instructed the proxy to vote for, and 1 or more of EGL UK Shareholders either instructed the proxy to vote against the resolution or gave the proxy discretion as to how to vote on the resolution, in which case the proxy shall, on a show of hands, have 2 votes (1 vote for and 1 vote against); and
- on a poll, (i) in the case of a member who is not an Original Member, have 1 vote for each share held by each EGL UK Shareholder for whom the proxy has been appointed (or where the proxy has been appointed to exercise voting rights for some but not all shares, then 1 vote for each share for which the proxy has been appointed to vote); and (ii) in the case of a member who is an Original Member, have 2 votes for each share held by each EGL UK Shareholder for whom the proxy has been appointed (or where the proxy has been appointed to exercise voting rights for some but not all shares, then 2 votes for each share for which the proxy has been appointed to vote).

(e) **Dividends**

Subject to the provisions of the Companies Acts, EGL UK may, by ordinary resolution, declare dividends. A dividend must not be declared unless the EGL UK’s directors have made a recommendation as to its amount. EGL UK’s directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. EGL UK’s directors may decide to pay interim dividends.

Dividends:

- may only be declared or paid in accordance with shareholders’ respective rights;
- must be paid by reference to each shareholder’s holding of shares on the date of the resolution or decision to declare or pay it (unless the shareholders’ resolution to declare or EGL UK’s directors’ decision to pay a dividend, or the terms on which shares are issued, specify otherwise); and

- except as otherwise provided by the Articles of Association or the rights attached to shares, must be declared and paid according to the amounts paid up on the shares and paid proportionately to the amounts paid up on the shares during any portion(s) of the period in respect of which the dividend is paid.

If EG UK has different classes of shares, no interim dividend may be paid in shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

EGL UK's directors may:

- if authorised by an ordinary resolution of EGL UK:
  - offer shareholders the right to elect to receive fully paid shares, instead of cash in respect of all or part of a dividend specified by the ordinary resolution; or
  - decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including shares or other securities in any company).
- if a share is subject to a lien held by EGL UK, deduct from any dividend or other sum payable in respect of the share any sum of money which is owed to EGL UK to the extent that EGL UK's directors are entitled to require payment under a lien enforcement notice, subject to giving notice to the relevant dividend recipient; and
- before recommending any dividend, carry to reserve out of the profits of EGL UK such sums as it thinks fit.

If cheques, warrants or orders for dividends, or other sums payable in respect of a share, sent by EGL UK to a person entitled to it are returned to EGL UK or left uncashed on 2 consecutive occasions (or following one occasion, reasonable enquiries have failed to establish any new address for that purpose), EGL UK is not obliged to send any dividends or other money payable in respect of a share until the person notifies EGL UK of an address to be used for the purpose.

Any unclaimed dividends may be invested or otherwise made use of by EGL UK's directors for the benefit of EGL UK until claimed. Any dividend which has remained unclaimed for a period of 12 years from the date it became due for payment is forfeited and ceases to remain owing by EGL UK.

**(f) Variation of class rights**

If the share capital of EGL UK is divided into shares of different classes, any rights for the time being attached to any shares may be varied or abrogated either:

- in such manner (if any) as may be provided by those rights; or
- in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class or with the sanction of a special resolution passed at a separate general meeting of the holders of the class duly convened and held in accordance with the Companies Acts.

**(g) Transfer of shares**

Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by EGL UK's directors. The instrument of transfer shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

EGL UK may not charge a fee for registering any instrument of transfer or other document relating to or affecting the title to any share. EGL UK may retain any instrument of transfer which is registered.

The transferor remains the holder of a share until the transferee's name is entered in EGL UK's register of shareholders as a holder of the share.

EGL UK's directors may refuse to register the transfer of a share unless it is:

- in respect of a fully paid share;
- in respect of only 1 class of shares;
- in favour of a single transferee or not more than 4 joint transferees;
- duly stamped (if so required); and
- delivered for registration to EGL UK's registered office or such other place as determined by the EGL UK's board from time to time, accompanied by the certificate for the share to which it relates and such other evidence as EGL UK's board may reasonably require to prove the title of the transferor and the due execution of the transfer by him or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

If EGL UK's directors refuse to register a share transfer, then the instrument of transfer must be returned to the transferee with the notice of refusal (which shall include the reasons for the refusal) unless the directors suspect that the proposed transfer may be fraudulent.

(h) **Alterations to capital**

EGL UK may exercise the powers conferred by the Companies Acts to:

- increase its share capital by allotting new shares with a nominal value as determined by the board of EGL UK;
- reduce its share capital;
- sub-divide or consolidate and divide all or any of its share capital;
- reconvert stock into shares; or
- re-denominate all or any of its shares and reduce its share capital in connection with such re-denomination.

(i) **Directors' appointment and termination**

EGL UK must have a minimum of 3 directors, unless and until otherwise determined by EGL UK by ordinary resolution.

Directors may be appointed by:

- a resolution of the directors;

- shareholder(s) who hold more than one-half of the issued ordinary shares of EGL UK (by a written instrument authenticated by the shareholder(s) making the appointment); or
- any shareholder who holds 10% or more of the total issued share capital of EGL UK. Any such shareholder has the right to nominate 1 person to act as a director by notice in writing addressed to EGL UK served at EGL UK's registered office, and to remove its nominated director by notice in writing and appoint another person to act in the place of the removed nominee director. The appointment or removal of a director in this manner takes effect at and from the time when the notice is received at the registered office of EGL UK or produced at a board meeting of EGL UK.

Directors cease to be a director as soon as:

- the director ceases to be a director by virtue of any provision of the Companies Acts or is prohibited from being a director by law;
- a bankruptcy order is made against that person;
- a composition is made with that person's creditors generally in satisfaction of that person's debts;
- a registered medical practitioner who is treating that person gives a written opinion to EGL UK stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;
- by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have;
- notification is received by EGL UK from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms;
- in the case of a director appointed by nomination from a shareholder who holds 10% or more of the total issued share capital, if the shareholder who appointed that director removes the director or if the shareholder no longer holds 10% or more of the total issued share capital of EGL UK, unless otherwise approved by the board of EGL UK;
- the shareholders of EGL UK exercise their powers under the Companies Acts to remove a director by ordinary resolution;
- shareholder(s) who hold more than one-half of the issued ordinary shares of EGL UK remove the director (by effecting a written instrument authenticated by the shareholder(s) making the removal). However, a nominee director who is appointed by a shareholder who holds 10% or more of the total issued share capital of EGL UK may only be removed by that shareholder by notice in writing to EGL UK or by the exercise of the shareholders of EGL UK of any power to remove the director conferred by the Companies Acts; or
- he is absent (whether or not an alternate appointed by him pursuant to the provisions of the Articles of Association attends), without the permission of the board, from board meetings for 6 consecutive months or, if during a shorter period, for 2 consecutive board meetings and the board resolves that his office be vacated.

(j) **Directors' remuneration**

Directors are entitled to such remuneration as the directors (or any committee as the board may authorise) determine for their services to EGL UK as directors and for any other service which they undertake for EGL UK.

A director's remuneration may take any form and include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director. Unless the directors (or any committee as the board may authorise) decide otherwise, directors' remuneration accrues from day to day.

If by arrangement with the board, or any committee authorised by the board, any director shall perform or render any special duties or services outside his ordinary duties as a director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board, or any committee authorised by the board, may from time to time determine.

The salary or remuneration of any director appointed to hold any employment or executive office in accordance with the provisions of the Articles of Association may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the board, or any committee authorised by the board, and may be in addition to or in lieu of any fee payable to him for his services as director pursuant to the Articles of Association.

The board, or any committee authorised by the board, may exercise all the powers of the EGL UK to provide pensions, retirement, superannuation, death or disability benefits or other allowances or gratuities for directors.

EGL UK may pay any reasonable expenses which the directors may properly incur in connection with their attendance at meetings of directors, committees of directors, general meetings or class meetings or otherwise in connection with the exercise of their powers and discharge of their responsibilities in relation to EGL UK.

(k) **Accounts to be sent to shareholders**

EGL UK must provide its shareholders with a copy of its annual accounts and reports, or a summary financial statement that complies with the Companies Acts, no later than the date on which it gives notice of the annual general meeting.

(l) **Mining and exploration activities report**

EGL UK must publish on its website a copy of a mining exploration activities report for each quarter by the date that is 1 month after the end of each quarter, which will set out:

- the mining, exploration and related operations of EGL UK and its subsidiaries and a summary of the expenditure incurred in respect of these activities;
- the exploration activities of EGL UK and its subsidiaries (including geophysical surveys) and a summary of the expenditure incurred in respect of these activities; and
- if any of EGL UK or its subsidiaries has acquired an interest in a mining tenement that is material, information relating to:

- the location of any mining tenements held;
- the location of any mining tenements disposed of by EGL UK or any subsidiary company during the quarter; and
- beneficial percentage interests owned by EGL UK or any subsidiary company in farm-in or farm-out agreements acquired or disposed of during the quarter.

For a description of the material differences between holding shares in an English private company as opposed to an Australian public listed company, refer to Part 5.1.

## 2.3 Board of directors

The current board of directors of EGL UK is comprised of the following persons:

*Table 2: EGL UK board of directors*

Position in EGL UK	Name
Director	Mr Julien Moulin (currently Executive Chairman of the Company and director of EGL UK)
Director	Mr Frederic Briens (currently the Chief Executive Officer of the Company and a director of EGL UK)
Director	Mr Johannes Niemetz (currently the Chief Financial Officer and Chief Operating Officer of the Company and a director of EGL UK)

EGL UK is working on building a board of directors. It is expected that a board of 5 directors, of which a minimum of 3 will be non-executive and a minimum of 2 will be independent, will be appointed over the next 12 months.

Mr Briens and Mr Niemetz will retire from their positions at the Company.

## 2.4 Capital management policy

EGL UK, being an exploration company, does not expect to distribute dividends in the foreseeable future until its projects mature further.

## 2.5 Future plans of EGL UK

EGL UK proposes to undertake an offering of shares in EGL UK to sovereign wealth funds and large institutional investors in Europe by way of a private placement to be undertaken by September 2012 at the latest (**Private Placement**). EGL UK is aiming to raise up to €60 million in the Private Placement and proposes to issue up to 250 million shares in EGL UK. Accordingly, the new shareholders under the Private Placement may, as a group, hold up to 45.68% of the issued share capital of EGL UK following completion of the Private Placement. The proceeds of the Private Placement will be used to finance an 18 to 24 month drilling campaign to establish proved and probable gas reserves in Lorraine and Nord Pas de Calais. The timing and occurrence of the Private Placement will depend on various factors, but it is expected to be completed by the end of September 2012.

The exact terms and conditions of the contemplated Private Placement, including the size of the capital increase and the price at which the Private Placement will be made, will be decided by the board of EGL UK in due course. Unlike the position for Australian public listed companies seeking to undertake placements of this size, shareholder approval will not be sought for EGL UK's proposed Private Placement. Please refer to Part 5.4 of this Explanatory

Memorandum for the details on the risks that may arise in connection with the Private Placement.

EGL UK currently has a medium term intention to attempt to raise funds in the future by seeking a listing on a securities exchange in Europe. The timing will be determined by the board of EGL UK and will depend on various factors including, but not limited to, market conditions. The listing of EGL UK will be subject to the ability of EGL UK to raise capital by way of a public offer and approval to listing from the relevant securities exchange. There is no guarantee that listing will occur in the medium term or at all.

## 2.6 Assets and liabilities of EGL UK

### *Shares in HPL and EG SAS*

The Company was previously the direct parent company of HPL and EG SAS. In the months preceding the scheduled EGM, the Company has transferred all of its shares held in the capital of HPL and EG SAS respectively to EGL UK.

As HPL holds a 25% interest in a French gas exploration licence, the HPL share transfer involved the indirect transfer of this licence (by virtue of HPL becoming a subsidiary of EGL UK). Under French law, the French government has the right to comment on the HPL share transfer within 2 months of its notification (this period may be renewed by an additional 2 months if the French government so requests before the expiry of the first 2 months period). On 16 May 2012, the Company received a letter of non-objection from the French government, the transfer is therefore deemed approved.

As at the date of the Notice, HPL and EG SAS are wholly owned subsidiaries of EGL UK.

After implementation of the proposed Buy-back Offer:

- an EGL Eligible Shareholder who validly accepts the Buy-back Offer and becomes an EGL UK Shareholder will have materially the same effective interest in the current underlying assets of the Company (by virtue of EGL UK, directly or indirectly through its subsidiaries, holding almost 100% of the assets of the Group with the exception of the Buru Royalty); and
- Shareholders who remain with the Company will have an indirect interest in EGL UK and EGL UK's underlying assets through their shareholding in the Company (which will continue to hold the remaining shares in EGL UK that were not transferred as consideration for the bought back EGL Shares). These Shareholders will also have an interest in the Buru Royalty which will continue to be held directly by the Company.

### *Rights under the Gazonor Valenciennois Permit Farmout Agreement, Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement*

The Company is a party to the following agreements:

- a farmout agreement relating to the Valenciennois exploration permit between the Company, Transcor Astra Luxembourg S.A. (**Transcor**) and Gazonor S.A.S. (**Gazonor**) dated 5 May 2011 (**Gazonor Valenciennois Permit Farmout Agreement**);
- a farmout agreement relating to the Sud-Midi exploration permit between the Company, Transcor and Gazonor dated 5 May 2011 (**Gazonor Sud-Midi Permit Farmout Agreement**); and
- a production sharing agreement relating to the Poissoniere and Desiree production permits between the Company and Gazonor S.A.S. dated 5 May 2011 (**Production Sharing Agreement**).



On 30 March 2012, the Company assigned to EGL UK all of its rights and interests under each of these agreements, in order to enable EGL Eligible Shareholders who validly accept the Buy-back Offer to have materially the same interests in the underlying assets once they become EGL UK Shareholders as they did prior to their acceptance of the Buy-back Offer in respect of their EGL Shares.

As at the date of the Notice, EGL UK holds all rights and interests under these agreements.

The Company has agreed to be jointly and severally liable with EGL UK for the performance by EGL UK of its obligations under the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement.

In exchange for the assignment of these agreements and the Company's agreement to have joint and several liability with EGL UK, EGL UK has entered into a deed of indemnity with the Company on 1 May 2012 (**Deed of Indemnity**), under which it agreed to (amongst other things):

- pay or reimburse the Company on demand for any payments paid or payable by the Company to any party, and the Company's costs in performing its obligations or doing anything; and
- indemnify (on an after tax basis) and keep indemnified the Company at all times from all liability (including any taxes, charges, fees or withholdings) or loss, and all actions, claims and demands which may be instituted against the Company,

under, arising directly or indirectly from or in connection with the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement. There are no exceptions to any of the above obligations of EGL UK.

#### *Other permits*

All other permits and related agreements are held by EGL UK or HPL.

### **3 Effect of the Buy-back Offer**

#### **3.1 The Company after implementation of the Buy-back Offer**

Shareholders who do not validly accept the Buy-back Offer or who are not eligible to participate in the Buy-back Offer will remain shareholders of the Company.

Subject to satisfying ASX's ongoing listing requirements, it is the Company's intention to remain listed on ASX in the foreseeable future regardless of the level of acceptances of the Buy-back Offer. However, depending on the level of acceptances by EGL Eligible Shareholders of the Buy-back Offer, there is a risk that the Company may be suspended from trading or delisted from ASX after the completion of the Buy-back Offer if:

- (a) the level of the Company's operations are, in ASX's opinion, not sufficient to warrant the continued quotation of the Company's shares and its continued listing (Listing Rule 12.1); or
- (b) there is a significant level of acceptance and participation in the Buy-back Offer, resulting in the Company being unable to maintain a sufficient spread of shareholdings in its ordinary share class to ensure an orderly and liquid market in EGL Shares (Listing Rule 12.4).

Based on preliminary indications, and assuming that Shareholders accept in respect of 100% of their EGL Shares, the Company expects that approximately 80% of EGL issued share capital may be bought back. This may result in there being approximately 1000 Shareholders

and approximately 60,000,000 EGL Shares left in the Company. The number of remaining Shareholders and EGL Shares however depends on the extent of the level of acceptances of the Buy-back Offer. If the Company falls below the minimum spread requirements post Buy-back, then any suspension or removal decision will be a matter for the broad discretion of ASX and will be considered by ASX on a case-by-case basis. See Part 5.8 for more details.

The Board will address these issues if and when they arise.

### **3.2 Effect on issued capital of the Company**

The Buy-back Offer will reduce the share capital of the Company, depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer. Based on the geographical location of the beneficial holders of the Company, the Board expects strong support for, and interest in, accepting the Buy-back Offer.

The number of EGL Shares held by a Shareholder who does not participate, or is not eligible to participate, in the Buy-back Offer will remain the same, but their percentage holding in the Company will increase depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer and accordingly have their EGL Shares cancelled.

Based on information available to the Company up to 30 April 2012, the Company's substantial shareholders are The Maoming China Fund, Banque Privee Edmond de Rothschild, Ocean Dome Corporation and Transcor Astra Luxemburg S.A.

The voting power of these substantial shareholders will increase if they decide to not participate in the Buy-back Offer in respect of their EGL Shares.

At this stage, it is not possible to ascertain exactly what actual change in the voting power of substantial shareholders will occur as this will be dependent on the extent of their acceptance of the Buy-back Offer and the ultimate level of participation by other EGL Eligible Shareholders.

For the purposes of the Corporations Act, a person will not have a relevant interest in the Company's shares if the relevant interest would arise merely because the Company has entered into an agreement to buy back the shares.

### **3.3 Effect of the Buy-back Offer on options in the Company**

As at 8 May 2012, there were 19,000,000 unlisted options in the Company held by the following:

<b>Name</b>	<b>Number of EGL Options</b>	<b>Exercise price</b>	<b>Expiry date</b>
Julien Moulin	6,000,000	\$0.50	31 December 2012
Peter Cockcroft	3,000,000	\$0.50	31 December 2012
Peter Cockcroft	10,000,000	\$0.70	31 December 2012

The Buy-back Offer by itself will have no impact on the number of these options or their exercise terms.

### **3.4 Effect on the assets and liabilities of the Company**

The Company's interest in EGL UK will decrease depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer, which will likely result in a change of control in EGL UK (see Part 3.7).

After completion of the Buy-back Offer, the Company will continue to hold the remainder of its EGL UK Shares (being those EGL UK Shares that were not transferred to the EGL Eligible Shareholders who participated in the Buy-back Offer). Its assets will also include the Buru Royalty, which it will continue to hold directly. The Company's intention in continuing to hold the remainder of its EGL UK Shares and the Buru Royalty are not affected by the level of acceptances of the Buy-back Offer.

As at the date of the accompanying Notice, neither the Company nor EGL UK has any interest bearing liabilities. The only current liabilities of the Company and EGL UK relate to trade and other payables. The Board considers that the decrease in the Company's assets after implementation of the Buy-back Offer would not adversely affect the Company's capacity to meet its existing and anticipated obligations and pay its debts as and when due.

*Rights and liabilities in connection with Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud Midi Permit Farmout Agreement and the Production Sharing Agreement*

As explained in Part 2.6, to give effect to the proposed Buy-back, the Company assigned its all of its rights, interests and obligations, and agreed to be jointly and severally liable with EGL UK for the performance by EGL UK of its obligations, under the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud Midi Permit Farmout Agreement and the Production Sharing Agreement.

However, as noted in Part 2.6, the Company has the benefit of the Deed of Indemnity between the Company and EGL UK, under which EGL UK has agreed to make payments and indemnify the Company in the manner described in Part 2.6.

In addition, the Company is a party to a share purchase agreement between EG S.A.S., the Company, Transcor France S.A.S. and Gazonor S.A.S. dated 5 May 2011 (**Transcor Share Purchase Agreement**). On 30 March 2012, EGL UK signed an agreement under which it undertook to duly perform all the obligations of the Company, and agreed to be jointly and severally liable with the Company and EG S.A.S. for the performance by them of their obligations, under the Transcor Share Purchase Agreement. Under the Deed of Indemnity, EGL UK has also agreed to pay, reimburse and indemnify the Company in the event that the Company is required to make payments, incurs costs, liability, loss or damage, or is subject to any action, claim or demand, under, arising from or in connection with the Transcor Share Purchase Agreement.

### **3.5 Effect on creditors**

The Board has assessed that the Buy-back Offer will not materially prejudice the Company's ability to pay its creditors. As at the date of the accompanying Notice, the Company does not have any interest bearing debt.

### **3.6 Effect of the Buy-back Offer on the Company's shareholders**

Shareholders of the Company, whether they elect to accept the Buy-back Offer or not, will effectively have substantially the same interest in the underlying assets, being EGL UK and EGL UK's underlying assets, through either their shareholding in the Company (which will continue to hold the shares in EGL UK that were not transferred as part of the Buy-back Offer) or their direct shareholding in EGL UK. The exception is that participating EGL Eligible Shareholders who exchanged their EGL Shares for EGL UK Shares will no longer have an interest in the Buru Royalty. In this regard, the royalties received by the Company under the Buru Royalty arrangement for the 5 years to 30 June 2011 totalled approximately £83,000, averaging less than £17,000 per annum.

Shareholders should consult their own financial and tax advisors for specific advice in connection with the Buy-back Offer in order to assess the impact on their own particular circumstances.

### **3.7 Effect on control of EGL UK**

The Buy-back Offer will result in a change of control of EGL UK. EGL UK will no longer be a wholly-owned subsidiary of the Company. Its shareholders will consist of those EGL Eligible Shareholders who validly accepted the Buy-back Offer and the Company, which will hold the remainder of EGL UK Shares that were not transferred as part of the Buy-back Offer. It is expected that, after implementation of the Buy-back Offer, the Company's shareholding in EGL UK will fall below a controlling level.

The board of EGL UK is not comprised of the same individuals as the Company's Board (except for Julien Moulin). The Company will no longer have the capacity to determine the outcome of decisions about EGL UK's financial and operating policies and will not be able to control the composition of the board of EGL UK.

## **4 Reasons for and advantages of the Buy-back Offer**

In the view of the Board, the advantages of the Buy-back Offer include the following.

### **4.1 EGL Shareholders have the choice of whether to accept and become shareholders of EGL UK**

Under the Buy-back Offer, Shareholders are given the choice of whether to elect to participate in the Buy-back Offer and become shareholders of EGL UK, a private limited company incorporated in England and Wales, or to remain Shareholders of the Company which is an Australian public listed company. EGL Eligible Shareholders have a choice of:

- whether or not to accept the Buy-back Offer, regardless of whether they voted in favour of it or against it at the EGM; and
- whether to accept the Buy-back Offer in respect of some or all of their EGL Shares (except as set out in clause 1 of the Terms).

Accordingly, a Shareholder may vote in favour of the proposed Buy-back Offer on the basis that it is beneficial for the Group's business overall, but may elect to not accept the Buy-back Offer if the Shareholder believes that participating in the Buy-back Offer is not suitable for his or her individual objectives, financial situation and needs.

### **4.2 Access to European Union sources of growth capital**

The Board believes that the proposed Buy-back Offer and the transitioning of the Shareholders to EGL UK will improve the access of the Group to sources of growth capital in the European capital markets.

As reported in the Company's 2011 annual report, the Company repaid all of its short term loans in 2011. However, the Group will require funding in the future to fund its operations. The Board believes that the Company's ability to raise further capital in the Australian market is very limited given the Company's lack of connection with Australia and the lack of liquidity in its shares. For an extended period of time, the instances and volume of trading of the Company's shares on ASX has been low. Over the period of the past 52 weeks, the share price of the Company has ranged from a low of A\$0.13 to a high of A\$0.45.

Given the difficulties faced by the Company over the past 5 years in raising capital from Australian investors, the Board believes that fund raising for the Group is too difficult in the Australian market and that future funding will most likely be available from European investors.

However, sovereign wealth funds, as well as certain large institutional investors in Continental Europe, which are the Company's target investors, are unable or unwilling to invest in a non-

European domiciled company due to reasons such as regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area and a lack of tax benefits that would otherwise be available to sovereign wealth funds in Europe.

The Board believes that having EGL UK as an English holding company will enhance the Group's ability to raise capital from the United Kingdom, European and other international financial markets due to:

- increased visibility for EGL UK in the United Kingdom and European markets;
- expectations that an English holding company will overcome resistance from investors who understand company law in a particular jurisdiction and prefer to invest in companies residing in that jurisdiction; and
- access to sovereign wealth funds and institutional investors who may be prevented by regulatory constraints or their internal protocols from investing in entities incorporated outside of the United Kingdom and the European Economic Area.

#### **4.3 Shareholders' meetings**

EGL Eligible Shareholders, who are located in the United Kingdom or Europe, will be more easily able to attend general meetings of EGL UK if they become shareholders of EGL UK.

#### **4.4 Greater alignment with strategic interests**

For many years, the Group has had a minimal presence in Australia. All of the assets of the Group are in France and held by the Company's two English-incorporated subsidiaries – HPL and EGL UK.

The only connections that the Group has with Australia is the Buru Royalty, a small royalty income stream which the Company receives in relation to certain tenements in Western Australia, and the Company's listing on ASX.

The Group is currently pursuing new projects in Europe in countries such as Germany and Belgium, among other countries. It is intended that these projects will be pursued through EGL UK or its European subsidiaries.

Having regard to the short to medium term intentions of the Company and EGL UK, the Board is of the view that the Buy-back Offer will benefit the business of the Group and EGL Eligible Shareholders who validly accept the Buy-back Offer.

#### **4.5 Why a share buy-back over other restructuring alternatives**

The Group needs to raise capital for the further development of its projects. If the Group cannot raise capital to fund the Group's current and future projects, it may result in the Group's inability to continue its exploration activities and projects.

The Board believes that fundraising for the Group is too difficult in the Australian market. The Company has elected to structure its proposed restructure by way of a buy-back largely because, as noted in Part 4.1, the Buy-back Offer gives EGL Eligible Shareholders a choice as to whether to become a shareholder of EGL UK or to remain a shareholder of the Company, having regard to their individual circumstances. An EGL Eligible Shareholder may prefer to remain a shareholder of an Australian public listed company (subject to the risks set out in Part 5) which is governed by Australian laws and is subject to the Listing Rules, with which they may be more familiar.

There were other alternatives to the Buy-back Offer that were considered by the Company to implement its proposed restructure, namely a capital reduction or a scheme of arrangement. However, these alternatives were not chosen by the Company for the reasons set out as follows.

(a) **Capital reduction**

If the restructure was to be implemented by way of a capital reduction and in order to achieve the Company's commercial objectives, Shareholders' EGL Shares would be cancelled and each Shareholder would receive as consideration in EGL UK Shares.

In a practical sense, the capital reduction mechanism would compel Shareholders to no longer be shareholders of the Company and, instead, become EGL UK Shareholders.

Australian law requires that, for a person to become a member of a company, he or she must agree to do so. The capital reduction mechanism would not allow Shareholders the choice of whether to become EGL UK Shareholders. If Shareholders did not wish to become EGL UK Shareholders, they would not receive any consideration for the EGL Shares that were cancelled.

If Shareholders are compelled to become EGL UK Shareholders in this manner, there is a risk that a restructure that is implemented by way of a capital reduction could be challenged in the courts.

(b) **Scheme of arrangement**

If the restructure was to be implemented by way of a scheme of arrangement:

- all EGL Shares would be transferred to either EGL UK or a new private limited company incorporated in England and Wales that would be the new holding company; and
- as consideration, EGL Eligible Shareholders would receive 1 share in EGL UK or the new holding company for each EGL Share transferred.

For a scheme of arrangement to be implemented, the following steps must take place:

- the Company must receive court approval to hold a scheme meeting for Shareholders to vote on the scheme proposal;
- at the scheme meeting, at least (i) 75 per cent of votes cast on the resolution at the scheme meeting, and (ii) at least 50 per cent in number of members present and voting, must be in favour of the scheme; and
- after the requisite shareholder approval is obtained, the court must then decide whether to approve the scheme. At this "second court hearing", the court may grant its approval for a scheme subject to any alterations and conditions as it thinks just.

Once the scheme is approved in this manner, it is binding on all Shareholders, regardless of whether they voted in favour of the scheme or not. As a result, Shareholders would have no choice but to become EGL UK Shareholders.

Depending on the level of acceptances of the Buy-back Offer, it is possible that the Buy-back Offer may have different outcomes for Shareholders as well as for the Company. A scheme of arrangement and a capital reduction, on the other hand, only has two possible outcomes. If the scheme of arrangement or capital reduction is approved by Shareholders in the required manner, all Shareholders would be bound by that approval and would be compelled to give up their EGL Shares for EGL UK Shares. Alternatively, if the scheme of arrangement or capital reduction is not approved in the required manner, the transaction would not proceed.

In determining which structure the Company should implement, the Board is of the view that the ability to give Shareholders a choice in how they deal with their EGL Shares (as is provided by the Buy-back Offer) outweighs any possible advantages that may arise for Shareholders in knowing that there may only be two possible outcomes in a capital reduction or a scheme of arrangement.

The Board is of the view that the Company is unable to provide cash consideration (instead of EGL UK Shares) for the Buy-back as the Company's low cash balance does not allow the Company to offer cash consideration.

## **5 Risks and disadvantages of the Buy-back Offer**

Shareholders may face the following risks and disadvantages if the Buy-back Offer is approved and implemented.

### **5.1 Shareholders who validly accept the Buy-back Offer will become shareholders of an English private company rather than an Australian public listed company**

EGL UK is a private limited company incorporated under the laws of England and Wales, whereas the Company is incorporated under the laws of Australia and is a public company listed on ASX. EGL Eligible Shareholders who elect to accept the Buy-back Offer and become EGL UK Shareholders will no longer have their rights governed by the laws of Australia, the Listing Rules and the Company's constitution, to which they are familiar. The rights of EGL UK Shareholders will be governed by the laws of England and Wales and the Articles of Association. In the initial period after the Buy-back Offer, the board of EGL UK will comprise entirely of management. However, EGL UK will assemble a board of 5 directors (with at least 3 non-executive directors and at least 2 independent directors) in the 12 months following the Buy-back Offer.

*Certain shareholders' rights under the Listing Rules are incorporated into the Articles of Association*

Shareholders of the Company, as an Australian public listed company, enjoy certain rights and protections under the Listing Rules, including:

- the requirement for prior shareholders' approval for certain transactions; and
- the right to receive quarterly reports on the Company's mining, exploration and related activities and the expenditure incurred in respect of these activities (Listing Rules, Chapter 5).

Private companies incorporated in, and governed by the laws of, England and Wales are not governed by the Listing Rules. To provide Shareholders who participate in the Buy-back and become EGL UK Shareholders with some of the protections that are currently available to shareholders of an Australian public listed company, EGL UK has incorporated in its Articles of Association:

- some of the protections which are afforded to Shareholders under the Listing Rules (for example, the right to receive quarterly reports on mining and exploration activities of EGL UK); and
- certain rights that EGL UK Shareholders would have under the UK Listing Rules if EGL UK were an English public listed company.

A summary of these articles is provided under Part 2.2.

*Material differences between holding shares in an Australian public listed company and an English private company*

Table 4 sets out some of the material differences between owning shares in EGL UK and owning shares in the Company, having regard to the laws and regulations of their respective

jurisdictions and their governing documents. The summary is provided as a general guide only, and is not a comprehensive summary or analysis of all the consequences from holding, acquiring or disposing of EGL Shares or EGL UK Shares or interests in EGL Shares or EGL UK Shares. The laws, regulations, policies and procedures described are subject to change from time to time. Shareholders who are in any doubt as to their own legal position should seek independent advice.

Table 4: Comparison table

<b>EGL UK as an English private company</b>	<b>The Company as an Australian public listed company</b>
<p><b>Pre-emptive rights</b></p> <p>The Companies Acts require the offer of any issue of new shares to be made first to existing shareholders in proportion to their holdings, unless:</p> <ul style="list-style-type: none"> <li>• the pre-emptive rights are disapplied in the company's constitution; or</li> <li>• shareholders resolve by a special resolution (being a majority of not less than 75% of a company's shareholders at a general meeting) to disapply pre-emption rights.</li> </ul> <p>The Articles of Association of EGL UK have disapplied the operation of section 561 of the Companies Act 2006, with the effect that the directors may allot shares without first making an offer of shares in EGL UK to existing shareholders in proportion to their holdings. A limit on authorised share capital may be placed in a company's articles of association. EGL UK's Articles of Association do not contain such a limit on authorised share capital.</p> <p>Pre-emption rights do not apply if shares are allotted for non-cash consideration, allotted or transferred under an employee option scheme or to any bonus shares issued.</p>	<p>The Listing Rules permit the Directors to allot unissued shares without shareholder approval up to a maximum number equivalent to 15% of the issued capital of the prior to the allotment in any 12 month period. There are no pre-emptive rights for existing shareholders for the issue of shares in ASX listed companies.</p>
<p><b>Share capital and issues of shares</b></p> <p>A limit on authorised share capital may be placed in a company's Articles of Association. EGL UK's Articles of Association do not contain such a limit on authorised share capital.</p> <p>Directors of English private companies with only one class of shares have a general authority to allot shares unless this authority is restricted by the Articles of Association. EGL UK's Articles of Association do not contain any such restriction.</p>	<p>Subject to the Listing Rules and the Corporations Act, the constitution of a typical Australian public company authorises the board to issue shares, options and other securities with preferred, deferred or other special rights or such restrictions, whether with regards to dividends, voting, return of capital and other matters as the directors may decide. The Company's constitution does not impose any maximum limit on the number of shares.</p>
<p><b>Continuous disclosure</b></p> <p>Apart from the right to receive accounting information (as set out in the "Accounts and auditors" section below in this table), English private companies have limited general disclosure obligations to shareholders or the</p>	<p>The Listing Rules require listed issuers to notify ASX of information which:</p> <ul style="list-style-type: none"> <li>• they are required to disclose under the Listing Rules; and</li> </ul>



<b>EGL UK as an English private company</b>	<b>The Company as an Australian public listed company</b>
<p>public. They are required to make certain statutory disclosures to the UK Registrar of Companies (which information will be publicly available from the UK Companies House) including in respect of changes to the company's constitution, any special resolutions passed, any allotment of shares by the company, changes to the share capital, the appointment of directors, company secretaries and auditors and copies of the company's annual accounts and annual return.</p> <p>In addition, EGL UK intends to (i) publish on its website quarterly reports on the mining and exploration activities of EGL UK and (ii) provide all necessary underlying information to the Company so that the Company may continue to comply with its continuous disclosure obligations.</p>	<ul style="list-style-type: none"> <li>• a reasonable person would expect to have a material effect on the price or value of the securities.</li> </ul> <p>In relation to changes or proposed changes to capital, issuers must also give ASX details of any:</p> <ul style="list-style-type: none"> <li>• capital reorganisation;</li> <li>• call to be made on shares;</li> <li>• proposed issue of securities; and</li> <li>• provide to ASX a copy of any disclosure document, product disclosure statement or information memorandum,</li> </ul> <p>among other disclosures prescribed by Listing Rule 3.10.</p> <p>Please refer to the section below entitled "Accounts and auditors" in relation to periodic disclosure.</p>
<p><b>Purchase of own securities</b></p> <p>Unless prohibited by its articles of association, an English private company may buy back its own shares out of (i) distributable reserves, (ii) the proceeds of a fresh share issue, or (iii) capital. EGL UK's Articles of Association do not contain any such prohibition.</p> <p>The purchase must be approved by the shareholders of the company and the shareholders' resolution must set out the names of the selling shareholders, the amount and type of shares being repurchased and the price and (where applicable) a copy of the buy-back contract should be appended to the resolution.</p>	<p>In Australia, a company has the right to buy back its shares under the Corporations Act provided that it complies with the provisions of the Corporations Act. A company may conduct a number of different types of share buy-backs. Depending on the type of share buy-back conducted and the number of shares the company proposes to buy back, the proposal may need to be approved by a resolution of the shareholders.</p>
<p><b>Accounts and auditors</b></p> <p>English companies are required to prepare for circulation to shareholders and filing with Companies House annual accounts in the prescribed form, which, unless an exemption applies, are required to be audited; failure to do so will result in a penalty being payable by the company and directors of the company being liable for prosecution.</p> <p>English private companies are not required to provide half yearly accounts.</p> <p>English private companies are permitted to dispense with the requirement for an annual appointment of the Company's auditors.</p>	<p>A company must report to members for a financial year by providing:</p> <p>(a) all of the following reports:</p> <ul style="list-style-type: none"> <li>• financial reports for the year;</li> <li>• directors' reports for the year; and</li> <li>• an auditor's report on the financial report; or</li> </ul> <p>(b) a concise report for the financial year.</p> <p>A company must also provide to members a financial report and directors' report for each half year. The financial report must be audited or reviewed by the company's auditors.</p>

EGL UK as an English private company	The Company as an Australian public listed company
	Shareholders are required to approve the appointment of a company's auditors at the first annual general meeting after their appointment by the board.
<p><b>Takeovers</b></p> <p>The City Code on Takeovers and Mergers (the <b>Code</b>) does not apply to EGL UK. Consequently, the restrictions on acquisitions of shares carrying voting rights contained in the Code do not apply to EGL UK.</p> <p>In the event that any person has acquired or unconditionally contracted to acquire 90% in value of the shares of a company, (i) such person shall have the right to acquire (on a compulsory basis) any minority shareholdings in the company, and (ii) any minority shareholder may require such person to buy them out.</p>	<p>The Corporations Act governs a takeover and contains a general rule that a person must not acquire a "relevant interest" in issued voting shares of a company if, because of the transaction, a person's voting power in the company:</p> <ul style="list-style-type: none"> <li>• increases from 20% or below to more than 20%; or</li> <li>• increases from a starting point, which is above 20% but less than 90%.</li> </ul> <p>Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 months period.</p> <p>Australian law permits compulsory acquisition by persons holding a 90% interest in the relevant securities.</p>
<p><b>Protection of minority shareholders – oppression</b></p> <p>Under English law, if shareholders consider that a company's affairs are being conducted in an unfairly prejudicial manner to the interests of shareholders generally or to some part of its shareholders, or that an actual or proposed act or omission would be so prejudicial, they may apply to the court for an order. If the court is satisfied that the action is well founded, it may make such order as it thinks fit (such as a purchase order requiring the company to purchase the petitioner shareholder's shares).</p> <p>Minority shareholders also have the following protections:</p> <ul style="list-style-type: none"> <li>• they may, in certain circumstances, take proceedings for injunctive or other relief to prevent the majority from exercising their voting power improperly by virtue of the doctrine of fraud on the minority; and</li> <li>• they may bring proceedings on behalf of a company (ie, a derivative action) in certain circumstances.</li> </ul>	<p>Under Australian law, a shareholder may apply to the court under the Corporations Act to bring an action if the conduct of the company's affairs, an actual or proposed act by or on behalf of the company, or a resolution or proposed resolution of shareholders or a class of shareholders, is either (i) contrary to the interests of shareholders as a whole, or (ii) oppressive to, unfairly prejudicial to or unfairly discriminatory against, any shareholders in their capacity as a shareholder or in any other capacity.</p> <p>The court has broad powers to make any order it considers appropriate, including:</p> <ul style="list-style-type: none"> <li>• for the winding up of the company;</li> <li>• for the appointment of a receiver and/or manager of any of the company's property;</li> <li>• for the modification or repeal of the company's constitution;</li> <li>• regulating the conduct of the company's affairs in the future;</li> <li>• for the purchase of shares with an appropriate reduction of the company's share capital; and</li> </ul>

EGL UK as an English private company	The Company as an Australian public listed company
	<ul style="list-style-type: none"> <li>requiring a person to do, or restraining a person from doing, a specified act,</li> </ul> <p>among other orders.</p> <p>As under English law, minority shareholders under Australian law may take proceedings for injunctive or other relief to prevent the majority from exercising their voting power improperly by virtue of the doctrine of fraud on the minority, and may initiate derivative actions.</p>
<p><b>Substantial shareholdings</b></p> <p>Each share issue by an English private company must be disclosed to the Registrar of Companies and the names of shareholders will appear on the annual return that is filed with the Registrar of Companies. In the event of a transfer of legal title to shares in an English private company, the company must be notified of the details of the new shareholder to approve the transfer and enter the details in the share register but there is no obligation to notify the public of the transfer (although the new shareholder will appear on any subsequent annual return filed with the Registrar of Companies).</p>	<p>The Corporations Act requires a shareholder who begins to or ceases to have a substantial holding in a listed company, or has a substantial holding in a listed company and there is movement by at least 1% in their holding, to give notice to the company and to ASX.</p> <p>A person has a substantial holding if the person and the person's associates have a relevant interest in 5% or more of voting shares in that company.</p>
<p><b>Appointment of Directors</b></p> <p>Under EGL UK's Articles of Association, EGL UK is required to have a minimum of 3 directors.</p>	<p>Under the Company's constitution, the Company is required to have a minimum of 3 directors.</p> <p>The Listing Rules require directors to be re-elected at the third annual general meeting following the director's appointment or 3 years (whichever is longer). This rule does not apply to the managing director.</p>

## 5.2 Less transferability for EGL UK Shares

Shareholders who validly accept the Buy-back Offer and become shareholders of EGL UK will not have the benefit of a stock exchange to sell their EGL UK Shares.

