



2 July 2018

Companies Announcements Office
ASX Limited
10th Floor, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

PEP11 FARMIN AGREEMENT & NOTICE OF MEETING

MEC Resources Ltd (“**MEC**” or the “**Company**”) announced on 4 May 2018 that a conditional farmin agreement to PEP 11 had been signed by Asset Energy Pty Ltd (100% owned subsidiary of Advent Energy Ltd) and RL Energy Pty Ltd (“**RL Energy**”). The conditional agreement between Asset Energy and RL Energy provides for RL Energy to acquire 3D seismic data to meet the future 500km² PEP11 permit work commitment (inclusive of acquisition, processing and interpretation), by carrying Asset Energy’s participating interest share of these costs up to a capped amount of \$4 million.

The Company is now pleased to provide shareholders the opportunity to consider the benefits of this exploration activity in PEP11, via today’s Notice of Meeting. In accordance with Listing Rule 10.1 the Notice of Meeting includes an Independent Experts Report (“**IER**”) which has been obtained to assess the fairness and reasonableness of the transaction to MEC shareholders. **The transaction has been independently verified as fair and reasonable.**

Although shareholder approval is still to be obtained, the Company is pleased to report that Asset Energy and RL Energy are currently liaising with the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) to prepare a suitable environment plan for planned 3D seismic work under the farmin agreement for assessment by NOPSEMA. In accordance with the terms of the farmin agreement, RL Energy has already commenced preparation of this critical document.

The Directors of MEC strongly recommend shareholders support the farmin to PEP11 by RL Energy. This transaction will provide the much needed exploration activities in PEP11 to be progressed at an expedited manner with a view to potentially discovering and producing commercial quantities of natural gas for the east coast gas market.

In response to recent comments by the Shareholder Interest Group (“SIG”) who questioned why MEC did not hold the forthcoming extraordinary general meeting to consider replacement of the Board of MEC with this meeting, MEC confirms that it provided advice to the SIG that the two meetings could not be held together as the IER, which is compulsory for this meeting, could not be prepared in time to meet the strict timetable of their requisitioned meeting. The SIG had the opportunity to reissue their S249D notice but declined to do so causing the Company to incur additional costs in holding two meetings within a short period of time.

We encourage shareholders to contact the Company should they wish to discuss the planned farmout transaction.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Goh Hock", with a horizontal line underneath.

Goh Hock
Chairman

MEC Resources Ltd

ACN 113 900 020

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MEC RESOURCES LIMITED
ACN 113 900 020

NOTICE OF GENERAL MEETING

A General Meeting of the Company will be held at Moore Stephens, Level 7, 9 Castlereigh Street, Sydney NSW 2000 on Tuesday, 31 July 2018 at 3:00PM (AEST).

The Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

***Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared for the purposes of Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of the Resolution to the non-associated Shareholders. The Independent Expert has determined the Acquisition is fair and reasonable.*

Should you wish to discuss any matter please do not hesitate to contact the Company Secretary by telephone on (08) 9245 6187.

Shareholders are urged to attend or vote by lodging the proxy form attached to the Notice

Your Board of Directors unanimously recommend you vote FOR the Resolution

MEC RESOURCES LIMITED

ACN 113 900 020

NOTICE OF GENERAL MEETING

Notice is hereby given that the general meeting of Shareholders of MEC Resources Limited (**Company**) will be held at the offices of Moore Stephens (Level 7, 9 Castlereigh Street, Sydney) on Tuesday, 31 July 2018 at 3:00PM (AEST) (**Meeting**).

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of the Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders of the Company on 29 July 2018 at 3:00PM (AEST).

Terms and abbreviations used in the Notice are defined in Schedule 1.

AGENDA

1. Resolution - Approval for the assignment of a partial interest in PEP11

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

"That pursuant to and in accordance with Listing Rule 10.1 and for all other purposes, Shareholders approve of the assignment of up to a 60% Participating Interest in PEP11 and the Operating Agreement by Asset Energy Pty Ltd to RL Energy Pty Ltd pursuant to the Farmin Agreement, on the terms summarised in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of Asset Energy Pty Ltd and RL Energy Pty Ltd or any of their respective associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

BY ORDER OF THE BOARD



Deborah Ambrosini
Director & Company Secretary
Dated: 29 June 2018

MEC RESOURCES LIMITED

ACN 113 900 020

EXPLANATORY MEMORANDUM

1. Introduction

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at the offices of Moore Stephens (Level 7, 9 Castlereigh Street, Sydney) on Tuesday, 31 July 2018 at 3:00PM (AEST).

The Explanatory Memorandum forms part of the Notice which should be read in its entirety. The Explanatory Memorandum contains the terms and conditions on which the Resolutions will be voted.

The Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2	Action to be taken by Shareholders
Section 3	Background to the Resolution
Section 4	Resolution - Approval for the assignment of a partial interest in PEP11
Schedule 1	Definitions

A Proxy Form is located at the end of the Explanatory Memorandum.

2. Action to be taken by Shareholders

Shareholders should read the Notice including the Explanatory Memorandum carefully before deciding how to vote on the Resolution.

2.1 Voting in person

To vote in person, attend the Meeting on the date and at the place set out above.

2.2 Proxies

(a) Voting by proxy

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a 'proxy') to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- (i) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- (ii) a proxy need not be a member of the Company; and
- (iii) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

(b) Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- (i) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed);
- (ii) 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;
- (iii) if the proxy is the chair of the meeting at which the resolution is voted on - the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- (iv) if the proxy is not the chair - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

(c) Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- (i) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members;
- (ii) the appointed proxy is not the chair of the meeting;
- (iii) at the meeting, a poll is duly demanded on the resolution; and
- (iv) either of the following applies:
 - (A) the proxy is not recorded as attending the meeting; or
 - (B) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

3. Background to the Resolution

3.1 Company background

The Company is registered as a Pooled Development Fund under the *Pooled Development Fund Act 1992* (Cth) and was formed to invest into companies that are targeting potentially large energy and mineral resources.

The Company's current major investment lies in unlisted Australian oil and gas exploration company, Advent Energy Ltd (**Advent**). The Company holds 47.06% of the shares on issue in Advent.

Advent has assembled a range of hydrocarbon permits which contain near term production opportunities with pre-existing infrastructure and exploration upside. Advent's main assets comprise:

- (a) EP386 and RL1 (100%) in the onshore Bonaparte Basin in the north of Western Australia and Northern Territory; and
- (b) PEP11 (85%) in the offshore Sydney Basin.

The Shareholder approval being sought at this Meeting concerns PEP11 only.

3.2 Corporate structure



The Company also has investments in BPH Energy Ltd (1.48%) and Molecular Discovery Systems Ltd (8.92%).

3.3 PEP11 background

Advent, through its wholly owned subsidiary Asset Energy Pty Ltd (**Asset Energy**), holds 85% of Petroleum Exploration Permit PEP 11 - an exploration permit prospective for natural gas located in the Offshore Sydney Basin, south-east of the city of Newcastle.

As illustrated in the corporate structure diagram in Section 3.2, the Company holds an indirect 40.00% interest in PEP11 by virtue of its 47.06% shareholding in Advent.

Asset Energy's joint venture partner for PEP11 is Bounty Oil & Gas NL (**Bounty**).

The Participating Interests of the parties in PEP11 and the Operating Agreement are currently as follows:

- (a) Asset Energy: 85%
- (b) Bounty: 15%

3.4 Farm-in Agreement

On 4 May 2018, the Company announced that a farm-in agreement had been executed by Asset Energy and RL Energy in respect of PEP11 (**Farm-in Agreement**).

(a) Overview

Pursuant to the Farm-in Agreement, Asset Energy agreed to assign:

- (i) a 5% Participating Interest in PEP11 and the Operating Agreement to RL Energy in consideration for RL Energy completing the preparation of the EP Documents; and
- (ii) an additional 55% Participating Interest in PEP11 and the Operating Agreement to RL Energy in consideration for RL Energy carrying out the Farm-In Works.

(b) Conditions precedent

The Farm-in Agreement is conditional upon the satisfaction or waiver (by RL Energy) of each of the following conditions precedent:

- (i) Asset Energy confirming that the Company has sought and received Shareholder and ASX approval to enter into the Farm-in Agreement on or before 31 July 2018 or such later date as is agreed by the parties (**Approval Condition**);
- (ii) the Farm-in Agreement being approved and registered by NOPTA as a dealing in accordance with the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (Cth) on or before 31 December 2018 (or such later date as agreed by the parties) (**NOPTA Condition**); and
- (iii) Asset Energy executing the necessary ancillary assignment and related agreements in the agreed form (**Assignment Condition**).

The Approval Condition is intended to be satisfied by the receipt of Shareholder approval of the Resolution.

The NOPTA Condition is intended to be satisfied by submission of relevant title dealing forms with NOPTA, and considered by NOPTA pursuant to Chapter 4 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The Assignment Condition has been performed by Asset Energy and ancillary assignment documentation is held by an agreed escrow agent until such time as the parties notify the escrow agent that the Farm-In Works have been completed.

(c) First Assignment (5%)

Asset Energy agreed to assign to RL Energy a 5% Participating Interest in and under PEP11 and the Operating Agreement (**First Assignment**) in exchange for RL Energy completing the documentation and associated reports required to be prepared for lodgement with NOPSEMA (**EP Documents**) in order for RL Energy to apply for the environmental permit required from NOPSEMA to allow RL Energy to undertake the 3D Seismic (**Environmental Permit, or EP**). This is anticipated to cost RL Energy approximately \$200,000.

On completion of the First Assignment, the Participating Interests in PEP11 and the Operating Agreement will be as follows:

- (i) Asset Energy: 80%
- (ii) Bounty: 15%
- (iii) RL Energy: 5%

(d) **Second Assignment (55%)**

Asset Energy agreed to assign to RL Energy an additional 55% Participating Interest in and under PEP11 and the Operating Agreement (**Second Assignment**) in exchange for RL Energy undertaking the "Farm-In Works".

On completion of the Second Assignment, the Participating Interests in PEP11 and the Operating Agreement will be as follows:

- (i) Asset Energy: 25%
- (ii) Bounty: 15%
- (iii) RL Energy: 60%

The "Farm-In Works" include:

- (i) the payment of the fees to NOPSEMA upon lodgement of the EP Documents required to be completed for RL Energy to apply for the Environmental Permit; and
- (ii) the acquisition, processing and interpretation of at least 500km² of three dimensional seismic which satisfies the minimum requirements set out in the Farm-in Agreement (**3D Seismic**).

RL Energy is required to pay for and discharge 100% of the cost of Asset Energy's share of the Farm-In Works up to an amount equal to Asset Energy's Participating Interest share of the first \$4,000,000 of costs of the Farm-In Works in accordance with the Farm-in Agreement and the Operating Agreement.