## 5.3 Restrictions may apply to some EGL Eligible Shareholders in holding EGL UK Shares

Some EGL Eligible Shareholders may be restricted by their institutional investment mandates from holding unlisted shares in a private company incorporated in England and Wales.

## 5.4 Private placement will dilute shareholders and may affect control of EGL UK

The Private Placement (as described in Part 2.5) will have a dilutionary effect on the Company's shareholding in EGL UK, on Shareholders who validly accept the Buy-back Offer and become shareholders of EGL UK and on Shareholders who elect not to participate and remain shareholders of the Company (in the latter case, Shareholders will have their interests in the underlying assets diluted because the Company's shareholding in EGL UK will be diluted).

However, if the Buy-back is not approved, the Company will still need to raise capital for the further development of its projects in the near future, in which case the Shareholders' interests in EGL would also be diluted.

There is a possibility that the Private Placement may affect the control of EGL UK.

#### **5.5 May result in an unfunded Australian tax liability for Australian resident Shareholders**

If the Australian resident Shareholders are deemed to receive a non-cash dividend in connection with the Buy-back, they will be required to fund any Australian income tax payable on the non-cash dividend from their own cash funds. Whilst the Company does not expect that a non-cash dividend will be paid in connection with the Buy-back, this position cannot be confirmed until the Class Ruling is issued by the ATO. See Part 0 below for a detailed discussion of the Australian tax implications for Australian resident Shareholders who validly accept the Buy-back Offer.

#### **5.6 Less access for Australian investors to shareholder meetings of EGL UK**

While the change in incorporation of the holding company of the Group from the Company to EGL UK will make it more convenient for investors based in the United Kingdom and in Europe to attend shareholder meetings, it will make it inconvenient for EGL Eligible Shareholders who accept the Buy-back Offer who are not based in the UK or Europe to attend shareholder meetings. However, as previously noted, Shareholders may elect to not accept the Buy-back Offer in respect of their EGL Shares. As the Company will remain listed on ASX, Shareholders who choose to remain shareholders of the Company will continue to be entitled to attend general meetings of the Company.

#### **5.7 Ability to continue to fund exploration activities**

There is no guarantee that EGL UK will be able to raise capital from the UK and European markets.

Failure to obtain sufficient financing for EGL UK's activities and future projects may result in delay and postponement of exploration activities and projects. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to EGL UK and might involve substantial dilution to EGL UK Shareholders in the future.

However, the Board believes that these risks are lower for EGL UK than for the Company.

#### **5.8 Risk of delisting of the Company**

The Board does not currently have any plans for developing operations in Australia over the next 12 months. However, it wishes to maintain the Company's ASX listing in order to keep the Company's options open in the event that any opportunities arise in the future. If any potential opportunities arise in Australia or if any favourable opportunities arise to acquire unconventional oil and gas assets in Australia, a listed vehicle is likely to be needed. However, the Board is not currently considering or pursuing any opportunities

By keeping its ASX listing, the Company continues to provide liquidity to those who choose to remain shareholders of the Company.

As noted in Part 3.1, there is a risk that the Company may be delisted from ASX after the completion of the Buy-back Offer if:

- (a) the level of the Company's operations are, in ASX's opinion, not sufficient to warrant the continued quotation of the Company's shares and its continued listing (Listing Rule 12.1); and

- (b) there is a significant level of acceptance and participation in the Buy-back Offer, resulting in the Company being unable to maintain sufficient spread of shareholdings in its ordinary share class to ensure an orderly and liquid market in EGL Shares (Listing Rule 12.4).

In transactions involving a disposal of the main undertaking, ASX has powers to require the Company to meet the requirements in chapters 1 and 2 of the Listing Rules as if the Company were applying for admission to the Official List (Listing Rules 11.2 and 11.1.3), including the Company meeting minimum spread requirements of either having:

- at least 500 Shareholders each having a parcel of EGL Shares with a value of at least \$2,000; or
- at least 400 Shareholders each having a parcel of EGL Shares with a value of at least \$2,000 and at least 25% of EGL Shares must be held by parties unrelated to the Company.

In addition, if after the implementation of the Buy-back Offer, the Company falls below the minimum spread requirements, ASX may take the view that the Company does not have sufficient spread and may exercise its discretion to require the Company to obtain sufficient spread. In this situation, the Company would be obliged to:

- obtain the required spread within 3 months after the date ASX requires it to do so; and
- tell all Shareholders in writing that if the required spread is not obtained within 3 months after the date when ASX requires the entity to obtain it, ASX may suspend quotation of EGL Shares. The Company will be required to tell Shareholders in writing within 10 business days after the date ASX requires it to obtain the spread.

Based on preliminary indications, and assuming that Shareholders accept in respect of 100% of their EGL Shares, the Company expects that approximately 80% of EGL issued share capital may be bought back. This may result in there being approximately 1000 Shareholders and approximately 60,000,000 EGL Shares left in the Company. The number of remaining Shareholders and EGL Shares however depends on the extent of the level of acceptances of the Buy-back Offer. If the Company falls below the minimum spread requirements post Buy-back, then any suspension or removal decision will be a matter for the broad discretion of ASX and will be considered by ASX on a case-by-case basis.

If ASX indicates to the Company that it intends to exercise its discretion to require the Company to delist from ASX, the Company will provide to the Shareholders the opportunity to exchange their EGL Shares for EGL UK Shares. However if for any reason the Company is unable to achieve this opportunity, the Company will take reasonable steps to seek a cash-out alternative for such Shareholders. This cash-out will be on fair terms, including with respect to the value of the consideration to be paid in the cash-out.

## **5.9 Loss of opportunities to participate in the future of the Company**

EGL Eligible Shareholders who validly accept the Buy-back Offer in respect of 100% of their EGL Shares will no longer have the opportunity to participate in the future of the Company or to receive any benefits that may result from any of the Company's Australia - focused activities in the future, including the Buru Royalty.

## **6 Taxation matters**

### **6.1 Overview**

This section provides a summary of the principal Australian income tax consequences associated with the Buy-back for Australian resident and non-Australian resident

Shareholders. This outline reflects the Australian income tax legislation and administrative practices of the ATO as at the date of the accompanying Notice. These laws and administrative practice may change at any time. In particular we draw your attention to the proposed changes to the taxation of off-market share buy-backs as noted in Part 6.3(c) below.

The Australian income tax implications for the Shareholders with respect to the Buy-back will vary depending upon their individual circumstances. In particular, this outline is only relevant to those Shareholders who hold their EGL Shares on capital account and it does not address all tax considerations applicable to Shareholders that may be subject to special tax rules, such as banks, insurance companies, tax exempt organisations, superannuation funds, dealers in securities or Shareholders who hold their EGL Shares on behalf of another person. For Shareholders who are non-residents of Australia for tax purposes, it is assumed that the EGL Shares are not held through an Australian permanent establishment of that Shareholder.

This section does not constitute tax advice. Each Shareholder should consult their own tax adviser regarding the consequences associated with participating in the Buy-back.

## 6.2 Class Ruling

The Company has applied for a Class Ruling from the ATO in relation to the Buy-back. Among other things, the Class Ruling application asks the ATO to confirm whether any part of the consideration paid to the Shareholders for the disposal of their EGL Shares under the Buy-back, which will be shares in EGL UK (**Buy-back Price**) will be treated as a “dividend” for the purposes of the Australian Tax Act (including pursuant to any relevant anti-avoidance provision). If part of the Buy-back Price constitutes or is deemed to be a “dividend” for income tax purposes, this will result in additional tax consequences for the Shareholders (outlined below). A final determination as to whether a part of the Buy-back Price will constitute a dividend for income tax purposes will not be made by the ATO until such time that the final Class Ruling is issued (which is expected to be shortly after the Buy-back is completed). However, the Company does not expect that any part of the Buy-back Price will constitute a dividend for income tax purposes.

The Company will advise Shareholders when the final Class Ruling is published by the ATO.

## 6.3 Australian income tax implications

### (a) The Buy-back

The Australian tax implications for the Shareholders will largely depend upon the capital/dividend split of the Buy-back Price. If the whole of the Buy-back Price is debited against the Company’s share capital account, no part of the Buy-back Price should be treated as a “dividend” for the purposes of the Australian Tax Act (ie, there will only be a “capital” component to the Buy-back). However, if the Buy-back Price exceeds the amount debited to the Company’s share capital account, the excess will constitute a dividend for Australian taxation purposes.

We outline below the Australian tax implications for the Shareholders if there is:

- a capital component and no dividend component; and
- a capital component **and** dividend component.

The Company’s expectation is that there will be a capital component and no dividend component with respect to the Buy-back and the ATO have been asked to confirm this in the Class Ruling.

We deal with Australian resident and non-Australian resident Shareholders separately below.

## **Australian resident Shareholders**

### *Capital component and no dividend component*

Australian resident Shareholders may realise a capital gain or capital loss on the disposal of their EGL Shares under the Buy-back. The capital gain or capital loss must be calculated at the time the relevant capital gains tax (**CGT**) event occurs, which should be the Buy-back Date.

An Australian resident Shareholder will realise a capital gain if their cost base in the EGL Shares is less than the Buy-back Price, as calculated for the purposes of the Australian Tax Act (discussed further below). A capital loss will arise to the extent that the Buy-back Price is less than the reduced cost base of the EGL Shares.

Australian resident Shareholders who are individuals, trusts or complying superannuation funds may be eligible for discount capital gains treatment in respect of their EGL Shares if they have held those EGL Shares for at least 12 months. Companies are not eligible for discount capital gains tax treatment.

### *Capital component and dividend component*

Australian resident Shareholders will be assessed on the dividend component on the basis that it is an unfranked dividend. The dividend will be taxed at their marginal rate of tax which will be 30% for companies and up to a maximum of 46.5% for individuals. As the Buy-back Price will be satisfied by way of EGL UK Shares (ie, no cash consideration will be provided), the Australian resident Shareholders will be required to fund any tax liability themselves.

Australian resident shareholders may also realise a capital gain or capital loss in connection with the Buy-back. A capital gain will arise if their cost base in the EGL Shares is less than the capital component of the Buy-back and a capital loss will arise if their reduced cost base is more than the capital component of the Buy-back.

## **Non-Australian resident Shareholders**

### *Capital component and no dividend component*

A non-Australian resident Shareholder should not realise a capital gain or capital loss in Australia in connection with the Buy-back if they own (together with associates) less than 10% of the EGL Shares. Any non-Australian resident Shareholder who owns (together with associates) 10% or more of the EGL Shares should contact the Company to obtain further information to determine whether they will realise a capital gain or capital loss in connection with the Buy-back.

### *Capital component and dividend component*

The Company may be required to withhold tax on the dividend component of the Buy-back with respect to non-Australian resident Shareholders. As the Buy-back Price will be satisfied by way of EGL UK Shares (ie no cash consideration will be provided), any withholding tax liability will be funded by the Company.

## **Buy-back Price**

For Australian income tax purposes, the Shareholders will be deemed to have received an amount equal to the market value of the EGL UK Shares which are distributed to the Shareholders under the Buy-back (calculated as at the Buy-back Date). This will be the amount of consideration received by the Shareholders and will be used to determine the Australian tax implications for the Shareholders in connection with the Buy-back. It is expected that the Class Ruling will specify the Buy-back Price.

(b) **Cost base in the EGL UK Shares**

The Company has asked the ATO to confirm in the Class Ruling the Shareholder's cost base in the EGL UK Shares acquired pursuant to the Buy-back.

Non-Australian resident Shareholders should be not liable to pay tax in Australia if they subsequently dispose of their EGL UK Shares provided that the EGL UK Shares are not held through an Australian permanent establishment of that Shareholder.

(c) **Proposed amendments to the Australian Tax Act**

On 21 October 2011, the Federal Government released exposure draft legislation to amend the Australian Tax Act as it applies to share buy-backs. Both the timing of this legislation and the form of in which it will be enacted are currently uncertain.

However, the exposure draft legislation specifies that it should only apply to share buy-backs conducted after the date of Royal Assent and on this basis, should have no application to the Buy-back provided that the Buy-back is concluded prior to that date.

## 6.4 **UK tax consequences**

The following information is given by way of general summary only and relates only to certain limited UK tax consequences applicable to EGL Eligible Shareholders who receive EGL UK Shares under the Buy-back. It does not purport to be a complete analysis of all potential tax considerations and does not constitute tax advice.

The summary is intended to apply only as a general guide to the position under current UK tax law and the published practice of HM Revenue & Customs as at the date of this document, either of which is subject to change at any time. The summary is intended to apply only to EGL Eligible Shareholders who are not resident and, in the case of individuals only, not ordinarily resident and not domiciled in the UK for UK tax purposes (**Non-UK Resident Shareholders**) and summarises only the UK tax issues that may arise to such Non-UK Resident Shareholders in connection with their holding of EGL UK Shares if they elect to accept the Buy-back Offer.

**Any person who is in any doubt as to their tax position is strongly recommended to consult their own professional tax advisor without delay.**

(a) **Dividends**

Under current UK tax law, EGL UK will not be required to withhold tax at source from dividend payments it makes.

Non-UK Resident Shareholders will not generally be able to claim repayments from HM Revenue & Customs of any tax credits attaching to dividends paid by EGL UK. EGL Eligible Shareholders may also be subject to non-UK taxation on dividend income under local law.

(b) **Chargeable gains**

Non-UK Resident Shareholders that do not carry on a trade, profession or vocation in the UK through a branch or agency or, in the case of a company, a permanent establishment (where such EGL UK Shares have been used, held or acquired for the purpose of such branch, agency or permanent establishment) will generally be outside the scope of UK tax on chargeable gains in respect of a subsequent disposal or deemed disposal of EGL UK Shares.

An EGL Eligible Shareholder who is an individual and who is temporarily resident outside the UK for tax purposes may, under anti-avoidance legislation, be liable to UK



tax on any capital gain realised whilst temporarily non-UK resident (subject to any available exemption or relief).

(c) **UK Stamp duty and UK stamp duty reserve tax (SDRT)**

The transfer on sale of EGL UK Shares held in certificated form will generally be liable to *ad valorem* stamp duty at a rate of 0.5 per cent of the amount or value of the consideration given. The amount of stamp duty payable is rounded up, if necessary, to the next multiple of £5. An exemption from stamp duty is available on an instrument transferring shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000. Stamp duty is normally paid by the purchaser of shares.

An unconditional agreement to transfer shares, or a conditional agreement where the condition(s) have been satisfied, will normally give rise to a charge to SDRT at the rate of 0.5 per cent of the amount or value of the consideration for the shares. However, where an instrument of transfer is executed and duly stamped with stamp duty within 6 years of the date of that agreement (or, if the agreement is conditional, the date on which the condition is satisfied), the SDRT charge is cancelled to the extent that the SDRT has not been paid and, if any of the SDRT has been paid, a claim may be paid for its repayment (generally with interest). SDRT is, in general, payable by the purchaser.

## 7 Other material considerations

### 7.1 Directors' interests in EGL Shares

Certain Directors currently hold EGL Shares. They will be entitled to participate in the Buy-back Offer and may do so at their discretion and having regard to their own particular circumstances.

As at the date of the accompanying Notice, the relevant Directors held EGL Shares as set out in Table 5:

*Table 5: Director's interests in EGL Shares*

Director	No. of EGL Shares	% issued capital
Rod Bresnehan	46,950	0.02%
Sebastian Hempel	21,000	0.01%

## 8 Explanation of the Resolutions

### 8.1 Resolution 1: Buy-back Offer

Resolution 1 seeks Shareholders' approval for the Buy-back Offer on the terms set out in Appendix 1 of this Explanatory Memorandum.

Section 257D(1) of the Corporations Act requires that the terms of the Buy-back Offer agreement be approved before it is entered into by either:

- (a) a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates; or
- (b) a resolution agreed to, at a general meeting, by all ordinary shareholders;

or the agreement must be conditional on shareholder approval.

#### *ASIC relief*

The Company has been granted an exemption from ASIC under section 257D(4) of the Corporations Act from the operation of section 257D of the Corporations Act, to the extent that section 257D(1)(a) requires no votes be cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates.

Accordingly, no voting exclusions apply.

Resolution 1 will be passed if at least 75% of the votes cast in person or by proxy by ordinary shareholders of the Company on Resolution 1 are cast in favour of it.

### **8.2 Resolution 2: disposal of main undertaking**

Resolution 2 seeks Shareholders' approval for the Company to dispose of its main undertaking for the purposes of Listing Rule 11.2.

Listing Rule 11.2 requires the Company to obtain the approval of its ordinary shareholders if it is proposing a significant transaction that involves a disposal of its main undertaking. The Company must obtain Shareholders' approval before entering into an agreement to dispose of its main undertaking, unless the agreement is conditional on the Company getting that approval.

The Company currently holds the entire issued capital of EGL UK. As a substantial part of the Group's assets sit in EGL UK, EGL UK may be considered to be the Company's "main undertaking".

Under the proposed Buy-back Offer, the Company will be offering to transfer its EGL UK Shares to EGL Eligible Shareholders as consideration for the Buy-back of EGL Shares. Accordingly, the Company's shareholding in EGL UK will decrease to the extent that EGL Eligible Shareholders validly accept the Buy-back Offer. The Company's disposal of its shareholding in EGL UK, a substantial asset, will amount to a disposal of its main undertaking for the purposes of Listing Rule 11.2.

Under Listing Rule 14.11.1, the votes of a person (and their associates) must be excluded if (A) they might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; or (B) ASX is of the opinion that they should be disregarded.

While EGL Eligible Shareholders may obtain a benefit from the Buy-back Offer, this benefit is available to them solely in their capacity as a holder of EGL Shares. Accordingly, no voting exclusions apply.

Resolution 2 will be passed if at least 50% of the votes cast in person or by proxy by ordinary shareholders of the Company are cast in favour of it.

### **8.3 Resolution 3: disposal of a substantial asset to substantial holders and their associates**

Resolution 3 seeks Shareholders' approval for the Company to dispose of a substantial asset to substantial holders and their associates for the purposes of, and to the extent required by, Listing Rule 10.1.

Listing Rule 10.1 requires the Company to obtain shareholders' approval in order to dispose of a substantial asset to, among others, a substantial holder and any associate of a substantial holder, if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities (Listing Rules 10.1.3 and 10.1.4).

An asset is substantial for the purposes of Listing Rule 10.1 if its value, or the value of the consideration for it, is 5% or more of the equity interests of the Company as set out in the latest accounts given to ASX under the Listing Rules (Listing Rule 10.2).

As at the date of the accompanying Notice, a number of beneficial holders of EGL Shares have an interest in EGL Shares that is 10% or more of the Company's issued share capital. While the number of EGL UK Shares that these beneficial holders would receive under the Buy-back Offer will depend on the number of EGL Shares that they elect to be bought back, given the size of each of the beneficial holder's holding of EGL Shares, each beneficial holder has the potential to receive a parcel of EGLUK Shares that would amount to a "substantial asset" of the Company for the purposes of the Listing Rules. For example, if each beneficial holder accepts the Buy-back Offer for 100% of their EGL Shares, then Shareholders' approval is required to allow the Company to transfer the EGL UK Shares to those beneficial holders (as the parcel of EGL UK Shares that each beneficial holder will receive will exceed 5% of the equity interest of the Company).

Accordingly, Resolution 3 is put to Shareholders to allow the Company to transfer EGL UK Shares to beneficial holders who validly accept the Buy-back Offer in accordance with its terms, to the extent that the EGL UK Shares that they will receive under the Buy-back Offer would amount to a "substantial asset" for the purposes of the Listing Rules and to the extent that approval is thereby required under Listing Rule 10.1.

Under Listing Rule 14.11.1, the votes of a person (and their associates) must be excluded if (A) that person is a party to the transaction, or (B) ASX is of the opinion that they should be disregarded.

#### *ASX relief*

The Company has been granted a waiver by ASX from Listing Rule 14.11 so that no voting exclusions apply to Resolution 3 and the Company is not required to set out a voting exclusion statement, on the basis that any substantial holder who holds or held 10% or more of EGL Shares on the Record Date or at any time in the 6 months prior to the Record Date will not have an interest in the proposed Buy-back that is different from the interests of any other EGL Eligible Shareholders and, accordingly, they should be permitted to vote.

Resolution 3 will be passed if at least 50% of the votes cast in person or by proxy by ordinary shareholders of the Company who are entitled to vote on Resolution 3 are cast in favour of it.

In addition, ASX has granted the Company a waiver from Listing Rule 3.8A to permit the Company to lodge an Appendix 3F on the second business day after the Closing Date.

## **9 Board recommendations**

The Board recommends that Shareholders vote in favour of the Resolutions as set out in the accompanying Notice, for the following reasons:

- (a) the proposed Buy-back should increase the ability of the Group to attract investment from institutional investors in the European markets and better enable fund raising that has been very difficult to obtain in Australia;
- (b) the restructure aligns better with the Company's strategic interests that are primarily located in Europe;
- (c) voting in favour of the Resolutions does not mean that Shareholders are bound to accept the Buy-back Offer in respect of their EGL Shares. Shareholders have the choice of either participating in the Buy-back Offer or remaining shareholders of the Company, having regard to their individual circumstances and regardless of whether or not they voted in favour of the Buy-back at the EGM. Other methods of restructure may not preserve shareholder choice;

- (d) all Shareholders will maintain the same material interest in the underlying assets of the Group, except that those who accept the Buy-back Offer will no longer have an interest in the minimal-value Buru Royalty, and that the consideration for the Buy-back Offer of 1 EGL UK Share for each 1 EGL Share bought back is fair and reasonable for these reasons; and
- (e) the Independent Expert has concluded the implementation of the Buy-back Offer is fair and reasonable to the Shareholders.

## Glossary

The following words and phrases have the meaning below when used in the Notice and Explanatory Memorandum unless the context requires otherwise:

**AEST** means Australian Eastern Standard Time.

**Articles of Association** means the articles of association of EGL UK as amended from time to time.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means the ASX Limited ACN 008 129 164 and where the context permits the Australian Securities Exchange Limited operated by ASX Limited.

**ATO** means the Australian Taxation Office.

**Australian Tax Act** means the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as applicable.

**Board** means the board of directors of the Company.

**Buru Royalty** means a 2% and 3% net well-head royalty received by the Company over permits held by Buru Energy Limited in the Canning Basin in Western Australia.

**Buy-back** means the buy-back to be conducted by the Company as detailed in this Explanatory Memorandum.

**Buy-back Date** means the date the Company:

- (a) enters into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buys back and cancels EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfers EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

**Buy-back Offer** means the offer under the Prospectus to buy back EGL Shares from EGL Eligible Shareholders on the terms and conditions set out in Appendix 1 to the Explanatory Memorandum.

**Buy-back Price** has the meaning given to it under Part 6.2 of this Explanatory Memorandum.

**CGT** means capital gains tax.

**Class Ruling** means the class ruling referred to in Part 6.2 of this Explanatory Memorandum.

**Closing Date** means 7.00pm (AEST) on 24 July 2012.

**Companies Acts** means the Companies Acts (as defined in section 2 of the Companies Act 2006 of England and Wales) in so far as they apply to EGL UK.

**Company** means European Gas Limited ACN 075 760 655.

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

**Deed of Indemnity** has the meaning given to it in Part 2.6 of this Explanatory Memorandum.

**Director** means a director of the Company.

**EG SAS** means European Gas S.A.S., a company incorporated in the Republic of France under number 501 152 193 (RCS Sarreguemines).

**EGL Eligible Shareholders** has the meaning set out in Part 1.8 of this Explanatory Memorandum.

**EGL Share** means an ordinary share of the Company.

**EGL UK** means European Gas Limited, a private limited company incorporated in England and Wales with company number 05321791.

**EGL UK Share** means an ordinary share of EGL UK.

**EGL UK Share Registration Date** means the date that EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer which has been stamped by the UK HM Revenue & Customs, as from which date those EGL Eligible Shareholders may be registered as shareholders of EGL UK.

**EGL UK Shareholders** means the shareholders of EGL UK.

**EGM** means the extraordinary general meeting of Shareholders to consider the Resolutions.

**Ex-Date** means the date that is 4 business days before the Record Date.

**Excluded Foreign Shareholders** has the meaning set out in Part 1.9 of this Explanatory Memorandum.

**Explanatory Memorandum** means the notice of meeting of Shareholders and explanatory memorandum (including any supplement to it or replacement of it) prepared by the Company and despatched to Shareholders which contains the Resolutions and information regarding the proposed Buy-back Offer as required by the Corporations Act, the Listing Rules and the applicable policies of ASIC and ASX.

**Federal Government** means the federal government of the Commonwealth of Australia.

**Gazonor** means Gazonor S.A.S.

**Gazonor Sud-Midi Permit Farmout Agreement** has the meaning given to it under Part 2.6 of this Explanatory Memorandum.

**Gazonor Valenciennois Permit Farmout Agreement** has the meaning given to it under Part 2.6 of this Explanatory Memorandum.

**Group** means the Company, EGL UK, HPL and EG SAS.

**HPL** means Heritage Petroleum Limited, a private limited company incorporated in England and Wales with company number 04083129.

**Independent Expert** means Ernst & Young Transaction Advisory Services Limited.

**Independent Expert's Report** means the report prepared by the Independent Expert which is set out in Annexure 1 to this Explanatory Memorandum.

**Listing Rules** means the listing rules of ASX.

**Non-UK Resident Shareholders** has the meaning given to it under Part 6.4 of this Explanatory Memorandum.

**Notice** means the notice of EGM that accompanies this Explanatory Memorandum.

**Private Placement** has the meaning given to it under Part 2.5 of this Explanatory Memorandum.

**Production Sharing Agreement** has the meaning given to it under Part 2.6 of this Explanatory Memorandum.

**Prospectus** has the meaning given to it in Part 1.6 of this Explanatory Memorandum.

**Record Date** means 14 June 2012.

**Resolutions** means the resolutions as set out in the Notice.

**SDRT** means UK stamp duty reserve tax.

**Share Register** means the register of the Company maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited.

**Shareholders** mean the shareholders of the Company.

**Transcor Share Purchase Agreement** has the meaning given to it in Part 3.4 of this Explanatory Memorandum.

**UK Listing Authority** means the Financial Services Authority acting in its capacity as the competent authority for listing for the purposes of Part VI of the Financial Services and Markets Act 2000 (UK).

**UK Listing Rules** means the "Listing Rules" (as amended from time to time) of the UK Listing Authority and contained in the UK Listing Authority's publication of the same name.

## Interpretation

The following principles of interpretation apply unless the contrary intention appears or the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) words importing one gender includes all other genders;
- (d) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (e) a reference to a person includes a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, any government agency or other entity and conversely;
- (f) a reference to a part is to a part of this Explanatory Memorandum;
- (g) a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provisions substituted for, and all legislation and statutory instruments issued under, such legislation or provision;
- (h) a reference to time is a reference to Australian Eastern Standard Time;
- (i) "including" or "includes" are not words of limitation;

- (j) Australian dollars, dollars, A\$ or \$ is reference to the lawful currency of Australia;
- (k) EUR or € is a reference to the single currency of those member states of the European Union that have adopted or adopt such currency as their lawful currency in accordance with the legislation of the European Community relating to Economic and Monetary Union; and
- (l) £ is a reference to the lawful currency of United Kingdom.



## Appendix 1 – Terms of the Buy-back Offer

### 1 The Buy-back Offer

#### 1.1 The Buy-back Offer

The Company offers to buy back any number (up to 100%) of your EGL Shares on the terms and conditions set out in these Terms. If you hold EGL Shares that is equal to or more than a Small Parcel of EGL Shares you may nominate a maximum number of EGL Shares (that may be less than 100% of your EGL Shares) to sell to the Company. If you hold less than a Small Parcel of EGL Shares, you may only accept the Buy-back Offer in respect of all of your EGL Shares. If you will hold less than A\$500 in value of EGL Shares after your acceptance of the Buy-back Offer, you may only accept the Buy-back Offer in respect of all your EGL Shares.

#### 1.2 Consideration

The Company will transfer to you 1 EGL UK Share as consideration for each EGL Share bought back.

#### 1.3 EGL UK Shares

EGL UK Shares refers to the ordinary shares in EGL UK.

The rights attaching to the EGL UK Shares are set out in the Articles of Association of EGL UK as amended from time to time and in accordance with the laws of England and Wales.

#### 1.4 Buy-back Offer conditional

The Buy-back Offer is conditional on Shareholders approving the Buy-back and passing the Resolutions in connection with the Buy-back at the EGM to be held at 1.00pm (AEST) on 17 July 2012.

#### 1.5 EGL Eligible Shareholders

The Buy-back Offer is open to all registered EGL Eligible Shareholders who have bought EGL Shares on ASX prior to the Ex-Date and continue to hold EGL Shares on the Record Date.

“EGL Eligible Shareholders” means those shareholders who have their registered address on the Company’s Share Register as being in jurisdictions where the Company is aware that the laws of the jurisdiction would allow the Buy-back Offer to be made to those shareholders or the acceptance of the Buy-back Offer by those shareholders, being:

- (a) all shareholders who have their address on the Share Register as being in Australia, France, Luxembourg, Switzerland and the United Kingdom;
- (b) any shareholder who has their address on the Share Register as being in a jurisdiction outside of Australia, France, Luxembourg, Switzerland and the United Kingdom, except any Excluded Foreign Shareholder, who is able to warrant that they are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they have their address on the Share Register; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they have their address on the Share Register,

by submitting an acceptance in accordance with clause 3.

## **1.6 Excluded Foreign Shareholders**

Excluded Foreign Shareholders will not be eligible to participate in the Buy-back Offer. "Excluded Foreign Shareholders" means any person holding EGL Shares who has their address on the Share Register as being in the United States of America.

## **1.7 Withdrawal by the Company**

The Company reserves the right not to proceed with the Buy-back Offer at any time before the Buy-back Date.

## **2 Offer Period**

The Buy-back Offer will remain open for acceptance during the period commencing at 19 June 2012 and ending at 7.00pm (AEST) on 24 July 2012.

The Company may extend the Offer Period, but does not expect to do so. If the Company decides to extend the Offer Period, the new closing date will be disclosed to ASX.

## **3 How to accept the Buy-back Offer**

### **3.1 Personalised Acceptance Forms**

A personalised Acceptance Form is enclosed with the Prospectus.

Acceptance Forms must be completed in accordance with the instructions on the Acceptance Form. Applications to accept the Buy-back Offer will only be considered where EGL Eligible Shareholders have applied pursuant to an Acceptance Form that was attached to, or accompanied by, a copy of the Prospectus.

The Company will not accept a completed Acceptance Form if it has reason to believe that an EGL Eligible Shareholder has not received a complete paper or electronic copy of the Prospectus or if it has reason to believe that the Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is unlikely that during the period of the Buy-back Offer the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy directly from the Company or their financial adviser.

Additional copies of the Prospectus (without the personalised Acceptance Forms enclosed) are available from the Company's website at [www.europeangas.com.au](http://www.europeangas.com.au). A copy of the prospectus (with your personalised Acceptance Form enclosed) is available from Computershare's website at [www.investorcentre.com](http://www.investorcentre.com) if you are registered as an Investor Centre user.

Enquiries about the Buy-back Offer should be directed to Computershare on 1300 559 170 or 03 9946 4433 during business hours.

### **3.2 Issuer sponsored holdings**

If you do not have a CHESS Holding and you would like to accept the Buy-back Offer, you must:

- (a) complete and sign the Acceptance Form in accordance with the instructions on it; and
- (b) send your completed and signed Acceptance Form to the Company's Share Registry (Computershare) so that it is received by no later than 7.00pm (AEST) on 24 July

2012 (unless the closing date for the Buy-back Offer is extended) at the following address:

**Mailing address**

Computershare Investor Services Pty Limited  
GPO Box 52  
Melbourne  
Victoria 3001  
Australia

The Company's Share Registry will not accept any Acceptance Form sent to it electronically.

Acceptance Forms must be received no later than 7.00pm (AEST) on 24 July 2012.

You can use the enclosed reply paid envelope if you are posting in Australia. The postal acceptance rule does not apply to your acceptance of the Buy-back Offer.

**3.3 CHES Holding**

If your EGL Shares are in a CHES Holding because they are administered by a controlling participant (usually under a sponsorship agreement with your stockbroker) and you would like to accept the Buy-back Offer, you must:

- (a) complete and sign the CHES Holding Acceptance Form in accordance with the instructions on it; and
- (b) send your completed and signed CHES Holding Acceptance Form to your controlling participant (usually your stockbroker) so that it is received in sufficient time for the acceptance to be processed by no later than 7.00pm (AEST) on 24 July 2012 (unless the closing date for the Buy-back Offer is extended).

A CHES Holding Acceptance Form is enclosed with the Prospectus. Do NOT send your CHES Holding Acceptance Form to the Company's Share Registry (Computershare).

**3.4 Not accepting the Buy-back Offer**

You may choose to not accept the Buy-back Offer and continue to hold all of your EGL Shares. In this case, no action is required by you.

**3.5 Withdrawing your acceptance**

Once you submit your Acceptance Form, you cannot withdraw, revoke or vary your acceptance.

**3.6 Deemed acceptances**

If you purport to accept the Buy-back Offer in a way that attempts to accept for more EGL Shares than you are entitled to sell, you will be deemed to have accepted the Buy-back Offer for 100% of your EGL Shares.

If you:

- (a) are a holder of less than a Small Parcel of EGL Shares; or
- (b) you will hold less than A\$500 in value of EGL Shares after your acceptance;

and you purport to accept the Buy-back Offer for less than 100% of your EGL Shares, you will be deemed to have accepted the Buy-back Offer for 100% of your EGL Shares.

### **3.7 Company's discretion as to validity**

The Company may, in its sole discretion, at any time deem any acceptance it receives to be a valid acceptance, as the Company determines appropriate, and may waive any or all of the requirements for acceptance.

### **3.8 Company's right to reject acceptances**

The Company may in its absolute discretion:

- (a) accept or reject any acceptance that is not made on the terms and conditions set out in these Terms; and/or
- (b) accept or reject any Acceptance Form not submitted in accordance with the procedures set out in these Terms and on the Acceptance Form.

## **4 Effect of acceptance of the Buy-back Offer**

### **4.1 Effect of acceptance**

By submitting an acceptance (whether by returning an Acceptance Form to the Share Registry, or, if you have a sponsored CHESS Holding, by an acceptance your controlling participant through CHESS submitted on your behalf) you will have irrevocably and unconditionally:

- (a) agreed to the terms and conditions set out in the Buy-back Offer;
- (b) agreed that the Company will buy back from you on the Buy-back Date the number of EGL Shares that you have nominated for sale on your Acceptance Form, subject to the operation of clause 3.6 and clause 3.8;
- (c) warranted to the Company that at the time of acceptance and on the Buy-back Date, you are the registered holder of the EGL Shares for which you have accepted the Buy-back Offer and those EGL Shares are and will be free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) or any third party rights and are otherwise able to be sold by you;
- (d) warranted and undertaken to the Company that at the time of acceptance and on the Buy-back Date, that other than pursuant to the Buy-back Offer, you have not agreed to sell or otherwise deal in the EGL Shares nominated for sale on your Acceptance Form;
- (e) agreed and undertaken not to sell or offer to sell EGL Shares to any other person if, as a result, you will at any time after you submit your Acceptance Form and until the Buy-back Date hold fewer EGL Shares than the number of EGL Shares you have nominated in your Acceptance Form to be bought back from you;
- (f) warranted to the Company that you are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which you have your address on the Company's Share Register; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which you have your address on the Company's Share Register;
- (g) warranted to the Company that, if you are acquiring shares for or on behalf of other persons, any other person for whom you are acquiring shares is a person:

- (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they are resident; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they are resident;
- (h) irrevocably authorised the Company (or its officers, agents or contractors) to correct any error in or omission from your Acceptance Form and to complete the Acceptance Form by the insertion of any necessary details;
- (i) acknowledge that all rights attached to your EGL Shares are suspended once the buy-back agreement for those EGL Shares is entered into;
- (j) acknowledge that neither the Company nor any party involved in the Buy-back Offer has provided you with financial product advice, or any securities recommendation, or has any obligation to provide this advice or recommendation, concerning your decision to participate in the Buy-back Offer;
- (k) agree that damages is not an adequate remedy for breach of the covenants, undertakings, agreements and warranties in this clause 4.1; and
- (l) undertake that if you breach any of the covenants, undertakings, agreements or warranties in this clause 4.1 you will indemnify the Company for all its costs arising from that breach.

You will be taken to have submitted an acceptance when the Share Registry receives a validly completed Acceptance Form from you or, if you have a sponsored CHES Holding, an acceptance from your controlling participant through CHES submitted on your behalf.

#### **4.2 The Company's obligation is conditional**

Subject also to the condition to the Buy-back Offer being satisfied (as set out in clause 1.4), the performance of the Company's obligation to buy back the EGL Shares and transfer EGL UK Shares referred to in clause 5 is conditional on your compliance with clause 4.1.

### **5 Cancellation of EGL Shares and transfer of EGL UK Shares**

Subject to satisfaction of the condition set out in clause 1.4, on the Buy-back Date, the Company will:

- (a) enter into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buy back and cancel EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfer EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

In accordance with the laws of England and Wales, EGL Eligible Shareholders who validly accept the Buy-back Offer may be registered as shareholders of EGL UK as from the EGL UK Share Registration Date. The EGL UK Share Registration Date is the date on which EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares which has been stamped by HM Revenue & Customs in the United Kingdom. In the period between the Buy-back Date and the EGL UK Share Registration Date the Company, as transferor, will be deemed to hold the relevant EGL UK Shares on trust (but not as nominee) for the relevant EGL Eligible Shareholders.

## 6 Stamp duty

The Company will pay, on your behalf, any stamp duty payable by you in the United Kingdom on the transfer of EGL UK Shares to you following your valid acceptance of the Buy-back Offer.

## 7 Governing law

The Buy-back Offer and any buy-back agreement entered into in connection with the Buy-back Offer will be governed by the laws of Western Australia, Australia.

## 8 Definitions and interpretation

### 8.1 Definitions

**Acceptance Form** means the form of acceptance attached to or accompanying the Prospectus that is to be submitted to the Company's Share Registry.

**AEST** means Australian Eastern Standard Time.

**Articles of Association** mean the articles of association of EGL UK.

**ASX** means the ASX Limited ACN 008 129 164 and where the context permits the Australian Securities Exchange Limited operated by ASX Limited.

**Buy-back** means the proposed buy-back as described in the explanatory memorandum to the EGM.

**Buy-back Date** means the date the Company:

- (a) enters into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buys back and cancels EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfers EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

**Buy-back Offer** means the offer under the Prospectus to buy back EGL Shares from EGL Eligible Shareholders on the terms and conditions set out in these Terms.

**CHES Holding** means a holding of EGL Shares on the CHES subregister of the Company.

**CHES Holding Acceptance Form** means the form of acceptance attached to or accompanying the Prospectus that is to be submitted to a controlling participant.

**Company** means European Gas Limited ACN 075 760 655.

**EGL Eligible Shareholders** has the meaning in clause 1.5.

**EGL Shares** means fully paid ordinary shares in the capital of the Company.

**EGL UK** means European Gas Limited, a private limited company incorporated in England and Wales (company number 05321791).

**EGL UK Share Registration Date** means the date that EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares to the EGL Eligible Shareholders who validly accept the Buy-back Offer which has been stamped by the UK HM Revenue & Customs, as from which date those EGL Eligible Shareholders may be registered as shareholders of EGL UK.

**EGL UK Shares** means fully paid ordinary shares in the capital of EGL UK.

**EGM** means a general meeting of the Company to be held at 1.00pm (AEST) on 17 July 2012.

**Ex-Date** means the date that is 4 business days before the Record Date.

**Excluded Foreign Shareholders** has the meaning in clause 1.6.

**Offer Period** means the period commencing at 19 June 2012 and ending at 7.00pm (AEST) on 24 July 2012.

**Prospectus** means the prospectus issued by the Company in connection with the Buy-back Offer for the offer of EGL UK Shares as consideration for the Buy-back.

**Record Date** means 14 June 2012.

**Resolutions** means the resolutions set out in the notice of meeting for the EGM.

**Share Register** means the register of the Company maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited.

**Shareholders** means shareholders of the Company.

**Small Parcel** means a parcel of EGL Shares which is valued at A\$2000 on the Record Date.

**Terms** means, in relation to the Buy-back Offer, these terms and conditions, as set out in Appendix 1 to the notice of meeting and explanatory memorandum for the EGM.

## **8.2 Interpretation**

The following principles of interpretation apply unless the contrary intention appears or the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) words importing one gender includes all other genders;
- (d) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (e) a reference to a person includes a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, any government agency or other entity and conversely;
- (f) a reference to a clause is to a clause of these Terms;

- (g) a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provisions substituted for, and all legislation and statutory instruments issued under, such legislation or provision;
- (h) a reference to time is a reference to Australian Eastern Standard Time;
- (i) “including” or “includes” are not words of limitation; and
- (j) Australian dollars, dollars, A\$ or \$ is reference to the lawful currency of Australia.



**Appendix 2 – Group before and after implementation of the Buy-back**

Diagram 1: Current Group structure (prior to the Buy-back)

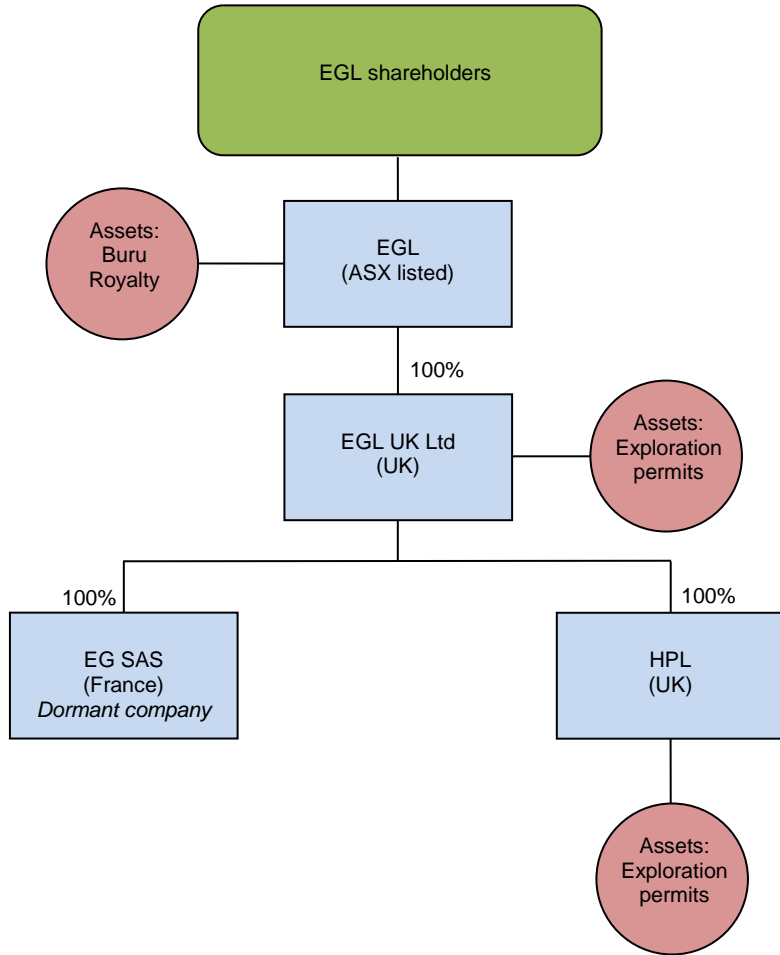
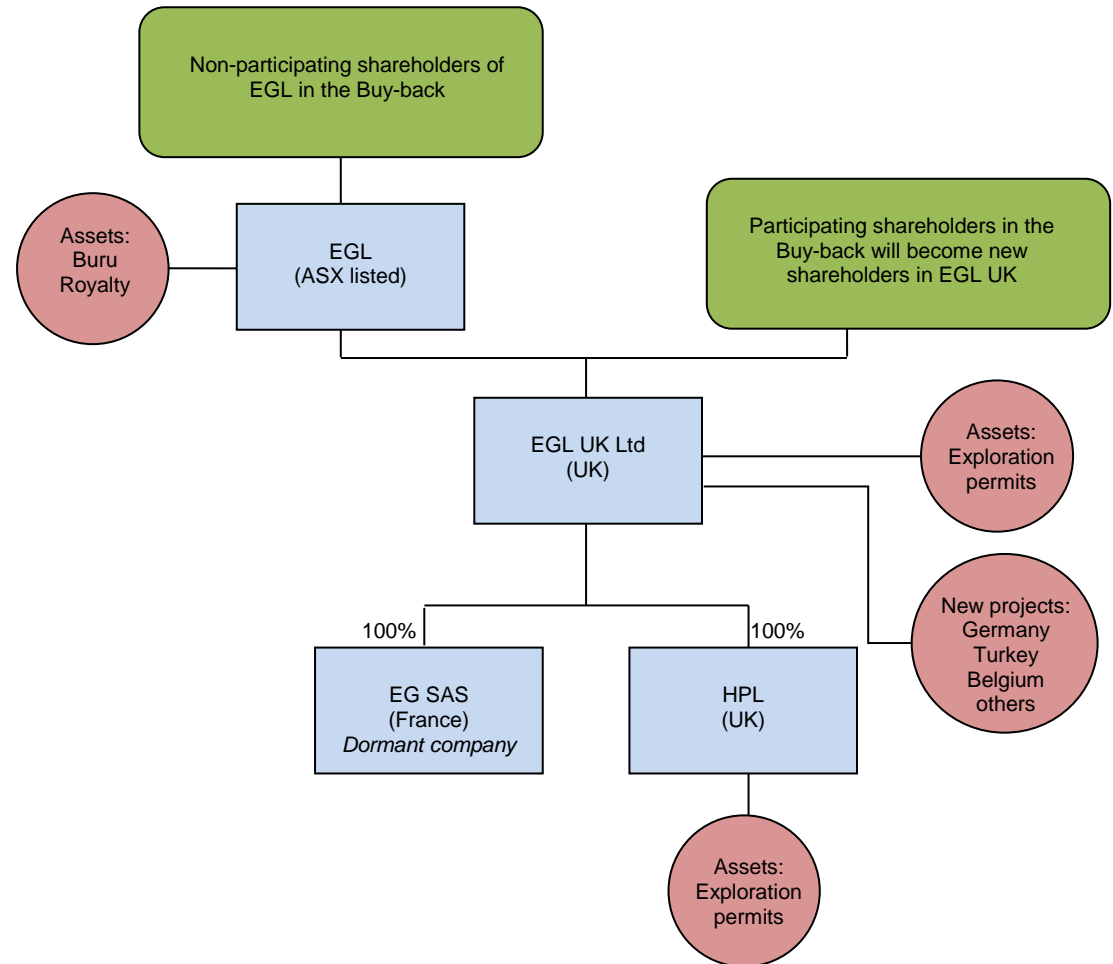
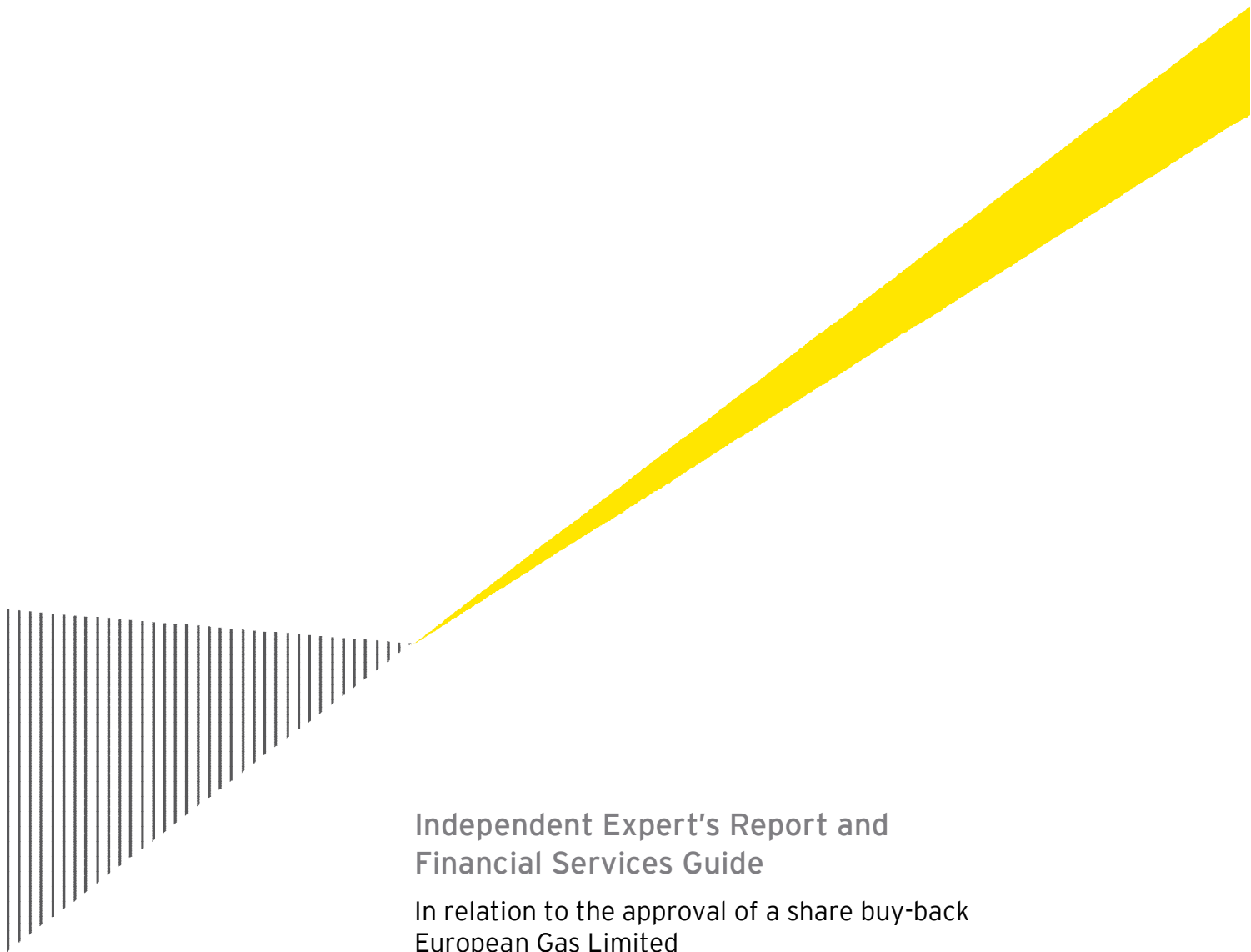


Diagram 2: Group after implementation of the Buy-back



## **Annexure 1 – Independent Expert’s Report**

A copy of the Independent Expert’s Report prepared by Ernst & Young Transaction Advisory Services Limited is enclosed with this Explanatory Memorandum if not annexed.



**Independent Expert's Report and  
Financial Services Guide**

In relation to the approval of a share buy-back  
European Gas Limited

1 June 2012

*Private and confidential*

## **PART 1 - INDEPENDENT EXPERT'S REPORT**

The Directors  
European Gas Limited  
Suite 8, 7 The Esplanade  
Mount Pleasant WA 6153

1 June 2012

Dear Sirs

### **Independent expert's report in relation to the approval of a share buy-back**

European Gas Limited ("EGL" or the "Company"), an Australian incorporated company, is offering to buy back the ordinary shares held by each ordinary shareholder of EGL ("EGL Shares") who is eligible to participate in the offer ("EGL Eligible Shareholder"). For each EGL Share bought back, EGL proposes to offer as consideration one ordinary share in European Gas Limited (a private limited company incorporated in England and Wales with company number 05321791) ("EGL UK"), a wholly-owned subsidiary of EGL, on the terms and conditions set out in Appendix 1 to the Explanatory Memorandum (the "Buy-back Offer").

The Buy-back Offer and related matters require shareholder approval.

If the Buy-back Offer is approved by shareholders of EGL ("EGL Shareholders"), EGL Eligible Shareholders will have the choice as to whether or not to accept the Buy-back Offer in respect of the EGL Shares that they hold. If an EGL Eligible Shareholder accepts the Buy-back Offer they will become direct shareholders of EGL UK. EGL Eligible Shareholders who elect not to accept the Buy-back Offer will remain shareholders of EGL which will itself be a shareholder in EGL UK and will hold other assets including a small amount of cash and royalties received in relation to some Australian oil and gas interests ("Buru Royalty"). As set out in the Explanatory Memorandum, EGL Eligible Shareholders may accept the offer in respect of all or part of their shareholding (with the exception of EGL Eligible Shareholders who have less than A\$2,000 of EGL Shares ("Small Parcel") at 14 June 2012 ("Record Date") or will hold less than A\$500 in value of their EGL Shares if they elect to accept the Buy-back Offer, in which case they are required to accept in respect of all of their EGL Shares if they elect to accept the Buy-back Offer. The Buy-back Offer is to be implemented under section 257D(1) of the Corporations Act 2001 (the "Corporations Act"). EGL Shareholders are to consider resolutions seeking the approval of the Buy-back Offer and related matters at an Extraordinary General Meeting ("EGM") that is to be held on or about 17 July 2012 (the "Meeting").

As a precursor to the Buy-back Offer an internal restructure was undertaken whereby all of the shares in EGL's wholly owned subsidiaries, Heritage Petroleum Limited ("HPL") and European Gas S.A.S. ("EG SAS"), were transferred to EGL UK. EGL has also assigned its rights and interests in various farm-out agreements and production sharing agreements to EGL UK. In return, EGL UK has executed a deed of indemnity in favour of EGL, pursuant to which EGL UK will reimburse EGL for all payments and costs to the extent that EGL makes or incurs them, and indemnify EGL from all liabilities, losses, claims or demands, under, arising from or in connection with those agreements.

As a result of the structure of the Buy-back Offer and for the offer to proceed, EGL Shareholders must also approve, by way of an ordinary resolution:

- (i) For the purposes of Australian Securities Exchange (“ASX”) Listing Rule 11.2, EGL disposing of the shares in EGL UK as consideration for the bought-back and cancelled EGL Shares in accordance with the terms of the Buy-back Offer.
- (ii) For the purposes of and to the extent that approval is required under ASX Listing Rule 10.1, EGL transferring EGL UK shares in accordance with the terms of the Buy-back Offer to EGL Eligible Shareholders who are substantial holders and associates of substantial holders who validly accept the Buy-back Offer, where the substantial holders and their associates have a relevant interest on 14 June 2012 (“Record Date”), or had an interest in the 6 months prior to the Record Date, in at least 10% of the issued capital of EGL.

Explanations of these resolutions are contained in the Explanatory Memorandum.

EGL has engaged Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) as independent expert to prepare an independent expert’s report and to provide an opinion as to whether the implementation of the Buy-back Offer is fair and reasonable to EGL Shareholders and to set out the reasons for that opinion. Our report is being included in the Notice of Meeting and Explanatory Memorandum being sent to EGL Shareholders for the Meeting.

**It should be noted that our report is being prepared to assist EGL Shareholders determine how they should vote in relation to the resolutions being put forward in relation to the Buy-back Offer. The report has not been prepared and does not contain any opinion or advice to EGL Eligible Shareholders as to whether or not they should sell their EGL Shares into the Buy-back Offer. It is not possible or practicable for us to consider the impact of the Buy-back Offer on individual EGL Shareholders as their circumstances are not known to us and their decisions as to whether to sell will be based on many factors including their own financial circumstances, risk profiles, liquidity circumstances, investment strategies and tax positions.**

The Australian Securities and Investment Commission (“ASIC”) has issued Regulatory Guide 111: Content of expert reports (“RG 111”) which provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable.

In preparing this report, we have considered ASIC guidance on the content of expert reports in RG 111. RG 111 suggests that “the issue of value may be of secondary importance” in transactions that do not involve a change in the underlying economic interests of shareholders or the selective treatment of different shareholders. Where it is not necessary to carry out a valuation, then the focus of the independent expert should be on whether the advantages of the transaction outweigh the disadvantages of the transaction.

As current EGL Shareholders will effectively hold substantially the same interest in the underlying assets of EGL if the Buy-back Offer does or does not proceed, we consider it appropriate in the current circumstances, in considering whether or not the approval of the Buy-back Offer is fair and reasonable in relation to the EGL Shareholders, to consider the advantages and disadvantages if the Buy-back Offer proceeds.

As the Buy-back Offer does not materially impact the underlying assets or liabilities, in considering the advantages and disadvantages of the Buy-back Offer we have not had to undertake an assessment of the fair value of EGL’s underlying assets and liabilities. We do, however, consider the impact of some minor residual assets in EGL that shareholders in EGL UK would not have an interest in and also issues associated with the relative liquidity of interests in EGL compared to interests in EGL UK.

We recommend that EGL Shareholders read the Notice of Meeting and Explanatory Memorandum to obtain a full understanding of the Buy-back Offer and related matters.

### **Summary of opinion**

Based on our consideration of the factors outlined below and the matters detailed throughout the report, in our opinion, the advantages of the Buy-back Offer outweigh the disadvantages of the Buy-back Offer. On this basis, in the opinion of Ernst & Young Transaction Advisory Services the implementation of the Buy-back Offer is fair and reasonable in respect of EGL Shareholders.

Having regard to the nature of the Buy-back Offer it is the opinion of Ernst & Young Transaction Advisory Services that, on balance, EGL Shareholders as a whole are likely to be better off if the Buy-back Offer is implemented than if it is not implemented.

In forming this overall view we note the need to raise capital in order to fund the further exploration and development of the underlying assets of EGL and the fact that the Buy-back Offer is likely to enhance the ability of EGL UK to raise capital. This is likely to be of an advantage to both continuing EGL Shareholders (those who choose not to accept the Buy-back Offer and whose interest in the underlying assets will be by virtue of EGL's shareholding in EGL UK) and current EGL Eligible Shareholders who will become EGL UK shareholders by accepting the Buy-back Offer. In part offsetting this advantage we note the disadvantages set out below and in section 4, and in particular the disadvantages relating to possible reduced liquidity for EGL Shares that will affect shareholders who do not accept the Buy-back Offer and also the fact that, at least initially, shares in EGL UK will not be listed on any securities exchange (the listing of EGL UK is uncertain at this stage and there is no guarantee that a listing will occur). In considering the potential significance of the reduced liquidity we have noted the fact that, notwithstanding EGL's listing on the ASX, the level of liquidity in its shares is relatively low. This is discussed in section 4.3.

In forming its opinion as to whether or not the implementation of the Buy-back Offer is fair and reasonable in respect of EGL Shareholders, Ernst & Young Transaction Advisory Services has considered the following matters:

### **Advantages**

The key advantages to note in relation to the Buy-back Offer are:

- ▶ **Improved potential for future capital raisings:** The Board believes that EGL's ability to raise further capital in the Australian market is very limited given EGL's lack of connection with Australia and the lack of liquidity in its shares. The Board believes that providing a mechanism to transition EGL's current shareholders to EGL UK and through having EGL UK as a company incorporated in, and governed by, the laws of England and Wales will improve the access to sources of funding from European capital markets.

In addition, certain sovereign wealth funds as well as certain large institutional investors in Continental Europe, which are EGL's target investors, are unable to invest in a non-European domiciled company due to regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area. Some investors are also hesitant about investing in a company governed by company laws with which they are unfamiliar.

Specifically, the ability to raise capital through EGL UK rather than the Australian listed EGL may be enhanced through:

- ▶ increased visibility for EGL UK in the United Kingdom ("UK") and European markets;
- ▶ expectations that a UK head company will overcome resistance from investors who understand company law in a particular jurisdiction and prefer to invest in companies residing in that jurisdiction; and
- ▶ access to some institutional investors in the UK and Europe who may be prevented by regulations or their internal policies or investment mandates from investing in entities incorporated outside the UK and Europe.

The improved potential for capital raising is evidenced by the Board's intention to offer shares in EGL UK to investors in Europe by way of a private placement ("Private Placement") of which the terms and conditions are being discussed. The Private Placement is planned to be undertaken by September

2012 in which EGL UK is aiming to raise up to €60 million. We understand that this is likely to be conditional upon the Buy-back Offer being completed.

- ▶ **EGL Eligible Shareholders are given the choice of whether to participate in the Buy-back Offer and become shareholders in EGL UK:** Regardless of whether an EGL Shareholder votes in favour of the Buy-back Offer, if the majority of EGL Shareholders approve the Buy-back Offer, EGL Eligible Shareholders will be given the choice to accept the Buy-back Offer in respect of their EGL Shares.
- ▶ **A UK holding company better reflects the geographic spread of investors in EGL:** The majority of EGL Shareholders are domiciled in the UK and Europe and given there is no apparent reason other than historical factors for EGL's Australian listing, we would expect that this transaction will better align the strategic direction of EGL going forward.
- ▶ **Easier access for UK and European investors to shareholder meetings:** Given the domicile mix of the beneficial holders of EGL Shares, it is expected that having a company incorporated in England and Wales will enable a greater number of beneficial holders to physically attend shareholder meetings. The majority of EGL Shares are held by beneficial holders resident in the UK or Europe.

### **Disadvantages**

The key disadvantages to note in relation to the Buy-back Offer are:

- ▶ **Liquidity and possible delisting**

#### **Background**

If the Buy-back Offer is implemented, EGL Shareholders who then accept the Buy-back Offer will go from being a shareholder in EGL whose shares are currently listed on the ASX to being a shareholder in EGL UK, a private UK based company whose shares, at least initially, will not be listed on any securities exchange. The listing of EGL UK is uncertain at this stage and there is no guarantee that a listing will necessarily occur. The ease with which shareholders can sell their respective shares (liquidity) will vary under each scenario as discussed below. It is also generally accepted that the market value of shares is affected by their level of liquidity. This is also discussed further below.

**EGL Shares - EGL:** At present shareholders in EGL are able to trade their EGL Shares on the ASX. The volumes of EGL Shares traded on the ASX are relatively low. If EGL Eligible Shareholders accept the Buy-back Offer the number of shares and the number of shareholders in EGL will reduce, the extent of which cannot be determined until the closure of the Buy-back Offer. Consequently, it is likely that the liquidity of EGL's shares may further reduce.

If the level of EGL's operations are, in the ASX's opinion, not sufficient to warrant the continued quotation of EGL Shares and its continued listing, or if EGL is unable to maintain sufficient spread of shareholdings in its ordinary share class to ensure an orderly and liquid market, EGL may be delisted. The Explanatory Memorandum states an intention that if delisting was to occur, the Company will provide EGL Shareholders the opportunity to exchange their EGL Shares for EGL UK shares (once EGL UK is listed on a securities exchange), or if this is not possible then the Company will take steps to provide a cash alternative. The Explanatory Memorandum states that this cash alternative will be provided on fair terms, including with respect to the value of the consideration to be paid.

**EGL UK:** EGL Eligible Shareholders who accept the Buy-back Offer will receive EGL UK shares being shares in a UK company not currently listed on any securities exchange. As stated in the Explanatory Memorandum, EGL UK currently intends to seek a listing on a securities exchange in the UK or in Europe. However, the timing will be determined by the board of EGL UK and will depend on various factors including, but not limited to, market conditions. It should be noted that there is no certainty as to whether this listing will occur or the timeframe under which it might occur.

Until such time (if any) that shares in EGL UK are listed on a securities exchange, shareholders will have no ready market for the EGL UK shares and any trading of shares would need to be directly arranged between investors.

## Implications

If the Buy-back Offer is approved, EGL Eligible Shareholders will either have the opportunity to remain shareholders of EGL (and will be subject to the risk of delisting discussed above) or can elect to receive shares in EGL UK, which as suggested above, will at least in the short term have no ready market to trade EGL UK shares.

Two differing scenarios therefore exist in relation to the relative merits of holding shares in either an Australian listed company or a private UK company. EGL is an Australian public company; its shares can be traded on the ASX. EGL UK is a private company incorporated in England and Wales, its shares, at least in the short term, will not be able to be traded on any exchange and there is no guarantee that a listing will necessarily occur. Liquidity related factors which may affect the value of the shares in each company are set out below.

We note the following in relation to EGL:

- ▶ EGL is not able to access the capital it requires to commence the development program which it plans to undertake in relation to its European assets. This would suggest that the trading price of EGL Shares may include some discount to reflect the risk that it will not be able to raise the funds required to further develop its assets. EGL Shares can be traded on the ASX however the volumes at which EGL currently trade would suggest that it is not a very liquid security and therefore would have implied in the share price some discount for lack of liquidity compared to a well traded security. The low level of liquidity in EGL Share's, is discussed further in section 3.4.

We note that based on the empirical studies discussed in Appendix D liquidity discounts can be significant and the studies noted suggest observed discounts in the range of 35% to 63%. As EGL is listed on the ASX, albeit with a relatively low level of liquidity, we would expect that any discount implied in its share price would be below the 35% cited in these studies. The level of discount would be expected to increase in the event that EGL was delisted although this may be mitigated in the event that, as discussed in section 4.4.4, EGL Shareholders are given the opportunity to exchange their shares for EGL UK shares if these are listed on a securities exchange at that time or are provided with a cash alternative.

- ▶ The parcels of EGL Shares traded on the ASX are for a minority interest, and as such, a minority discount would be implied in the price at which EGL Shares are traded.

We note the following in relation to EGL UK:

- ▶ A similar minority discount would apply to a similar sized minority parcel of shares in EGL UK.
- ▶ A discount for lack of liquidity would also apply to EGL UK shares and in theory this may be higher than the level of discount inherent in the EGL Share price and more in line with the empirical studies discussed in Appendix D. We note the expressed intention set out in the Explanatory Memorandum for shares in EGL UK to be listed on a securities exchange in the medium term. The fact that the company intends to pursue a listing may in itself limit the short term discount that may apply. This discount would be further reduced or eliminated if a listing does ultimately occur. However, it should be noted that there is no certainty as to whether this listing will occur or the timeframe under which it might occur.
- ▶ In part offsetting the above discounts for a minority interest and lack of marketability is the fact that if the market views EGL UK as being more likely to be able to raise capital than EGL then the discount for risk discussed above in relation to EGL may be reduced.

On balance we consider the potential reduction in liquidity in relation to either continuing to hold EGL Shares or holding EGL UK shares is a disadvantage of the Buy-back Offer albeit noting the disadvantage being reduced in magnitude for the reasons noted above.



- ▶ **Unfunded Australian tax liability for Australian resident shareholders:** It is the Company's expectation that EGL Shareholders should not receive (or be deemed to have received) a dividend in connection with the Buy-back Offer. However, this cannot be confirmed until such time that the Australian Taxation Office ("ATO") issues the class ruling with respect to the Buy-back Offer ("Class Ruling") (which is expected to be shortly after the Buy-back Offer is completed).

However, if Australian resident shareholders are deemed to have received a dividend in connection with the Buy-back Offer, they will be required to fund any Australian income tax payable on the dividend from their own funds on the basis no cash consideration will be provided. EGL will be required to fund any withholding tax liability arising on unfranked dividends paid to non-Australian resident EGL Eligible Shareholders participating in the Buy-back Offer.

The taxation consequences of the Buy-back Offer are discussed further in section 4.4.2 below and in the Explanatory Memorandum.

- ▶ **Direct versus an indirect interest:** EGL Shareholders currently have a direct interest in EGL which controls the key operating assets of the group. For EGL Eligible Shareholders that do not accept the Buy-back Offer they will now hold only an indirect interest in the key operating assets in that they have a shareholding in EGL which at that stage will have a shareholding in EGL UK, the size of which will be dependent upon the proportion of EGL Eligible Shareholders who accept the Buy-back Offer. Consequently these continuing EGL Shareholders will have no direct voting rights in EGL UK nor any direct access to other rights of EGL UK shareholders, such as, dividends, participation in capital raisings etc.
- ▶ **Loss of interest in Buru Royalty and some cash:** EGL UK will not have an interest in the Buru Royalty and also some cash which will be retained by EGL to meet its operating requirements. While we do not have access to any information to assess the likely future quantum of royalties to be received, based on royalties received to date we note that there is nothing to suggest that these might be material to EGL.

We understand that EGL is not entitled to any information including royalty or production forecasts from Buru Energy Limited ("Buru"). However we do understand from Buru's public announcements that it is currently exploring the permit areas listed in section 3.1 which, if successful could become producing assets in the future which would generate further royalty income for EGL.

If the Buy-back Offer is implemented, EGL Eligible Shareholders will then be able to decide whether they accept the Buy-back Offer. If EGL Eligible Shareholders accept the Buy-back Offer they will receive EGL UK shares and no longer have any interest in the Buru Royalty. If they do not accept the Buy-back Offer they will retain their EGL Shares and in effect have an increased interest in the Buru Royalty, the extent of that interest being dependent upon the number of EGL Shares that participate in the Buy-back Offer.

- ▶ **Less access for Australian investors to shareholder meetings:** The change in incorporation of the head company for EGL from Australia to UK will mean it will be inconvenient for Australian investors to attend shareholder meetings in the UK. However as noted previously, the majority of EGL Shares are held by beneficial holders resident in UK or Europe.