On and from the date on which RL Energy has funded Asset Energy's share of the Farm-In Works up to the amount described above, RL Energy and Asset Energy shall bear all subsequent expenditures (including in respect of any remaining costs for Farm-In Works) on the basis that the Second Assignment has completed, subject to and in accordance with the provisions of the Operating Agreement, at their adjusted Participating Interest levels. Bounty Oil and Gas NL will contribute at its current Participating Interest level for all joint operations pursuant to the Operating Agreement.

(e) **Operator**

Asset Energy is currently the Operator of PEP11.

Under the Farm-in Agreement, RL Energy must in undertaking its obligations and conducting the Farm-In Works, comply with the terms of the Operating Agreement as if RL Energy had been appointed Operator of PEP11 pursuant to the Operating Agreement. Asset Energy delegated to RL Energy all its duties

and obligations under the Operating Agreement in so far as they apply to the Farm-In Works which are to be undertaken pursuant to a mutually agreed operator management contract or similar agreement.

On and from the First Assignment taking effect, the parties are required to do all things reasonably necessary (including the passing of resolutions) to appoint RL Energy as Operator of the PEP11 pursuant to the Operating Agreement.

3.5 About RL Energy

RL Energy Pty Ltd is a privately owned exploration company backed by industry professionals. Its leadership team has extensive experience, knowledge and expertise in the Australian oil and gas exploration and production industry. RL Energy has demonstrated that it has the technical capability to undertake the proposed work program, commencing immediately with a detailed environmental approval process followed by the proposed 3D seismic survey.

RL Energy is chaired by Mr Greg Channon, who was formally CEO of Pathfinder Energy and prior to that was the Upstream CEO of Brightoil Petroleum (Holdings) Limited based in Hong Kong. Mr Channon is a geologist by training, with over 30 years of experience in the oil and gas industry.

He has recently been joined on the Board of RL Energy by Mr Dougal Ferguson. Mr Ferguson has over 24 years of experience in senior management positions in listed upstream oil and gas for both domestic and international companies. Mr Ferguson is currently Managing Director of Elixir Petroleum Limited and spent seven years in London with Premier Oil plc and Hess Corporation. He has gained broad commercial and technical experience working in business development and commercial roles in small to medium exploration and production companies.

3.6 Advantages of the Transaction

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the Resolution:

- (a) No 3D seismic surveys have ever been recorded in the vicinity of PEP11. 3D seismic surveys are considered by professional and competent oil-field operators as a minimum standard of data necessary to justify the geological and financial risk of drilling any offshore exploration well
- (b) A modern 3D seismic survey will de-risk potential drilling targets in PEP11
- (c) A modern 3D seismic survey may provide more than one drilling target and encourage a multi-well exploration drilling campaign
- (d) A modern 3D seismic survey may be able to provide increased confidence therein and enlarged volumetric estimations of the resource potential in PEP11
- (e) In the event of a commercial natural gas discovery from an exploration well drilled on the basis of 3D seismic data, commercial development of the field may take considerably less time than a comparable discovery drilled on the basis of 'legacy' 2D seismic data only

3.7 Disadvantages of the Transaction

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the Resolution:

- (a) Additional time and cost will be incurred prior to drilling an exploration well in PEP11.
 - (i) However, the Directors are of the view that the proposed exploration strategy of acquisition of 3D seismic data prior to exploration drilling is prudent risk management and good oilfield practice
- (b) A 3D seismic survey may yield disappointing results.
 - (i) However, the Directors are of the view that considerable cost savings would be achieved by avoiding drilling an exploration well likely to be doomed to failure as a result of non-favourable results from a 3D seismic survey
- (c) Considerable participating interest in PEP11 is being provided to RL Energy to acquire 3D seismic data in PEP11 should the transaction proceed.
 - (i) Shareholders should be aware that Asset Energy will still hold a very material interest (at least 25%) in PEP11 in the event the Transaction is completed as intended. The Directors are of the view that this level of participating interest in a high-risk offshore petroleum exploration title is considered by professional and good oilfield operators as a reasonable and balanced exposure to geological risk and operational expense. Furthermore, raising capital to drill an exploration well without the aid of 3D seismic will likely be significantly more dilutive than the proposed transaction with RL Energy.

3.8 Independent Expert's Report

The Directors resolved to appoint RSM Corporate Australia Pty Ltd as an independent expert and commissioned it to prepare a report to provide an opinion as to whether or not the Transaction and the proposal in the Resolution is fair and reasonable to the non-associated Shareholders (being the existing Shareholders).

What is fair and reasonable must be judged by the independent expert in all the circumstances of the proposal. This requires taking into account the likely advantages to Shareholders if the proposal is approved and comparing them with the disadvantages to them if the proposal is not approved.

The Independent Expert has concluded that the proposed Acquisition is fair and reasonable to the non-associated Shareholders. The Directors are very pleased that an independent authority has endorsed the Board's recommendation to approve the Transaction.

The Company strongly recommends that you read the Independent Expert's Report in full, a copy of which is in the Annexure.

4. Resolution

4.1 General

The Resolution seeks Shareholder approval pursuant to Listing Rule 10.1 for the Transaction.

4.2 Listing Rule 10.1

Listing Rule 10.1 concerns transactions between an entity or any of its subsidiaries and persons in a position to influence the entity.

Listing Rule 10.1 provides that an entity (or any of its subsidiaries) must not acquire a substantial asset from, or dispose of a substantial asset to, a related party of the entity or an associate of such a person without the approval of the entity's security holders.

Although RL Energy is not considered a related party the ASX has exercised its discretion to require the Company to seek Shareholder approval pursuant to Listing Rule 10.1 for the Transaction.

4.3 Specific information required by Listing Rule 10.10

Pursuant to and in accordance with Listing Rule 10.10, the following information is provided in relation to the Transaction:

- (a) a voting exclusion statement is included in the Notice; and
- (b) the Company has obtained a report on the Transaction from an independent expert, a copy of which is included in the Annexure. The Independent Expert has concluded that the proposed Acquisition is fair and reasonable to the existing Shareholders. Please refer to Section 3.7(a).

4.4 Additional information

The Resolution is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 1.

The Chair will cast all available proxies in favour of Resolution 1.

Schedule 1 - Definitions

In the Notice, words importing the singular include the plural and vice versa.

\$ means Australian Dollars.

3D Seismic has the meaning given in Section 3.4(d).

Advent means Advent Energy Ltd (ACN 109 955 400).

AEST means Australian Eastern Standard Time, being the time in Melbourne, Victoria.

Annexure means the annexure to the Notice and the Explanatory Memorandum.

Asset Energy means Asset Energy Pty Ltd (ACN 120 013 390).

ASX means the ASX Limited ABN 98 008 624 691 and where the context permits the Australian Securities Exchange operated by ASX Limited.

Board means the board of Directors of the Company.

Bounty means Bounty Oil & Gas NL (ACN 090 625 353).

Chair means the person appointed to chair the Meeting of the Company convened by the Notice.

Company means MEC Resources Limited (ACN 113 900 020).

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

Director means a director of the Company.

EP Documents has the meaning given to that term in Section 3.4(c).

Explanatory Memorandum means the explanatory memorandum which forms part of the Notice.

Farmin Agreement means the farmin agreement between Asset Energy and RL Energy in respect of PEP11.

Farm-In Works has the meaning described in Section 3.4(d).

First Assignment means the assignment of a 5% Participating Interest in PEP11 and the Operating Agreement by Asset Energy to RL Energy.

Independent Expert means RSM Corporate Australia Pty Ltd.

Independent Expert's Report means the report prepared by the Independent Expert in relation to the Resolution, attached to this Notice as the Annexure.

Listing Rules means the listing rules of ASX.

Meeting has the meaning given in the introductory paragraph of the Notice.

NOPSEMA means the National Offshore Petroleum Safety and Environmental Management Authority, or any subsequent body(ies) with the rights, duties and/or authority currently possessed by NOPSEMA.

NOPTA means the National Offshore Petroleum Titles Administrator, or any subsequent body(ies) with the rights, responsibilities or authority currently possessed by NOPTA.

Notice means this notice of general meeting.

Operating Agreement means the PEP11 Joint Operating Agreement between Bounty and Asset, dated 27 October 2006, in respect of operations under PEP11, as amended from time to time.

Participating Interest means the undivided percentage interest of a party in both rights and obligations derived from PEP11 as well as under the Operating Agreement.

PEP11 means Petroleum Exploration Permit NSW/PEP11 issued under the Offshore Petroleum and *Greenhouse Gas Storage Act 2006* (Cth), covering an area in Commonwealth waters offshore New South Wales.

Proxy Form means the proxy form attached to the Notice.

Resolution means the resolution referred to in the Notice.

RL Energy means RL Energy Pty Ltd (ACN 616 758 715).

Schedule means a schedule to the Notice.

Second Assignment means the assignment of up to a 55% Participating Interest in PEP11 and the Operating Agreement by Asset Energy to RL Energy.

Section means a section of the Explanatory Memorandum.

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

Shareholder means a holder of a Share.

Transaction means the assignment of up to a 55% Participating Interest in PEP11 and the Operating Agreement by Asset Energy to RL Energy pursuant to the Farmin Agreement.

Annexure - Independent Expert's Report



MEC RESOURCES LIMITED

Financial Services Guide and Independent Expert's Report

27 June 2018

We have concluded that the Proposed Transaction is fair and reasonable to the Shareholders

FINANCIAL SERVICE GUIDE

27 June 2018

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“RSM Corporate Australia Pty Ltd” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement 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. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution 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 product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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27 June 2018

The Directors
MEC Resources Ltd
Level 28, 303 Collins Street
Melbourne VIC 3000

Dear Directors

INDEPENDENT EXPERT'S REPORT ("REPORT")

1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of MEC Resources Limited ("MEC" or "the Company") to be held on or around 31 July 2018, at which shareholder approval will be sought for the assignment of a partial interest in Petroleum Exploration Permit ("PEP") 11 ("Proposed Transaction").
- 1.2 MEC is an Australian public company listed on the Australian Securities Exchange ("ASX") and is registered as a Pooled Development Fund under the *Pooled Development Fund Act 1992*. MEC has a 47.06% indirect interest in Asset Energy Pty Ltd ("Asset Energy") which holds an 85% Participating Interest In Petroleum Exploration Permit ("PEP") 11.
- 1.3 Non-Associated Shareholders have been asked to vote on the Proposed Transaction in Resolution 1 of the Notice:
- To consider and if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:
- "That pursuant to and in accordance with Listing Rule 10.1 and for all other purposes, Shareholders approve of the assignment of up to a 60% Participating Interest in PEP11 and the Joint Operating Agreement by Asset Energy Pty Ltd to RL Energy Pty Ltd pursuant to the Farm-In Agreement, on the terms summarised in the Explanatory Memorandum".*
- 1.4 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the Proposed Transaction is fair and reasonable to shareholders not associated with the Proposed Transaction ("Non-Associated Shareholders").
- 1.5 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

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RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

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2. Summary and Conclusion

Opinion

2.1 In our opinion, and for the reasons set out in Sections 11 and 12 of this Report, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of MEC.