**We note that there are other effects of the Buy-back Offer outlined in section 4.4 that should also be considered by EGL Shareholders.**

#### ***What happens if the Buy-back Offer is not approved***

If the Buy-back Offer is not approved at the Meeting, shareholders will retain their holding in EGL and not have the opportunity to become direct shareholders of EGL UK. EGL will continue in its current form but may face difficulty in accessing the necessary funding requirements for the next 12 months as well as the additional requirement to prove up additional reserves and meet its funding requirements for new ventures.

We note that if the Buy-back Offer is not approved, EGL UK may still attempt to raise capital, in which case EGL's shareholding in EGL UK would be diluted. However, the extent to which it will be able to raise capital may still be constrained by the Listing Rules and the Corporations Act. We understand that the currently planned Private Placement by EGL UK is expected to be conditional upon the completion of the Buy-back Offer.

#### **Other**

In preparing this independent expert's report we have considered relevant regulatory guides issued by ASIC, with particular reference to RG 111, Regulatory Guide 112: Independence of experts and Regulatory Guide 110: Share buy-backs. This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of EGL Shareholders. The decision as to whether to approve or not approve the Buy-back Offer is a matter for individual EGL Shareholders. EGL Shareholders should have regard to the Notice of Meeting and the Explanatory Statement prepared by the Directors and management of EGL. EGL Shareholders who are in doubt as to the action they should take in relation to the Buy-back Offer should consult their own professional adviser.

Our opinion is as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

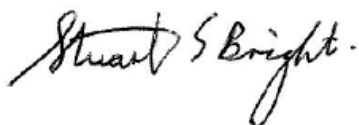
**It should be noted that our report is being prepared to be provided to EGL Shareholders to assist them to consider how they vote in relation to the resolutions to approve the Buy-back Offer. The report has not been prepared and does not contain any opinion or advice to EGL Shareholders as to whether or not they should sell their EGL Shares into the Buy-back Offer. It is not possible or practicable for us to consider the impact of the Buy-back Offer on individual EGL Shareholders as their circumstances are not known to us and their decisions as to whether to sell will be based on many factors including their own financial circumstances, risk profiles, liquidity circumstances, investment strategies and tax positions.**

EGL Shareholders should seek their own professional advice in relation to whether they accept the Buy-back Offer in respect of the EGL Shares that they hold.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Stuart Bright  
Director and Representative



Ken Pendergast  
Director and Representative

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# 1. Details of the Buy-back Offer

## 1.1 Overview of the Buy-back Offer

European Gas Limited (“EGL” or the “Company”) is an Australian incorporated gas exploration and production company with interests in Europe and Australia. EGL’s principal assets are two exploration permits in the Lorraine Basin, north-east of France and three exploration permits in the Nord Pas de Calais region located in north-west France. EGL is currently listed on the Australian Securities Exchange (“ASX”). EGL also has a right to receive royalties in relation to some Australian oil and gas interests (the “Buru Royalty”).

Management of EGL has conducted a review of the Company’s operations and strategic alternatives and concluded that having a holding company incorporated in, and governed by the laws of, England and Wales, which will hold the majority of the EGL group’s assets and in which investors may directly invest, will better enable the EGL group to attract the necessary capital to fund the further development of the EGL group’s assets. In order to achieve this and best allow for the development of its existing assets in Europe, EGL has transferred the substantial majority of its assets to a wholly owned subsidiary, European Gas Limited (a private limited company incorporated in England and Wales with company number 05321791) (“EGL UK”), and now proposes to undertake a share buy-back offer on the terms and conditions set out in Appendix 1 to the Explanatory Memorandum (“Buy-back Offer”), to enable EGL shareholders who accept the Buy-back Offer to exchange their ordinary share of the Company (“EGL Shares”) for a direct shareholding in EGL UK. Under the Buy-back Offer, EGL is offering to buy-back the ordinary shares held by each ordinary shareholder of EGL (“EGL Shareholder”) who is eligible to participate in the Buy-back Offer (“EGL Eligible Shareholder”). For each EGL Share bought back, EGL proposes to offer as consideration one ordinary share in EGL UK.

EGL Shareholders are to consider resolutions seeking the approval of the Buy-back Offer and related matters at an Extraordinary General Meeting (“EGM”) that is to be held on or about 17 July 2012 (the “Meeting”).

The Notice of Meeting and Explanatory Memorandum to which our report is attached, states that EGL UK proposes to undertake an offering of shares in EGL UK to sovereign wealth funds and large institutional investors in Europe by way of a Private Placement which is to be undertaken by September 2012. EGL UK is aiming to raise up to €60 million in the Private Placement and proposes to issue up to 250 million shares in EGL UK. The Notice of Meeting and Explanatory Memorandum also states that EGL UK has a medium term intention to raise funds by seeking a listing on a securities exchange in the United Kingdom (“UK”) or Europe, subject to market conditions. It should be noted that there is no certainty as to whether this listing will occur or the timeframe under which it might occur.

EGL currently has three wholly-owned subsidiaries, Heritage Petroleum Limited (“HPL”), European Gas S.A.S. (“EG SAS”) and EGL UK. As a precursor to the Buy-back Offer an internal restructure was undertaken whereby all of the shares in EGL’s wholly owned subsidiaries, HPL and EG SAS, were transferred to EGL UK. EGL has also assigned its rights and interests in various farm-out agreements and production sharing agreements to EGL UK. EGL has retained the rights to the Buru Royalty, an interest in certain oil and gas permits in Western Australia. An amount of €650,000 has also been retained by EGL to fund its ongoing operational expenses following the implementation of the proposed Buy-back Offer.

As a result of the above, EGL Eligible Shareholders who accept the Buy-back Offer will continue to have an effective interest in the same underlying assets that were held by EGL, except for the Buru Royalty and the cash amount discussed above.

## 1.2 Terms of the Buy-back Offer

If the Buy-back Offer proceeds EGL Eligible Shareholders have the choice as to whether or not to accept the Buy-back Offer. In the event that the offer is accepted, either some or all of the EGL Shares held by the EGL Eligible Shareholder will be bought back depending on the EGL Eligible Shareholder's election (with the exception of EGL Eligible Shareholders who have less than A\$2,000 of EGL Shares ("Small Parcel") at 14 June 2012 ("Record Date") or will hold less than A\$500 in value of EGL Shares after their acceptance of the Buy-back Offer, in which case they are required to accept in respect of all of their EGL Shares if they elect to accept the Buy-back Offer - refer to the Terms of the Buy-back Offer set out in Appendix 1 to the Explanatory Memorandum for further details). EGL Shareholders that choose not to accept, or are not eligible to participate in, the Buy-back Offer will continue to hold shares in EGL and will continue to have an effective interest in the EGL group's assets through the shares held by EGL in EGL UK that are not transferred as a consequence of the Buy-back Offer.

At the date of this report, EGL has 297,272,505 shares on issue.

At the date of this report, EGL UK has 297,272,505 shares on issue, all of which are held by EGL. The Buy-back Offer will reduce the share capital of EGL, depending on the extent to which EGL Eligible Shareholders accept the Buy-back Offer, and reduce EGL's shareholding in EGL UK as shares in EGL UK will be transferred to those EGL Eligible Shareholders who accept the Buy-back Offer.

The number of EGL Shares held by an EGL Shareholder who does not participate, or is not eligible to participate in the Buy-back Offer, will remain the same, but their percentage holding in EGL would increase depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer and have their EGL Shares cancelled.

It is proposed that the directors of EGL UK will comprise of Mr Julien Moulin (currently Executive Chairman of EGL and Chairman of EGL UK), Mr Frederic Briens (currently Chief Executive Officer of EGL and Director of EGL UK) and Mr Johannes Niemetz (currently Chief Financial Officer of EGL and Director of EGL UK). The Explanatory Memorandum indicates that it is expected that a board consisting of five Directors, of which at least three will be non-executive and at least two will be independent, will be appointed over the next 12 months.

The full details of the Buy-back Offer are contained in the Notice of Meeting and Explanatory Memorandum.

## 1.3 EGL Eligible Shareholders

The Buy-back Offer is open to all registered EGL Eligible Shareholders who have bought EGL Shares on the ASX four days prior to the Record Date ("Ex-Date") and continue to hold EGL Shares on the Record Date (the dates are as set out in the Explanatory Memorandum).

As set out in the Explanatory Memorandum, in relation to those EGL Shareholders who have their registered address on the share register ("Share Register") as being in jurisdictions outside of Australia, France, Luxembourg, Switzerland and the UK, laws in their country may prevent the issue of EGL UK shares in exchange for their EGL Shares. Accordingly, the Buy-back Offer will only be made to, and may only be accepted by, "EGL Eligible Shareholders", being:

- ▶ all EGL Shareholders who have their address on the Share Register as being in Australia, France, Luxembourg, Switzerland or the UK; and
- ▶ any EGL Shareholder who has their address on the Share Register as being in a jurisdiction outside of Australia, France, Luxembourg, Switzerland and the UK, except any Excluded Foreign Shareholder, who is able to warrant that they are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they have their address on the Share Register; or

- (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they have their address on the Share Register,

by submitting an acceptance form in accordance with the terms of the Buy-back Offer.

Shareholders who have their address on the Share Register as being in the United States of America are “Excluded Foreign Shareholders” and are not eligible to participate in the Buy-back Offer.

## 1.4 Conditions precedent

The Buy-back Offer is conditional on EGL Shareholders’ approval by special resolution at the EGM (i.e., the resolution put to shareholders to approve the Buy-back Offer must be passed by at least 75% of the votes cast by EGL Shareholders present in person or by proxy and entitled to vote on the resolutions at the EGM).

As a result of the structure of the Buy-back Offer and for the Buy-back Offer to proceed, EGL Shareholders must also approve, by way of an ordinary resolution:

- (i) For the purposes of ASX Listing Rule 11.2, EGL disposing of the shares in EGL UK as consideration for the bought-back and cancelled EGL Shares in accordance with the terms of the Buy-back Offer.
- (ii) For the purposes of and to the extent that approval is required under ASX Listing Rule 10.1, EGL transferring EGL UK shares in accordance with the terms of the Buy-back Offer to EGL Eligible Shareholders who are substantial holders and associates of substantial holders who validly accept the Buy-back Offer, where the substantial holders and their associates have a relevant interest on the Record Date, or had an interest in the 6 months prior to the Record Date, in at least 10% of the issued capital of EGL.

## 1.5 Requirement for the independent expert’s report

This report has been prepared for EGL Shareholders to assist them in their consideration as to whether they should vote in favour of, or against, the approval of the Buy-back Offer. The report has also been prepared to meet the following regulatory requirements:

### 1.5.1 Corporations Act

Section 257C(2) requires EGL to include with the Notices of Meeting a statement setting out all information known to EGL that is material to the decision on how to vote on the resolution.

Section 257D(1) of the Corporations Act provides that the terms of a buy-back agreement must be approved before it is entered into by either:

- ▶ a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates; or
  - ▶ a resolution agreed to, at a general meeting, by all ordinary shareholders,
- or the agreement must be conditional on such an approval.

The Company has been granted an exemption from ASIC under section 257D(4) of the Corporations Act from the operation of section 257D of the Corporations Act, to the extent that section 257D(1)(a) requires no votes be cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates. Accordingly, no voting exclusions apply to the resolution for the approval of the Buy-back Offer.

## 1.5.2 ASIC

Regulatory Guide 110: Share buy-backs (“RG 110”) requires information to be disclosed to shareholders involved in or affected by share buy-backs. RG 110.18 provides that if a company proposes to buy-back a significant percentage of shares or the holdings of a significant shareholder, it should consider providing:

- ▶ A report by its independent directors about whether shareholders should vote in favour of the buy-back, particularly regarding how much the company is paying for the shares
- ▶ An independent expert’s report with a valuation of the shares.

As set out in section 1.1, at the time of the Buy-back Offer, with the exception of the Buru Royalty and a small cash balance, substantially all of the assets of the group are held by EGL UK and under the terms of the Buy-back Offer EGL Eligible Shareholders are being offered one EGL UK share for every EGL Share that they hold. As there will be the same number of shares in EGL and EGL UK at the time of the Buy-back Offer this in effect means that they are being offered substantially the same proportion of total shares in EGL UK and therefore the underlying assets of the group as they hold in EGL. As the Shareholders effective interest in group assets has substantially not changed we have not conducted a valuation of the shares in EGL or EGL UK.

In addition, Regulatory Guide 111: Content of expert reports (“RG 111”) provides discussion regarding information that should be provided to shareholders within expert’s reports. RG 111 does not provide specific guidance in relation to the analysis of buy-backs.

## 2. Scope of the report

### 2.1 Our report

EGL have engaged Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) as the independent expert to prepare an independent expert’s report, the purpose of which is to provide an opinion as to whether the implementation of the Buy-back Offer is fair and reasonable in respect to the EGL Shareholders.

Our report is being included in the Notice of Meeting and Explanatory Memorandum being sent to EGL Shareholders in respect to the Meeting.

As current EGL Shareholders will effectively hold substantially the same interest in the underlying assets of EGL if the Buy-back Offer does or does not proceed, we consider it appropriate in the current circumstances, in considering whether or not the implementation of the Buy-back Offer is fair and reasonable in relation to the EGL Shareholders, to consider the advantages and disadvantages if the Buy-back Offer proceeds.

As the Buy-back Offer does not materially impact the underlying assets or liabilities, in considering the advantages and disadvantages of the Buy-back Offer we have not had to undertake an assessment of the fair value of EGL’s underlying assets and liabilities. We do, however, consider the impact of some minor residual assets in EGL that shareholders in EGL UK would not have an interest in and also issues associated with the relative liquidity of interests in EGL compared to interests in EGL UK.

In this regard, in forming our opinion as to whether the implementation of the Buy-back Offer is fair and reasonable in relation to the EGL Shareholders, we have considered:

- ▶ the impact of the Buy-back Offer;
- ▶ the strategic rationale of the Buy-back Offer;
- ▶ the advantages and the disadvantages of the Buy-back Offer; and
- ▶ other significant matters.

In undertaking our analysis and preparing this report, we have had access to management information in relation to EGL. A list of the sources of information used and relied on is contained in Appendix B.

All amounts in this report are expressed in Euros (“€”) unless otherwise stated. A glossary detailing the abbreviations we have used in this report is contained in Appendix C.

### 2.2 Shareholders’ decisions

This independent expert’s report has been prepared specifically for EGL Shareholders at the request of the Directors of EGL with respect to the Buy-back Offer. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than EGL Shareholders, in respect of this report, including any errors or omissions howsoever caused.

**This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of each EGL Shareholder. The decision to approve or not approve the Buy-back Offer is a matter for individual EGL Shareholders. EGL Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. EGL Shareholders should have regard to the Notice of Meeting and Explanatory Memorandum prepared by the Directors and management of EGL. EGL Shareholders who are in doubt as to the**



**action they should take in relation to the Buy-back Offer should consult their own professional adviser.**

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

## **2.3 Limitations and reliance on information**

In the preparation of this independent expert's report, Ernst & Young Transaction Advisory Services was provided with information in respect of EGL and obtained additional information from public sources, as set out in Appendix B.

We have had discussions with EGL management in relation to the Buy-back Offer, operations, financial position, operating results and outlook of EGL.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This independent expert's report is also based upon financial and other information provided by EGL in relation to the Buy-back Offer. Ernst & Young Transaction Advisory Services has considered and relied upon this information.

The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the implementation of the Buy-back Offer is fair and reasonable in relation to the EGL Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of EGL. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ the information set out in the Notice of Meeting and Explanatory Memorandum to be sent by EGL to EGL Shareholders is complete, accurate and fairly presented in all material respects; and
- ▶ the publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the Directors and management of EGL for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report

as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this report.

This report has been prepared in accordance with APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board Limited in July 2008.

## 3. Overview of European Gas Limited

### 3.1 Background

EGL is an Australian incorporated gas exploration and production company with interests in Europe and Australia. EGL's principal assets are two exploration permits in the Lorraine Basin, north-east of France, and three exploration permits in the Nord Pas de Calais region located in north-west France. The Company is considering further opportunities in Belgium, Germany and Turkey. EGL is the largest coal bed methane explorer in Western Europe in terms of acreage under exploration. The Company first listed on the ASX in March 1998 as Kimberley Oil NL but subsequently changed its name in 2006 to EGL when it divested its Australian assets to shift its focus to the European market. As part of this divestment EGL did retain a small residual interest in Australia which is discussed further below.

Over the last five years there have been a number of key events affecting EGL. These include:

- ▶ In July 2007, EGL was granted the Lons le Saunier permit in the Jura Basin, east of France, covering a 3,740km<sup>2</sup> region providing exclusive rights to all hydrocarbons in the area.
- ▶ In August 2007, EGL acquired Gazonor SA ("Gazonor"), the owner of gas production fields located in the Nord Pas de Calais region in northern France. The purchase was funded at the time by issuing €36.4 million of convertible notes in EGL.
- ▶ In April 2008, EGL entered into a joint venture with Transcor Astra Group ("Transcor") called the Benelux JV, to explore opportunities in Belgium, the Netherlands and Luxembourg.
- ▶ In 2009, Gazonor was granted further exploration rights in the Nord Pas de Calais region through the Poissonniere Extension permit, and the Valenciennes permit. These two permits added another 611 km<sup>2</sup> in exploration rights in the region.
- ▶ In July 2010, Gazonor was granted a further exploration permit in the Nord Pas de Calais region called Sud Midi which covered an area of 929 km<sup>2</sup>.
- ▶ During 2011, EGL underwent a capital restructure in order to meet obligations arising from convertible notes on issue and to raise capital to fund its operations (the "Debt Restructure"). Under the Debt Restructure, EGL relinquished its obligations arising from the convertible notes in exchange for its 100% interest in Gazonor and its 50% interest in the Benelux JV which was transferred to Transcor. EGL also issued a total of 57.2 million shares as part of the Debt Restructure that was used to satisfy an unsecured loan of €1.43 million and to raise approximately €10 million in working capital.

Included below is a summary of the Lorraine, Nord Pas de Calais, Benelux JV, Buru Royalty and other EGL projects (collectively known as "the Assets").

#### ***Lorraine***

EGL holds two exploration permits in the Lorraine Basin, Bleue Lorraine and Bleue Lorraine Sud, located in the northern region of France, and one permit application that is currently pending. The Folschviller-2 well at the Bleue Lorraine permit is currently undergoing gas flow tests to establish gas flow rates and level of resources. As part of testing, feasibility of six stratigraphic wells and four horizontal multilateral wells are being considered that will be fit for gas production testing and reserves certification to establish proved and probable gas reserves.

### **Nord Pas de Calais**

EGL has interests in three permits in the Nord Pas de Calais region located in north-west France. The Valenciennois and Sud Midi exploration permits are owned through a joint venture with Gazonor, which changed ownership to Transcor as part of EGL's Debt Restructure in 2011. EGL has the right to acquire a 70% interest after committing to exploration expenditures of €795,000 for the Valenciennois permit and €2 million for the Sud Midi permit. The time period to complete the expenditure is approximately two years once EGL has agreed the work plan with Gazonor.

### **Benelux JV**

In 2007, EGL formed a joint venture entity with Transcor called European Gas Benelux SA ("Benelux JV"). The purpose of the joint venture was to explore, develop and extract hydrocarbon deposits in Belgium, The Netherlands and Luxembourg.

As part of the Debt Restructure in 2011, EGL transferred its interest to Transcor. However, EGL retained the right of first refusal for any coal bed methane projects that the Benelux JV pursued. At the moment this relates to the Hainut permit application that is located in the Wallonia Coal Basin in Belgium.

### **Buru Royalty**

EGL holds well head royalty rights (i.e. the Buru Royalty) in relation to several oil and gas permits held by Buru Energy Limited ("Buru"), a company listed on the ASX. These interests are in the Canning Basin, Western Australia. We note that while most of these areas are exploration assets, production licenses L6 and L8 have been in production for a number of years, with the commencement of production from EP391 planned for 2012. We understand from EGL's accounts that over the five years to 30 June 2011 the Buru Royalties received by the Company from production at L6 and L8 have totalled approximately £83,000, averaging approximately £17,000 per annum. The areas subject to the Buru Royalty are as follows:

No.	Permit/license area	Status
1	EP371	Exploration
2	EP390	Exploration
3	EP391	Planned production in 2012
4	EP428	Exploration
5	EP431	Exploration
6	EP436	Exploration
7	EP104	Exploration
8	R7	Exploration
9	L98-1	Exploration
10	EP129	Exploration
11	L6	Producing
12	L8	Producing

Source: Buru Energy Limited

We understand that EGL is not entitled to any information including royalty or production forecasts from Buru. However we do understand from Buru's public announcements that it is currently exploring the permit areas listed above, which if successful could become producing assets in the future which would generate further royalty income for EGL. While we do not have access to any other information to assess the likelihood or the extent of possible future royalties, we note that royalty income would need to increase very significantly for them to be material to the market capitalisation of EGL. For example even if the annual royalties were to increase ten fold from the current five year average level, this would mean a royalty of £170,000 per annum, which would not be material in the context of EGL's market capitalisation of \$56.5 million as at 29 May 2012.

As discussed subsequently, if the Buy-back Offer is implemented, EGL Eligible Shareholders will then be able to decide whether they accept the Buy-back Offer. If EGL Eligible Shareholders accept the Buy-back Offer they will receive EGL UK shares and no longer have any interest in the Buru Royalty. If they do not accept the Buy-back Offer they will retain their EGL Shares and, in effect, have an increased interest in the Buru Royalty, the extent of that interest being dependent upon the number of EGL Shares that are bought back in the Buy-back Offer.

### Other exploration permits

EGL also has 100% ownership of the Lons Le Saunier permit in central eastern France and the Gaz de Gardanne permit in Southern France. EGL is currently examining the unconventional hydrocarbon potential in the Lons Le Saunier permit and the work program to be followed in the area in light of potential social issues that could develop during field operations. The Gaz De Gardanne permit is located in an environmentally and socially sensitive area of France and EGL is assessing the best approach to develop the exploration areas.

## 3.2 Financial performance and position

The table below summarises EGL's consolidated audited statement of financial performance for FY10, FY11 and audit reviewed half-year accounts to 31 December 2011 ("HY12"):

### EGL - Financial performance

<i>Currency: €000</i>	FY10A	FY11A	HY12A
Finance income	5	45	160
Royalty income	23	17	14
Other income	-	-	636
<b>Total income</b>	<b>28</b>	<b>62</b>	<b>810</b>
Professional & consultancy fees	(763)	(2,608)	(267)
Share based payment expenses	-	(1,539)	-
Write-off of exploration costs	(420)	-	(2,419)
Administrative & other expenses	(2,590)	(1,758)	(2,160)
<b>EBITDA</b>	<b>(3,745)</b>	<b>(5,843)</b>	<b>(4,036)</b>
Depreciation & amortisation	(65)	(46)	(25)
<b>EBIT</b>	<b>(3,810)</b>	<b>(5,889)</b>	<b>(4,061)</b>
Financial expenses	(2,934)	(2,916)	-
<b>Profit/(loss) before tax from continuing operations</b>	<b>(6,744)</b>	<b>(8,805)</b>	<b>(4,061)</b>
Income tax expense	(31)	-	-
<b>Profit/(loss) after tax from continuing operations</b>	<b>(6,775)</b>	<b>(8,805)</b>	<b>(4,061)</b>
Net profit/(loss) from discontinued operations, net of tax	(441)	9,457	-
<b>Net profit/(loss)</b>	<b>(7,216)</b>	<b>652</b>	<b>(4,061)</b>
Fair value gain on available for sale financial asset	27	8	-
<b>Total comprehensive profit/(loss)</b>	<b>(7,189)</b>	<b>660</b>	<b>(4,061)</b>

Source: EGL 2011 annual report & 2012 half-year report

Losses after tax from continuing operations improved from FY11 to HY12 to €4.06 million. The improvement was due, in part, to a reduction in finance costs following the Debt Restructure in 2011 and a reduction in share based expenses. The large gain from discontinued operations in FY11 was due to the transfer of Gazonor to Transcor as part of EGL's Debt Restructure in 2011.

Finance income increased as a result of the increase in cash balance following the Debt Restructure and subsequent fundraising at the end of FY11. Included in other income in HY12 was a foreign exchange gain of €0.53 million as a result of the Australian dollar strengthening in relation to the Euro during the period.

The €2.42 million write-off in exploration expenditure in HY12 relates to the write off of deferred costs incurred in previous years and a revised approach by management to exclude from exploration expenditure certain consultancy costs incurred for exploration activities where no current licences are held.

Other expenses during HY12 included €1.08 million in write-offs of property, plant and equipment.

The table below summarises EGL's consolidated audited statements of financial position as at 30 June 2010, 30 June 2011 and 31 December 2011.

<i>Currency: €000</i>	<b>30Jun10A</b>	<b>30Jun11A</b>	<b>31Dec11A</b>
Cash & cash equivalents	1,549	9,993	7,948
Trade & other receivables	1,233	57	195
Prepayments	68	16	-
Inventories	257	-	-
<b>Total current assets</b>	<b>3,107</b>	<b>10,066</b>	<b>8,143</b>
Exploration & evaluation expenditure	26,838	26,776	24,558
Property, plant & equipment	3,409	1,078	173
Intangible assets	24,078	-	-
Available for sale financial assets	138	60	60
<b>Total non-current assets</b>	<b>54,463</b>	<b>27,914</b>	<b>24,791</b>
<b>Total assets</b>	<b>57,570</b>	<b>37,980</b>	<b>32,934</b>
Trade & other payables	1,845	1,801	433
Current tax liability	431	-	-
Interest bearing liabilities	39,193	-	-
<b>Total current liabilities</b>	<b>41,469</b>	<b>1,801</b>	<b>433</b>
Provisions	3,559	-	-
<b>Total non-current liabilities</b>	<b>3,559</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>45,028</b>	<b>1,801</b>	<b>433</b>
<b>Net assets</b>	<b>12,542</b>	<b>36,179</b>	<b>32,501</b>
Contributed equity	32,719	53,077	53,460
Reserves	652	3,279	3,279
Accumulated losses	(20,829)	(20,177)	(24,238)
<b>Total equity</b>	<b>12,542</b>	<b>36,179</b>	<b>32,501</b>

Source: EGL 2011 annual report, 2012 half-year report

The June 2011 Debt Restructure had the following impact on EGL's financial position:

- ▶ removal of interest bearing liabilities of €39.19 million consisting of €37.76 million in convertible notes and €1.43 million in short-term loans;
- ▶ removal of intangible assets of €24.08 million that arose from the purchase of Gazonor in 2008;
- ▶ removal of provisions of €3.56 million in relation to restoration and rehabilitation of the Gazonor asset sites that were relinquished following the transfer of Gazonor to Transcor;
- ▶ reduction of inventory balance to nil as all inventory was held in Gazonor;
- ▶ increase in contributed equity from €32.72 million to €53.08 million due to the conversion of debt to equity and issuance of new shares from the capital raising; and
- ▶ increased reserves to €3.28 million in relation to new options issued.

As at 31 December 2011 cash reduced by €2.05 million as a result of ongoing exploration expenditure and operational expenses. In addition, property, plant and equipment was written down by €1.08

million and contributed capital increased by €0.38 million due to the issuance of additional shares in July 2011.

### 3.3 Capital structure

At the date of this report EGL had the following securities on issue:

- ▶ 297,272,505 fully paid ordinary shares; and
- ▶ 19,000,000 unlisted share options.

In June 2011 EGL placed a total of 57,217,146 shares to fulfil obligations arising from the Debt Restructure. This represented a 25.27% increase in the number of shares EGL had on issue.

The top 10 shareholders as at 31 March 2012 held 53.86% of the shares on issue. The 10 largest shareholders of EGL as at 31 March 2012 are summarised in the following table.

Shareholder	Shares held ('000)	Shares held (%)
Maoming Investment Manager Ltd.	46,933,340	15.79%
Banque Privée Edmond de Rothschild S.A., Asset Management Arm	30,871,780	10.39%
Ocean Dome Corporation	30,050,000	10.11%
Transcor Astra Luxembourg S A	27,823,434	9.36%
CQS Asset Management Ltd	10,831,729	3.64%
Transcor Astra Group S.A.	5,823,434	1.96%
Alken Asset Management LLP	2,900,000	0.98%
Griff, Sydney Leslie	2,000,000	0.67%
Pync Pty Ltd	1,500,000	0.50%
Rowan, Carole Christine	1,375,000	0.46%
<b>Total</b>	<b>160,108,717</b>	<b>53.86%</b>

Source: Capital IQ

Options in EGL are held by Mr Julien Moulin and Mr Peter Cockcroft (a former CEO of EGL).

Mr Julien Moulin holds 6 million options at an exercise price of \$0.50 and with an expiry date of 31 December 2012. Mr Peter Cockcroft holds 3 million options at an exercise price of \$0.50 and with an expiry date of 31 December 2012, and 10 million options at an exercise price of \$0.70 and with an expiry date of 31 December 2012.

#### 3.3.1 Capital raising

Outlined below is a summary of the major capital raisings undertaken over the previous five years by EGL.

Date	Purpose	Amount raised	% of issued capital	% share in UK	% share in Europe	% share in Asia Pacific	% share other
Aug-09	Implementation Fee Yorkville	\$150,000	0.29%				100%
Sep-09	Maoming Placement	\$1,207,000	3.55%			100%	
Oct-09	Maoming Placement	\$1,207,000	3.43%			100%	
Sep-10	Conversion of Ocean Dome Options	\$506,778	1.97%		100%		
Sep-10	Conversion of Ocean Dome Options	\$2,493,222	8.70%		100%		
May-11	Issue of Shares to Transcor	\$11,000,000	9.21%		100%		
May-11	Issue of Shares to Ocean Dome on Conversion of debt	\$2,500,000	2.09%		100%		
Jun-11	Issue of Placement shares upto 30 June 2011	\$13,597,716	12.65%	70%	27%	3%	
	<b>Total</b>	<b>\$32,661,716</b>		<b>\$9,518,401</b>	<b>\$20,171,383</b>	<b>\$2,821,931</b>	<b>\$150,000</b>
				<b>29.14%</b>	<b>61.76%</b>	<b>8.64%</b>	<b>0.46%</b>

Source: ASX announcements, Capital IQ

The table above illustrates that of the \$32.66 million of equity raised by EGL over the five years from 2007 to 2012, approximately 29% was raised from investors who were residents in the UK, 62% by residents of Europe and 9% by investors in the Asia Pacific region.

All of EGL's European assets are in the exploration or pre-development phases. Until production commences, EGL will continue to require new capital to fund its ongoing activities and to commit to new ventures.

In order to achieve this, EGL intends to undertake an offering of shares in EGL UK to sovereign wealth funds and large institutional investors in Europe by way of a Private Placement which is to be undertaken by September 2012. EGL UK is aiming to raise up to €60 million in the Private Placement and proposes to issue up to 250 million shares in EGL UK. The proceeds of the placement will be used to finance an 18 month drilling campaign to establish proved and probable gas reserves in Lorraine and Nord Pas de Calais.

The table below sets out the domicile of beneficial holders of EGL Shares as at 29 March 2012, based on the number of EGL Shares on issue.

Region	Mar-12
UK	26.41%
Europe	42.86%
US & Canada	1.39%
Asia (ex. Australia)	10.22%
Australia	5.72%
Other	13.40%

Source: Thomson Reuters Share Register Analysis

These percentages are based on the total shares on issue in EGL according to Thomson Reuters. The analysis shows that the shareholding of those investors domiciled in Australia is relatively minor at approximately 6%, with investors domiciled in the UK and those domiciled in European being significantly larger at 26% and 42% respectively.

With greater than 65% of EGL Shares being held by beneficial holders domiciled in UK and Europe, the relevance of Australia to the ongoing profile of EGL is becoming less significant. Australian based shareholders who choose not to accept the Buy-back Offer will be able to continue to trade on the ASX.

### 3.4 ASX performance

The following table summarises the monthly trading prices of EGL Shares on the ASX over the period 1 July 2011 to 29 May 2012.

Currency: A\$	High	Low	Close	Monthly VWAP	Volume
Jul-11	0.42	0.37	0.39	0.38	5,078,080
Aug-11	0.39	0.33	0.37	0.34	7,563,750
Sep-11	0.37	0.30	0.31	0.33	5,631,400
Oct-11	0.33	0.21	0.28	0.24	3,616,760
Nov-11	0.35	0.26	0.28	0.30	1,989,990
Dec-11	0.30	0.24	0.24	0.27	984,980
Jan-12	0.27	0.21	0.26	0.26	526,880
Feb-12	0.26	0.22	0.26	0.24	2,054,830
Mar-12	0.24	0.18	0.22	0.22	4,906,160
Apr-12	0.20	0.18	0.19	0.19	1,461,520
May-12	0.20	0.18	0.19	0.19	1,490,600

Source: Capital IQ, EY analysis



An analysis of the trading history of EGL Shares in the days immediately prior to 29 May 2012 highlights the thinly traded nature of the stock. The following table demonstrates, in the last 10 trading days prior to 29 May 2012, 0.19% of the outstanding shares were traded, while over the preceding 180 trading day period 7.03% of shares were traded. During the 180 day trading period there were 42 days where no shares traded.

Currency: A\$	10 days	30 days	60 days	90 days	180 days
VWAP	0.19	0.19	0.21	0.22	0.25
Volume (thousand shares)	782	1,688	7,858	10,314	21,028
As a % of total shares	0.26%	0.57%	2.65%	3.48%	7.03%

Source: Capital IQ, EY analysis

In addition, EGL currently has a significant bid-ask spread when compared to the share price. Since 7 June 2011, when the stock resumed trading following the Debt Restructure, the average size of the bid-ask spread to share price has been 16.37%.

The following chart summarises EGL's share trading history on the ASX for the period 29 May 2007 to 29 May 2012. The trading prices are based on the daily closing price.



In the period from 1 April 2012 to 29 May 2012, EGL Shares traded on the ASX in the range of \$0.18 to \$0.20, closing on 29 May 2012 at \$0.19.

In relation to the announcements made by EGL over the last five years that may have had an impact on the underlying trading price of the security in addition to the periodic reporting announcements, we note the following:

- ▶ On 2 July 2007, EGL announced that it had entered into a funding arrangement with an undisclosed entity to subscribe to €36.4 million for convertible notes in EGL. The funds would be used to finance the purchase of a potential target acquisition and for working capital requirements;
- ▶ On 30 July 2007, the French Government granted the Lons Le Saunier permit in the Jura Basin, east of France. The permit covers a 3,740km<sup>2</sup> region providing exclusive rights to all hydrocarbons in the area. The permit was granted for a period of five years;
- ▶ On 14 August 2007, EGL announced it was successful in its tender for Gazonor. Gazonor was the owner of certain production fields in the Nord Pas de Calais region in northern France. The purchase was to be funded by a subscription of €36.4 million in convertible notes in EGL;

- ▶ On 2 April 2008, EGL announced it had entered into an agreement with Transcor to create the Benelux JV. The JV was created to explore, develop, and extract hydrocarbons in Belgium, The Netherlands and Luxembourg;
- ▶ On 21 July 2008, EGL announced the completion of drilling the first lateral well from Folschviller 2 in the Lorraine Bleue permit. The completion of the drilling significantly reduced the risk associated with development options;
- ▶ On 27 January 2009, the French Government granted Gazonor the Poissonniere Extension production permit. The permit covers a 188km<sup>2</sup> in the Nord Pas de Calais Basin, in northern France and gave EGL exclusive rights to produce all hydrocarbons in the area including coal bed methane (“CBM”) and coal mine methane (“CMM”). The permit is valid until December 2017;
- ▶ On 17 August 2009, EGL announced it had secured a \$10 million equity line of credit facility with Yorkville Advisors LLC (“Yorkville”). Under the facility, EGL can issue shares in tranches to Yorkville at any time over the proceeding five years up to \$10 million. The funds provided EGL with the working capital to resume drilling and production activities;
- ▶ On 29 October 2009, Gazonor was granted the Valenciennois exploration permit from the French Government. The area covered 423km<sup>2</sup> in the Nord Pas de Calais Basin in northern France. The permit gave the right to explore all hydrocarbons including CBM and CMM. The permit is valid until September 2014;
- ▶ On 3 February 2010, EGL announced that the conditions precedent to the Heads of Agreement with Future Corporation Australia Limited (“FUT”) had not been met. EGL entered the Heads of Agreement with the view of developing a joint venture with FUT to evaluate certain projects including the Gardanne permit in southern France;
- ▶ On 31 March 2010, EGL announced that it had entered into an agreement with a private investor to borrow a \$2.5 million interest free loan to assist EGL meet short-term working capital requirements. The unsecured loan was subordinate to the convertible notes on issue and repayable on 31 March 2011. As consideration for the loan, 25 million options were issued with an exercise price of \$0.18, or \$0.12 if exercised before 30 September 2010;
- ▶ On 21 May 2010, the French Government renewed two of EGL’s exploration permits, Gaz de Gardanne and Bleue Lorraine. The Gaz de Gardanne permit covers a 365km<sup>2</sup> region in south-east France and was extended to 25 November 2012. The Bleue Lorraine permit covers 262km<sup>2</sup> in north-east France and was extended to 30 November 2013;
- ▶ On 26 July 2010, EGL announced that the French Government had approved its new exploration permit called Sud Midi in the Nord Pas de Calais region, northern France. The permit covers 929 km<sup>2</sup> with expiry in July 2015 with a total expenditure commitment of €1.9 million;
- ▶ On 24 November 2010, EGL Shares were voluntarily suspended to allow EGL to negotiate with financiers the repayment of convertible notes that were due 31 December 2010; and
- ▶ On 7 June 2011, shares resumed trading after EGL announced the completion of its debt restructure and capital raising.