Approach

2.2 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to a substantial shareholder, a related party or any of its associates without the approval of holders of the entity's ordinary securities.

2.3 An asset is considered substantial "if its value; or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX".

2.4 ASX Listing Rule 10.10.2 sets out the requirement for the inclusion of an independent expert's report opining on whether the transaction is fair and reasonable.

2.5 We have considered whether or not the Proposed Transaction is "fair" to the Non-Associated Shareholders by assessing and comparing:

- The Fair Market Value of the assets being disposed of being a 60% interest in PEP 11; with
- The Fair Market Value of the consideration to be paid by RL Energy Pty Ltd ("RL Energy")

and, considered whether the Proposed Transaction is "reasonable" to the Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.

2.6 Further information of the approach we have employed in assessing whether the Proposed Transaction is "fair" and "reasonable" is set out at Section 4 of this Report.

Fairness

2.7 Our assessed values of the assets being disposed of and the consideration payable by RL Energy are summarised in the table below.

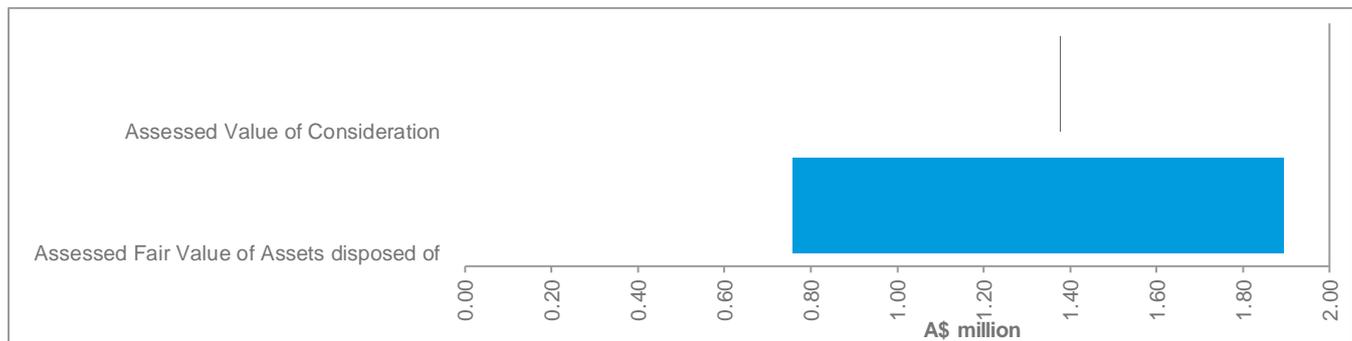
Table 1 Assessment of fairness

Assessment of fairness	Ref	Value	
		Low \$	High \$
Assessed Fair Value of Assets disposed of	Section 9	757,200	1,893,000
Assessed Fair Value of the Consideration	Section 10	1,376,000	1,376,000

Source: RSM analysis

2.8 We have summarised the values included in the table above in the figure below:

Figure 1 Fairness graphical representation



Source: RSM analysis

2.9 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of ASX Listing Rule 10.1, we consider the Proposed Transaction to be fair to the Non-Associated Shareholders of MEC as the value of the Consideration is within the range of the values of the assets being disposed of.

Reasonableness

2.10 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- The future prospects of the Company if the Proposed Transaction does not proceed; and
- Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

2.11 If the Proposed Transaction does not proceed then the Company will have to continue seeking and reviewing potential sources of funding both at the project and the equity level.

2.12 The key advantages of the Proposed Transaction are:

- The Proposed Transaction is Fair;
- The exploration and potential development of PEP 11 may be expedited;
- The 3D seismic will de-risk the potential drilling targets in PEP 11;
- The 3D seismic data may assist in raising capital for any drilling programmes; and
- Shareholders interests in the Company will not be diluted.

2.13 The key disadvantages of the Proposed Transaction are:

- Asset Energy's Participating Interest in PEP 11 will reduce from 85% to 25%.

2.14 In our opinion, the position of the Non-Associated Shareholders of MEC if the Proposed Transaction is approved is more advantageous than if the Proposed Transaction is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is reasonable for the Non-Associated Shareholders of MEC.

3. Summary of Proposed Transaction

Overview

- 3.1 On 4 May 2018 MEC announced that, further to previous announcements the Company had made on the Australian Securities Exchange (“ASX”) on 5 December 2017 and 19 February 2018, a conditional Farm-In agreement to Petroleum Exploration Permits 11 (“PEP11”) had been signed by Asset Energy Pty Ltd (“Asset Energy”) and RL Energy.
- 3.2 Asset Energy is a wholly owned subsidiary of MEC investee Advent Energy Pty Ltd (“Advent Energy”) and Asset Energy currently holds 85% of PEP11 and is the Operator of that title. MEC holds a 47.06% interest in Advent.
- 3.3 Key terms of the agreement include, but are not limited to:
- RL Energy has the right to earn a 5% interest in PEP11 in exchange for preparing and submitting all documents and reports in support of an environmental approval process for the proposed 3D seismic program. The costs associated with the preparation of the environment plan documents and reports are to be met by RL Energy and will not count towards the capped expenditure amount referred to below (First Assignment); and
 - RL Energy has the right to earn a further 55% interest in PEP11 in exchange for RL Energy undertaking the Farm-In Works. RL Energy is required to pay for and discharge 100% of the cost of Asset Energy’s share of the Farm-In Works up to an amount equal to Asset Energy’s Participating Interest share of the first \$4,000,000 of costs of the Farm-In Works in accordance with the Farm-In Agreement and the Operating Agreement (Second Assignment).
- 3.4 Set out below are the relative interests in PEP11 both at the date of this Report and upon completion of both the First Assignment and Second Assignment as contemplated by the Farm-In Agreement.

Table 2 Interests in PEP 11

	Interest in PEP11		
	Currently	At completion of First Assignment	At completion of Second Assignment
Asset Energy	85%	80%	25%
Bounty Oil and Gas	15%	15%	15%
RL Energy	-	5%	60%
	100%	100%	100%

Source: RSM analysis

Key conditions of the Proposed Transaction

- 3.5 Completion of the Proposed Acquisition is subject to and conditional upon a number of conditions precedent, including:
- Regulatory approval of the Farm-In Agreement; and
 - Asset Energy confirming that its ultimate parent entity (MEC) has sought and received shareholder approval for the Proposed Transaction.

Rationale for the Proposed Transaction

- 3.6 The Farm-In Work of the Second Assignment comprises a seismic 3D which is estimated to cost approximately \$6 million and will take 3 to 6 months to complete. Management consider the benefit of the seismic 3D is that it will de-risk the project by identifying details of gas reserves and/or resources contained within PEP 11 and if there are identified reserves and/or resources the prospective areas for an exploration drilling program. Management have advised that an exploration well could cost in the vicinity of \$20 million and that the Company considers this strategy to be prudent.
- 3.7 MEC is a junior oil and gas explorer funding its exploration projects either at the corporate level through equity raisings or at the project level through joint venture or farm in arrangements.
- 3.8 Given MEC's financial position and share price the Company has determined the appropriate approach to expedite the development of PEP 11 is by way of a farm in.

4. Scope of the Report

ASX Listing Rules

- 4.1 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial shareholder, a related party or any of its associates without the approval of holders of the entity's ordinary securities.
- 4.2 Although RL Energy is not considered a related party the ASX has exercised its discretion to require the Company to seek Shareholder approval pursuant to Listing Rule 10.1 for the Proposed Transaction.
- 4.3 ASX Listing Rule 10.10 states that the notice for the shareholders' meeting required under ASX Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state whether, in the expert's opinion, the transaction is fair and reasonable to the Non-Associated Shareholders.
- 4.4 Accordingly, MEC is to hold a meeting of its Shareholders where it will seek approval for the Proposed Transaction and the Company has engaged RSM, to prepare a report which sets out our opinion as to whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders.

Basis of evaluation

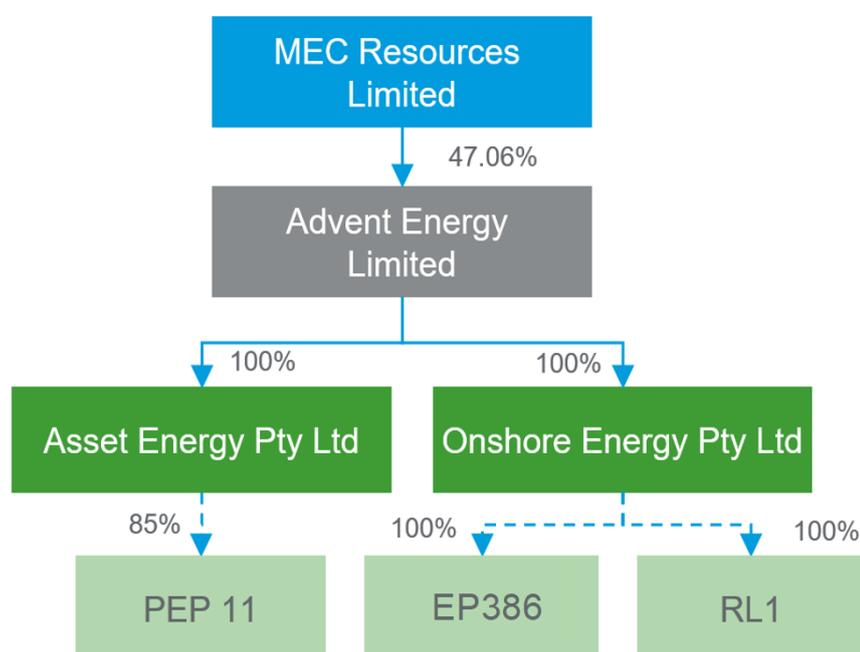
- 4.5 In determining whether the Proposed Transaction is "fair" and "reasonable" we have given regard to the views expressed by the ASIC in RG 111.
- 4.6 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.7 RG 111 states that the expert's report should focus on:
- the issues facing the security holders for whom the report is being prepared: and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.8 RG 111 states that in relation to a related party transaction the expert's assessment of fair and reasonable should not be applied as a composite test – that is, there should be a separate assessment of whether the transaction is "fair" and "reasonable" as in a control transaction.
- 4.9 Consistent with the guidelines in RG 111, in assessing whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, the analysis undertaken is as follows:
- whether the value of the Consideration (being the payments made in accordance with the First Assignment and Second Assignment of the Farm-In Agreement) is more than the value of the assets being disposed of (being a 60% interest in PEP 11) – fairness; and
 - a review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction – reasonableness.
- 4.10 The other significant factors to be considered include:
- the future prospects of the Company if the Proposed Transaction does not proceed; and
 - any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.
- 4.11 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of MEC Resources Limited

Background

- 5.1 MEC is an Australian public company listed on the ASX and based in West Perth, Western Australia. The Company is registered as a Pooled Development Fund under the *Pooled Development Fund Act 1992* and was formed to invest into companies that are targeting potentially large energy and mineral resources.
- 5.2 MEC through its interest in Advent Energy, holds interests in hydrocarbon permits in the onshore Bonaparte Basin in the north of Western Australia and Northern Territory (EP386 and RL1) and in the offshore Sydney Basin (PEP 11).
- 5.3 The current structure of MEC is shown in the figure below:

Figure 1 MEC Corporate Structure



Source: Company

Asset Energy – PEP11 Offshore Sydney Basin

- 5.4 As at 31 December 2017, MEC had a 47.06% investment in Advent Energy which, via its wholly owned subsidiary Asset Energy owns 85% of PEP11 an exploration permit prospective for natural gas located in the offshore Sydney Basin.
- 5.5 PEP 11 is a significant offshore exploration area with large scale structuring and potentially multi trillion cubic feet gas charged Permo-Triassic reserves. Mapped prospects and leads within the Offshore Sydney Basin are generally located less than 50 km from the Sydney-Newcastle-Wollongong greater metropolitan area.
- 5.6 Further details on PEP 11 are provided in the report prepared by Fluid Energy Consultants (“Fluid”) at Appendix D.

Onshore Energy Pty Ltd – Exploration Permit EP 386

- 5.7 Onshore Energy Pty Ltd, a wholly owned subsidiary of Advent Energy, holds a 100% interest in Exploration Permit EP 386 and Retention Licence RL1.

5.8 EP386 is the sole petroleum permit in the Western Australian section of the onshore Bonaparte Basin and RL1 covers the Weaber Gas field in the Northern Territory. The Bonaparte Basin is a highly prospective petroliferous basin, with significant reserves of oil and gas.

Other Investments

5.9 The Company also has investments in BPH Energy Ltd (“BPH Energy”) (%) and Molecular Discovery Systems Ltd (%)

Directors

5.10 The directors of MEC are summarised in the table below.

Table 2 MEC Directors

Name	Title	Experience
Mr Goh Hock	Chairman	Mr Goh has extensive experience in the oil and gas industry across Australia. He has previously held senior positions in Asia, Middle East and Europe. Mr Goh currently sits on the boards of Santos Limited, Stora Enso Oyj, AE Skf and Versurina plc.
Mr K.O Yap	Non-Executive Director	Mr K.O Yap has over 12 years experience in investment banking and has experience in corporate finance, advisory, mergers and acquisitions and capital raisings throughout Asia. Mr Yap graduated from the London School of Economics in 1983 and is a fellow of the Institute of Chartered Accountants in England and Wales.
Mr Heng Yu	Non-Executive Director	Mr Yu has over 25 years experience in the Oil and Gas industry and has held senior positions for a number of companies in China. He has skills in reservoir analysis, geological modelling, reserves calculation, borehole image processing and interpretation and multi well correlation.
Ms Deborah Ambrosini	Executive Director and Company Secretary	Ms Ambrosini has over 10 years experience in accounting and business development covering the biotechnology, mining, IT communications and financial services sectors. She is a fellow of Chartered Accountants Australia and New Zealand.
Mr Darryl Moore	Non-Executive Director	Mr Moore is a professional drilling engineer who has performed drilling engineering services for major oil and gas companies including Shell, Chevron, Phillips, ENI and Woodside on a number of international projects. In 2010 he provided drilling engineering services to MEC investee, Advent Energy, including the design of an exploration well targeting the Baler prospect.
Mr Matthew Battrick	Alternate Director	Mr Battrick has 35 years experience in the Australian and international oil and gas industry and has worked with major oil companies as well as ASX 100 companies. He has experience in resetting strategic direction at Board level.

Source: Company

Financial information of MEC

5.11 The information in the following section provides a summary of the financial information of MEC for the years ended 30 June 2016 and 30 June 2017 extracted from the audited financial statements of the Company and the half-year ended 31 December 2017, extracted from the reviewed financial statements of the Company.

5.12 The auditor of MEC, HLB Mann Judd, has issued an unqualified audit and review opinion on the financial statements for the years ended 30 June 2016 and 30 June 2017 and the half-year ended 31 December 2017, respectively. A matter of emphasis was drawn to the material uncertainty regarding carrying value of exploration expenditure and material uncertainty regarding the group’s ability to continue as a going concern as at 30 June 2017 and 31 December 2017, and with regard to the carrying value of exploration expenditure as at 30 June 2016 however, there was no modification of opinion in relation to these matters.

Financial performance

5.13 The following table sets out a summary of the financial performance of MEC for the half-year ended 31 December 2017 and the years ended 30 June 2016 and 30 June 2017.

Table 3 MEC historical financial performance

\$	Ref	6 months ended	Year ended	Year ended
		31-Dec-17 Reviewed	30-Jun-17 Audited	30-Jun-16 Audited
Revenue from ordinary activities	5.15	40,470	61,061	23,984
Other income	5.15	79,158	(6,080)	37,498
Administration expenses		(33,849)	(73,075)	(252,750)
Consulting and legal expenses	5.16	(290,613)	(420,990)	(131,348)
Depreciation and amortisation expense		-	(893)	(1,170)
Employee Benefits expense		(119,364)	(299,565)	(487,587)
Interest expense		(1,216)	(3,024)	(3,901)
Insurance expenditure		(11,368)	(32,545)	(31,418)
Service fees		-	(129,050)	(309,720)
Other expenses		(35,703)	(94,668)	(110,988)
Travelling expense		(19,700)	(31,845)	(33,278)
Loss before income tax		(392,185)	(1,030,674)	(1,300,678)
Income tax expense		-	-	-
Loss from continuing operations		(392,185)	(1,030,674)	(1,300,678)
Other Comprehensive Income		-	-	-
Total Comprehensive Income for the period		(392,185)	(1,030,674)	(1,300,678)

Source: Company Financials

- 5.14 The Company incurred a loss before tax of \$0.4 million in the half-year ended 31 December 2017, following losses before tax of \$1.0 million and \$1.3 million for the years ended 30 June 2017 and 30 June 2016 respectively.
- 5.15 Revenue solely comprises interest revenue received from other entities. Other income generated in the six months ended 31 December 2017 was derived from an outstanding R&D claim and project costs recovered by the Company.
- 5.16 Included in consulting and legal expenses are legal costs of \$238,994 for the year ended 30 June 2017 and \$91,766 for the six months ended 31 December 2017. The legal costs for the year ended 30 June 2017 were incurred in response to the former managing director and his associates causing the Company to hold two extraordinary general meetings, defend a rights issue with the Takeovers Panel and costs incurred in recovering funds owed by BPH Energy. The legal costs for the six months ended 31 December 2017 were incurred in recovery actions against BPH Energy and in a share issue under the Company's Share Purchase Plan.

Cashflows

5.17 The table below sets out a summary of the cashflows of MEC for the years ended 30 June 2016 and 30 June 2017 and the six months ended 31 December 2017.

Table 5 MEC historical cashflows

A\$	Ref	6 months ended 31-Dec-17 Reviewed	Year ended 30-Jun-17 Audited	Year ended 30-Jun-16 Audited
Cashflows from operating activities				
Payments to suppliers and employees		(499,361)	(899,264)	(881,080)
Interest received		2,485	5,674	13,447
Net cash used in operating activities		(496,876)	(893,590)	(867,633)
Cashflows from investing activities				
Amounts loaned to other entities		-	-	(160,000)
Repayment of loans to other entities		(843)	-	-
Payments for property, plant and equipment		-	(406)	-
Deferred exploration costs – net of reimbursements		(131,525)	(28,901)	62,585
Net cash used in investing activities		(132,368)	(29,307)	(97,415)
Cashflows from financing activities				
Proceeds from share issues	5.18	619,783	646,480	576,495
Net cash used in financing activities		619,783	646,480	576,495
Net decrease in cash held	5.18	(9,461)	(276,417)	(388,553)
Cash at beginning of period		600,601	877,018	1,265,571
Cash at end of period		591,140	600,601	877,018

Source: Company Financials

5.18 As shown in the table above, there has been a net cash outflow of \$674,431 over the 30 months ended 31 December 2017 over which time \$1,842,758 has been raised from equity issues.

5.19 On 22 January 2018 MEC announced a placement of 14,285,714 shares to sophisticated and professional investors at 2.1 cents per share to raise \$300,000 before costs. On 16 May 2018 the Company issued a replacement prospectus for a pro-rata non-renounceable rights offer seeking to raise up to \$2,447,512 at 1.8 cents per share.

Financial position

5.20 The table below sets out a summary of the financial position of MEC as at 31 December 2017, 30 June 2017 and 30 June 2016.

Table 6 MEC historical financial position

\$	Ref	31-Dec-17 Reviewed	30-Jun-17 Audited	30-Jun-16 Audited
Current Assets				
Cash and cash equivalents	5.17	591,140	600,601	877,018
Trade receivables		153,518	126,644	118,322
Financial assets	5.22	423,632	385,646	44,867
Other current assets		23,454	26,777	30,138
Total Current Assets		1,191,744	1,139,668	1,070,345
Non-Current Assets				
Intangible assets		22,674	22,674	22,674
Evaluation and exploration costs	5.25	29,182,472	29,050,947	29,022,046
Financial Assets	5.28	113,008	113,008	453,415
Property, plant & equipment		1,593	1,295	1,782
Total Non-Current Assets		29,319,747	29,187,924	29,499,917
Total Assets		30,511,491	30,327,592	30,570,262
Current Liabilities				
Trade and other payables		883,950	936,510	793,795
Financial Liabilities	5.29	813,422	813,422	91,190
Short-term provisions		88,217	85,727	810,973
Total Current Liabilities		1,785,589	1,835,659	1,695,958
Non-Current Liabilities				
Provisions		28,469	27,479	27,484
Total Non-Current Liabilities		28,469	27,479	27,484
Total Liabilities		1,814,058	1,863,138	1,723,442
Net Assets	5.20	28,697,433	28,464,454	28,846,820

Source: Company Financials

5.21 At 31 December 2017 MEC had net assets of approximately \$28.7 million, comprising principally of exploration assets with cash of approximately \$0.6 million and a working capital deficit (current assets, less current liabilities) of approximately \$0.6 million.