## 4. Evaluation of the Buy-back Offer

EGL is seeking the approval of EGL Shareholders to undertake the Buy-back Offer, which if approved and implemented, will result in a change in the capital and ownership structure of EGL and EGL UK. The intention of the change is to improve the ability to raise capital in order to fund the further development of its existing assets. The approval being sought is to allow the buy-back of the ordinary shares held by each ordinary shareholder of EGL who is eligible to participate in the Buy-back Offer. For each EGL Share bought back, EGL proposes to cancel the EGL Share, and in consideration, offer one ordinary share in EGL UK.

If EGL Shareholders approve the Buy-back Offer they will then need to make a separate decision as to whether they accept the Buy-back Offer, and as a result, exchange their own EGL Shares for EGL UK shares. The remainder of this section focuses on the impact of the Buy-back Offer.

If EGL Shareholders do not approve the Buy-back Offer then EGL may not proceed with the Buy-back Offer.

In forming our opinion as to whether the implementation of the Buy-back Offer is fair and reasonable to EGL Shareholders, we have considered:

- ▶ the impact of the Buy-back Offer;
- ▶ the strategic rationale of the Buy-back Offer;
- ▶ the advantages and the disadvantages of the Buy-back Offer; and
- ▶ other significant matters.

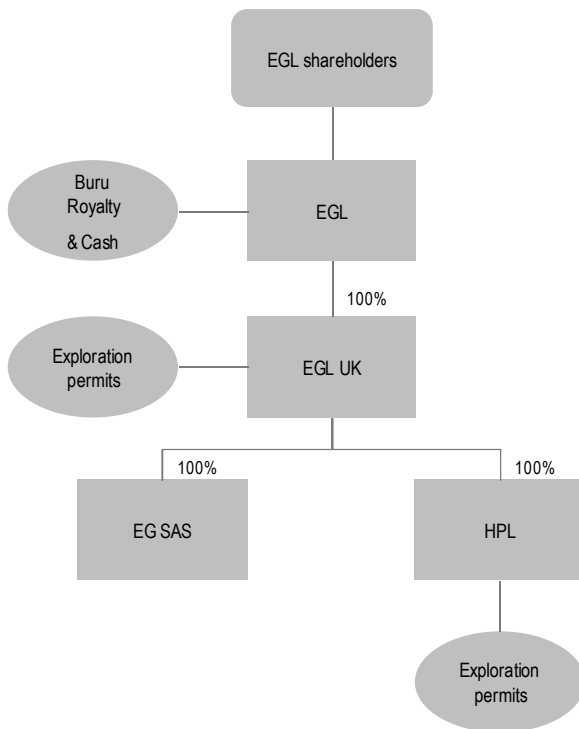
Consistent with RG 111, we have then considered the potential advantages and disadvantages to EGL Shareholders of approving the Buy-back Offer and considered whether the advantages outweigh the disadvantages.

## 4.1 Impact of the Buy-back Offer

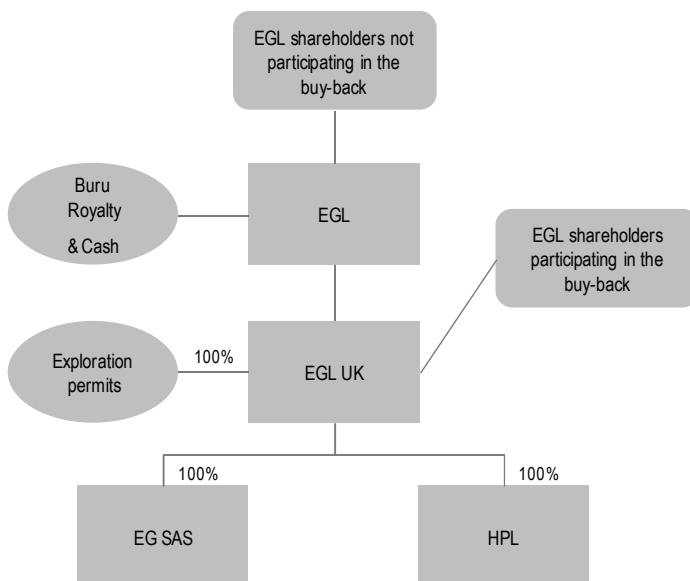
If the Buy-back Offer is approved, EGL Eligible Shareholders who then choose to accept the Buy-back Offer will exchange their EGL Shares for EGL UK shares. On exchange, the EGL Shares will be cancelled meaning that EGL will have a reduced number of EGL Shares on issue. Shareholders in EGL who do not accept, or are not eligible to participate in, the Buy-back Offer will continue to hold their EGL Shares and EGL will continue to be a shareholder in EGL UK.

The diagrams below show the current corporate structure of the EGL group, and the proposed corporate structure after the implementation of the proposed Buy-back Offer.

EGL corporate structure before the Buy-back Offer:



EGL corporate structure after the Buy-back Offer:



In substance, the underlying assets of EGL will not change as a result of the Buy-back Offer. If the Buy-back Offer proceeds, EGL Eligible Shareholders who accept the Buy-back Offer will hold their interests in those underlying assets by virtue of their direct holding of EGL UK shares. Shareholders who do not accept, or are not eligible to accept, the Buy-back Offer will continue to hold their interests in the underlying assets indirectly by way of their shares in EGL, which in turn will have a shareholding in EGL UK. The exception to this position is in relation to the Buru Royalty and minor cash reserves which will remain in EGL and to which shareholders accepting the Buy-back Offer will have no continuing interest.

In relation to the future direction of EGL UK we note:

- ▶ The Directors have indicated that EGL UK and its controlled entities will have the same strategies and objectives after the Buy-back Offer as it and EGL currently has with the strategic focus continuing to be on the development of the European exploration and development assets.
- ▶ It is proposed the board and management of EGL UK will initially comprise Mr Julien Moulin (currently Executive Chairman of EGL and Chairman of EGL UK), Mr Frederic Briens (currently Chief Executive Officer of EGL and Director of EGL UK) and Mr Johannes Niemetz (currently Chief Financial Officer of EGL and Director of EGL UK). The Explanatory Memorandum indicates that it is expected that a board consisting of five Directors, of which at least three will be non-executive and at least two will be independent, will be appointed over the next 12 months.
- ▶ EGL after the Buy-back Offer will become a holding company, holding the EGL UK shares that relate to EGL Shareholders who do not accept the Buy-back Offer and the residual assets discussed below.

## 4.2 Advantages of the Buy-back Offer

The key advantages to note in relation to the Buy-back Offer are:

- ▶ **Improved potential for future capital raisings:** The Explanatory Memorandum discusses the strategic rationale for the Buy-back Offer. The Board believes that providing a mechanism to transition EGL's current shareholders to EGL UK and through having EGL UK as a company incorporated in, and governed by, the laws of England and Wales will improve the access to sources of funding from European capital markets.

EGL will require funding in the near future to fund its operations including the continuing exploration and development of its European projects. The Board believes that EGL's ability to raise further capital in the Australian market is very limited given EGL's lack of connection with Australia and the lack of liquidity in its shares.

In addition, certain sovereign wealth funds as well as certain large institutional investors in Continental Europe, which are EGL's target investors, are unable to invest in a non-European domiciled company due to regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area. Some investors are also hesitant about investing in a company governed by company laws with which they are unfamiliar.

Specifically, the ability to raise capital through EGL UK rather than the Australian listed EGL may be enhanced through:

- ▶ increased visibility for EGL UK in the UK and European markets;
- ▶ expectations that a UK head company will overcome resistance from investors who understand company law in a particular jurisdiction and prefer to invest in companies residing in that jurisdiction; and

- ▶ access to some institutional investors in the UK and Europe who may be prevented by regulations or their internal policies or investment mandates from investing in entities incorporated outside the UK and Europe.

The improved potential for capital raising is evidenced by the Board's intention to offer shares in EGL UK to investors in Europe by way of a Private Placement of which the terms and conditions are being discussed. The Private Placement is planned to be undertaken by September 2012 in which EGL UK is aiming to raise up to €60 million. We understand that this is likely to be conditional upon the Buy-back Offer being completed.

- ▶ **EGL Eligible Shareholders are given the choice of whether to participate in the Buy-back Offer and become shareholders in EGL UK:** Regardless of whether an EGL Shareholder votes in favour of the Buy-back Offer, if the majority of EGL Shareholders approve the Buy-back Offer, EGL Eligible Shareholders will be given the choice to accept the Buy-back Offer in respect of all or part of their EGL Shares (with the exception of EGL Eligible Shareholders who have less than a Small Parcel of EGL Shares or will hold less than A\$500 in value of EGL Shares after their acceptance of the Buy-back Offer, in which case they are required to accept in respect of all of their EGL Shares if they elect to accept the Buy-back Offer).
- ▶ **A UK holding company better reflects the geographic spread of investors in EGL:** Investors domiciled in the UK represent approximately 25% of EGL's issued capital, investors domiciled in Europe 40% and investors domiciled in Asia represent 10%. Australian domiciled investors represent only approximately 5%. Given there is no apparent reason other than historical factors for EGL's Australian listing, we would expect that the transaction will better align the strategic direction of EGL going forward.
- ▶ **Easier access for UK and European investors to shareholder meetings:** Given the domicile mix of the beneficial holders of EGL Shares, it is expected that having a company incorporated in England and Wales will enable a greater number of beneficial holders to physically attend shareholder meetings. The majority of EGL Shares are held by beneficial holders resident in the UK or Europe.

## 4.3 Disadvantages of the Buy-back Offer

The key disadvantages to note in relation to the Buy-back Offer are:

### 4.3.1 Liquidity and possible delisting

#### Background

If the Buy-back Offer is implemented, EGL Shareholders who then accept the Buy-back Offer will go from being a shareholder in EGL whose shares are currently listed on the ASX to being a shareholder in EGL UK, a private UK based company whose shares, at least initially, will not be listed on any securities exchange. The listing of EGL UK is uncertain at this stage and there is no guarantee that a listing will necessarily occur. The ease with which shareholders can sell their respective shares (liquidity) will vary under each scenario as discussed below. It is also generally accepted that the market value of shares is affected by their level of liquidity. This is also discussed further below.

**EGL Shares - EGL:** At present shareholders in EGL are able to trade their EGL Shares on the ASX. Notwithstanding this position, as set out in section 3.4 above, the volumes of EGL Shares traded on the ASX are relatively low with only around 7.03% of EGL's shares trading on the ASX over the 180 trading days to 29 May 2012. In addition, the average bid-ask spread of around 16.37% since 7 June 2011 indicates a very low level of liquidity of EGL's shares.

If EGL Eligible Shareholders accept the Buy-back Offer the number of shares and the number of shareholders in EGL will reduce, the extent of which cannot be determined until the closure of the Buy-back Offer. Consequently, it is likely that the liquidity of EGL's shares may further reduce.

If the level of EGL's operations are, in the ASX's opinion, not sufficient to warrant the continued quotation of EGL Shares and its continued listing, or if EGL is unable to maintain sufficient spread of shareholdings in its ordinary share class to ensure an orderly and liquid market, EGL may be delisted. It is not possible to assess the potential for this to occur as it is in part dependent on the extent to which EGL Shareholders accept the Buy-back Offer with the result of reducing the number of shareholders of EGL and EGL Shares on issue.

Should this occur, shareholders would have no ready market for their EGL Shares and any trading of shares would need to be arranged between investors. The risks of maintaining minimum spread requirements and being delisted from the ASX are discussed further in the Explanatory Memorandum.

The Explanatory Memorandum states an intention that if delisting were to occur, the Company will provide EGL Shareholders the opportunity to exchange their EGL Shares for EGL UK shares (once EGL UK is listed on a securities exchange), or if this is not possible then the Company will take steps to provide a cash alternative. The Explanatory Memorandum states that this cash alternative will be provided on fair terms, including with respect to the value of the consideration to be paid.

**EGL UK:** EGL Eligible Shareholders who accept the Buy-back Offer will receive EGL UK shares being shares in a UK company not currently listed on any securities exchange. As stated in the Explanatory Memorandum, EGL UK currently intends to seek a listing on a securities exchange in the UK or in Europe. However, the timing will be determined by the board of EGL UK and will depend on various factors including, but not limited to, market conditions. It should be noted that there is no certainty as to whether this listing will occur or the timeframe under which it might occur.

Until such time (if any) that shares in EGL UK are listed on a securities exchange, shareholders will have no ready market for the EGL UK shares and any trading of shares would need to be directly arranged between investors.

### Implications

If the Buy-back Offer is approved, EGL Eligible Shareholders will either have the opportunity to remain shareholders of EGL (and will be subject to the risk of delisting discussed above) or can elect to receive shares in EGL UK, which as suggested above, will at least in the short term have no ready market to trade EGL UK shares.

Two differing scenarios therefore exist in relation to the relative merits of holding shares in either an Australian listed company or a private UK company. EGL is an Australian public company; its shares can be traded on the ASX. EGL UK is a private company incorporated in England and Wales, its shares, at least in the short term, will not be able to be traded on any exchange. And there is no guarantee that a listing will necessarily occur. Liquidity related factors which may affect the value of the shares in each company are set out below.

We note the following in relation to EGL:

- ▶ EGL is not able to access the capital it requires to commence the development program which it plans to undertake in relation to its European assets. This would suggest that the trading price of EGL Shares may include some discount to reflect the risk that it will not be able to raise the funds required to further develop its assets. EGL Shares can be traded on the ASX, however, the volumes at which EGL currently trade would suggest that it is not a very liquid security and therefore would have implied in the share price some discount for lack of liquidity compared to a well traded security. The low level of liquidity in EGL Share's, is discussed further in section 3.4.

We note that based on the empirical studies discussed in Appendix D liquidity discounts can be significant and the studies noted suggest observed discounts in the range of 35% to 63%. As EGL is listed on the ASX albeit with a relatively low level of liquidity we would expect that any discount implied in its share price would be below the 35% cited in these studies. The level of discount would be expected to increase in the event that EGL was delisted although this may be mitigated in the event that, as discussed in section 4.4.4, EGL Shareholders are given the opportunity to

exchange their shares for EGL UK shares if these are listed on a securities exchange at that time or are provided with a cash alternative.

- ▶ The parcels of EGL Shares traded on the ASX are for a minority interest and as such a minority discount would be implied in the price at which EGL Shares are traded

We note the following in relation to EGL UK:

- ▶ A similar minority discount would apply to a similar sized minority parcel of shares in EGL UK
- ▶ A discount for lack of liquidity would also apply to EGL UK shares and in theory this may be higher than the level of discount inherent in the EGL share price and more in line with the empirical studies discussed in Appendix D. We note the expressed intention set out in the Explanatory Memorandum for shares in EGL UK to be listed on a securities exchange in the medium term. The fact that the company intends to pursue a listing may in itself limit the short term discount that may apply. This discount would be further reduced or eliminated if a listing does ultimately occur. However, it should be noted that there is no certainty as to whether this listing will occur or the timeframe under which it might occur.
- ▶ In part offsetting the above discounts for a minority interest and lack of marketability is the fact that if the market views EGL UK as being more likely to be able to raise capital than EGL then the discount for risk discussed above in relation to EGL may be reduced.

On balance we consider the potential reduction in liquidity, particularly in the short term, in relation to either continuing to hold EGL Shares or holding EGL UK shares is a disadvantage of the Buy-back Offer albeit noting the disadvantage being reduced in magnitude for the reasons noted above.

- ▶ **Unfunded Australian tax liability for Australian resident shareholders:** EGL has applied for a Class Ruling from the ATO to confirm the Australian taxation consequences for EGL Eligible Shareholders who participate in the Buy-back Offer. EGL does not expect that EGL Shareholders will receive (or be deemed to have received) a dividend in connection with the Buy-back Offer. However, this cannot be confirmed until such time that the ATO issues the Class Ruling with respect to the Buy-back Offer (which is expected to be shortly after the Buy-back Offer is completed).

However, to the extent the market value of an EGL UK share, which is transferred to an EGL Eligible Shareholder who participates in the Buy-back Offer, exceeds the amount debited to EGL's share capital account in respect of the EGL Share which has been bought back, the excess should be classified as a dividend for Australian tax purposes. Although the Commissioner of Taxation may also, in certain circumstances, deem all or part of the buy-back proceeds that are debited to the share capital account as a dividend,

If Australian resident shareholders are deemed to have received a dividend in connection with the Buy-back Offer, they will be required to fund any Australian income tax payable on the dividend from their own funds on the basis no cash consideration will be provided. EGL will be required to fund any withholding tax liability arising on unfranked dividends paid to non-Australian resident EGL Eligible Shareholders participating in the Buy-back Offer. The taxation consequences of the Buy-back Offer are discussed further in section 4.4.2 below and in the Explanatory Memorandum.

- ▶ **Direct versus an indirect interest:** EGL Eligible Shareholders currently have a direct interest in EGL which controls the key operating assets of the group.

For EGL Shareholders that do not accept the Buy-back Offer they will now hold only an indirect interest in the key operating assets in that they have a shareholding in EGL which will have a shareholding in EGL UK, the size of which will be dependent upon the proportion of EGL Shareholders who accept the Buy-back Offer. Consequently these continuing EGL Shareholders



will have no direct voting rights in EGL UK nor any direct access to other rights of EGL UK shareholders, such as, dividends, participation in capital raisings etc.

- ▶ **Loss of interest in Buru Royalty and some cash:** EGL UK shares will no longer have an interest in the Buru Royalty and also some cash which will be retained by EGL to meet its operating requirements. The following points are noted in respect of the Buru Royalty and the cash to be retained in EGL:

We understand that EGL is not entitled to any information including royalty or production forecasts from Buru. However we do understand from Buru's public announcements that it is currently exploring the permit areas listed above, which if successful could become producing assets in the future which would generate further royalty income for EGL.

- ▶ the royalties received by EGL under the Buru Royalty arrangement for the five years to 30 June 2011 totalled approximately £83,000, averaging approximately £17,000 per annum;
  - ▶ we understand that the Buru Royalty covers a number of oil and gas permits as noted in section 3.1 of the report;
  - ▶ further, we note from information disclosed in the Buru 2011 Annual Report and various ASX announcements, that EGL derives its current royalties from two production licence areas, with nine permit areas still undergoing exploration activities and one which we understand will commence production in 2012. This could increase royalties to be received by EGL;
  - ▶ while we do not have access to any other information to assess the likelihood or the extent of possible future royalties, we note that royalty income would need to increase very significantly for them to be material to the market capitalisation of EGL. For example if the annual royalties were to increase ten fold from the current five year average level, this would mean a royalty of £170,000 per annum, which would not be material in the context of EGL's market capitalisation of \$56.5 million as at 29 May 2012.
  - ▶ the Directors estimate that cash to be retained by EGL will be approximately €650,000; and
  - ▶ if the Buy-back Offer is implemented, EGL Eligible Shareholders will then be able to decide whether they accept the Buy-back Offer. If EGL Eligible Shareholders accept the Buy-back Offer they will receive the EGL UK shares and no longer have any interest in the Buru Royalty. If they do not accept the Buy-back Offer they will retain their EGL Shares and, in effect, have an increased interest in the Buru Royalty, the extent of that interest being dependent upon the number of EGL Shares that participate in the Buy-back Offer..
- ▶ **Less access for Australian investors to shareholder meetings:** The change in incorporation of the head company of EGL from Australia to UK will mean it will be inconvenient for Australian investors to attend shareholder meetings in the UK. However as noted previously, the majority of EGL Shares are held by beneficial holders resident in UK or Europe.

## 4.4 Other factors

### 4.4.1 Legal environment

As a company incorporated in Australia, EGL is subject to the Corporations Act in Australia. Conversely, as a company incorporated in England and Wales, EGL UK will be subject to company and financial services law in the UK. Generally, the protection afforded to shareholders under each jurisdiction is of a comparable high standard in that the rules and regulations which govern the administration and operations of a company in the UK are similar to the requirements in Australia. The Explanatory Memorandum sets out a comparison table of EGL UK as an English private limited company versus EGL as an Australian public company. Shareholders should consider these comparisons carefully. As a listed company, EGL is also subject to the ASX Listing Rules. With EGL UK not being listed, the same requirements do not apply, although if EGL UK continues to be a subsidiary of EGL it will need to comply with the ASX Listing Rules.

Included below is a summary of some of the key aspects relevant to shareholders in both jurisdictions.

#### *Pre-emptive rights*

The ASX Listing Rules permit the Directors to allot unissued shares without shareholder approval up to a maximum number equivalent to 15% of the issued capital of the prior allotment in any 12 month period. No pre-emptive rights are allowed for ASX listed companies.

The Companies Act requires the offer of any issue of new shares to be made first to existing shareholders in proportion to their holdings, unless:

- ▶ the pre-emptive rights are disapplied in the company's constitution; or
- ▶ shareholders resolve by a special resolution (being a majority of not less than 75% of a company's shareholders at a general meeting) to disapply pre-emption rights.

The Articles of Association of EGL UK have disapplied the operation of section 561 of the Companies Act, with the effect that the directors may allot shares without first making an offer of shares in EGL UK to existing shareholders in proportion to their holdings.

Additionally, under the laws of England and Wales, pre-emption rights do not apply if shares are allotted for non-cash consideration, allotted or transferred under an employee option scheme or to any bonus shares issued.

#### *Continuous Disclosure and Insider Trading*

ASX Listing Rule 3.1 requires a company to disclose any information, subject to certain exemptions, that may have a material impact on its share price or value. ASX Listing Rule 3.1 is legally enforced under the Corporations Act.

English private limited companies have no continuous disclosure requirements and limited general disclosure obligations to shareholders/the public. However, in order for EGL UK to continue to fairly treat its shareholders and prepare for its IPO on a European stock exchange, we are advised that EGL UK intends to provide all necessary underlying information to its shareholders on a quarterly basis so that EGL may continue to comply with its continuous disclosure obligations and EGL UK shareholders will benefit from this continuous disclosure.

## **Takeovers**

The Corporations Act governs a takeover and contains a general rule that a person must not acquire a “relevant interest” in issued voting shares of a company if, because of the transaction, a person’s voting power in EGL:

- ▶ increases from 20% or below to more than 20%; or
- ▶ increases from a starting point, which is above 20% but less than 90%.

Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 months period.

Australian law permits compulsory acquisition by persons holding a 90% interest in the relevant securities.

As EGL UK is a private limited company, it is not subject to the City Code on Takeovers and Mergers (“City Code”) that would be applicable to a public company.

### **4.4.2 Tax implications**

Ernst & Young Transaction Advisory Services has not been appointed to provide tax advice regarding the Buy-back Offer. EGL Shareholders should refer to the Taxation Matters and the Risks and Disadvantages sections of the Explanatory Memorandum which provide a summary of the principal Australian Income Tax consequences of the Buy-back Offer for Australian resident and non-resident shareholders.

In preparing our report, we have read the Taxation Matters and the Risks and Disadvantages sections referred to above and note it highlights potential tax implications which need to be considered by each EGL Shareholder in weighing up the merits of the Buy-back Offer.

In particular, we note that a key aspect outlined in the Explanatory Memorandum is that EGL has applied for a Class Ruling from the ATO in relation to the Buy-back Offer. A key aspect of that application is for the ATO to confirm whether any part of the consideration for the Buy-back Offer will be treated as a dividend. EGL does not expect that any part of the consideration will be treated as a dividend, however this cannot be confirmed until the ATO issues the Class Ruling (which is expected shortly after the Buy-back Offer is completed). We note that, as set out in the Taxation Matters and Risks and Disadvantages sections of the Explanatory Memorandum, any dividend component of the Buy-back Offer may be taxed in the hands of resident shareholders at the marginal rate of tax and for non-resident shareholders there is the possibility that their dividends may be subject to the deduction of a withholding tax although this withholding tax will be funded by EGL.

### **4.4.3 Possible treatment of Buy-back Offer proceeds as a dividend**

As set out in section 4.4.2, it is possible that part of the consideration for the Buy-back Offer may be treated as a dividend. EGL’s expectation is that no part of the Buy-back Offer consideration should be treated as a dividend for Australian tax purposes. Whether this occurs will not be known until a Class Ruling is received from the ATO which is not expected to occur until shortly after the Buy-back Offer is completed.

If part of the consideration is characterised as a dividend this may be taxed in the hands of resident shareholders at their marginal rate of tax. For non-Australian resident shareholders their dividends may be subject to withholding tax.

We would also note that the capital component of the Buy-back Offer may also give rise to a capital gain or loss for resident shareholders depending upon the cost base of the shareholder. Non-Australian resident shareholders holding less than 10% of EGL’s issued shares should not derive a capital gain or

incur a capital loss. Shareholders with 10% or greater of EGL's issued shares have been advised to contact EGL for further information.

EGL Shareholders who are in doubt as to the action they should take in relation to the Buy-back Offer should consult their own professional advisers and seek independent taxation advice.

#### **4.4.4 Dilution**

We note that on completion of the Buy-back Offer EGL Shareholders will have substantially the same interest in the underlying assets of EGL as they did prior to the Buy-back Offer, although this may be held via an interest in EGL or EGL UK depending upon whether they accept the Buy-back Offer. In the event that EGL UK then raises further capital such as through the Private Placement described in section 1.1 their interest in EGL UK will be diluted.

To reduce the dilutionary effect of the Private Placement on the voting position of EGL Shareholders the EGL UK Articles of Association contain a provision whereby any shareholder who is an "Original Member" shall, on the date of the relevant general meeting or the date on which a resolution is put to EGL UK shareholders, have 1 vote on a show of hands and 2 votes for each EGL UK share held by that "Original Member" on a poll or written resolution. An "Original Member" means (i) EGL, or (ii) any shareholder of EGL UK who immediately prior to becoming the legal or beneficial owner of EGL UK shares was a legal or beneficial holder of EGL Shares.

We do not consider the dilutionary effect of the Private Placement to be a disadvantage as EGL needs to raise capital for the further development of its various projects. If this capital was raised directly by EGL rather than EGL UK shareholders interests would also be diluted.

#### **4.4.5 What happens if the Buy-back Offer is not approved**

If the Buy-back Offer is not approved at the Meeting, Shareholders will retain their holding in EGL and not have the opportunity to become direct shareholders of EGL UK. EGL will continue in its current form but may face difficulty in accessing the necessary funding requirements for the next 12 months as well as the additional requirement to prove up additional reserves and meet its funding requirements for new ventures.

We note that if the Buy-back Offer is not approved, EGL UK may still attempt to raise capital, in which case EGL's shareholding in EGL UK would be diluted. However, the extent to which it will be able to raise capital may still be constrained by the Listing Rules and the Corporations Act. We understand that the currently planned Private Placement by EGL UK is expected to be conditional upon the completion of the Buy-back Offer.

#### **4.4.6 Shareholders Decisions**

There are two key decisions required of EGL Shareholders.

- ▶ Firstly, EGL Shareholders need to decide whether to approve the Buy-back Offer proceeding; and
- ▶ Secondly, EGL Eligible Shareholders need to decide whether to accept the Buy-back Offer in respect of all or part of their EGL Shares (with the exception of EGL Eligible Shareholders who have less than a Small Parcel of EGL Shares or will hold less than A\$500 in value of EGL Shares after their acceptance of the Buy-back Offer, in which case they are required to accept in respect of all of their EGL Shares if they elect to accept the Buy-back Offer).

We note that the above two decisions are independent and that some EGL Shareholders may decide to approve the Buy-back Offer but not accept the Buy-back Offer in respect of all or some of their EGL Shares. This could occur for example where a EGL Eligible Shareholder forms the view that the Buy-back Offer may be beneficial overall for the group's business, but may elect not to accept the Buy-back Offer if the EGL Eligible Shareholder believes that participating in the Buy-back Offer is not suitable for his or her individual objectives, financial situation and needs. Factors that may be relevant in this

regard include, for example, the lack of liquidity of EGL UK shares compared to EGL Shares, the loss of the interest in the Buru Royalty or the possible tax consequences of accepting the Buy-back Offer. EGL Shareholders should consider these and all other matters outlined in this report carefully and obtain their own financial advice where required.

EGL Shareholders who remain with EGL will have an indirect interest in EGL UK and EGL UK's underlying assets through their shareholding in EGL (which will continue to hold the remaining shares in EGL UK that were not transferred as consideration for the Buy-back Offer). These EGL Shareholders will also have an interest in the Buru Royalty which will continue to be held by EGL.

EGL Eligible Shareholders who exchanged their EGL Shares for EGL UK shares will no longer have an interest in the Buru Royalty as discussed earlier in this report.

## 4.5 Conclusions

Based on our consideration of the matters outlined above we consider that the advantages of approving the Buy-back Offer outweigh the disadvantages of approving the Buy-back Offer. On this basis, in the opinion of Ernst & Young Transaction Advisory Services the implementation of the Buy-back Offer is fair and reasonable in respect of the EGL Shareholders.

In forming this overall view we note the need to raise capital in order to fund the further exploration and development of the underlying assets of EGL and the fact that the Buy-back Offer is likely to enhance the ability of EGL UK to raise capital. This is likely to be of an advantage to both continuing EGL Shareholders (those who do not accept the Buy-back Offer and whose interest in the underlying assets will be by virtue of EGL's shareholding in EGL UK) and current EGL Eligible Shareholders who will become EGL UK shareholders by accepting the Buy-back Offer. In part offsetting this advantage we note the disadvantages noted above, and in particular, the disadvantages relating to possible reduced liquidity for EGL Shares that will affect shareholders who do not accept the Buy-back Offer and also the fact that, at least initially, shares in EGL UK will not be listed on any securities exchange (the listing of EGL UK is uncertain at this stage and there is no guarantee that a listing will occur). In considering the potential significance of the reduced liquidity we have noted the fact that, notwithstanding EGL's listing on the ASX, the level of liquidity in its shares is relatively low. This was discussed in section 4.3 above.

**It should be noted that our report is being prepared to be provided to EGL Shareholders to assist them to consider how they vote in relation to the resolutions to approve the Buy-back Offer. The report has not been prepared and does not contain any opinion or advice to EGL Eligible Shareholders as to whether or not they should sell their EGL Shares into the Buy-back Offer. It is not possible or practicable for us to consider the impact of the Buy-back Offer on individual EGL Shareholders as their circumstances are not known to us and their decisions as to whether to sell will be based on many factors including their own financial circumstances, risk profiles, liquidity circumstances, investment strategies and tax positions.**

# Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to EGL.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to EGL with reference to Regulatory Guide 112, *Independence of experts*.

This report has been prepared specifically for the shareholders of EGL in relation to the Buy-back Offer. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the EGL Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by EGL, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix B to this report.

EGL has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of EGL for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately A\$40,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

The principal persons responsible for the preparation of this report are Stuart Bright and Ken Pendergast.

Stuart Bright, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Notice of Meeting and Explanatory Memorandum to be sent to EGL Shareholders with respect to the Buy-back Offer. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the implementation of the Buy-back Offer is fair and reasonable.

The financial forecasts used in the preparation of this report reflect the judgement of directors and management of EGL based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Memorandum.

## Appendix B Sources of information

In preparing this report, Ernst & Young Transaction Advisory Services had regard to the following sources of information:

- ▶ EGLs income statements and balance sheets for FY10, FY11 and HY12;
- ▶ EGL's management accounts for the period YTD January 2012;
- ▶ EGL's budgets for FY12;
- ▶ Shares Buy-back Offer of Arrangement between EGL and EGL Shareholders;
- ▶ The Buy-back Offer Prospectus for the proposed restructure of EGL;
- ▶ Board papers prepared in relation to the proposed restructure dated February 2012;
- ▶ Various presentations prepared by EGL in relation to its operations;
- ▶ Details of capital raisings provided by EGL;
- ▶ Group structure information provided by EGL;
- ▶ EGL Shareholder information at various dates, as provided by EGL's share registry;
- ▶ Discussions with EGL management;
- ▶ Various public disclosure documents lodged by EGL with the ASX;
- ▶ Information from EGL's website, <http://www.europeangas.com.au>;
- ▶ ASIC Regulatory Guides;
- ▶ Buru 2011 Annual financial report;
- ▶ Capital IQ;
- ▶ Various broker and analyst reports prepared in regards to EGL;
- ▶ Thompson Research;
- ▶ The Corporations Act and Corporations Regulations;
- ▶ The City Code;
- ▶ Representation letter from EGL Directors;

Other publicly available information.



## Appendix C Glossary

Abbreviation	Full Title / Description
EGL or the Company	European Gas Limited
EGL UK	EGL UK Limited
EG SAS	European Gas S.A.S.
ASIC	Australian Securities and Investments Commission
ASTC	ASX Settlement and Transfer Corporation Pty Ltd
ASX	Australian Securities Exchange
ATO	Australian Tax Office
Benelux JV	Benelux SA
Buru	Buru Energy Limited
Buru Royalty	Buru holds well head royalty rights in relation to several oil and gas permits permit areas as described in section 3.1
CBM	Coal bed methane
CGT	Australian capital gains tax
CHESS	Clearing House Electronic Sub-register System
City Code	The City Code on Takeovers and Mergers
Class Ruling	The application with the ATO to confirm whether any part of the consideration paid to EGL Eligible Shareholders for the disposal of their EGL Shares as a result of accepting the Buy-back Offer will be treated as a dividend for Australian tax purposes
CMM	Coal mine methane
Corporations Act	The Corporations Act 2001
Corporations Regulations	Corporations Regulations 2001
Debt Restructure	Restructure of EGL's debt completed in June 2011
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
EGM	Extraordinary General Meeting
EGL Eligible Shareholder	An EGL Shareholder who have their registered address on the Company's Share Register as being in a jurisdiction where the Buy-back Offer is allowed
EGL Share	A full paid ordinary share in EGL
EGL Shareholder	A shareholder of EGL
EU	European Union
Ex-Date	Four business days before the Record Date
Foreign Shareholders	EGL Shareholders residing outside of Australia
FUT	Future Corporation Australia Limited
FSG	Financial Services Guide
FY10A and FY11A	Actual financial results for years ended 30 June 2010 and 2011
Gazonor	Gazonor SA
HY12A	Actual half-year results for the six months to 31 December 2011
HPL	Heritage Petroleum Limited
IFRS	International Financial Reporting Standards
Mtpa	Million tonnes per annum
Panel	The Panel on Takeovers and Mergers
Private Placement	EGL UK's intention to raise up to €60 million and propose to issue 250 million new shares in September 2012
Share Register	The register of EGL Shareholders
Report	Our Independent Experts Report dated 1 June 2012
RG 110	Regulatory Guide 110: Share buy-backs
RG 111	Regulatory Guide 111: Content of expert reports
Small Parcel	A parcel of EGL Shares which is valued at A\$2000 on the Record Date
Buy-back Offer	The share Buy-back Offer of arrangement between EGL and EGL Shareholders
Transcor	Transcor Astra Group
Treasurer	The Treasurer of the Commonwealth of Australia
UK	United Kingdom

<b>Abbreviation</b>	<b>Full Title / Description</b>
USA	United States of America
A\$ or \$	Australian dollars
£ or GBP	British pounds
€	Euro

# Appendix D Liquidity

## Liquidity / Marketability Discounts

Two general types of empirical studies provide evidence for the existence and magnitude of the discount for lack of marketability. These are:

- ▶ Restricted stock studies, compares the trading prices of a company's publicly held stock sold on the open market with those of unregistered or restricted shares of the same company sold in private transactions.
- ▶ Pre-IPO studies, examines the prices of transactions while the company was still private, compared to the eventual IPO price to estimate the discount which was applied to the company when it was private for its lack of marketability.

Studies including those performed by Aswath Damodaran using data over 2003 to 2005 and Shannon Pratt using data over 2000 to 2003 indicate that a range of marketability discounts may be in the order of 35% to 50%. Emory and Williamette Studies covering hundreds of transactions (relating to private transaction prices compared to public offering prices and market prices following IPOs) spanning over 20 years showed that the average difference between private transaction and public market prices ranged from 40% to 63%.

The assessment of the applicable discount is largely dependent on the circumstances in each case, and can also vary by type of asset. Furthermore, the terms of any shareholders' agreement in place are critical in considering this issue.