- 5.22 Financial assets (current) comprises two loans totalling \$423,632 being \$378,765 due from BPH Energy and \$44,867 due from Grandbridge Ltd (“Grandbridge”).
- 5.23 In relation to the BPH Energy loan MEC entered into a convertible loan agreement with BPH Energy on 22 October 2014 to a maximum amount of \$200,000. Interest was charged monthly at a rate of 8.97%. The loan agreement is convertible at the election of MEC. The issue price on conversion is the higher of \$0.04 per share and the average closing price of BPH Energy’s shares on the ASX over the five trading days immediately prior to the date of conversion. On 18 February 2016 the loan was extended to a maximum amount of \$324,000. The loan became due and payable on 24 December 2016 and is currently accruing interest at a default interest rate of 20.97% MEC has incurred significant legal fees in recovery actions of this debt (refer paragraph 5.16).
- 5.24 As specifically disclosed in the 31 December 2017 reviewed financial statements, there is no formal agreement between Grandbridge and the Company with respect to the amount due (\$44,867). Furthermore and in an effort to set off the Company’s claim against BPH Energy, Grandbridge has purported to assign the receivable of this purported loan to BPH Energy. MEC disputes the assignment of the purported debt.
- 5.25 Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest (PEP 11, EP 386, RL1). These costs are only carried forward where right of tenure of the area of interest is current and to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.
- 5.26 At 31 December 2017 MEC had commitments for its exploration permits of \$4,497,500 over the following 12 months under the terms of its application licences in order to maintain tenure. In order to assist meeting these commitments, the Company is continually seeking and reviewing potential sources of funding including farm-in and equity.
- 5.27 It is expected that the commitments will change significantly upon conclusion of the 2D seismic survey in PEP 11, as once the PEP 11 Year 2 and 3 commitments are achieved, it is open to Advent’s wholly owned subsidiary Asset Energy to apply for variation to the PEP 11 Year 4 and 5 work programs which currently includes an exploration well in Year 4 and 500km² 3D seismic in Year 5.
- 5.28 Financial assets (non current) represent the Company’s investments in BPH Energy and Molecular Discovery Systems Ltd.
- 5.29 Financial liabilities of \$813,422 include loans payable of \$41,935 to BPH Energy and \$770,129 to Grandbridge. As specifically disclosed in the 31 December 2017 reviewed financial statements, the Company disputes the liability for these amounts. There is no formal agreement between Grandbridge, BPH Energy and the Company in respect of these amounts. Furthermore, and in an effort to set off the Company’s claims against BPH Energy, Grandbridge has purported to assign the benefit of this purported loan to BPH Energy. The Company disputes the entitlement of Grandbridge or BPH Energy to those amounts or to any assignment of the purported debt.

Capital structure

5.30 MEC currently has 271,945,731 ordinary shares on issue. The top 20 shareholders of MEC as at 19 June 2018 are set out below.

Table 7 MEC Top 20 shareholders

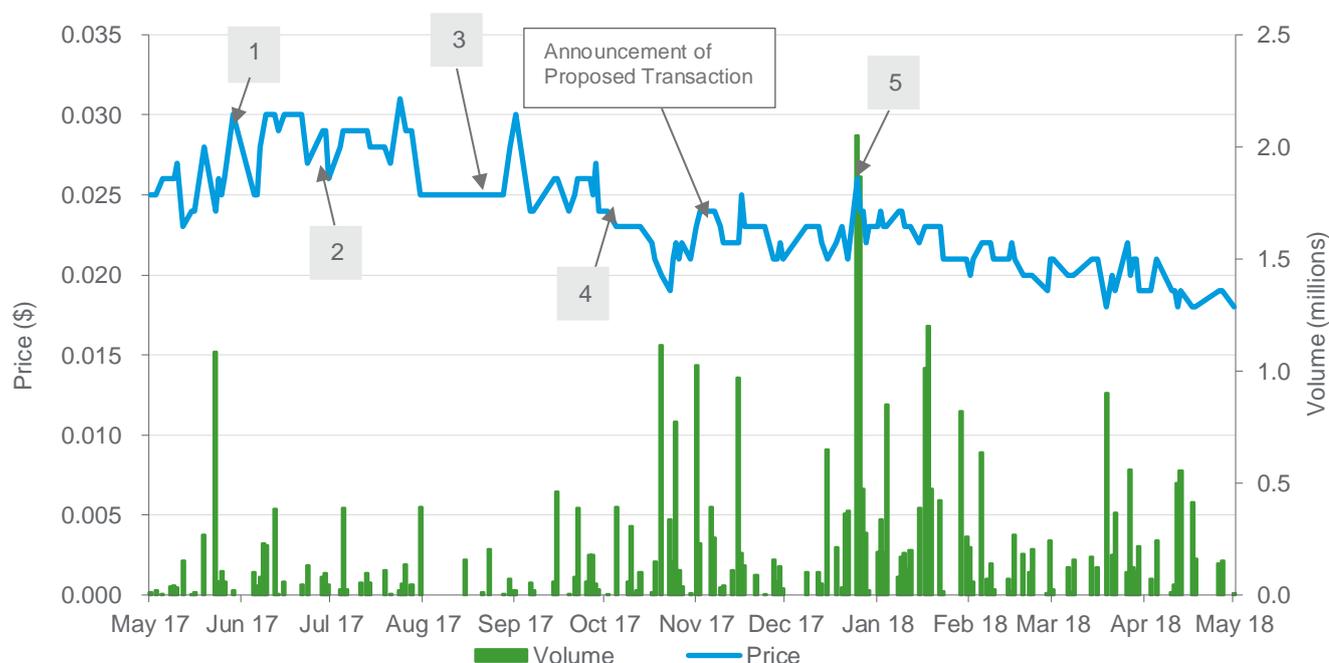
Rank	Name	Total Units	% Issued Share Capital
1	MR ROBERT ANTHONY HEALY	11,868,108	4.36%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,605,766	3.90%
3	CITICORP NOMINEES PTY LIMITED	9,424,907	3.47%
4	GRANDBRIDGE LIMITED	7,606,362	2.80%
5	MR DAVID BREEZE	6,722,081	2.47%
6	TRANDCORP PTY LTD <TRANDCORP SUPER FUND A/C>	6,227,238	2.29%
7	PROTAX NOMINEES PTY LTD <RICHARDS SUPER FUND A/C>	5,559,920	2.04%
8	EDWARD YI FINANCIAL SERVICES PTY LTD <G & E SUPER FUND A/C>	4,400,742	1.62%
9	BUJO PTY LTD	4,000,000	1.47%
10	ANSTEY SUPERANNUATION FUND PTY LTD <ANSTEY FAMILY S/F A/C>	3,500,000	1.29%
11	MR LAWRENCE MILTON BIRCH & MRS JEAN FRANCES BIRCH	3,177,794	1.17%
12	MR ROSS COVENTRY BARTER	3,117,776	1.15%
13	MR ANDREW JOHN GUNTHORPE	2,903,424	1.07%
14	MR IANAKI SEMERDZIEV	2,879,831	1.06%
15	HERA INVESTMENTS PTY LTD	2,709,048	1.00%
16	TRANDCORP PTY LTD	2,648,669	0.97%
17	MR COLIN VICTOR WARE	2,602,966	0.96%
18	MR ROGER JULIAN GLYN DAVENPORT MRS FRANCES DAVENPORT <THE DAVENPORT FAMILY A/C>	2,598,619	0.96%
19	MR CHRISTOPHER WALTON VINEY + MRS JULIE ELIZABETH VINEY <ROMANI FAMILY A/C>	2,593,040	0.95%
20	BNP PARIBAS NOMINEES PTY LTD	2,456,373	0.90%
Top 20 Shareholding		97,602,664	35.89%
Total Issued capital		271,945,731	100.00%

Source: Company

Share price performance

5.31 The figure below sets out a summary of MEC closing share prices and traded volumes for the 12 months to 22 May 2018.

Figure 2 MEC daily closing share price and traded volumes



Source: S&P Capital IQ/ ASX

5.32 In the 5-month period prior to the announcement of the Proposed Acquisition on 5 December 2017, MEC's share price trended downwards from a high of \$0.031 per share to a low of \$0.019 per share. Over the 180 trading days prior to the announcement, 6.54% of MEC's Shares were traded, indicating a lack of liquidity.

5.33 The most significant trading days have been noted in the graph above and are summarised as follows:

1. On 20 June 2017, a purported creditor of the Company, Grandbridge issued a notice under section 203D of the Corporations Act of its intention to move resolutions for the removal of four of the Company's directors from the board.
2. On 21 July 2017, the ASX released a notice from MEC in relation to a settlement conference being held between MEC, and its purported creditors, BPH Energy and Grandbridge to seek to achieve global resolution of respective legal disputes.
3. On 13 September 2017, MEC announced that it had received a Writ of Summons on behalf of Grandbridge, however believed the claim was of no legal merit and that the Company would strongly defend its position.
4. On 1 November 2017, MEC announced that its investee, Advent Energy had agreed to binding terms with two associated entities in order to receive \$250,000 in loan facilities; and that the Company had agreed to act as Advent's guarantor for the loan facilities

- 5.34 On 16 May 2018 a group of 15 shareholders holding approximately 6.2% of MEC's share capital lodged with MEC a notice under Section 249D of the Corporations Act requesting the Company convene a meeting of shareholders to consider resolutions for the removal of all the Company's Directors and the election of replacement directors. The Extraordinary General Meeting at which these resolutions will be voted on by shareholders is to be held on 10 July 2018.

6. Profile of Petroleum Exploration Permit II

PEP II

6.1 The permit PEP II is a 130 km long, 4,576 km² permit area that covers most of the offshore extent of the Sydney Basin.

Figure 3 PEP 11 Map



Source: Fluid Energy Consultants – Valuation of PEP11

- 6.2 PEP II is a significant offshore exploration area with large scale structuring and potentially multi trillion cubic feet gas charged Permo-Triassic reservoirs. Mapped prospects and leads within the Offshore Sydney Basin are generally located less than 50 km from the Sydney-Newcastle-Wollongong greater metropolitan area.
- 6.3 The prospectivity of this proven petroleum basin has been enhanced by the confirmation of the presence of apparent ongoing hydrocarbon seeps. Sub-bottom profile data, swath bathymetry, seismic and echo sounder data collected by Geoscience Australia along the continental slope/permit margin has demonstrated active erosional features in conjunction with geophysical indications of gas escape.
- 6.4 Although there have been over a thousand wells drilled in offshore Australia, only one well has been drilled in the offshore Sydney Basin. The New Seaclem I well was drilled in December 2010, 55km due east of Newcastle in PEP II. The well reached a total depth of 750m and was plugged and abandoned.

Farm-in Agreement

- 6.5 Pursuant to the Farm-in Agreement, Asset Energy agreed to assign:
- (i) a 5% Participating Interest in PEP II and the Operating Agreement to RL Energy in consideration for RL Energy completing the preparation of the Environmental Permit Documents (First Assignment); and
 - (ii) an additional 55% Participating Interest in PEP II and the Joint Operating Agreement to RL Energy in consideration for RL Energy carrying out the Farm-In Works (Second Assignment).
- 6.6 For the First Assignment RL Energy will complete the documentation and associated reports required to be prepared for lodgement with the National Offshore Petroleum Safety and Environmental Management Authority (“NOPSEMA”) in order for RL Energy to apply for the environmental permit required from NOPSEMA to allow RL Energy to undertake the 3D Seismic. This is anticipated to cost RL Energy approximately \$200,000.
- 6.7 For the Second Assignment RL Energy will undertake the “Farm-In Works” which includes:
- the payment of the fees to NOPSEMA upon lodgement of the EP Documents required for RL Energy to apply for the Environmental Permit; and
 - the acquisition, processing and interpretation of at least 500km² of three dimensional seismic which satisfies the minimum requirements set out in the Farm-In Agreement.
- 6.8 RL Energy is required to pay for and discharge 100% of the cost of Asset Energy’s share of the Farm-In Works up to an amount equal to Asset Energy’s Participating Interest share of the first \$4,000,000 of costs of the Farm-In Works in accordance with the Farm-In Agreement and the Operating Agreement.
- 6.9 On and from the date on which RL Energy has funded Asset Energy’s share of the Farm-In Works up to \$4,000,000 RL Energy and Asset Energy shall bear all subsequent expenditure (including in respect of any remaining costs for Farm-In Works) on the basis that the Second Assignment has completed, at their adjusted Participating Interest levels (RL Energy 60% and Asset Energy 25%), with Bounty Oil and Gas contributing their Participating Interest of 15% of the Farm-In costs.
- 6.10 Asset Energy is currently the Operator of PEP II but under the Farm-In Agreement on and from the First Assignment taking effect, the parties are required to do all things reasonably necessary to appoint RL Energy as Operator of the PEP II pursuant to the Operating Agreement.

RL Energy

- 6.11 RL Energy is a privately owned exploration company with current activities in Australia and New Zealand. It has an experienced leadership team with extensive knowledge and expertise in the international oil and gas industry.
- 6.12 The Chairman of RL Energy is Mr Greg Channon who resigned from his role as director of Advent Energy on 30 November 2017 to focus on development of RL Energy.

7. Industry Profile

Petroleum Exploration in Australia

Current Performance

- 7.1 The Petroleum Exploration industry has contracted over the past five years. Revenue within the industry has been volatile, driven by the role of commodity prices in determining exploration activities, which are both risky and capital intensive. A high commodity price increases the potential benefit that industry firms can generate by identifying unproven resources. It is expected that industry revenue will fall at an annualised 21.5% over the five years through FY18 to \$1.5 billion.
- 7.2 During FY14 the global oil and gas supply exceeded demand, which led to a decrease in the global price of crude oil. Following this surplus, oil and gas prices as well as industry revenue have fallen drastically each year through to FY17. An increase in LNG export facilities within Australia has exposed domestic customers to international competition for Australian gas. This has led to a large increase in the domestic price of gas and is expected to aid the renewed interest in petroleum exploration activity.
- 7.3 Recently, there have been calls to introduce gas reservation policies on the east coast gas market which will require local gas producers to reserve a certain percentage of their LNG exports for domestic use. This is expected to create an oversupply of gas available in the domestic market and somewhat offset price increases due to international competition. From January 2018 the Australian Domestic Gas Security Mechanism will enable the Federal Government to impose controls on the export of LNG when there is a shortfall in domestic supply. This is expected to reduce the incentive to conduct petroleum mining, as it lowers the potential return on petroleum resource development.
- 7.4 IBISWorld has identified the following Key External Drivers:
- US dollars per Australian dollar;
 - Demand from oil and gas extraction;
 - World price of natural gas; and
 - World price of crude oil.
- 7.5 There is a low level of market share concentration in the Petroleum Exploration industry. In FY17, the industry's four largest firms accounted for less than 20% of total revenue. There are a large number of junior miners in existence within the industry which prevents dominance of any major company. As petroleum exploration is a high risk and high cost industry, many of the junior minors undertake exploration activities via joint venture agreements which helps diversify risk across several firms and increases the chances of receiving funding for exploration activities.
- 7.6 IBISWorld has identified the following Key Success Factors:
- Financial support from a downstream activity;
 - Downstream ownership links;
 - Ability to expand and curtail operations rapidly in line with market demand;
 - Ability to manage (outsourcing) contracts; and
 - Ability to find new resource deposits.

Outlook

- 7.7 The Petroleum Exploration industry is forecast to return to moderate growth over the next five years to FY23 as a result of predicted increases in global prices of crude oil and natural gas. Increase in prices of oil and gas are expected to increase the incentive for firms to explore for new oil and gas resources. Industry revenue is forecast to increase at an annualised 3.2% over the next five years to \$1.8 billion.

8. Valuation Approach

Basis of Valuation

- 8.1 The valuation of the assets being disposed of and the consideration payable has been prepared on the basis of Fair Market Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation methodologies

- 8.2 In assessing the Fair Market Value of both the assets being disposed of and the consideration payable, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 8.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

Market based methods

- 8.4 Market based methods estimate the Fair Market Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;
- the quoted price for listed securities; and
 - industry specific methods.
- 8.5 The recent quoted price for listed securities method provides evidence of the fair market value of a company's securities where they are publicly traded in an informed and liquid market.
- 8.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 8.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- discounted cash flow;
 - capitalisation of future maintainable earnings.

- 8.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.
- 8.9 The capitalisation of future maintainable earnings is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

- 8.10 Asset based methodologies estimate the Fair Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net assets on a going concern basis.
- 8.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 8.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method, and is appropriate for companies in financial distress or where a company is not valued on a going concern basis.
- 8.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of valuation methodologies

Valuation of Assets being disposed of

- 8.14 In assessing the value of the assets being disposed of we have instructed Fluid Energy Consultants ("Fluid") to act as an independent specialist to value PEP II. Fluid adopted multiples of expenditure in determining a range of values for PEP II.

Valuation of the Consideration

- 8.15 The consideration for a 60% interest in PEP II comprises the payment of costs on behalf of MEC. The value of the consideration is the amount by which these payments will exceed a pro rata 60% interest in the total cost of the 3D seismic.
- 8.16 Given the nature of the consideration, we have valued the payment of costs at face value.

9. Valuation of 60% Interest in PEP II

9.1 As stated at paragraph 8.14 we have assessed the value of a 60% interest in PEP II based on the independent specialist valuation prepared by Fluid.

Table 8 Assessed Value of PEP II

	Ref	Value Low \$	High \$
Value of PEP II 100% Farm In Interest	9.4	1,262,000 60%	3,155,000 60%
Value of a 60% interest in PEP II		\$757,200	\$1,893,000

Source: RSM Analysis

- 9.2 Using Fluid's 100% valuation of PEP II we have calculated the value of the 60% interest the subject of the Farm-In with RL Energy to be between \$757,200 and \$1,893,000.
- 9.3 Fluid has valued PEP II on the basis of a multiple of expenditure. Fluid cross checked this valuation range with the planned farm-out of the 3D seismic and Fluid's judgement of a possible farm-out deal structure.
- 9.4 In determining the low value Fluid determined that the joint venture holders of PEP II (Asset Energy and Bounty) have in the current 5 year Permit term carried out studies at a cost of \$0.402 million up to 13 August 2017 and 2D seismic and studies from 14 August 2017 to 24 May 2018 at a cost of \$0.860 million. This provides a total cost of \$1.262 million and provides the lower end of the valuation range.
- 9.5 The upper end of the valuation range is the low end multiplied by 2.5.
- 9.6 The Fluid Report is included at Appendix D.

10. Valuation of the Consideration

10.1 The gross consideration payable by RL Energy for a 60% interest in PEP II based on a 3D seismic at an estimated cost of \$6 million totals \$4.976 million and is made up as shown in Table 9.

Table 9 Valuation of the Consideration

	Ref	\$
First Assignment for a 5% Participating Interest	10.2	200,000
Second Assignment for a 55% Participating Interest	10.3	4,000,000
60% of costs above \$4.705 million	10.4	776,470
Total Consideration		\$4,976,470

Source: RSM Analysis

- 10.2 Details of the work involved in the First Assignment is set out at paragraph 6.6. The Company has estimated the cost of this to be approximately \$200,000.
- 10.3 Details of the work involved in the Second Assignment is set out at paragraph 6.7. RL Energy is required to pay for Asset Energy's first \$4,000,000 share of the Farm-In Work.
- 10.4 As stated in paragraph 6.9 on and from the date on which RL Energy has funded Asset Energy's share of the Farm-In Works up to \$4,000,000 RL Energy and Asset Energy shall bear all subsequent expenditure (including in respect of any remaining costs for Farm-In Works) on the basis that the Second Assignment has completed, at their adjusted Participating Interest levels (RL Energy 60% and Asset Energy 25%).
- 10.5 On this basis 60% of costs of PEP II's 3D seismic once RL Energy has contributed \$4,000,000 for the Asset Energy 85% interest is as follows:-

Table 9 PEP II 3D seismic cost

	\$
Second Assignment	4,000,000
Grossed up to 100%	4,705,882
Contribution to \$6 million	1,294,118
60% of above	\$776,470

Source: RSM Analysis

- 10.6 The gross consideration includes a 60% contribution to the 3D seismic. Management have estimated that the cost of the 3D seismic will be in the region of A\$6,000,000. Accordingly, a 60% contribution to these costs is A\$3,600,000.
- 10.7 On the basis of the above the net consideration to be payable by RL Energy is \$1.376 million calculated as follows:-

Table 9 Net consideration

	\$
Total consideration	4,976,470
60% of costs of 3D seismic	3,600,000
Net consideration	\$1,376,470
Say	\$1,376,000

Source: RSM Analysis

11. Is the Proposed Transaction Fair to Non-Associated Shareholders?

11.1 Our assessed values of the assets being disposed of and the consideration payable for the Proposed Transaction are set out below.