With any asset, the lack of marketability discount is a function of the perceived number of potential buyers for the asset and the ease with which that asset can be sold. The factors that determine the applicability and quantum of any discount for lack of marketability include:

- ▶ Size of the shareholding.
- ▶ The existence of any form of market in which the shareholding could be traded.
- ▶ The prospects for the shares to become readily marketable/more marketable or any restrictions on trading to be lifted. The stated intention of management with respect to a trade sale, initial public offering or any form of exit should also be considered.
- ▶ The impact of any provisions (such as restrictions on transfer) in the memorandum and articles of association of the company and the terms of any shareholders' agreements.
- ▶ The size of the capital market in which the entity operates.
- ▶ The likelihood of dividends.
- ▶ The transaction and administration costs associated with trading the shares.
- ▶ The degree of risk concerning the actual price that will be realised relative to the estimated price.

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE  
INDEPENDENT EXPERT'S REPORT**

1 June 2012

## Part 2 - Financial Services Guide

### 1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

### 2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### 3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

1. financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
2. arranging to deal in securities.

### 4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

### 5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$44,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

## **6. Associations with product issuers**

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

## **7. Responsibility**

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

## **8. Complaints process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

## **9. Compensation Arrangements**

EGL and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left EGL's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by EGL satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services  AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000  Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme:  Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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Ernst & Young

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**About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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Ernst & Young is a registered trademark. Our report may be relied upon by European Gas Limited for the purpose of only pursuant to the terms of our engagement letter dated 25 May 2012. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844  
Australian Financial Services Licence No. 240585

# European Gas Limited

ABN 75 075 760 655

## Lodge your vote:



### By Mail:

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
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000001 000 EPG  
MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Proxy Form

For your vote to be effective it must be received by 1:00pm (AEST) Sunday 15 July 2012

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the EGM and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, 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 sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the EGM

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the EGM you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** →



View your securityholder information, 24 hours a day, 7 days a week:

**[www.investorcentre.com](http://www.investorcentre.com)**

- Review your securityholding
- Update your securityholding

**Your secure access information is:**

**SRN/HIN: I999999999**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE  
 FLAT 123  
 123 SAMPLE STREET  
 THE SAMPLE HILL  
 SAMPLE ESTATE  
 SAMPLEVILLE VIC 3030

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf XX

I/We being a member/s of European Gas Limited hereby appoint

the Chairman of the EGM OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the EGM. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the EGM, as my/our proxy to act generally at the EGM on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the EGM of European Gas Limited to be held at 123 Test Street on Tuesday, 17 July 2012 at 1:00pm (AEST) and at any adjournment of the EGM.

## STEP 2 Items of Business PLEASE NOTE: If you mark the Abstain box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Item 1 Buy-back Offer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 Disposal of main undertaking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3 Disposal of a substantial asset to substantial holders and associates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the EGM intends to vote undirected proxies in favour of each item of business.

## SIGN Signature of Securityholder(s) *This section must be completed.*

<b>Individual or Securityholder 1</b>	<b>Securityholder 2</b>	<b>Securityholder 3</b>
<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>
<b>Sole Director and Sole Company Secretary</b>	<b>Director</b>	<b>Director/Company Secretary</b>

Contact Name \_\_\_\_\_ Contact Daytime Telephone \_\_\_\_\_ Date / /





# PROSPECTUS

**EUROPEAN GAS LIMITED**  
ABN 75 075 760 655

## **An offer to buy back ordinary shares of European Gas Limited**

For the purposes of section 707 of the Corporations Act 2001 (Cth)



## Important Notices

Defined terms and abbreviations used in this Prospectus are explained in the Glossary. This Prospectus is dated 4 June 2012. A copy of this Prospectus was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. No EGL UK Shares will be transferred on the basis of this Prospectus later than the expiry date. This Prospectus expires 13 months after the date of this Prospectus. The Buy-back Offer is available to EGL Eligible Shareholders only. The distribution of this Prospectus in jurisdictions outside Australia and the United Kingdom may be restricted by law and therefore persons who obtain this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. This Prospectus does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make such an offer. No person is authorised to provide any information or to make any representation in connection with the Buy-back Offer which is not contained in this Prospectus. Any information or representations not so contained may not be relied on as having been authorised by the Company or any other person in connection with the Buy-back Offer. **This Prospectus provides information for Shareholders to decide if they wish to accept the Buy-back Offer and should be read in its entirety. The risk factors that could affect the financial performance of EGL UK should be examined. You should consider carefully these factors in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest. The Buy-back Offer does not take into account the investment objectives, financial situation and particular needs of Shareholders.** All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated.

### Prospectus and Exposure Period

This Prospectus will be made generally available during the Exposure Period (without Acceptance Forms) by being posted on the Company's website at [www.europeangas.com.au](http://www.europeangas.com.au). The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus.

A paper copy of this Prospectus will be provided free of charge to any person in Australia requesting the same during the Exposure Period by telephoning Computershare on 1300 559 170 or 03 9946 4433.

The Corporations Act prohibits the Company from processing Acceptance Forms received until after the Exposure Period. The Exposure Period is the 7 day period (excluding public holidays) from the date of this Prospectus and may be extended by ASIC up to a further 7 days.

The purpose of the Exposure Period is to enable examination of this Prospectus by market participants prior to the Buy-back

Offer. That examination may result in the identification of deficiencies in this Prospectus, in which case any Acceptance Forms received may need to be dealt with in accordance with section 724 of the Corporations Act.

Acceptance Forms received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Acceptance Forms received during the Exposure Period.

### Electronic prospectus

This Prospectus and personalised Acceptance Forms are available in electronic form via [www.investorcentre.com](http://www.investorcentre.com). The Buy-back Offer constituted by the electronic version of this Prospectus is only available to residents in Australia and the United Kingdom who access, download or print the electronic version of this Prospectus in Australia or the United Kingdom. Persons who receive an electronic version of this Prospectus should ensure they download and read the entire Prospectus. The Corporations Act prohibits any person from passing on to another person the Acceptance Form unless it is accompanied by or included in a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus. Persons who received a copy of this Prospectus in its electronic form may, during the Buy-back Offer period, obtain a paper copy of the Prospectus (free of charge) by telephoning 1300 559 170 or 03 9946 4433.

Acceptances of the Buy-back Offer must be completed in accordance with the instructions on the Acceptance Form attached to this Prospectus. By submitting the Acceptance Form, you are acknowledging that you have read this Prospectus in full. If you do not accept the Buy-back Offer or if not all of your EGL Shares are bought back by the Company, you will continue to hold EGL Shares.

### United Kingdom

This Prospectus is directed only at, and is only for distribution to, persons who are: (i) persons falling within Article 43 ("members of certain bodies corporate") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended); or (ii) persons to whom the document may otherwise lawfully be supplied, (all such persons together being referred to as relevant persons). Any person in receipt of this Prospectus who is not a relevant person should not retain or act upon this document, and should promptly return this Prospectus to the Company. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY

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## Corporate directory

### Directors

Mr Julien Moulin  
BA (Hons), Masters Asset Management (Hons)  
(Chairman)

Mr Rod Bresnehan  
BSC, App Chem  
(Non-executive Director)

Mr (John) Sebastian Hempel  
BSc LLB ACIS  
(Non-executive Director)

### Senior Executives

Mr Frederic Briens  
(Chief Executive Officer)

Mr Johannes Niemetz  
(Chief Operating Officer & Chief Financial Officer)

### Secretary

Mr Mark Pitts  
BBus FCA

### The Corporate office (France)

2 Rue de Metz  
Freyming-Merlebach  
57800  
France  
Telephone: +33 3 87 04 32 11  
Fax: +33 3 87 91 09 97  
E-mail: [info@europeangas.fr](mailto:info@europeangas.fr)  
Website: [www.europeangas.fr](http://www.europeangas.fr)

### Registered office (Australia)

Suite 8, 7 The Esplanade  
Mount Pleasant Western Australia 6153  
Australia  
Telephone: + 61 8 9316 9100  
Fax: +61 8 9315 5475  
E-mail: [info@europeangas.com.au](mailto:info@europeangas.com.au)  
Website: [www.europeangas.com.au](http://www.europeangas.com.au)

### Share Register

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth Western Australia 6000  
Australia

**You can either:**

**Sell EGL Shares**, by accepting the Buy-back Offer. Details on how to accept the Buy-back Offer are set out in section 2 of this Prospectus.

**OR**

**Do nothing.** You do not have to participate in the Buy-back if you do not wish to sell any of your EGL Shares. If you do nothing, the number of EGL Shares you hold will not change as a result of the Buy-back.

**Before making your choice you should read this entire Prospectus together with the Explanatory Memorandum in order to make an informed decision about participating in the Buy-back Offer.**

# 1 Investment overview of the Buy-back Offer

## 1.1 Key information

The Company is proposing to offer to buy back up to 100% of the ordinary shares held in the capital of the Company (**EGL Shares**) by each ordinary shareholder of the Company who is eligible to participate in the Buy-back on the terms and conditions set out in Appendix A of this Prospectus (**Buy-back Offer**). You have received a copy of this Prospectus because you are an EGL Eligible Shareholder.

For each EGL Share bought back, the Company proposes to offer as consideration 1 ordinary share in EGL UK, a wholly owned subsidiary of the Company.

After completion of the Buy-back Offer, EGL Eligible Shareholders who have validly accepted the Buy-back Offer will become shareholders of EGL UK (**EGL UK Shareholders**).

This Prospectus sets out the terms and conditions of, and other important information, that you will need to know in order to participate in the Buy-back Offer. This includes the terms and conditions attaching to the EGL UK Shares you are being offered.

**Please note that the Buy-back Offer is conditional on the Shareholders approving the Buy-back Offer at the EGM. A copy of the notice of meeting and explanatory memorandum seeking Shareholders' approval at the EGM has been distributed along with this Prospectus.**

If the Buy-back Offer is not approved at the EGM, the Buy-back Offer will not proceed and no EGL UK Shares will be transferred under this Prospectus.

The Board believes that the proposed Buy-back Offer and transitioning of the Company's current shareholders to EGL UK will improve the access of the Group to sources of growth capital in the European capital markets.

## 1.2 Important dates for the Buy-back Offer

Date	Action
4 June 2012	Announcement of Buy-back Offer.
7 June 2012	Ex-Date. EGL shares trade on ASX ex the right to participate in the Buy-back Offer.
14 June 2012	Record Date. Shareholders holding EGL Shares at 7.00pm (AEST) on this day are eligible to participate in the Buy-back Offer.
19 June 2012	Buy-back Offer opens (conditional on Shareholders' approval at the EGM).
17 July 2012	EGM. Shareholders vote on resolutions to approve the proposed Buy-back Offer.
24 July 2012	Closing Date. Buy-back Offer closes – acceptances must be received by 7.00pm (AEST).
26 July 2012	Buy-back Date. Completion of the Buy-back Offer and cancellation of EGL Shares. Transfer of EGL UK Shares and notification sent to EGL Eligible Shareholders who validly accept the Buy-back Offer. Closing announcement.
Approximately 2-4 weeks after completion of the Buy-back Offer	EGL Eligible Shareholders who validly accept the Buy-back Offer will be registered as EGL UK Shareholders.

These dates and times are indicative only. Subject to law, the Company reserves the right to vary the dates and times of the Buy-back Offer without prior notice to Shareholders. EGL Eligible Shareholders are encouraged to submit their Acceptance Forms as soon as possible.

### **1.3 Purpose of the Buy-back Offer**

The proposed Buy-back Offer is designed to better enable the Group to attract the necessary capital to enable it to grow its business.

The Board believes that fund raising for the Group is too difficult in the Australian market. Given that all of the assets of the Group (apart from the Buru Royalty stream), the management team, all the employees and a large number of beneficial holders of EGL Shares are in Europe and the difficulties previously encountered to raise enough capital in the Australian market to develop our projects, the Board believes that future funding will most likely be available from European investors.

In its current corporate structure, the Company has difficulty accessing funding from European investors. The Company's target investors, being sovereign wealth funds and large institutional investors in Continental Europe, are unable or unwilling to invest in a non-European domiciled company due to reasons such as regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area and a lack of tax benefits that would otherwise be available to sovereign wealth funds in Europe.

The Board believes that the proposed Buy-back Offer and restructure, which will result in EGL UK becoming the holding company in which investors may directly invest (as shown in the corporate structure diagram for the Group after implementation of the Buy-back in Appendix 2 of the Explanatory Memorandum), will address investor concerns and that EGL UK, as a company incorporated in England and Wales, will be better placed to raise money in European and other international financial centres if required.

### **1.4 Risk factors**

EGL UK Shares are subject to both general and specific risks.

Shareholders may face the following risks if they accept the Buy-back Offer in respect of their EGL Shares:

- (a) reduced liquidity as EGL UK is a private, unlisted company;
- (b) reduced shareholder protections as EGL Eligible Shareholders who validly accept the Buy-back Offer will be shareholders of an English private, unlisted company, as opposed to shareholders of an Australian public listed company. For example, there will be less disclosure requirements and there will be reduced protections in relation to any potential takeovers of EGL UK by any person;
- (c) Australian resident Shareholders who accept the Buy-back Offer may have an unfunded Australian tax liability if part of the consideration paid to those Shareholders in connection with the Buy-back is taken to be a dividend for income tax purposes. Whilst the Company does not expect that such a liability will arise, this position cannot be confirmed until the Class Ruling is issued by the Australian Taxation Office (**ATO**) (see Part 8 of this Prospectus); and
- (d) it may be inconvenient for Shareholders who are not based in the UK or Europe to attend shareholder meetings of EGL UK.

Please refer to section 5 of this Prospectus for further details.

Before deciding whether to accept the Buy-back Offer, Shareholders should read this entire Prospectus and, in particular, should consider the risk factors that could affect the future performance of EGL UK and the rights attaching to EGL UK Shares.

### **1.5 Who can participate in the Buy-back Offer**

The Buy-back Offer is open to all registered EGL Eligible Shareholders who have bought EGL Shares on ASX prior to the Ex-Date and continue to hold EGL Shares on the Record Date.

“EGL Eligible Shareholders” means those shareholders who have their registered address on the Share Register as being in jurisdictions where the Company is aware that the laws of the jurisdiction would allow the Buy-back Offer to be made to those shareholders or the acceptance of the Buy-back Offer by those shareholders, being:

- (a) all Shareholders who have their address on the Share Register as being in Australia, France, Luxembourg, Switzerland and the United Kingdom; and
- (b) any Shareholder who has their address on the Share Register as being in a jurisdiction outside of Australia, France, Luxembourg, Switzerland and the United Kingdom, except any Excluded Foreign Shareholder, who is able to warrant that they are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they have their address on the Share Register; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they have their address on the Share Register,

by submitting an Acceptance Form in accordance with the terms of the Buy-back Offer.

Excluded Foreign Shareholders will not be eligible to participate in the Buy-back Offer. “Excluded Foreign Shareholders” means any person holding EGL Shares who has their address on the Share Register as being in the United States of America.

### **1.6 Do I have to sell my EGL Shares under the Buy-back Offer?**

You do not have to sell your EGL Shares under the Buy-back Offer.

If you do not wish to sell your EGL Shares under the Buy-back Offer, simply do nothing in response to this Prospectus.

Before you decide not to participate in the Buy-back Offer however, it is important that you are aware of the possible effect of the Buy-back Offer on your continued holding of EGL Shares. You should read this Prospectus and the Explanatory Memorandum in their entirety. The Explanatory Memorandum has been distributed along with this Prospectus and is also available on the Company’s website at [www.europeangas.com.au](http://www.europeangas.com.au).

### **1.7 Summary only**

This summary is not intended to provide full details of the Buy-back Offer. Shareholders must read this Prospectus and the Explanatory Memorandum in full to make a fully informed decision as to whether to accept the Buy-back Offer in respect of their EGL Shares.



## 2 Details of the Buy-back Offer

### 2.1 Description of the Buy-back Offer

The Company is seeking to buy back up to 100% of each EGL Eligible Shareholder's EGL Shares on the terms and conditions set out in Appendix A of this Prospectus.

The Company has 297,272,505 EGL Shares on issue as at the date of the Prospectus.

The precise number of EGL Shares that will be bought back will depend on the extent to which the EGL Eligible Shareholders accept the Buy-back Offer.

It is your choice whether or not to accept the Buy-back Offer in respect of your EGL Shares. You may accept the Buy-back Offer in respect of some or all of your EGL Shares (subject to the terms of the Buy-back Offer).

To ensure that you make an informed decision, you should read this Prospectus and the Explanatory Memorandum in their entirety and consider the details set out in these documents carefully. If you have any questions as to its contents or the action you should take, please consult your stockbroker, accountant, solicitor or other professional adviser immediately.

### 2.2 Terms of the Buy-back Offer

Please see Appendix A of this Prospectus for the terms of the Buy-back Offer and details on how to accept the Buy-back Offer.

### 2.3 Transfer of EGL UK Shares and registration as shareholders of EGL UK

On the Buy-back Date, the Company will:

- (a) enter into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buy back and cancel EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfer EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

However, under the laws of England and Wales, EGL Eligible Shareholders who validly accept the Buy-back Offer may only be registered as shareholders of EGL UK after payment of any applicable UK stamp duty and after the stock transfer form for the transfer of EGL UK Shares is stamped by HM Revenue & Customs. This process may take between 2 to 4 weeks or longer. In the period between the Buy-back Date and the EGL UK Share Registration Date the Company, as transferor, will be deemed to hold the relevant EGL UK Shares on trust (but not as nominee) for the relevant EGL Eligible Shareholders.

## 3 Overview of EGL UK

### 3.1 Introduction to EGL UK

EGL UK is a private limited company incorporated in England and Wales and is not listed on a securities exchange.

### 3.2 Capital structure

At the date of this Prospectus, EGL UK is a wholly owned subsidiary of the Company.

EGL UK has an issued share capital of 297,272,505 ordinary shares. It only has 1 class of shares.

At the date of the Prospectus, no options or convertible securities in EGL UK have been issued.

The Buy-back Offer will result in a change of control in EGL UK. EGL UK will no longer be a wholly owned subsidiary of the Company. Its shareholders will consist of those EGL Eligible Shareholders who validly accepted the Buy-back Offer and the Company which will hold the remainder of the EGL UK Shares that were not transferred as part of the Buy-back Offer. It is expected that, after implementation of the Buy-back Offer, the Company's shareholding in EGL UK will fall below a controlling level. While the size of the Company's shareholding in EGL UK is not known and is dependent on the acceptance levels of the Buy-back Offer, the Company undertakes to provide an update on the acceptance levels to Shareholders at the EGM.

Whether there will be any substantial shareholders of EGL UK after completion of the Buy-back Offer will depend on the extent of the take up of the Buy-back Offer.

### 3.3 Capital management policy

As EGL UK is an exploration company it does not expect to distribute dividends in the foreseeable future until its projects mature further.

### 3.4 Directors of EGL UK

#### **Julien Moulin**

*Director of EGL UK*

Mr Moulin is currently the Executive Chairman of the Company and a director of EGL UK. He will keep his position with the Company.

#### **Frederic Briens**

*Director of EGL UK*

Mr Briens is currently the Chief Executive Officer of the Company and a director of EGL UK. He will retire from his position at the Company.

#### **Johannes Niemetz**

*Director of EGL UK*

Mr Niemetz is currently the Chief Financial Officer and Chief Operating Officer of the Company and a director of EGL UK. He will retire from his positions at the Company.

For a biography of each director's qualification and experience, refer to the Directors' Report in the Company's 2011 annual report, which is incorporated by reference into this Prospectus under section 712 of the Corporations Act and a copy has been lodged with ASIC. A copy may be obtained free for charge from [www.europeangas.com.au](http://www.europeangas.com.au) (no other website)

information, other than what is specifically indicated in the Prospectus, is incorporated into this Prospectus).

EGL UK is working on building a board of directors. It is expected that a board of 5 directors, of which a minimum of 3 will be non-executive and a minimum of 2 will be independent, will be appointed over the next 12 months.

### **3.5 Industry and business model**

EGL UK is a hydrocarbon explorer. The strategy of EGL UK is to secure coal bed methane projects in Europe, prove the commerciality of these projects and monetize these gas reserves. EGL UK also explores for other unconventional oil and gas resources outside of its large existing coal bed methane portfolio.

EGL UK and its controlled entities will have the same objectives after the Buy-back as it and the Company currently have, with the strategic focus continuing to be on the development of the exploration and development asset.

The prospects of EGL UK are substantially the same as that of the Company. Please refer to the Company's Quarterly Report dated 31 March 2012 which is incorporated by reference into this Prospectus under section 712 of the Corporations Act and a copy has been lodged with ASIC. A copy may be obtained free for charge from [www.europeangas.com.au](http://www.europeangas.com.au) (no other website information, other than what is specifically indicated in the Prospectus, is incorporated into this Prospectus).

### **3.6 Financial arrangements**

EGL UK proposes to undertake an offering of shares in EGL UK to sovereign wealth funds and large institutional investors in Europe by way of a private placement to be undertaken by September 2012 at the latest (**Private Placement**). EGL UK is aiming to raise up to €60 million in the Private Placement and proposes to issue up to 250 million shares in EGL UK. Accordingly, the new shareholders under the Private Placement may, as a group, hold up to 45.68% of the issued share capital of EGL UK following completion of the Private Placement. The proceeds of the Private Placement will be used to finance an 18 to 24 month drilling campaign to establish proved and probable gas reserves in Lorraine and Nord Pas de Calais. The timing and occurrence of the Private Placement will depend on various factors, but it is expected to be completed by the end of September 2012.

The exact terms and conditions of the contemplated Private Placement, including the size of the capital increase and the price at which the Private Placement will be made, will be decided by the board of EGL UK in due course. Unlike the position for Australian public listed companies seeking to undertake placements of this size, shareholder approval will not be sought for EGL UK's proposed Private Placement. Please refer to section 5.4 of this Prospectus for the details on the risks that may arise in connection with the Private Placement.

EGL UK currently has a medium term intention to attempt to raise funds in the future by seeking a listing on a securities exchange in Europe. The timing will be determined by the board of EGL UK and will depend on various factors including, but not limited to, market conditions. The listing of EGL UK will be subject to the ability of EGL UK to raise capital by way of a public offer and approval to listing from the relevant securities exchange. There is no guarantee that listing will occur in the medium term or at all.

### **3.7 Assets and liabilities of EGL UK**

#### *Shares in HPL and EG SAS*

The Company was previously the direct parent company of HPL and EG SAS. In the months preceding the scheduled EGM, the Company has transferred all of its shares held in the

capital of HPL and EG SAS respectively to EGL UK. As at the date of this Prospectus, HPL and EG SAS are wholly owned subsidiaries of EGL UK.

As HPL holds a 25% interest in a French gas exploration licence, the HPL share transfer involved the indirect transfer of this licence (by virtue of HPL becoming a subsidiary of EGL UK). Under French law, the French government has the right to comment on the HPL share transfer within 2 months of its notification (this period may be renewed by an additional 2 months if the French government so requests before the expiry of the first 2 months period). On 16 May 2012, the Company received a letter of non-objection from the French government, the transfer is therefore deemed approved.

After implementation of the proposed Buy-back Offer:

- an EGL Eligible Shareholder who validly accepts the Buy-back Offer and becomes an EGL UK Shareholder will have materially the same effective interest in the current underlying assets of the Company (by virtue of EGL UK, directly or indirectly through its subsidiaries, holding almost 100% of the assets of the Group with the exception of the Buru Royalty); and
- Shareholders who remain with the Company will have an indirect interest in EGL UK and EGL UK's underlying assets through their shareholding in the Company (which will continue to hold the remaining shares in EGL UK that were not transferred as consideration for the bought back EGL Shares). These Shareholders will also have an interest in the Buru Royalty which will continue to be held directly by the Company.

#### *Material contracts*

The Company is a party to the following agreements:

- a farmout agreement relating to the Valenciennois exploration permit between the Company, Transcor Astra Luxembourg S.A. (**Transcor**) and Gazonor S.A.S. (**Gazonor**) dated 5 May 2011 (**Gazonor Valenciennois Permit Farmout Agreement**);
- a farmout agreement relating to the Sud-Midi exploration permit between the Company, Transcor and Gazonor dated 5 May 2011 (**Gazonor Sud-Midi Permit Farmout Agreement**); and
- a production sharing agreement relating to the Poissoniere and Desiree production permits between the Company and Gazonor S.A.S. dated 5 May 2011 (**Production Sharing Agreement**).

On 30 March 2012, the Company assigned to EGL UK all of its rights and interests under each of these agreements, in order to enable EGL Eligible Shareholders who validly accept the Buy-back Offer to have materially the same interests in the underlying assets once they become EGL UK Shareholders as they did prior to their acceptance of the Buy-back Offer in respect of their EGL Shares.

As at the date of this Prospectus, EGL UK holds all rights and interests under these agreements.

The Company agreed to be jointly and severally liable with EGL UK for the performance by EGL UK of its obligations under the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement.

In exchange for the assignment of these agreements and the Company's agreement to have joint and several liability with EGL UK, EGL UK has entered into a deed of indemnity with the Company on 1 May 2012 (**Deed of Indemnity**), under which it agreed to (amongst other things):

- pay or reimburse the Company on demand for any payments paid or payable by the Company to any party, and the Company's costs in performing its obligations or doing anything; and
- indemnify (on an after tax basis) and keep indemnified the Company at all times from all liability (including any taxes, charges, fees or withholdings) or loss, and all actions, claims and demands which may be instituted against the Company,

under, arising directly or indirectly from or in connection with the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement. There are no exceptions to any of the above obligations of EGL UK.

On 30 March 2012, EGL UK signed an agreement under which it undertook to duly perform all the obligations of the Company, and agreed to be jointly and severally liable with the Company and EG S.A.S. for the performance by them of their obligations, under the share purchase agreement between EG S.A.S., the Company, Transcor and Gazonor dated 5 May 2011 (**Transcor Share Purchase Agreement**).

Under the Deed of Indemnity, EGL UK has also agreed to pay, reimburse and indemnify the Company in the event that the Company is required to make payments, incurs costs, liability, loss or damage, or is subject to any action, claim or demand, under, arising from or in connection with the Transcor Share Purchase Agreement.

#### *Other permits*

All other permits and related agreements are held by EGL UK or HPL.

### **3.8 Rights and liabilities attached to EGL UK Shares**

EGL UK is incorporated under the laws of England and Wales. The Articles of Association of EGL UK were adopted by a special resolution of EGL UK passed on 15 May 2012. A summary of the key provisions is provided below.

#### (a) Share issues

The directors of EGL UK may exercise any power of EGL UK to allot shares, or grant options over, offer or otherwise deal with or dispose of any new shares or rights to subscribe for or convert any security into shares, to any person (including the directors themselves) on such times, terms and conditions as the board of EGL UK may decide, provided that no share shall be issued at a discount to its nominal value.

The Articles of Association have disapplied the operation of section 561 of the Companies Act 2006, with the effect that the directors may allot shares without first making an offer of shares in EGL UK to existing shareholders in proportion to their holdings.

#### (b) Shareholders' reserved matters

The following matters require the prior approval of the shareholders by ordinary resolution:

- (i) **(related party transactions)** certain related party transactions as defined in the UK Listing Rules;
- (ii) **(put and call options)** an acquisition or disposal pursuant to a put or call option in respect of which the consideration (which for these purposes shall be deemed to be the aggregate of the issue price and the exercise price of the option) has a value equal to at least 5% or more of the equity value of EGL UK;

- (iii) **(directors remuneration)** any increase to the aggregate amount payable by EGL UK as remuneration (in whatever form) to the directors of EGL UK or by any subsidiary company of EGL UK in respect of remuneration payable to its respective directors;
- (iv) **(employee incentive scheme)** any granting or issuing of options or any other rights to acquire shares in EGL UK or a subsidiary company of EGL UK to a director or an associate of a director pursuant to an employee share scheme or long term incentive scheme;
- (v) **(change in the nature of business)** any material change to the nature or scope of the business, operations and activities of EGL UK or a subsidiary company of EGL UK, including the introduction or discontinuance of any material field or activity or the relocation or expansion of any material operation or activity by EGL UK or subsidiary company of EGL UK;
- (vi) **(significant transactions)** any transaction or arrangement undertaken by EGL UK or a subsidiary of EGL UK which would be deemed to be a Class 1 transaction pursuant to rules 10.2.2 to 10.2.10 of the UK Listing Rules which includes:
  - certain reverse takeovers
  - certain indemnities and similar arrangements which are exceptional
  - certain break fees, if the total value of the fee or the fees in aggregate exceeds 1% of the value of the company.

(c) General meetings

General meetings may be convened by the board of EGL UK, whether it thinks fit, or on an EGL UK Shareholder's requisition. Notice of general meetings of EGL UK shall be given to all EGL UK Shareholders who are under the Articles of Association entitled to receive notice, to the directors of EGL UK, its auditors and any other person who may be entitled to receive it.

The quorum for a general meeting is 2 or more EGL UK Shareholders (or their proxy or authorised representative) who hold in aggregate at least 1/3 of the nominal amount paid up on the issued shares.

(d) Voting rights

A resolution put to a vote at a general meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is duly demanded.

In general, at any general meeting, every shareholder who is present shall have 1 vote on a show of hands and 1 vote for each EGL UK Share held by the shareholder on a poll.

This general rule is subject to the provisions of the Companies Acts, to any special terms as to voting on which shares may be issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles of Association, and to the special voting rights of "Original Members".

Any member who is an "Original Member" on the date of the relevant general meeting or the date on which the resolution is passed shall have 1 vote on a show of hands and 2 votes for each EGL UK Share held by the "Original Member" on a poll or written resolution.

EGL UK currently has the medium term intention to attempt to raise funds in the future by seeking a listing on a securities exchange in Europe (but there is no guarantee that a listing would occur in the medium term or at all). There is a possibility that the rules of the relevant securities exchange would not allow EGL UK to continue to give the Original Members enhanced voting rights following the listing.

An "Original Member" means (i) EGL, or (ii) any shareholder of EGL UK who immediately prior to becoming the legal or beneficial owner of EGL UK Shares was a legal or beneficial owner of EGL Shares.

If 2 or more persons are joint holders of an EGL UK Share, then in voting on any question, the vote of the senior who tenders a vote (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders. Seniority is determined by the order in which the names of the joint holders stand on EGL UK's register of shareholders.

Every proxy who has been appointed by one or more EGL UK Shareholders entitled to vote on the resolution shall:

- on a show of hands, have 1 vote, unless 1 or more EGL UK Shareholders instructed the proxy to vote for, and 1 or more of EGL UK Shareholders either instructed the proxy to vote against the resolution or gave the proxy discretion as to how to vote on the resolution, in which case the proxy shall, on a show of hands, have 2 votes (1 vote for and 1 vote against); and
- on a poll, (i) in the case of a member who is not an Original Member, have 1 vote for each share held by each EGL UK Shareholder for whom the proxy has been appointed (or where the proxy has been appointed to exercise voting rights for some but not all shares, then 1 vote for each share for which the proxy has been appointed to vote); and (ii) in the case of a member who is an Original Member, have 2 votes for each share held by each EGL UK Shareholder for whom the proxy has been appointed (or where the proxy has been appointed to exercise voting rights for some but not all shares, then 2 votes for each share for which the proxy has been appointed to vote).

(e) Dividends

Subject to the provisions of the Companies Acts, EGL UK may, by ordinary resolution, declare dividends. A dividend must not be declared unless the EGL UK's directors have made a recommendation as to its amount. EGL UK's directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. EGL UK's directors may decide to pay interim dividends.

Dividends:

- may only be declared or paid in accordance with shareholders' respective rights;
- must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it (unless the shareholders' resolution to declare or EGL UK's directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise); and
- except as otherwise provided by the Articles of Association or the rights attached to shares, must be declared and paid according to the amounts paid up on the shares and paid proportionately to the amounts paid up on the shares during any portion(s) of the period in respect of which the dividend is paid.

If EG UK has different classes of shares, no interim dividend may be paid in shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

EGL UK's directors may:

- if authorised by an ordinary resolution of EGL UK:
  - offer shareholders the right to elect to receive fully paid shares, instead of cash in respect of all or part of a dividend specified by the ordinary resolution; or
  - decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including shares or other securities in any company).
- if a share is subject to a lien held by EGL UK, deduct from any dividend or other sum payable in respect of the share any sum of money which is owed to EGL UK to the extent that EGL UK's directors are entitled to require payment under a lien enforcement notice, subject to giving notice to the relevant dividend recipient; and
- before recommending any dividend, carry to reserve out of the profits of EGL UK such sums as it thinks fit.

If cheques, warrants or orders for dividends, or other sums payable in respect of a share, sent by EGL UK to a person entitled to it are returned to EGL UK or left uncashed on 2 consecutive occasions (or following one occasion, reasonable enquiries have failed to establish any new address for that purpose), EGL UK is not obliged to send any dividends or other money payable in respect of a share until the person notifies EGL UK of an address to be used for the purpose.

Any unclaimed dividends may be invested or otherwise made use of by EGL UK's directors for the benefit of EGL UK until claimed. Any dividend which has remained unclaimed for a period of 12 years from the date it became due for payment is forfeited and ceases to remain owing by EGL UK.

(f) Variation of class rights

If the share capital of EGL UK is divided into shares of different classes, any rights for the time being attached to any shares may be varied or abrogated either:

- in such manner (if any) as may be provided by those rights; or
- in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class or with the sanction of a special resolution passed at a separate general meeting of the holders of the class duly convened and held in accordance with the Companies Acts

(g) Transfer of shares

Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by EGL UK's directors. The instrument of transfer shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

EGL UK may not charge a fee for registering any instrument of transfer or other document relating to or affecting the title to any share. EGL UK may retain any instrument of transfer which is registered.



The transferor remains the holder of a share until the transferee's name is entered in EGL UK's register of shareholders as a holder of the share.

EGL UK's directors may refuse to register the transfer of a share unless it is:

- in respect of a fully paid share;
- in respect of only 1 class of shares;
- in favour of a single transferee or not more than 4 joint transferees;
- duly stamped (if so required); and
- delivered for registration to EGL UK's registered office or such other place as determined by the EGL UK's board from time to time, accompanied by the certificate for the share to which it relates and such other evidence as EGL UK's board may reasonably require to prove the title of the transferor and the due execution of the transfer by him or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

If EGL UK's directors refuse to register a share transfer, then the instrument of transfer must be returned to the transferee with the notice of refusal (which shall include the reasons for the refusal) unless the directors suspect that the proposed transfer may be fraudulent.

(h) Alterations to capital

EGL UK may exercise the powers conferred by the Companies Acts to:

- increase its share capital by allotting new shares with a nominal value as determined by the board of EGL UK;
- reduce its share capital;
- sub-divide or consolidate and divide all or any of its share capital;
- reconvert stock into shares; or
- re-denominate all or any of its shares and reduce its share capital in connection with such re-denomination.

(i) Directors' appointment and termination

EGL UK must have a minimum of 3 directors, unless and until otherwise determined by EGL UK by ordinary resolution.

Directors may be appointed by:

- a resolution of the directors;
- shareholder(s) who hold more than one-half of the issued ordinary shares of EGL UK (by a written instrument authenticated by the shareholder(s) making the appointment); or
- any shareholder who holds 10% or more of the total issued share capital of EGL UK. Any such shareholder has the right to nominate 1 person to act as a director by notice in writing addressed to EGL UK served at EGL UK's registered office, and to remove its nominated director by notice in writing and appoint another person to act in the place of the removed nominee director. The appointment or removal of a director in this manner takes effect

at and from the time when the notice is received at the registered office of EGL UK or produced at a board meeting of EGL UK.

Directors cease to be a director as soon as:

- the director ceases to be a director by virtue of any provision of the Companies Acts or is prohibited from being a director by law;
- a bankruptcy order is made against that person;
- a composition is made with that person's creditors generally in satisfaction of that person's debts;
- a registered medical practitioner who is treating that person gives a written opinion to EGL UK stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;
- by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have;
- notification is received by EGL UK from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms;
- in the case of a director appointed by nomination from a shareholder who holds 10% or more of the total issued share capital, if the shareholder who appointed that director removes the director or if the shareholder no longer holds 10% or more of the total issued share capital of EGL UK, unless otherwise approved by the board of EGL UK;
- the shareholders of EGL UK exercise their powers under the Companies Acts to remove a director by ordinary resolution;
- shareholder(s) who hold more than one-half of the issued ordinary shares of EGL UK remove the director (by effecting a written instrument authenticated by the shareholder(s) making the removal). However, a nominee director who is appointed by a shareholder who holds 10% or more of the total issued share capital of EGL UK may only be removed by that shareholder by notice in writing to EGL UK or by the exercise of the shareholders of EGL UK of any power to remove the director conferred by the Companies Acts; or
- he is absent (whether or not an alternate appointed by him pursuant to the provisions of the Articles of Association attends), without the permission of the board, from board meetings for 6 consecutive months or, if during a shorter period, for 2 consecutive board meetings and the board resolves that his office be vacated.

(j) Directors' remuneration

Directors are entitled to such remuneration as the directors (or any committee as the board may authorise) determine for their services to EGL UK as directors and for any other service which they undertake for EGL UK.

A director's remuneration may take any form and include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director. Unless the directors (or any committee as the board may authorise) decide otherwise, directors' remuneration accrues from day to day.

If by arrangement with the board, or any committee authorised by the board, any director shall perform or render any special duties or services outside his ordinary duties as a director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board, or any committee authorised by the board, may from time to time determine.

The salary or remuneration of any director appointed to hold any employment or executive office in accordance with the provisions of the Articles of Association may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the board, or any committee authorised by the board, and may be in addition to or in lieu of any fee payable to him for his services as director pursuant to the Articles of Association.

The board, or any committee authorised by the board, may exercise all the powers of the EGL UK to provide pensions, retirement, superannuation, death or disability benefits or other allowances or gratuities for directors.

EGL UK may pay any reasonable expenses which the directors may properly incur in connection with their attendance at meetings of directors, committees of directors, general meetings or class meetings or otherwise in connection with the exercise of their powers and discharge of their responsibilities in relation to EGL UK.

(k) Accounts to be sent to shareholders

EGL UK must provide its shareholders with a copy of its annual accounts and reports, or a summary financial statement that complies with the Companies Acts, no later than the date on which it gives notice of the annual general meeting.

(l) Mining and exploration activities report

EGL UK must publish on its website a copy of a mining exploration activities report for each quarter by the date that is 1 month after the end of each quarter, which will set out:

- the mining, exploration and related operations of EGL UK and its subsidiaries and a summary of the expenditure incurred in respect of these activities;
- the exploration activities of EGL UK and its subsidiaries (including geophysical surveys) and a summary of the expenditure incurred in respect of these activities; and
- if any of EGL UK or its subsidiaries has acquired an interest in a mining tenement that is material, information relating to:
  - the location of any mining tenements held;
  - the location of any mining tenements disposed of by EGL UK or any subsidiary company during the quarter; and
  - beneficial percentage interests owned by EGL UK or any subsidiary company in farm-in or farm-out agreements acquired or disposed of during the quarter.

For a description of the material differences between holding shares in an English private company as opposed to an Australian public listed company, refer to section 5.1 of the Prospectus.

### 3.9 Financial information of EGL UK

EGL UK's balance sheet as at 31 March 2012 is outlined below. It includes the consolidation of its acquired subsidiaries EG SAS and HPL at the end of March 2012.

EG SAS was acquired by EGL UK for a total consideration of EUR 4 million. HPL was acquired for a share contribution in EGL UK, paid to the Company. In essence, the net effect of the acquisitions has been a transparent corporate structure, whereby inter-company loans have been eliminated and the operational entities of the Company have been streamlined and consolidated within EGL UK, a wholly owned subsidiary of the Company.

#### As at 31 March 2012 Reviewed Balance Sheet

	in €
<b>Fixed assets</b>	
Intangible	10,680,802
Tangible	3,333,955
Investments	-
Other financial assets	27,294
Negative goodwill	(17,749,234)
	(699,683)
<b>Debtors</b>	
Other debtors	286,394
Amounts owed to group undertakings HPL	0
Amounts owed to group undertakings EGL (UK)	-
Amounts owed to group undertakings EGL AUS	11,140,836
Total debtors	<u>7,020,364</u>
Cash	259,196
<b>Creditors</b>	18,909
Amounts owed to group undertakings – EGL (UK)	0
Amounts owed to group undertakings – EGL AUS	11,565,084
Amounts owed to group undertakings – EG SAS	-
Amounts owed to group undertakings – EGL AUS/Purchase EG SAS	4,000,000
Amounts owed to group undertakings – EGL AUS/Purchase HP	1
Joint-Venture EGL UK/HP	92,411
Trade Creditors	252,526
Other Creditors	135,753
Accruals and Deferred income	-
Total creditors	<u>16,064,685</u>
<b>Net asset/liabilities</b>	<u><u>(8,785,125)</u></u>
<b>Reserves</b>	
Share capital	1
Share premium	-
Special reserve	-
Legal reserve	-
P&L reserve	-
Retained earning	(6,943,126)
Current earning	(1,842,000)
Negative goodwill EGL AUS	-
Positive goodwill HP	-
<b>Shareholders Funds</b>	<u><u>(8,785,125)</u></u>

A pro forma statement of financial position showing the effect on EGL UK of the Buy-back Offer has not been provided as the information would not be useful.

The audited consolidated profit and loss accounts of the years ended 30 June 2009, 30 June 2010, 30 June 2011 are set out in the following table. These consolidated profit and loss accounts have been prepared in accordance with the United Kingdom Generally Accepted

Accounting Practice, which have been audited by PKF (UK) LLP in accordance with International Standards on Auditing (UK and Ireland). Please note that these exclude the consolidation of EG SAS and HPL as they were direct subsidiaries of the Company until 30 March 2012.


	June 2009 (€)	Restated June 2010 (€)	June 2011 (€)
Administrative expenses	(1,442,741)	(2,308,891)	(1,297,272)
Other operating income	-	680,300	121,991
<b>OPERATING LOSS</b>	<b>(1,442,741)</b>	<b>(1,628,591)</b>	<b>(1,175,281)</b>
Interest receivable and similar income	90,352	66,886	-
Interest payable and similar charges	(1,066,451)	(122,863)	(195,042)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(2,418,840)</b>	<b>(1,684,568)</b>	<b>(1,370,323)</b>
Tax on loss on ordinary activities	(11,422)	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>	<b>(2,430,262)</b>	<b>(1,684,568)</b>	<b>(1,370,323)</b>

The financial statements for financial year June 2010 were restated due to an error in Group-related accounting for exploration costs incurred historically. The underlying affect has been a write-down of exploration expenses, resulting in a restatement of the shareholder's deficit. A reconciliation of the resulting movement in shareholder deficit is outlined below.

	Restated June 2010 (€)	June 2011 (€)
Opening shareholders' deficit	(3,888,237)	(4,154,789)
Prior year adjustments		(1,418,016)
Opening shareholders' deficit (as restated)		(5,572,805)
Loss for the year	(1,684,568)	(1,370,323)
Closing shareholders' deficit	(5,572,805)	(6,943,128)

No material changes in the ordinary course of business have occurred since financial year June 2011. The main costs are expenditures on exploration and selling, general and administrative expenses, as outlined in the Company's December 2011 Half Yearly Report and March 2012 Quarterly Report. EGL UK has an operating run-rate of approximately €270,000 per month. Please refer to the Company's Half Yearly Report dated 31 December 2011 and Quarterly Report dated 31 March 2012 which is incorporated by reference into this Prospectus under section 712 of the Corporations Act and a copy has been lodged with ASIC. A copy may be obtained free for charge from [www.europeangas.com.au](http://www.europeangas.com.au) (no other website information, other than what is specifically indicated in the Prospectus, is incorporated into this Prospectus).

Past results do not guarantee future performance and EGL UK's business is subject to risks.



As at the date of this Prospectus, EGL UK has no inter-company creditors and debtors and has a cash balance of €5.3 million following the completion of the restructuring and loan-forgiveness by the Board of a loan note between the Company and EGL UK. As at the date of this Prospectus, EGL UK does not have any interest bearing loans or any outstanding long term obligations to the Company or any external parties.

There is no meaningful financial ratio that could be provided to Shareholders to assist in considering EGL UK's financial position as EGL UK does not have any debt on its balance sheet nor does it generate any revenues at the current stage of its exploration licences.

Prospective financial information has not been included in this Prospectus as there are no reasonable grounds for its inclusion.

## 4 Effect of the Buy-back Offer

### 4.1 The Company after implementation of the Buy-back Offer

The Board does not currently have any plans for developing operations in Australia over the next 12 months. However, it wishes to maintain the Company's ASX listing in order to keep the Company's options open in the event that any opportunities arise in the future. If any potential opportunities arise in Australia or if any favourable opportunities arise to acquire unconventional oil and gas assets in Australia, a listed vehicle is likely to be needed. However, the Board is not currently considering or pursuing any opportunities.

By keeping its ASX listing, the Company continues to provide liquidity to those who choose to remain shareholders of the Company.

Shareholders who do not validly accept the Buy-back Offer or who are not eligible to participate in the Buy-back Offer will remain shareholders of the Company.

Subject to satisfying ASX's ongoing listing requirements, it is the Company's intention to remain listed on ASX in the foreseeable future regardless of the level of acceptances of the Buy-back Offer.

However, depending on the level of acceptances by EGL Eligible Shareholders of the Buy-back Offer, there is a risk that the Company may be suspended from trading or delisted from ASX after the completion of the Buy-back Offer if:

- (a) the level of the Company's operations are, in ASX's opinion, not sufficient to warrant the continued quotation of the Company's shares and its continued listing (Listing Rule 12.1); or
- (b) there is a significant level of acceptance and participation in the Buy-back Offer, resulting in the Company being unable to maintain a sufficient spread of shareholdings in its ordinary share class to ensure an orderly and liquid market in EGL Shares (Listing Rule 12.4).

In transactions involving a disposal of the main undertaking, ASX has powers to require the Company to meet the requirements in chapters 1 and 2 of the Listing Rules as if the Company were applying for admission to the Official List (Listing Rules 11.2 and 11.1.3), including the Company meeting minimum spread requirements of either having:

- at least 500 Shareholders each having a parcel of EGL Shares with a value of at least \$2,000; or
- at least 400 Shareholders each having a parcel of EGL Shares with a value of at least \$2,000 and at least 25% of EGL Shares must be held by parties unrelated to the Company.

In addition, if after the implementation of the Buy-back Offer, the Company falls below the minimum spread requirements, ASX may take the view that the Company does not have sufficient spread and may exercise its discretion to require the Company to obtain sufficient spread. In this situation, the Company would be obliged to:

- obtain the required spread within 3 months after the date ASX requires it to do so; and
- tell all Shareholders in writing that if the required spread is not obtained within 3 months after the date when ASX requires the entity to obtain it, ASX may suspend quotation of EGL Shares. The Company will be required to tell Shareholders in writing within 10 business days after the date ASX requires it to obtain the spread.

Based on preliminary indications, and assuming that Shareholders accept the Buy-back Offer for 100% of their EGL Shares, the Company expects that approximately 80% of EGL issued share capital may be bought back. This may result in there being approximately 1000 Shareholders and approximately 60,000,000 EGL Shares left in the Company. The number of remaining Shareholders and EGL Shares however depends on the extent of the level of acceptances of the Buy-back Offer. If, the Company falls below the minimum spread requirements post Buy-back, then any suspension or removal decision will be a matter for the broad discretion of ASX and will be considered by ASX on a case-by-case basis. See Part 5.8 for more details.

If ASX indicates to the Company that it intends to exercise its discretion to require the Company to delist from ASX, the Company will provide to the Shareholders the opportunity to exchange their EGL Shares for EGL UK Shares. However if for any reason the Company is unable to achieve this opportunity, the Company will take reasonable steps to seek a cash-out alternative for such Shareholders. This cash-out will be on fair terms, including with respect to the value of the consideration to be paid in the cash-out.

#### **4.2 Effect on issued capital of the Company**

The Buy-back Offer will reduce the share capital of the Company, depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer. Based on the geographical location of the beneficial holders of the Company, the Board expects strong support for, and interest in, accepting the Buy-back Offer.

The number of EGL Shares held by a Shareholder who does not participate, or is not eligible to participate, in the Buy-back Offer will remain the same, but their percentage holding in the Company will increase depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer and accordingly have their EGL Shares cancelled.

Based on information available to the Company up to 30 April 2012, the Company's substantial shareholders are The Maoming China Fund, Banque Privee Edmond de Rothschild, Ocean Dome Corporation, and Transcor Astra Luxemburg S.A.

The voting power of these substantial shareholders will increase if they decide to not participate in the Buy-back Offer in respect of their EGL Shares.

At this stage, it is not possible to ascertain exactly what actual change in the voting power of substantial shareholders will occur as this will be dependent on the extent of their acceptance of the Buy-back Offer and the ultimate level of participation by other EGL Eligible Shareholders.

For the purposes of the Corporations Act, a person will not have a relevant interest in the Company's shares if the relevant interest would arise merely because the Company has entered into an agreement to buy back the shares.

#### **4.3 Effect of the Buy-back Offer on options in the Company**

As at 8 May 2012, there were 19,000,000 unlisted options in the Company held by the following:

<b>Name</b>	<b>Number of EGL Options</b>	<b>Exercise price</b>	<b>Expiry date</b>
Julien Moulin	6,000,000	\$0.50	31 December 2012
Peter Cockcroft	3,000,000	\$0.50	31 December 2012
Peter Cockcroft	10,000,000	\$0.70	31 December 2012



The Buy-back Offer by itself will have no impact on the number of these options or their exercise terms.

#### **4.4 Effect on the assets and liabilities of the Company**

The Company's interest in EGL UK will decrease depending on the extent to which EGL Eligible Shareholders validly accept the Buy-back Offer, which will likely result in a change of control in EGL UK (see section 4.7).

After completion of the Buy-back Offer, the Company will continue to hold the remainder of its EGL UK Shares (being those EGL UK Shares that were not transferred to the EGL Eligible Shareholders who participated in the Buy-back Offer). Its assets will also include the Buru Royalty, which it will continue to hold directly. The Company's intention in continuing to hold the remainder of its EGL UK Shares and the Buru Royalty are not affected by the level of acceptances of the Buy-back Offer.

As at the date of the Prospectus, neither the Company nor EGL UK has any interest bearing liabilities. The only current liabilities of the Company and EGL UK relate to trade and other payables. The Board considers that the decrease in the Company's assets after implementation of the Buy-back Offer would not adversely affect the Company's capacity to meet its existing and anticipated obligations and pay its debts as and when due.

#### **4.5 Effect on creditors**

The Board has assessed that the Buy-back Offer will not materially prejudice the Company's ability to pay its creditors. As at the date of the Prospectus, the Company does not have any interest bearing debt.

#### **4.6 Effect of the Buy-back Offer on the Company's shareholders**

Shareholders of the Company, whether they elect to accept the Buy-back Offer or not, will effectively have substantially the same interest in the underlying assets, being EGL UK and EGL UK's underlying assets, through either their shareholding in the Company (which will continue to hold the shares in EGL UK that were not transferred as part of the Buy-back Offer) or their direct shareholding in EGL UK. The exception is that participating EGL Eligible Shareholders who exchanged their EGL Shares for EGL UK Shares will no longer have an interest in the Buru Royalty. In this regard, the royalties received by the Company under the Buru Royalty arrangement for the 5 years to 30 June 2011 totalled approximately £83,000, averaging less than £17,000 per annum.

Shareholders should consult their own financial and tax advisors for specific advice in connection with the Buy-back Offer in order to assess the impact on their own particular circumstances.

#### **4.7 Effect on control of EGL UK**

The Buy-back Offer will result in a change of control of EGL UK. EGL UK will no longer be a wholly owned subsidiary of the Company. Its shareholders will consist of those EGL Eligible Shareholders who validly accepted the Buy-back Offer and the Company, which will hold the remainder of EGL UK Shares that were not transferred as part of the Buy-back Offer. It is expected that, after implementation of the Buy-back Offer, the Company's shareholding in EGL UK will fall below a controlling level.

The board of EGL UK is not comprised of the same individuals as the Company's Board (except for Julien Moulin). The Company will no longer have the capacity to determine the outcome of decisions about EGL UK's financial and operating policies and will not be able to control the composition of the board of EGL UK.

## 5 Risks

Shareholders may face the following risks and disadvantages if they accept the Buy-back Offer in respect of their EGL Shares.

The following is not an exhaustive summary but identifies the areas that the Board regards as the major risks related to an investment in EGL UK. You should carefully consider the risks and uncertainties set out below and the information contained elsewhere in this Prospectus. You should also seek your own professional advice in relation to the risks associated with an investment in EGL UK and should make your own assessment as to accepting the Buy-back Offer and investing in EGL UK.

### 5.1 Shareholders who validly accept the Buy-back Offer will become shareholders of an English private company rather than an Australian public listed company

As shareholders of an Australian public listed company, EGL Eligible Shareholders' rights are currently governed by the laws of Australia, the Listing Rules and the constitution of the Company. If they participate in the Buy-back Offer, upon becoming EGL UK Shareholders, their rights as EGL UK Shareholders will be governed by the laws of England and Wales and the Articles of Association. In the initial period after the Buy-back Offer, the board of EGL UK will comprise entirely of management. However, EGL UK will assemble a board of 5 directors (with at least 3 non-executive directors and at least 2 independent directors) in the 12 months following the Buy-back Offer.

*Certain shareholders' rights under the Listing Rules are incorporated into the Articles of Association*

Shareholders of the Company, as an Australian public listed company, enjoy certain rights and protections provided under the Listing Rules, including:

- the requirement for prior shareholders' approval in certain transactions; and
- the right to receive quarterly reports on the Company's mining, exploration and related activities and the expenditure incurred in respect of these activities (Listing Rules, Chapter 5).

Private companies incorporated in, and governed by the laws of, England and Wales are not governed by the Listing Rules. To provide Shareholders who participate in the Buy-back and become EGL UK Shareholders with some of the protections that are currently available to shareholders of an Australian public listed company, EGL UK has incorporated in its Articles of Association:

- some of the protections which are afforded to Shareholders under the Listing Rules (for example, the right to receive quarterly reports on mining and exploration activities of EGL UK); and
- certain rights that EGL UK Shareholders would have under the UK Listing Rules if EGL UK were an English public listed company.

A summary of these articles is provided under section 3.8.

The following table sets out a summary of some of the material differences between the laws and regulations applicable to shares held in an English private company incorporated in England and Wales and shares held in an Australian public listed company.

<b>EGL UK as an English private company</b>	<b>The Company as an Australian public listed company</b>
<p><b>Pre-emptive rights</b></p> <p>The Companies Acts require the offer of any issue of new shares to be made first to existing shareholders in proportion to their holdings, unless:</p> <ul style="list-style-type: none"> <li>the pre-emptive rights are disapplied in the company's constitution; or</li> <li>shareholders resolve by a special resolution (being a majority of not less than 75% of a company's shareholders at a general meeting) to disapply pre-emption rights.</li> </ul> <p>The Articles of Association of EGL UK have disapplied the operation of section 561 of the Companies Act 2006, with the effect that the directors may allot shares without first making an offer of shares in EGL UK to existing shareholders in proportion to their holdings. A limit on authorised share capital may be placed in a company's articles of association. EGL UK's Articles of Association do not contain such a limit on authorised share capital.</p> <p>Pre-emption rights do not apply if shares are allotted for non-cash consideration, allotted or transferred under an employee option scheme or to any bonus shares issued.</p>	<p>The Listing Rules permit the Directors to allot unissued shares without shareholder approval up to a maximum number equivalent to 15% of the issued capital of the prior to the allotment in any 12 month period. There are no pre-emptive rights for existing shareholders for the issue of shares in ASX listed companies.</p>
<p><b>Share capital and issues of shares</b></p> <p>A limit on authorised share capital may be placed in a company's Articles of Association. EGL UK's Articles of Association do not contain such a limit on authorised share capital.</p> <p>Directors of English private companies with only one class of shares have a general authority to allot shares unless this authority is restricted by the Articles of Association. EGL UK's Articles of Association do not contain any such restriction.</p>	<p>Subject to the Listing Rules and the Corporations Act, the constitution of a typical Australian public company authorises the board to issue shares, options and other securities with preferred, deferred or other special rights or such restrictions, whether with regards to dividends, voting, return of capital and other matters as the directors may decide. The Company's constitution does not impose any maximum limit on the number of shares.</p>
<p><b>Continuous disclosure</b></p> <p>Apart from the right to receive accounting information (as set out in the "Accounts and auditors" section below in this table), English private companies have limited general disclosure obligations to shareholders or the public. They are required to make certain statutory disclosures to the UK Registrar of Companies (which information will be publicly available from the UK Companies House) including in respect of changes to the company's constitution, any special</p>	<p>The Listing Rules require listed issuers to notify ASX of information which:</p> <ul style="list-style-type: none"> <li>they are required to disclose under the Listing Rules; and</li> <li>a reasonable person would expect to have a material effect on the price or value of the securities.</li> </ul> <p>In relation to changes or proposed changes to capital, issuers must also give ASX details of any:</p>

<b>EGL UK as an English private company</b>	<b>The Company as an Australian public listed company</b>
<p>resolutions passed, any allotment of shares by the company, changes to the share capital, the appointment of directors, company secretaries and auditors and copies of the company's annual accounts and annual return.</p> <p>In addition, EGL UK intends to (i) publish on its website quarterly reports on the mining and exploration activities of EGL UK, and (ii) provide all necessary underlying information to the Company so that the Company may continue to comply with its continuous disclosure obligations.</p>	<ul style="list-style-type: none"> <li>• capital reorganisation;</li> <li>• call to be made on shares;</li> <li>• proposed issue of securities; and</li> <li>• provide to ASX a copy of any disclosure document, product disclosure statement or information memorandum,</li> </ul> <p>among other disclosures prescribed by Listing Rule 3.10.</p> <p>Please refer to the section below entitled "Accounts and auditors" in relation to periodic disclosure.</p>
<p><b>Purchase of own securities</b></p> <p>Unless prohibited by its articles of association, an English private company may buy back its own shares out of (i) distributable reserves, (ii) the proceeds of a fresh share issue, or (iii) capital. EGL UK's Articles of Association do not contain any such prohibition.</p> <p>The purchase must be approved by the shareholders of the company and the shareholders' resolution must set out the names of the selling shareholders, the amount and type of shares being repurchased and the price and (where applicable) a copy of the buy-back contract should be appended to the resolution.</p>	<p>In Australia, a company has the right to buy back its shares under the Corporations Act provided that it complies with the provisions of the Corporations Act. A company may conduct a number of different types of share buy-backs. Depending on the type of share buy-back conducted and the number of shares the company proposes to buy back, the proposal may need to be approved by a resolution of the shareholders.</p>
<p><b>Accounts and auditors</b></p> <p>English companies are required to prepare for circulation to shareholders and filing with Companies House annual accounts in the prescribed form, which, unless an exemption applies, are required to be audited; failure to do so will result in a penalty being payable by the company and directors of the company being liable for prosecution.</p> <p>English private companies are not required to provide half yearly accounts.</p> <p>English private companies are permitted to dispense with the requirement for an annual appointment of the Company's auditors.</p>	<p>A company must report to members for a financial year by providing:</p> <p>(a) all of the following reports:</p> <ul style="list-style-type: none"> <li>• financial reports for the year;</li> <li>• directors' reports for the year; and</li> <li>• an auditor's report on the financial report; or</li> </ul> <p>(b) a concise report for the financial year.</p> <p>A company must also provide to members a financial report and directors' report for each half year. The financial report must be audited or reviewed by the company's auditors.</p> <p>Shareholders are required to approve the appointment of a company's auditors at the first annual general meeting after their appointment by the board.</p>

EGL UK as an English private company	The Company as an Australian public listed company
<p><b>Takeovers</b></p> <p>The City Code on Takeovers and Mergers (the <b>Code</b>) does not apply to EGL UK. Consequently, the restrictions on acquisitions of shares carrying voting rights contained in the Code do not apply to EGL UK.</p> <p>In the event that any person has acquired or unconditionally contracted to acquire 90% in value of the shares of a company, (i) such person shall have the right to acquire (on a compulsory basis) any minority shareholdings in the company, and (ii) any minority shareholder may require such person to buy them out.</p>	<p>The Corporations Act governs a takeover and contains a general rule that a person must not acquire a “relevant interest” in issued voting shares of a company if, because of the transaction, a person’s voting power in the company:</p> <ul style="list-style-type: none"> <li>• increases from 20% or below to more than 20%; or</li> <li>• increases from a starting point, which is above 20% but less than 90%.</li> </ul> <p>Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 months period.</p> <p>Australian law permits compulsory acquisition by persons holding a 90% interest in the relevant securities.</p>
<p><b>Protection of minority shareholders – oppression</b></p> <p>Under English law, if shareholders consider that a company’s affairs are being conducted in an unfairly prejudicial manner to the interests of shareholders generally or to some part of its shareholders, or that an actual or proposed act or omission would be so prejudicial, they may apply to the court for an order. If the court is satisfied that the action is well founded, it may make such order as it thinks fit (such as a purchase order requiring the company to purchase the petitioner shareholder’s shares).</p> <p>Minority shareholders also have the following protections:</p> <ul style="list-style-type: none"> <li>• they may, in certain circumstances, take proceedings for injunctive or other relief to prevent the majority from exercising their voting power improperly by virtue of the doctrine of fraud on the minority; and</li> <li>• they may bring proceedings on behalf of a company (ie, a derivative action) in certain circumstances.</li> </ul>	<p>Under Australian law, a shareholder may apply to the court under the Corporations Act to bring an action if the conduct of the company’s affairs, an actual or proposed act by or on behalf of the company, or a resolution or proposed resolution of shareholders or a class of shareholders, is either (i) contrary to the interests of shareholders as a whole, or (ii) oppressive to, unfairly prejudicial to or unfairly discriminatory against, any shareholders in their capacity as a shareholder or in any other capacity.</p> <p>The court has broad powers to make any order it considers appropriate, including:</p> <ul style="list-style-type: none"> <li>• for the winding up of the company;</li> <li>• for the appointment of a receiver and/or manager of any of the company’s property;</li> <li>• for the modification or repeal of the company’s constitution;</li> <li>• regulating the conduct of the company’s affairs in the future;</li> <li>• for the purchase of shares with an appropriate reduction of the company’s share capital; and</li> <li>• requiring a person to do, or restraining a person from doing, a specified act,</li> </ul> <p>among other orders.</p>

EGL UK as an English private company	The Company as an Australian public listed company
	As under English law, minority shareholders under Australian law may take proceedings for injunctive or other relief to prevent the majority from exercising their voting power improperly by virtue of the doctrine of fraud on the minority, and may initiate derivative actions.
<p><b>Substantial shareholdings</b></p> <p>Each share issue by an English private company must be disclosed to the Registrar of Companies and the names of shareholders will appear on the annual return that is filed with the Registrar of Companies. In the event of a transfer of legal title to shares in an English private company, the company must be notified of the details of the new shareholder to approve the transfer and enter the details in the share register but there is no obligation to notify the public of the transfer (although the new shareholder will appear on any subsequent annual return filed with the Registrar of Companies).</p>	<p>The Corporations Act requires a shareholder who begins to or ceases to have a substantial holding in a listed company, or has a substantial holding in a listed company and there is movement by at least 1% in their holding, to give notice to the company and to ASX.</p> <p>A person has a substantial holding if the person and the person's associates have a relevant interest in 5% or more of voting shares in that company.</p>
<p><b>Appointment of Directors</b></p> <p>Under EGL UK's Articles of Association, EGL UK is required to have a minimum of 3 directors.</p>	<p>Under the Company's constitution, the Company is required to have a minimum of 3 directors.</p> <p>The Listing Rules require directors to be re-elected at the third annual general meeting following the director's appointment or 3 years (whichever is longer). This rule does not apply to the managing director.</p>

The summary provided in the table above is provided as a general guide only, and is not a comprehensive summary or analysis of all the consequences from holding, acquiring or disposing of EGL Shares or EGL UK Shares or interests in EGL Shares or EGL UK Shares. The laws, regulations, policies and procedures described are subject to change from time to time. Shareholders who are in any doubt as to their own legal position should seek independent advice.

## 5.2 Less transferability for EGL UK Shares

Shareholders who validly accept the Buy-back Offer and become shareholders of EGL UK will not have the benefit of a stock exchange to sell their EGL UK Shares.

## 5.3 Restrictions may apply to some EGL Eligible Shareholders in holding EGL UK Shares

Some EGL Eligible Shareholders may be restricted by their institutional investment mandates from holding unlisted shares in a private company incorporated in England and Wales.

## 5.4 Private placement will dilute shareholders and may affect control of EGL UK

The Private Placement will have a dilutionary effect on the Company's shareholding in EGL UK, on Shareholders who validly accept the Buy-back Offer and become shareholders of EGL

UK and on Shareholders who elect not to participate and remain shareholders of the Company (in the latter case, Shareholders will have their interests in the underlying assets diluted because the Company's shareholding in EGL UK will be diluted).

However, if the Buy-back is not approved, the Company will still need to raise capital for the further development of its projects in the near future, in which case the Shareholders' interests in EGL would also be diluted.

There is a possibility that the Private Placement may affect the control of EGL UK.

#### **5.5 May result in an unfunded Australian tax liability for Australian resident Shareholders**

If the Australian resident Shareholders are deemed to receive a non-cash dividend in connection with the Buy-back, they will be required to fund any Australian income tax payable on the non-cash dividend from their own cash funds. Whilst the Company does not expect that a non-cash dividend will be paid in connection with the Buy-back, this position cannot be confirmed until the Class Ruling is issued by the ATO. See section 8 below for a detailed discussion of the Australian tax implications for Australian resident Shareholders who validly accept the Buy-back Offer.

#### **5.6 Less access for Australian investors to shareholder meetings of EGL UK**

While the change in incorporation of the holding company of the Group from the Company to EGL UK will make it more convenient for investors based in the United Kingdom and in Europe to attend shareholder meetings, it will make it inconvenient for EGL Eligible Shareholders who accept the Buy-back Offer who are not based in the UK or Europe to attend shareholder meetings. However, as previously noted, Shareholders may elect to not accept the Buy-back Offer in respect of their EGL Shares. As the Company will remain listed on ASX, Shareholders who choose to remain shareholders of the Company will continue to be entitled to attend general meetings of the Company.

#### **5.7 Further securities issues**

In addition to the shares that will be issued under the Private Placement, EGL UK may issue securities with the same or different terms and conditions as the EGL UK Shares in the future. No prediction can be made as to the effect, if any, that such future issues of securities by EGL UK may have on the price of EGL UK Shares.

#### **5.8 Regulatory risks**

EGL UK may be affected by different government policies and legislation in countries in which it operates its projects. EGL UK may be affected by changes to government policies and legislation in these jurisdictions, including changes to legislation regarding hydrocarbon.

The operations and proposed activities of EGL UK are subject to government regulation concerning the environment and may be affected by changes in environmental and social views regarding gas exploration techniques.

#### **5.9 Ability to continue to fund exploration activities**

There is no guarantee that EGL UK will be able to raise capital from the UK and European markets.

Failure to obtain sufficient financing for EGL UK's activities and future projects may result in delay and postponement of exploration activities and projects. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to EGL UK and might involve substantial dilution to EGL UK Shareholders in the future.

However, the Board believes that these risks are lower for EGL UK than for the Company.

#### **5.10 Economic conditions**

EGL UK's performance may be affected by general economic conditions, changes in tax legislation, new legislation, movements in interest and inflation rates and currency exchange rates. These may have an adverse effect on EGL UK's exploration and development activities, as well as its ability to fund those activities.

#### **5.11 Operating risks**

The operations of EGL UK may be affected by various factors, including operational and technical difficulties encountered in mining, difficulties in commissioning and operating plant and equipment, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, and plant and equipment.

EGL UK's activities and projects may be adversely affected by risks outside the control of EGL UK including civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

No assurances can be given that EGL UK's exploration activities will result in economically viable gas development projects. Until EGL UK is able to realise value from its projects, it is likely to incur ongoing costs.

#### **5.12 Litigation risks**

EGL UK is exposed to possible litigation risks including (but not limited to) environmental claims, occupation health and safety claims and employee claims. EGL UK is not currently engaged in any litigation.

#### **5.13 Loss of opportunities to participate in future of the Company**

EGL Eligible Shareholders who validly accept the Buy-back Offer in respect of 100% of their EGL Shares will no longer have the opportunity to participate in the future of the Company or to receive any benefits that may result from any of the Company's Australia - focused activities in the future, including the Buru Royalty.



## 6 Reasons for and advantages of the Buy-back Offer

In the view of the Board, the advantages of the Buy-back Offer include the following.

### 6.1 EGL Shareholders have the choice of whether to accept and become shareholders of EGL UK

Under the Buy-back Offer, Shareholders are given the choice of whether to elect to participate in the Buy-back Offer and become shareholders of EGL UK, a private limited company incorporated in England and Wales, or to remain Shareholders of the Company which is an Australian public listed company. EGL Eligible Shareholders have a choice of:

- whether or not to accept the Buy-back Offer, regardless of whether they voted in favour of it or against it at the EGM; and
- whether to accept the Buy-back Offer in respect of some or all of their EGL Shares (except as set out in clause 1 of the Terms).

Accordingly, a Shareholder may vote in favour of the proposed Buy-back Offer on the basis that it is beneficial for the Group's business overall, but may elect to not accept the Buy-back Offer if the Shareholder believes that participating in the Buy-back Offer is not suitable for his or her individual objectives, financial situation and needs.

### 6.2 Access to European Union sources of growth capital

The Board believes that the proposed Buy-back Offer and the transitioning of the Shareholders to EGL UK will improve the access of the Group to sources of growth capital in the European capital markets.

As reported in the Company's 2011 annual report, the Company repaid all of its short term loans in 2011. However, the Group will require funding in the future to fund its operations. The Board believes that the Company's ability to raise further capital in the Australian market is very limited given the Company's lack of connection with Australia and the lack of liquidity in its shares. For an extended period of time, the instances and volume of trading of the Company's shares on ASX has been low. Over the period of the past 52 weeks, the share price of the Company has ranged from a low of A\$0.13 to a high of A\$0.45.

Given the difficulties faced by the Company over the past 5 years in raising capital from Australian investors, the Board believes that fund raising for the Group is too difficult in the Australian market and that future funding will most likely be available from European investors.

However, sovereign wealth funds, as well as certain large institutional investors in Continental Europe, which are the Company's target investors, are unable or unwilling to invest in a non-European domiciled company due to reasons such as regulatory constraints in their mandates that prevent them from investing in a company that is not incorporated in the European Economic Area and a lack of tax benefits that would otherwise be available to sovereign wealth funds in Europe.

The Board believes that having EGL UK as an English holding company will enhance the Group's ability to raise capital from the United Kingdom, European and other international financial markets due to:

- increased visibility for EGL UK in the United Kingdom and European markets;
- expectations that an English holding company will overcome resistance from investors who understand company law in a particular jurisdiction and prefer to invest in companies residing in that jurisdiction; and

- access to sovereign wealth funds and institutional investors who may be prevented by regulatory constraints or their internal protocols from investing in entities incorporated outside of the United Kingdom and the European Economic Area.

### **6.3 Shareholders' meetings**

EGL Eligible Shareholders, who are located in the United Kingdom or Europe, will be more easily able to attend general meetings of EGL UK if they become shareholders of EGL UK.

### **6.4 Greater alignment with strategic interests**

For many years, the Group has had a minimal presence in Australia. All of the assets of the Group are in France and held by the Company's two English-incorporated subsidiaries – HPL and EGL UK.

The only connections that the Group has with Australia is the Buru Royalty, a small royalty income stream which the Company receives in relation to certain tenements in Western Australia, and the Company's listing on ASX.

The Group is currently pursuing new projects in Europe in countries such as Germany and Belgium, among other countries. It is intended that these projects will be pursued through EGL UK or its European subsidiaries.

Having regard to the short to medium term intentions of the Company and EGL UK, the Board is of the view that the Buy-back Offer will benefit the business of the Group and EGL Eligible Shareholders who validly accept the Buy-back Offer.

### **6.5 Why a share buy-back over other restructuring alternatives**

The Group needs to raise capital for the further development of its projects. If the Group cannot raise capital to fund the Group's current and future projects, it may result in the Group's inability to continue its exploration activities and projects.

The Board believes that fundraising for the Group is too difficult in the Australian market. The Company has elected to structure its proposed restructure by way of a buy-back largely because as noted in section 6.1, the Buy-back Offer gives EGL Eligible Shareholders a choice as to whether to become a shareholder of EGL UK or to remain a shareholder of the Company, having regard to their individual circumstances. An EGL Eligible Shareholder may prefer to remain a shareholder of an Australian public listed company (subject to the risks set out in section 4.1) which is governed by Australian laws and is subject to the Listing Rules, with which they may be more familiar.

There were other alternatives to the Buy-back Offer that were considered by the Company to implement its proposed restructure, namely a capital reduction or a scheme of arrangement. However, these alternatives were not chosen by the Company for the reasons set out as follows.

#### **(a) Capital reduction**

If the restructure was to be implemented by way of a capital reduction and in order to achieve the Company's commercial objectives, Shareholders' EGL Shares would be cancelled and each Shareholder would receive as consideration EGL UK Shares.