Table 10 Assessment of Fairness

	Ref	Value per Share	
		Low	High
		\$	\$
Assessed fair market value of the assets being disposed of	9.2	757,200	1,893,000
Assessed fair market value of the consideration	10.1	1,376,000	1,376,000

Source: RSM analysis

11.2 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be fair to the Non-Associated Shareholders as the value of the Consideration is greater than the value of the assets being disposed of by MEC.

12. Is the Proposed Transaction Reasonable to Non-Associated Shareholders?

12.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Proposed Transaction, we have given consideration to:

- The future prospects of MEC if the Proposed Transaction does not proceed; and
- Other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

Future prospects of MEC if the Proposed Transaction does not proceed

12.2 If the Proposed Transaction does not proceed then the Company will have to continue seeking and reviewing potential sources of funding both of the project and equity level.

Advantages and disadvantages

12.3 In assessing whether the Non-Associated Shareholders are likely to be better off if the Proposed Transaction proceed, than if it does not, we have also considered various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

Advantages of approving the Proposed Transaction

Advantage 1 – The Proposed Transaction is fair

12.4 In accordance with RG 111 a transaction is reasonable if it is fair.

Advantage 2 – The exploration and potential development of PEP 11 may be expedited

12.5 The Company cannot fund the 3D seismic survey from its own financial resources without an equity raising which would be dilutive to shareholders. In addition there is no certainty that any capital raising would be successful. By entering the Farm In arrangement the Company is providing certainty that the 3D seismic will be completed thereby providing the necessary data to commence a drilling programme.

Advantage 3 – The 3D seismic may de-risk the potential drilling targets in PEP 11

12.6 3D seismic surveys provide a standard of data necessary to justify the geological and financial risk of drilling an offshore exploration well. Furthermore considerable cost savings could be achieved by avoiding drilling an exploration well in areas that the 3D seismic data reveals as unfavourable.

Advantage 4 – The 3D seismic data will assist in raising capital for any resulting drilling programme

12.7 Raising the necessary capital to drill an exploration well may be greatly assisted with the aid of 3D seismic data.

Advantage 5 – Shareholders interests in the Company will be not be diluted

12.8 The funding for the 3D seismic is being undertaken at the project level and accordingly shareholders interests in the Company are not affected.

Disadvantages of approving the Proposed Transaction

Disadvantage 1 – Participating Interest in PEP II is reduced

12.6 The participating interest in PEP II by Asset Energy will reduce from 85% to 25%.

Conclusion on Reasonableness

- 12.7 In our opinion, the position of the Non-Associated Shareholders if the Proposed Transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is reasonable for the Non-Associated Shareholders of MEC.
- 12.8 An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

A GILMOUR



Director

G YATES



Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr. Andrew Gilmour and Mr Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Mr Gilmour and Mr Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of MEC Resources Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Gilmour, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$20,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of MEC Resources Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for MEC for the years ended 30 June 2016 and 30 June 2017
- Independent Technical Valuation of PEP II prepared by Fluid Energy Consultants and dated 24 May 2018;
- ASX announcements of MEC;
- Reviewed financial statements for MEC for the six months ended 31 December 2017;
- S&P Capital IQ database;
- IBIS World; and
- Discussions with Directors, Management and staff of MEC

C. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian dollar
Act	Corporations Act 2001 (Cth)
Advent Energy	Advent Energy Pty Ltd
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
Asset Energy	Asset Energy Pty Ltd
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of ASX as amended from time to time
Company	MEC Resources Limited
Directors	Directors of the Company
EP	Exploration Permit
Explanatory Statement	The explanatory statement accompanying the Notice
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Fluid	Fluid Energy Consultants
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
IER	This Independent Expert Report
MEC	MEC Resources Limited
Non-Associated Shareholders	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority
Notice	The notice of meeting to vote on, inter alia, the Proposed Transaction
Option or Options	Unlisted options to acquire Shares with varying vesting conditions
PEP	Petroleum Exploration Permit
Proposed Transaction	Assignment of a partial interest in PEP II
Report	This Independent Expert's Report prepared by RSM dated [insert]
Resolution	The resolutions set out in the Notice
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports
RL	Retention Licence
RL Energy	RL Energy Pty Ltd
RSM	RSM Corporate Australia Pty Ltd

Term or Abbreviation	Definition
S&P Capital IQ	An entity of Standard and Poors which is a third party provider of company and other financial information
Share or MEC Share	Ordinary fully paid share in the capital of the Company
Shareholder	A holder of a Share
VALMIN Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015)
VWAP	Volume weighted average share price

D. INDEPENDENT TECHNICAL SPECIALIST'S REPORT



21 June 2018

RSM Corporate Australia Limited
 Level 32, Exchange Tower
 2 The Esplanade
 Perth, WA 6000
 Attn: Andrew Gilmour, Director

Dear Mr Gilmour,

RE: Valuation of PEP11

1.0. INTRODUCTION

In May 2018, RSM Corporate Australia Pty Ltd (RSM) was engaged by the directors of MEC Resources Limited (MEC) to prepare an Independent Expert’s Report (IER). RSM, in turn, has requested that Fluid Energy Consultants (Fluid) prepare a valuation of Petroleum Exploration Permit (PEP) 11, overlying the offshore Sydney Basin off the coast of New South Wales (NSW) for inclusion in the RSM report.

MEC is a listed company on the Australian Securities Exchange (ASX) under the code MMR.MEC holds a working interest in PEP 11 through its primary investee Advent Energy Ltd’s wholly owned subsidiary Asset Energy Pty Ltd (Asset).

PEP 11 is administered by the Federal Government through the National Offshore Petroleum Safety and Environment Authority (NOPSEMA) (Figure 1).

This report provides a valuation of the exploration permit PEP 11, as listed in Table 1.

2.0. SUMMARY

Fluid’s fair market valuation of PEP 11 exploration acreage is between **A\$1.262 million** and **A\$3.155 million** as determined on 21 June 2018 (Table 1). The valuation does not include any other assets or liabilities that Asset and its joint venture partner, Bounty Oil and Gas (Bounty) may or may not have. Valuation methodologies are outlined in Section 5.

Table 1: Estimated Exploration Acreage Valuation of PEP 11

Permit	Basin	Current Total Interests	Permit Surface Area (km ²)	Valuation Method	Exploration Value (A\$m)*	
					Low	High
PEL 11	Offshore Sydney	100%	4576	Investment in permit	1.262	3.155
TOTAL					1.262	3.155

Figures are subject to rounding

* \$Am = millions of Australian dollars.

Fair Market Value: Refer to Definition 1 in section and the Valuation of Mineral and Petroleum Assets and Securities (VALMIN) Code, 2015, Section 8.1). A number of valuation methods were investigated. Fluid prefers to use farm-in deals and sales to gauge value in exploration permits



and only departs from this method on occasions where a better value can be determined by another method, or in the absence of relevant and recent farm-ins and sales.

3.0. SYDNEY BASIN AUSTRALIAN OFFSHORE ACREAGE

The permit, PEP 11 is a 138km long, 4,576km² permit area that covers most of the offshore extent of the Sydney Basin (Figure 1).

Petroleum system elements all seem to be present and active. There is gas production onshore and abundant gas seeps in both offshore and onshore parts of the basin. There is ready market and infrastructure for gas development. Three 2D seismic surveys (a total 4,063line kilometers), reprocessed in 2007 and in 2010, have been interpreted and mapped. A further 200line kilometer 2D seismic survey was conducted in April 2018 and is being interpreted.

Mapped prospects and leads within the offshore Sydney Basin are generally located less than 50km from Australia's largest energy market, the Sydney-Wollongong-Newcastle greater metropolitan area. This area has a population of approximately 5,000,000 people. Traditionally, all natural gas used in New South Wales has been piped in from South Australia and the Bass Strait. However, studies by the Australian Bureau of Agricultural and Resource Economics (ABARE) and the Australian Petroleum Production and Exploration Association (APPEA) state that those sources may not be able to meet the demand for gas in the medium to longer term.

The Sydney Basin is the southern basin in the system and spans an area of approximately 44,000km². It is a Late Paleozoic cratonic basin that was rifted first during Pangea breakup in Mid Jurassic, and during continued separation of the Lord Howe Rise. It contains a thick (up to 5,000m) Permian to Triassic sedimentary sequence. The basin is bounded to the south by the metamorphic/granitic Lachlan Fold Belt and to the north by the transitional Hunter Valley sequence which bounds the Sydney and Gunnedah Basins. The basin continues offshore to the southeast to be terminated by the continental shelf.

Rifting is a result of oceanic crust generation at the Tasman ridge south of the Sydney Basin. The Offshore extent of the basin is tested only by New Seaclem 1 and remains prospective for gas (Blevin, 2001). The onshore extent of the basin produces some coal-associated gas, and has play elements that may be extended directly and by analogy into the offshore.

The Northwestward motion of oceanic crust and its subduction into the New Caledonian Trench, relative to the stable Australian Craton, places the Sydney Basin in left-lateral shear. Bends in a strike-slip system may be either retaining or releasing depending on the curve of the zone or faults.

Although there have been over a thousand wells drilled in offshore Australia, only one well has been drilled in the offshore Sydney Basin. The New Seaclem 1 well was drilled in December 2010, 55 km due east of Newcastle in PEP11 (Figure 1). The well reached a total depth of 750m (measured depth), in the Early Permian Branxton Formation equivalent and was plugged and abandoned (Figure 2).

The well was drilled into a potential stratigraphic trap in the interpreted Cainozoic sediments onlapping the eastern and north-eastern flanks of the Offshore Uplift. The areal extent of this



stratigraphic feature had been defined by mapping of a regional “reverse polarity” seismic event present in the 2004 seismic dataset.

The New Seaclem 1 well was designed to test the hydrocarbon potential of the shallow primary target Cainozoic reservoirs interpreted to be slope fans or turbidite sandstones and secondary targets in the deeper, aerially less extensive, Early Cainozoic incised valley channel fill or submarine canyon sandstones and Early-Mid Triassic Hawkesbury SST/Narrabeen Group sandstones truncated underneath the Triassic Unconformity. Although fair to good sandstone reservoirs in the Cainozoic section and probably in the interpreted Triassic section were penetrated by the well as predicted, no hydrocarbons were observed.

It is considered unlikely that this well has been able to test whether the Sydney Basin has an active petroleum system. The top Permian seal is extensive and unlikely to be breached by the hydrocarbons generated below it. According to Asset, failure is believed to be due to the well not being able to penetrate this top seal and enter the Permian reservoirs below. Fluid has not carried out any in-depth technical studies of its own.



4.0. PEP11

4.1. PEP11 interests

PEP11, in the offshore Sydney Basin, NSW, was first awarded in 1981, the lease has had many participants until Asset farmed into the lease in 2006. The current joint venture (JV) interests are listed in Table 2.