In a practical sense, the capital reduction mechanism would compel Shareholders to no longer be shareholders of the Company and, instead, become EGL UK Shareholders.

Australian law requires that, for a person to become a member of a company, he or she must agree to do so. The capital reduction mechanism would not allow Shareholders the choice of whether to become EGL UK Shareholders. If

Shareholders did not wish to become EGL UK Shareholders, they would not receive any consideration for the EGL Shares that were cancelled.

If Shareholders are compelled to become EGL UK Shareholders in this manner, there is a risk that a restructure that is implemented by way of a capital reduction could be challenged in the courts.

(b) **Scheme of arrangement**

If the restructure was to be implemented by way of a scheme of arrangement:

- all EGL Shares would be transferred to either EGL UK or a new private limited company incorporated in England and Wales that would be the new holding company; and
- as consideration, EGL Eligible Shareholders would receive 1 share in EGL UK or the new holding company for each EGL Share transferred.

For a scheme of arrangement to be implemented, the following steps must take place:

- the Company must receive court approval to hold a scheme meeting for Shareholders to vote on the scheme proposal;
- at the scheme meeting, at least (i) 75 per cent of votes cast on the resolution at the scheme meeting, and (ii) at least 50 per cent in number of members present and voting, must be in favour of the scheme; and
- after the requisite shareholder approval is obtained, the court must then decide whether to approve the scheme. At this “second court hearing”, the court may grant its approval for a scheme subject to any alterations and conditions as it thinks just.

Once the scheme is approved in this manner, it is binding on all Shareholders, regardless of whether they voted in favour of the scheme or not. As a result, Shareholders would have no choice but to become EGL UK Shareholders.

Depending on the level of acceptances of the Buy-back Offer, it is possible that the Buy-back Offer may have different outcomes for Shareholders as well as for the Company. A scheme of arrangement and a capital reduction, on the other hand, only has two possible outcomes. If the scheme of arrangement or capital reduction is approved by Shareholders in the required manner, all Shareholders would be bound by that approval and would be compelled to give up their EGL Shares for EGL UK Shares. Alternatively, if the scheme of arrangement or capital reduction is not approved in the required manner, the transaction would not proceed.

In determining which structure the Company should implement, the Board is of the view that the ability to give Shareholders a choice in how they deal with their EGL Shares (as is provided by the Buy-back Offer) outweighs any possible advantages that may arise for Shareholders in knowing that there may only be two possible outcomes in a capital reduction or a scheme of arrangement.

The Board is of the view that the Company is unable to provide cash consideration (instead of EGL UK Shares) for the Buy-back as the Company’s low cash balance does not allow the Company to offer cash consideration.

## 7 UK tax

The following information is given by way of general summary only and relates only to certain limited UK tax consequences applicable to EGL Eligible Shareholders who receive EGL UK Shares under the Buy-back. It does not purport to be a complete analysis of all potential tax considerations and does not constitute tax advice.

The summary is intended to apply only as a general guide to the position under current UK tax law and the published practice of HM Revenue & Customs as at the date of this document, either of which is subject to change at any time. The summary is intended to apply only to EGL Eligible Shareholders who are not resident and, in the case of individuals only, not ordinarily resident and not domiciled in the UK for UK tax purposes (**Non-UK Resident Shareholders**) and summarises only the UK tax issues that may arise to such Non-UK Resident Shareholders in connection with their holding of EGL UK Shares if they elect to accept the Buy-back Offer.

**Any person who is in any doubt as to their tax position is strongly recommended to consult their own professional tax advisor without delay.**

### (a) Dividends

Under current UK tax law, EGL UK will not be required to withhold tax at source from dividend payments it makes.

Non-UK Resident Shareholders will not generally be able to claim repayments from HM Revenue & Customs of any tax credits attaching to dividends paid by EGL UK. EGL Eligible Shareholders may also be subject to non-UK taxation on dividend income under local law.

### (b) Chargeable gains


Non-UK Resident Shareholders that do not carry on a trade, profession or vocation in the UK through a branch or agency or, in the case of a company, a permanent establishment (where such EGL UK Shares have been used, held or acquired for the purpose of such branch, agency or permanent establishment) will generally be outside the scope of UK tax on chargeable gains in respect of a subsequent disposal or deemed disposal of EGL UK Shares.

An EGL Eligible Shareholder who is an individual and who is temporarily resident outside the UK for tax purposes may, under anti-avoidance legislation, be liable to UK tax on any capital gain realised whilst temporarily non-UK resident (subject to any available exemption or relief).

### (c) UK Stamp duty and UK stamp duty reserve tax (SDRT)

The transfer on sale of EGL UK Shares held in certificated form will generally be liable to *ad valorem* stamp duty at a rate of 0.5 per cent of the amount or value of the consideration given. The amount of stamp duty payable is rounded up, if necessary, to the next multiple of £5. An exemption from stamp duty is available on an instrument transferring shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000. Stamp duty is normally paid by the purchaser of shares.

An unconditional agreement to transfer shares, or a conditional agreement where the condition(s) have been satisfied, will normally give rise to a charge to SDRT at the rate of 0.5 per cent of the amount or value of the consideration for the shares. However, where an instrument of transfer is executed and duly stamped with stamp duty within 6



years of the date of that agreement (or, if the agreement is conditional, the date on which the condition is satisfied), the SDRT charge is cancelled to the extent that the SDRT has not been paid and, if any of the SDRT has been paid, a claim may be paid for its repayment (generally with interest). SDRT is, in general, payable by the purchaser.

## 8 Australian tax

### 8.1 Overview

This section provides a summary of the principal Australian income tax consequences associated with the Buy-back for Australian resident and non-Australian resident Shareholders. This outline reflects the Australian income tax legislation and administrative practices of the ATO as at the date of the Prospectus. These laws and administrative practice may change at any time. In particular we draw your attention to the proposed changes to the taxation of off-market share buy-backs as noted in section 8.3(c) below.

The Australian income tax implications for the Shareholders with respect to the Buy-back will vary depending upon their individual circumstances. In particular, this outline is only relevant to those Shareholders who hold their EGL Shares on capital account and it does not address all tax considerations applicable to Shareholders that may be subject to special tax rules, such as banks, insurance companies, tax exempt organisations, superannuation funds, dealers in securities or Shareholders who hold their EGL Shares on behalf of another person. For Shareholders who are non-residents of Australia for tax purposes, it is assumed that the EGL Shares are not held through an Australian permanent establishment of that Shareholder.

This section does not constitute tax advice. Each Shareholder should consult their own tax adviser regarding the consequences associated with participating in the Buy-back.

### 8.2 Class Ruling

The Company has applied for a Class Ruling from the ATO in relation to the Buy-back. Among other things, the Class Ruling application asks the ATO to confirm whether any part of the consideration paid to the Shareholders for the disposal of their EGL Shares under the Buy-back, which will be shares in EGL UK (**Buy-back Price**) will be treated as a “dividend” for the purposes of the Australian Tax Act (including pursuant to any relevant anti-avoidance provision). If part of the Buy-back Price constitutes or is deemed to be a “dividend” for income tax purposes, this will result in additional tax consequences for the Shareholders (outlined below). A final determination as to whether a part of the Buy-back Price will constitute a dividend for income tax purposes will not be made by the ATO until such time that the final Class Ruling is issued (which is expected to be shortly after the Buy-back is completed). However, the Company does not expect that any part of the Buy-back Price will constitute a dividend for income tax purposes.

The Company will advise Shareholders when the final Class Ruling is published by the ATO.

### 8.3 Australian income tax implications

#### (a) The Buy-back

The Australian tax implications for the Shareholders will largely depend upon the capital/dividend split of the Buy-back Price. If the whole of the Buy-back Price is debited against the Company’s share capital account, no part of the Buy-back Price should be treated as a “dividend” for the purposes of the Australian Tax Act (ie, there will only be a “capital” component to the Buy-back). However, if the Buy-back Price exceeds the amount debited to the Company’s share capital account, the excess will constitute a dividend for Australian taxation purposes.

We outline below the Australian tax implications for the Shareholders if there is:

- a capital component and no dividend component; and

- a capital component **and** dividend component.

The Company's expectation is that there will be a capital component and no dividend component with respect to the Buy-back and the ATO have been asked to confirm this in the Class Ruling.

We deal with Australian resident and non-Australian resident Shareholders separately below.

### ***Australian resident Shareholders***

#### *Capital component and no dividend component*

Australian resident Shareholders may realise a capital gain or capital loss on the disposal of their EGL Shares under the Buy-back. The capital gain or capital loss must be calculated at the time the relevant capital gains tax (**CGT**) event occurs, which should be the Buy-back Date.

An Australian resident Shareholder will realise a capital gain if their cost base in the EGL Shares is less than the Buy-back Price, as calculated for the purposes of the Australian Tax Act (discussed further below). A capital loss will arise to the extent that the Buy-back Price is less than the reduced cost base of the EGL Shares.

Australian resident Shareholders who are individuals, trusts or complying superannuation funds may be eligible for discount capital gains treatment in respect of their EGL Shares if they have held those EGL Shares for at least 12 months. Companies are not eligible for discount capital gains tax treatment.

#### *Capital component and dividend component*

Australian resident Shareholders will be assessed on the dividend component on the basis that it is an unfranked dividend. The dividend will be taxed at their marginal rate of tax which will be 30% for companies and up to a maximum of 46.5% for individuals. As the Buy-back Price will be satisfied by way of EGL UK Shares (ie, no cash consideration will be provided), the Australian resident Shareholders will be required to fund any tax liability themselves.

Australian resident shareholders may also realise a capital gain or capital loss in connection with the Buy-back. A capital gain will arise if their cost base in the EGL Shares is less than the capital component of the Buy-back and a capital loss will arise if their reduced cost base is more than the capital component of the Buy-back.

### ***Non-Australian resident Shareholders***

#### *Capital component and no dividend component*

A non-Australian resident Shareholder should not realise a capital gain or capital loss in Australia in connection with the Buy-back if they own (together with associates) less than 10% of the EGL Shares.

Any non-Australian resident Shareholder who owns (together with associates) 10% or more of the EGL Shares should contact the Company to obtain further information to determine whether they will realise a capital gain or capital loss in connection with the Buy-back.

#### *Capital component and dividend component*

The Company may be required to withhold tax on the dividend component of the Buy-back with respect to non-Australian resident Shareholders. As the Buy-back Price will

be satisfied by way of EGL UK Shares (ie no cash consideration will be provided), any withholding tax liability will be funded by the Company.

***Buy-back Price***

For Australian income tax purposes, the Shareholders will be deemed to have received an amount equal to the market value of the EGL UK Shares which are distributed to the Shareholders under the Buy-back (calculated as at the Buy-back Date). This will be the amount of consideration received by the Shareholders and will be used to determine the Australian tax implications for the Shareholders in connection with the Buy-back. It is expected that the Class Ruling will specify the Buy-back Price.

**(b) Cost base in the EGL UK Shares**

The Company has asked the ATO to confirm in the Class Ruling the Shareholder's cost base in the EGL UK Shares acquired pursuant to the Buy-back.

Non-Australian resident Shareholders should be not liable to pay tax in Australia if they subsequently dispose of their EGL UK Shares provided that the EGL UK Shares are not held through an Australian permanent establishment of that Shareholder.

**(c) Proposed amendments to the Australian Tax Act**

On 21 October 2011, the Federal Government released exposure draft legislation to amend the Australian Tax Act as it applies to share buy-backs. Both the timing of this legislation and the form of in which it will be enacted are currently uncertain. However, the exposure draft legislation specifies that it should only apply to share buy-backs conducted after the date of Royal Assent and on this basis, should have no application to the Buy-back provided that the Buy-back is concluded prior to that date.



## 9 Additional information

### 9.1 Shares held by trustees, custodians and nominees

Trustees, custodians and nominees who hold EGL Shares should inform the beneficial owners of the EGL Shares about the Buy-back Offer, subject to any legal restrictions in the countries where the beneficial owners are resident, and provided the trustee, custodian or nominee is an EGL Eligible Shareholder, and then aggregate all acceptances received from beneficial owners. It is the responsibility of the trustee, custodian or nominee to submit one aggregated acceptance on behalf of all beneficial owners.

### 9.2 Consents and disclaimers of responsibility

None of the parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as specified below. Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below:

- (a) Computershare Investor Services Pty Limited has given, and has not withdrawn, its consent to be named as the Share Registry to the Company in the form and context in which it is named.
- (b) Ernst & Young Transaction Advisory Services Limited has given, and has not withdrawn, its consent to be named as the Independent Expert in the form and context in which it is named.
- (c) King & Wood Mallesons has given, and has not withdrawn, its written consent to be named as lawyers to the Company in the form and context in which it is named.
- (d) Norton Rose LLP has given, and has not withdrawn, its consent to be named as lawyers to the Company in the form and context in which it is named.
- (e) EGL UK has given, and has not withdrawn, its consent to be named as the wholly owned subsidiary of the Company.
- (f) Julien Moulin has given, and has not withdrawn, his consent to being named as the Executive Chairman of the Company, a Director, and director of EGL UK.
- (g) Frederic Briens has given, and has not withdrawn, his consent to being named as the Chief Executive Officer of the Company and a director of EGL UK.
- (h) Johannes Niemetz has given, and has not withdrawn, his consent to being named as the Chief Financial Officer and Chief Operating Officer of the Company and a director of EGL UK.
- (i) Each of Rod Bresnehan and Sebastian Hempel has given, and has not withdrawn, his consent to being named as a Director.

The Company and the Board have made inquiries to EGL UK and have placed reliance on the information provided by EGL UK, it being noted that EGL UK is the body whose securities are being offered.

### 9.3 Interests of experts and advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- (a) has any interest or has had any interest during the last 2 years, in the formation or promotion of EGL UK, or in property acquired or proposed to be acquired by EGL UK in connection with its formation or promotion, or the Buy-back Offer; and
- (b) no amount has been paid or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of EGL UK, or the Buy-back Offer.

The Company has engaged the following professional advisers:

- (a) Ernst & Young Transaction Advisory Services Limited has acted as the Independent Expert to the Company in relation to the Buy-back Offer. The Company has paid, or agreed to pay, approximately A\$40,000 (plus disbursements and GST) for these services.
- (b) King & Wood Mallesons has acted as Australian law legal adviser to the Company in relation to the Buy-back Offer. The Company has paid, or agreed to pay, approximately A\$235,000 (plus disbursements and GST) for these services.
- (c) Norton Rose LLP has acted as English law legal adviser to the Company in relation to the Buy-back Offer. The Company has paid, or agreed to pay, approximately £60,000 for these services.

### 9.4 Interests of directors of EGL UK

Other than set out below or elsewhere in this Prospectus:

- (a) no director or proposed director of EGL UK has, or has had in the 2 years before lodgement of this Prospectus, any interest in the formation or promotion of EGL UK, or the Buy-back Offer, or in any property proposed to be acquired by EGL UK in connection with information or promotion of the Buy-back Offer; and
- (b) no amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given, to any director or proposed director of the Company either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him in connection with the promotion or formation of EGL UK or the Buy-back Offer.

None of the directors of EGL UK currently hold any EGL UK Shares or any options in EGL UK.

#### Payment to directors

EGL UK has an employment contract with each director of EGL UK. An amount of approximately £20,000 per annum is currently to be paid by EGL UK to each of the directors of EGL UK for the current year.

Under EGL UK's Articles of Association, the directors are entitled to such remuneration as the directors (or any committee as the board may authorise) determine for their services as directors of EGL UK and for any other service which they undertake for EGL UK.

## 9.5 Shareholdings of directors of the Company

As at the date of this Prospectus, the following Directors or their associates have a beneficial interest in EGL Shares and may accept the Buy-back in respect of those EGL Shares:

Director	No. of EGL Shares	% issued capital
Rod Bresnehan	46,950	0.02%
Sebastian Hempel	21,000	0.01%

## 9.6 Related party transactions

Please refer to section 3.7 in relation to the Gazonor Valenciennois Permit Farmout Agreement, the Gazonor Sud-Midi Permit Farmout Agreement and the Production Sharing Agreement.

## 9.7 ASIC relief

The proposed Buy-back Offer will be conducted by way of a selective buy-back under section 257D of the Corporations Act. Section 257D(1) of the Corporations Act prescribes that the terms of the buy-back agreement must be approved before it is entered into by either:

- (a) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates; or
- (b) a resolution agreed to, at a general meeting, by all ordinary shareholders;

or the agreement must be conditional on such an approval.

The Company has been granted an exemption from ASIC under section 257D(4) of the Corporations Act from the operation of section 257D of the Corporations Act, to the extent that subsection 257D(1)(a) requires no votes be cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates.

## 9.8 ASX relief

The Company has been granted a waiver by ASX from Listing Rule 14.11 so that no voting exclusions apply to Resolution 3 and the Company is not required to set out a voting exclusion statement, on the basis that any substantial holder who holds or held 10% or more of EGL Shares on the Record Date or at any time in the 6 months prior to the Record Date will not have an interest in the proposed Buy-back that is different from the interests of any other EGL Eligible Shareholders and, accordingly, they should be permitted to vote.


In addition, ASX has granted the Company a waiver from Listing Rule 3.8A to permit the Company to lodge an Appendix 3F on the second business day after the Closing Date.

## 9.9 Expenses of the Buy-back Offer

The total estimated expenses of the Buy-back Offer payable by the Company including ASX and ASIC fees, legal fees, share registry fees, printing costs, public relations costs and other miscellaneous expenses are estimated to be approximately \$610,000.

## 9.10 Privacy

We collect personal information from you in order to process your application, provide facilities and services to applicants and undertake appropriate administration. To do that, we may disclose your personal information to our agents, contractors or third party providers to whom



we outsource services such as mailing functions, registry and accounting (Service Providers). If you do not provide us with your personal information we may not be able to process your application. In most cases you can gain access to the personal information that we hold about you. We aim to ensure that the personal information we retain about you is accurate, complete and up-to-date. To assist us with this, please contact us if there is a change to any of the details that you have provided to us. If you have concerns about the completeness or accuracy of the information we have about you, we will take steps to correct it.

#### **9.11 Authorisation**

This Prospectus is issued by the Company. Each Director has consented to the lodgement of the Prospectus with ASIC.

## 10 Glossary and interpretation of terms

### Glossary

The following words and phrases have the meaning below when used in the Prospectus unless the context requires otherwise:

**Acceptance Forms** means the acceptance form accompanying this Prospectus.

**AEST** means Australian Eastern Standard Time.

**Articles of Association** means the articles of association of EGL UK as amended from time to time.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means the ASX Limited ACN 008 129 164 and where the context permits the Australian Securities Exchange Limited operated by ASX Limited.

**ATO** means the Australian Taxation Office.

**Australian Tax Act** means the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) as applicable.

**Board** means the board of directors of the Company.

**Buru Royalty** means a 2% and 3% net well head royalty received by the Company over permits held by Buru Energy Limited in the Canning Basin in Western Australia.

**Buy-back Date** means the date the Company:

- (a) enters into buy-back agreements with EGL Eligible Shareholders who accept the Buy-back Offer;
- (b) buys back and cancels EGL Shares from each EGL Eligible Shareholder who accepts the Buy-back Offer; and
- (c) transfers EGL UK Shares to EGL Eligible Shareholders who accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

**Buy-back Offer** means the buy-back to be conducted by the Company as detailed in this Prospectus and the Explanatory Memorandum.

**Buy-back Price** has the meaning given to it under section 8.2 of this Prospectus.

**CGT** has the meaning given to it under section 8.3 of this Prospectus.

**Class Ruling** means the class ruling referred to in section 8.2 of this Prospectus.

**Closing Date** means 7.00pm (AEST) on 24 July 2012.

**Company** means European Gas Limited ABN 75 075 760 655.

**Companies Acts** means the Companies Acts (as defined in section 2 of the Companies Act 2006 of England and Wales) in so far as they apply to EGL UK.

**Computershare** means Computershare Investor Services Pty Limited.

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

**Director** means a director of the Company.

**EG SAS** means European Gas S.A.S., a company incorporated in the Republic of France under number 501 152 193 (RCS Sarreguemines).

**EGL Eligible Shareholders** has the meaning given to it in section 1.5 of this Prospectus.

**EGL Share** means an ordinary share of the Company.

**EGL UK** means European Gas Limited, a private limited company incorporated in England and Wales with company number 05321791.

**EGL UK Share** means an ordinary share of EGL UK.

**EGL UK Share Registration Date** means the date that EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer which has been stamped by the UK HM Revenue & Customs, as from which date those EGL Eligible Shareholders may be registered as shareholders of EGL UK.

**EGL UK Shareholders** means the shareholders of EGL UK.

**EGM** means the extraordinary shareholders' meeting scheduled to take place on or about 17 July 2012, or on another date as determined by the Company.

**Excluded Foreign Shareholder** means any person holding EGL Shares who has their address on the Share Register as being in the United States of America.

**Explanatory Memorandum** means the explanatory memorandum accompanying the notice of meeting for the EGM.

**Ex-Date** means 7 June 2012.

**Group** means the Company, EGL UK, HPL and EG SAS.

**HPL** means Heritage Petroleum Limited, a private limited company incorporated in England and Wales with company number 04083129.

**Listing Rules** means the listing rules of ASX.

**Non-UK Resident Shareholders** has the meaning given to it in section 7 of this Prospectus.

**Private Placement** has the meaning given to it in section 3.6 of this Prospectus.

**Prospectus** means this prospectus (including the electronic version of this prospectus).

**Record Date** means 14 June 2012.

**SDRT** means UK stamp duty reserve tax.

**Share Register** means the register of the Company maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited.

**Shareholders** mean the shareholders of the Company.

**Small Parcel** means a parcel of EGL Shares which is valued at A\$2000 on the Record Date.

**Terms** means the terms of the Buy-back Offer as set out in Appendix A of this Prospectus.

**UK Listing Rules** means the “Listing Rules” (as amended from time to time of the UK Listing Authority and contained in the UK Listing Authority’s publication of the same name).

### **Interpretation**

The following principles of interpretation apply unless the contrary intention appears or the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) words importing one gender includes all other genders;
- (d) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (e) a reference to a person includes a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, any government agency or other entity and conversely;
- (f) a reference to a section is to a section of this Prospectus;
- (g) a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provisions substituted for, and all legislation and statutory instruments issued under, such legislation or provision;
- (h) a reference to time is a reference to Australian Eastern Standard Time;
- (i) “including” or “includes” are not words of limitation;
- (j) Australian dollars, dollars, A\$ or \$ is reference to the lawful currency of Australia;
- (k) EUR or € is a reference to the single currency of those member states of the European Union that have adopted or adopt such currency as their lawful currency in accordance with the legislation of the European Community relating to Economic and Monetary Union; and
- (l) £ is a reference to the lawful currency of United Kingdom.

## Appendix A

### Terms of the Buy-back Offer

#### 1 The Buy-back Offer

##### 1.1 The Buy-back Offer

The Company offers to buy back any number (up to 100%) of your EGL Shares on the terms and conditions set out in these Terms. If you hold EGL Shares that is equal to or more than a Small Parcel of EGL Shares you may nominate a maximum number of EGL Shares (that may be less than 100% of your EGL Shares) to sell to the Company. If you hold less than a Small Parcel of EGL Shares, you may only accept the Buy-back Offer in respect of all of your EGL Shares. If you will hold less than A\$500 in value of EGL Shares after your acceptance of the Buy-back Offer, you may only accept the Buy-back Offer in respect of all your EGL Shares.

##### 1.2 Consideration

The Company will transfer to you 1 EGL UK Share as consideration for each EGL Share bought back.

##### 1.3 EGL UK Shares

EGL UK Shares refers to the ordinary shares in EGL UK.

The rights attaching to the EGL UK Shares are set out in the Articles of Association of EGL UK as amended from time to time and in accordance with the laws of England and Wales.

##### 1.4 Buy-back Offer conditional

The Buy-back Offer is conditional on Shareholders approving the Buy-back and passing the Resolutions in connection with the Buy-back at the EGM to be held at 1.00pm (AEST) on 17 July 2012.

##### 1.5 EGL Eligible Shareholders

The Buy-back Offer is open to all registered EGL Eligible Shareholders who have bought EGL Shares on ASX prior to the Ex-Date and continue to hold EGL Shares on the Record Date.

“EGL Eligible Shareholders” means those shareholders who have their registered address on the Company’s Share Register as being in jurisdictions where the Company is aware that the laws of the jurisdiction would allow the Buy-back Offer to be made to those shareholders or the acceptance of the Buy-back Offer by those shareholders, being:

- (a) all shareholders who have their address on the Share Register as being in Australia, France, Luxembourg, Switzerland and the United Kingdom;
- (b) any shareholder who has their address on the Share Register as being in a jurisdiction outside of Australia, France, Luxembourg, Switzerland and the United Kingdom, except any Excluded Foreign Shareholder, who is able to warrant that they are a person:
- (c) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they have their address on the Share Register; or
- (d) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they have their address on the Share Register,



(e) by submitting an acceptance in accordance with clause 3.

## **1.6 Excluded Foreign Shareholders**

Excluded Foreign Shareholders will not be eligible to participate in the Buy-back Offer. "Excluded Foreign Shareholders" means any person holding EGL Shares who has their address on the Share Register as being in the United States of America.

## **1.7 Withdrawal by the Company**

The Company reserves the right not to proceed with the Buy-back Offer at any time before the Buy-back Date.

## **2 Offer Period**

The Buy-back Offer will remain open for acceptance during the period commencing at 19 June 2012 and ending at 7.00pm (AEST) on 24 July 2012.

The Company may extend the Offer Period, but does not expect to do so. If the Company decides to extend the Offer Period, the new closing date will be disclosed to ASX.

## **3 How to accept the Buy-back Offer**

### **3.1 Personalised Acceptance Forms**

A personalised Acceptance Form is enclosed with the Prospectus.

Acceptance Forms must be completed in accordance with the instructions on the Acceptance Form. Applications to accept the Buy-back Offer will only be considered where EGL Eligible Shareholders have applied pursuant to an Acceptance Form that was attached to, or accompanied by, a copy of the Prospectus.

The Company will not accept a completed Acceptance Form if it has reason to believe that an EGL Eligible Shareholder has not received a complete paper or electronic copy of the Prospectus or if it has reason to believe that the Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is unlikely that during the period of the Buy-back Offer the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy directly from the Company or their financial adviser.

Additional copies of the Prospectus (without the personalised Acceptance Forms enclosed) are available from the Company's website at [www.europeangas.com.au](http://www.europeangas.com.au). A copy of the prospectus (with your personalised Acceptance Form enclosed) is available from Computershare's website at [www.investorcentre.com](http://www.investorcentre.com) if you are a registered Investor Centre user.

Enquiries about the Buy-back Offer should be directed to Computershare on 1300 559 170 or 03 9946 4433 during business hours.

### **3.2 Issuer sponsored holdings**

If you do not have a CHESS Holding and you would like to accept the Buy-back Offer, you must:

(a) complete and sign the Acceptance Form in accordance with the instructions on it; and

- (b) send your completed and signed Acceptance Form to the Company's Share Registry (Computershare) so that it is received by no later than 7.00pm (AEST) on 24 July 2012 (unless the closing date for the Buy-back Offer is extended) at the following address:

**Mailing address**

Computershare Investor Services Pty Limited  
GPO Box 52  
Melbourne  
Victoria 3001  
Australia

The Company's Share Registry will not accept any Acceptance Form sent to it electronically.

Acceptance Forms must be received no later than 7.00pm (AEST) on 24 July 2012.

You can use the enclosed reply paid envelope if you are posting in Australia. The postal acceptance rule does not apply to your acceptance of the Buy-back Offer.

### **3.3 CHESSE Holdings**

If your EGL Shares are in a CHESSE Holding because they are administered by a controlling participant (usually under a sponsorship agreement with your stockbroker) and you would like to accept the Buy-back Offer, you must:

- (a) complete and sign the CHESSE Holding Acceptance Form in accordance with the instructions on it; and
- (b) send your completed and signed CHESSE Holding Acceptance Form to your controlling participant (usually your stockbroker) so that it is received in sufficient time for the acceptance to be processed by no later than 7.00pm (AEST) on 24 July 2012 (unless the closing date for the Buy-back Offer is extended).

A CHESSE Holding Acceptance Form is enclosed with the Prospectus. Do NOT send your CHESSE Holding Acceptance Form to the Company's Share Registry (Computershare).

### **3.4 Not accepting the Buy-back Offer**

You may choose to not accept the Buy-back Offer and continue to hold all of your EGL Shares. In this case, no action is required by you.

### **3.5 Withdrawing your acceptance**

Once you submit your Acceptance Form, you cannot withdraw, revoke or vary your acceptance.

### **3.6 Deemed acceptances**

If you purport to accept the Buy-back Offer in a way that attempts to accept for more EGL Shares than you are entitled to sell, you will be deemed to have accepted the Buy-back Offer for 100% of your EGL Shares.

If you:

- (a) are a holder of less than a Small Parcel of EGL Shares; or
- (b) you will hold less than A\$500 in value of EGL Shares after your acceptance;

- (c) and you purport to accept the Buy-back Offer for less than 100% of your EGL Shares, you will be deemed to have accepted the Buy-back Offer for 100% of your EGL Shares.

### **3.7 Company's discretion as to validity**

The Company may, in its sole discretion, at any time deem any acceptance it receives to be a valid acceptance, as the Company determines appropriate, and may waive any or all of the requirements for acceptance.

### **3.8 Company's right to reject acceptances**

The Company may in its absolute discretion:

- (a) accept or reject any acceptance that is not made on the terms and conditions set out in these Terms; and/or
- (b) accept or reject any Acceptance Form not submitted in accordance with the procedures set out in these Terms and on the Acceptance Form.

## **4 Effect of acceptance of the Buy-back Offer**

### **4.1 Effect of acceptance**

By submitting an acceptance (whether by returning an Acceptance Form to the Share Registry, or, if you have a sponsored CHESS Holding, by an acceptance your controlling participant through CHESS submitted on your behalf) you will have irrevocably and unconditionally:

- (a) agreed to the terms and conditions set out in the Buy-back Offer;
- (b) agreed that the Company will buy back from you on the Buy-back Date the number of EGL Shares that you have nominated for sale on your Acceptance Form, subject to the operation of clause 3.6 and clause 3.8;
- (c) warranted to the Company that at the time of acceptance and on the Buy-back Date, you are the registered holder of the EGL Shares for which you have accepted the Buy-back Offer and those EGL Shares are and will be free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) or any third party rights and are otherwise able to be sold by you;
- (d) warranted and undertaken to the Company that at the time of acceptance and on the Buy-back Date, that other than pursuant to the Buy-back Offer, you have not agreed to sell or otherwise deal in the EGL Shares nominated for sale on your Acceptance Form;
- (e) agreed and undertaken not to sell or offer to sell EGL Shares to any other person if, as a result, you will at any time after you submit your Acceptance Form and until the Buy-back Date hold fewer EGL Shares than the number of EGL Shares you have nominated in your Acceptance Form to be bought back from you;
- (f) warranted to the Company that you are a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which you have your address on the Company's Share Register; or

- (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which you have your address on the Company's Share Register;
- (g) warranted to the Company that, if you are acquiring shares for or on behalf of other persons, any other person for whom you are acquiring shares is a person:
  - (i) to whom the Buy-back Offer may lawfully be made under the laws of the jurisdiction in which they are resident; or
  - (ii) whose participation in the Buy-back Offer is permitted under the laws of the jurisdiction in which they are resident;
- (h) irrevocably authorised the Company (or its officers, agents or contractors) to correct any error in or omission from your Acceptance Form and to complete the Acceptance Form by the insertion of any necessary details;
- (i) acknowledge that all rights attached to your EGL Shares are suspended once the buy-back agreement for those EGL Shares is entered into;
- (j) acknowledge that neither the Company nor any party involved in the Buy-back Offer has provided you with financial product advice, or any securities recommendation, or has any obligation to provide this advice or recommendation, concerning your decision to participate in the Buy-back Offer;
- (k) agree that damages is not an adequate remedy for breach of the covenants, undertakings, agreements and warranties in this clause 4.1; and
- (l) undertake that if you breach any of the covenants, undertakings, agreements or warranties in this clause 4.1 you will indemnify the Company for all its costs arising from that breach.

You will be taken to have submitted an acceptance when the Share Registry receives a validly completed Acceptance Form from you or, if you have a sponsored CHES Holding, an acceptance from your controlling participant through CHES submitted on your behalf.

#### **4.2 The Company's obligation is conditional**

Subject also to the condition to the Buy-back Offer being satisfied (as set out in clause 1.4), the performance of the Company's obligation to buy back the EGL Shares and transfer EGL UK Shares referred to in clause 5 is conditional on your compliance with clause 4.1.

### **5 Cancellation of EGL Shares and transfer of EGL UK Shares**

Subject to satisfaction of the condition set out in clause 1.4, on the Buy-back Date, the Company will:

- (a) enter into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buy back and cancel EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfer EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

In accordance with the laws of England and Wales, EGL Eligible Shareholders who validly accept the Buy-back Offer may be registered as shareholders of EGL UK as from the EGL UK Share Registration Date. The EGL UK Share Registration Date is the date on which EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares which has been stamped by HM Revenue & Customs in the United Kingdom. In the period between the Buy-back Date and the EGL UK Share Registration Date the Company, as transferor, will be deemed to hold the relevant EGL UK Shares on trust (but not as nominee) for the relevant EGL Eligible Shareholders.

## 6 Stamp duty

The Company will pay, on your behalf, any stamp duty payable by you in the United Kingdom on the transfer of EGL UK Shares to you following your valid acceptance of the Buy-back Offer.

## 7 Governing law

The Buy-back Offer and any buy-back agreement entered into in connection with the Buy-back Offer will be governed by the laws of Western Australia, Australia.

## 8 Definitions and interpretation

### 8.1 Definitions

**Acceptance Form** means the form of acceptance attached to or accompanying the Prospectus that is to be submitted to the Company's Share Registry.

**AEST** means Australian Eastern Standard Time.

**Articles of Association** mean the articles of association of EGL UK.

**ASX** means the ASX Limited ACN 008 129 164 and where the context permits the Australian Securities Exchange Limited operated by ASX Limited.

**Buy-back** means the proposed buy-back as described in the explanatory memorandum to the EGM.

**Buy-back Date** means the date the Company:

- (a) enters into buy-back agreements with EGL Eligible Shareholders who validly accept the Buy-back Offer;
- (b) buys back and cancels EGL Shares from each EGL Eligible Shareholder who validly accepts the Buy-back Offer; and
- (c) transfers EGL UK Shares to EGL Eligible Shareholders who validly accept the Buy-back Offer on a pro rata basis of 1 EGL UK Share for each EGL Share bought back.

This date is expected to be on or about 26 July 2012.

**Buy-back Offer** means the offer under the Prospectus to buy back EGL Shares from EGL Eligible Shareholders on the terms and conditions set out in these Terms.

**CHES Holding** means a holding of EGL Shares on the CHES subregister of the Company.

**CHES Holding Acceptance Form** means the form of acceptance attached to or accompanying the Prospectus that is to be submitted to a controlling participant.

**Company** means European Gas Limited ACN 075 760 655.

**EGL Eligible Shareholders** has the meaning in clause 1.5.

**EGL Shares** means fully paid ordinary shares in the capital of the Company.

**EGL UK** means European Gas Limited, a private limited company incorporated in England and Wales (company number 05321791).

**EGL UK Share Registration Date** means the date that EGL UK receives a completed stock transfer form for the transfer of EGL UK Shares to the EGL Eligible Shareholders who validly accept the Buy-back Offer which has been stamped by the UK HM Revenue & Customs, as from which date those EGL Eligible Shareholders may be registered as shareholders of EGL UK.

**EGL UK Shares** means fully paid ordinary shares in the capital of EGL UK.

**EGM** means a general meeting of the Company to be held at 1.00pm (AEST) on 17 July 2012.

**Ex-Date** means the date that is 4 business days before the Record Date.

**Excluded Foreign Shareholders** has the meaning in clause 1.6.

**Offer Period** means the period commencing at 19 June 2012 and ending at 7.00pm (AEST) on 24 July 2012.

**Prospectus** means the prospectus issued by the Company in connection with the Buy-back Offer for the offer of EGL UK Shares as consideration for the Buy-back.

**Record Date** means 14 June 2012.

**Resolutions** means the resolutions set out in the notice of meeting for the EGM.

**Share Register** means the register of the Company maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited.

**Shareholders** means shareholders of the Company.

**Small Parcel** means a parcel of EGL Shares which is valued at A\$2000 on the Record Date.

**Terms** means, in relation to the Buy-back Offer, these terms and conditions, as set out in Appendix 1 to the notice of meeting and explanatory memorandum for the EGM.

## 8.2 Interpretation

The following principles of interpretation apply unless the contrary intention appears or the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) words importing one gender includes all other genders;
- (d) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;



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