Table 2: PEP11 Interests

Company	Contributing Interest	After Farm-in
Asset Energy (Operator)	85%	
Bounty Oil & Gas NL	15%	
Total	100%	

4.2. PEP 11 Government Work Program

The Work Program approved on 8 January 2018 by the National Offshore Petroleum Titles Authority– New South Wales for PEP11 is presented in Table 3 (five year term, which has since been extended to be nine years in length). The permit is currently in good standing.

Table 3: PEP11 Permit Work Program

Permit Year	Permit Year Start	Permit Year End	Activity Unit(s)	Activity Description	Indicative Cost (A\$k)	Actual (A\$k)
One	13 August 2012	12 August 2013	2000 km	Seismic Reprocessing Geotechnical Studies	250	200
Two	13 August 2013 ⁽¹⁾	12 Feb 2019	200 km	2D Seismic Survey Geotechnical Studies	2,000	860 ⁽²⁾
Three	13 August 2015 ⁽¹⁾	12 Feb 2019		Geotechnical Studies	350	402 ⁽³⁾
Four	13 Feb 2019	12 Feb 2020	One Well	Exploration Well	15,000	
Five	13 Feb 2019	12 Feb 2021	500 km ²	3D Seismic Survey	3,500	

The permit can be surrendered at any stage.

- (1) Permit Years 2 and 3 Work Program conditions were suspended for 30 months to 12 February 2019
- (2) 2D seismic was completed in April 2018 at a cost of A\$860,000
- (3) Geotechnical Studies for the period 13 Aug 2013 to 14 Aug 2017



4.3. PEP11 Farm-in Deal

There are no farm-in deals that have been consummated in the permit at the current date.

4.4. PEP11 Prospectivity

Ongoing studies in PEP 11 under the current 5-Year Permit Term have included reprocessing and amplitude versus offset (AVO) analysis of 2004 2D seismic data. This has allowed identification of possible direct hydrocarbon indicators (DHI), including gas chimneys, hydrocarbon-related-diagenetic-zones (HRDZ) and flat seismic horizons (possible gas water contact) coincident with the Baleen prospect (Figure 3).

In the northern sector of PEP 11 the presence of active hydrocarbon slicks on the sea has been noted. Originally detected on 1996 satellite imagery, a repeat analysis of 1998 and 2001 images identified apparent slicks directly over the Baleen lead. Inferred gas seepage along the PEP 11 boundary and the continental margin was made during Geoscience Australia’s 2006 continental slopes survey. Observed hydrocarbon seepage closer inshore suggests that the offshore Sydney Basin has an active petroleum system.

In March 2010 an independent export report by Pangean Resources LLC was commissioned and concluded that the Offshore Sydney Basin is a gas-charged hydrocarbon system which is a potential giant gas province. Leads were mapped and Table 4 includes the potential Resource estimates of one of the two main leads.

In April 2018, the JV acquired 200 line kilometers of 2D seismic designed to high grade the Baleen Lead. Conventional sandstone reservoirs of the Early and Late Permian are the main target of the well in a major folded and thrust and folded structure (Figure4).

The JV is planning to acquire a new 3D seismic survey, which Asset expects will be about 500km² to meet the government commitments (Figure5). Its purpose is to de-risk the Baleen Lead with the view to drilling this should the interpretation of the seismic prove positive. Asset is seeking a farminee to assist with the cost of the 3D survey

Table 4 – Baleen Lead and Prospective Resource

Prospect Name	PR90 BCF*	PR50 BCF*	PR10 BCF*
Baleen	17	472	4193

*Gas volumes are expressed as billions of cubic feet (BCF) at standard temperature and pressure.



4.5. PEP 11 Joint Venture Forward Program and Budget

Asset has described the JV’s intention to carry out the work program outlined in Table 4.

Table 4: PEP11 Forward Program and Budget

Planned Work Program	Budget Cost (A\$)
Short term plan is to farmout the 3D seismic program	50,000

4.6. PEP11 Exploration Acreage Estimated Value

In section 5.0 there is a description of several methods of valuation that can be applied. PEP 11 is the only permit in the Sydney basin and lies very far from any other offshore permits. There are no market transaction that can reasonably be applied to assign value as the geology and setting are quite different to other Australian Basins and the technical knowledge is very limited. Regardless, Fluid applied several methods and combined these to determine a value range for PEL 11.

Fluid firstly considered the minimum value of a permit in an offshore area and concludes that this would be A\$1.000 million for the application, grant and 5 year maintenance period even without carrying out any work.

The JV has in the current 5-Year Permit Term carried out studies at a cost of A\$0.402 million up to 13 August 2017 and 2D seismic and studies from 14 August 2017 to present at a cost of A\$0.860 million. Together these are the back costs, which is a total investment by the JV of A\$1.262 million.

A high side value would be calculated as the low side multiplied by 2.5, which is A\$3.155 million.

Fluid restricts its valuation range to a maximum of 2.5 times Low to High value in most cases. Wider ranges can sometimes be of little assistance to a client that is requesting a valuation.

Asset is planning to meet the 500km² 3D seismic acquisition as the next phase of work program which has a value of A\$3.500 million in the government approved Work Program. Until a farmout can be achieved, there is no firm commitment by the joint venture to carry out the 3D acquisition.

An alternative valuation method can be considered using the planned farmout of the 3D seismic and our judgement of possible deal structure. There is a quote for 3D acquisition in Asset’s data room with two scenarios;

- 1) to acquire a 225km² survey at a cost of approximately A\$4.583 million; or
- 2) to acquire a 643km² survey at a cost of approximately A\$7.683 million.

Fluid prorated the proposed cost of each scenario to an equivalent 500km² survey and, averaged the two results. This calculates to approximately A\$6.728 million. An exchange rate of US\$0.74 to A\$1.00 has been applied where necessary.

Fluid imagines that it would be possible to achieve a maximum of 1.5:1 ratio on farmout of the acquisition of a 3D seismic survey.



To acquire a 50% working interest in the permit a farminee company would pay 75% of the cost of the acquisition (1.5:1 ratio).

At this proportion, Fluid calculates a premium value of A\$1.682 million (25% of A\$6.728 million). This is an amount of money that might be paid by a farminee that is in addition to their working interest share of the costs, which is 50% of A\$6.728 million = A\$3.364 million.

The premium value of A\$1.682 million is equivalent to the farminee paying that amount in cash for a 50% interest in the permit even before the seismic is acquired. It equates to a percentage value of A\$0.034 million/1%.

On this basis, the total permit value (100% interest) equates to A\$3.364 million. If this is the high side value, then a low side value would be calculated as the high side divided by 2.5, which would be A\$ A\$1.346 million.

Under these scenarios, a low side value of about A\$1.00 million to A\$1.35 million is supported by a number of methods and the maximum high side that Fluid applies is 2.5 times the low side value.

A fair market exploration value of PEP 11 is assessed using estimated investment costs in the current permit term (and not the seismic conceptual farmin) to be **A\$1.262m** to **A\$3.155m**.



5.0. VALUATION METHODS

The principles conveyed in the Valmin Code 2015 and in the Australian Securities and Investment Commission (ASIC) Regulatory Guide 111 and 112 have been applied by Fluid. Reserve and Resource concepts follow the definitions as laid down by the Society of Petroleum Engineers (SPE) Inc. Petroleum Resources Management System (PRMS) (SPE PRMS, 2011).

There are several methods that can be used to estimate the fair market value of exploration and production assets. These include and are not limited to the methods described below, which are:

- Production and reserve information leading to cash flow analysis – present value (NPV);
- Production estimates and cash flow analysis (NPV) based on current prospects (undrilled) and incorporating expected chances of success (COS) – expected monetary value (EMV); and
- Recent farm-in Actual Costs (value of work to be undertaken) and premiums or promotes (amounts above the Actual Cost of the work) paid in the permit or similar nearby permits; and Estimated Actual Cost of committed work programs (deal between permit holder and the governing authority) and operator budgets.

EMV valuation is not applied by Fluid to exploration assets as it is unreliable and unlikely to be accepted by stock exchanges. A market analysis is required for exploration assets.

Fluid restricts its valuation range to a maximum of 2.5 times Low to High value in most cases. Wider ranges can sometimes be of little assistance to a client that is requesting a valuation.

a. NPV

For an oil or gas field a value can be determined from the proven (1P), proven plus probable (2P) and proven plus probable plus possible (3P) reserve. Calculation of the net present value (NPV) can be made on the reserve. Various combinations of reserve categories may be made to obtain the best valuation outcome, such as:

2P by itself; OR

1P plus 50% of the 2P; OR

$(0.9 \times \text{proved } (P1 \text{ or } 1P) + 0.5 \times \text{probable } (P2) + 0.1 \times \text{possible } (P3))$; OR

others.

The NPV is equivalent to the value of the producing asset. An NPV calculation based on only the P90 Resource Estimate can constitute a low-side value.

b. EMV

It is possible to value an exploration permit by firstly selecting the prospect (not a lead) most likely to be drilled in the near future. By calculating the NPV on the mean potential Resource case (Best estimate), and the chance of success (COS) for discovery on a Reserve (economic resource), the expected monetary value (EMV) can be determined. The mean potential Resource is often estimated as $0.3 \times P90 + 0.4 \times P50 + 0.3 \times P10$ (Swanson's Mean), or more accurately calculated using a Monte-Carlo simulator.

- EMV is calculated as:



$(NPV \times COS) - [\text{exploration Actual Cost (eg: dry well)} \times (1 - COS)]$

The EMV is equivalent to the value of the prospect.

However, EMV valuation is not applied by Fluid to exploration assets as it is unreliable and unlikely to be accepted by stock exchanges. A market analysis is required for exploration assets.

c. Purchase/Farm-in/Work Program

A reliable value of an exploration permit may be estimated based on farm-in/farm-out or purchase transactions within the permit or in adjacent permits with comparable geological prospectivity and operating constraints. This is achieved by comparing the acreage with similar acreage and the farm-in/farm-out deals that have been consummated, or are in progress in various permits. Also, the immediate, committed expenditure and/or the estimated Actual Cost of committed forward work programs on the permits provide additional information.

Fluid finds that reducing values to a common denominator, expressly value per percentage point of interest in an asset (A\$/1%), is a very helpful way to compare assets values.

Some methods are described in more detail below.

i. Purchase of Asset

An asset or part of it may be purchased by a company or Joint Venture (JV). Valuation is not difficult where cash transactions are involved. Where shares are involved either as the total payment or partial, the share component may be ignored or it may be necessary to make a separate value of the shares as a first step.

ii. Full Value and Premium within Farm-in Deals

The farminee (purchaser) agrees to fund a significant exploration program, which is often agreed to be a particular dollar value or, sometimes, capped at a particular dollar value. This work usually takes the form of either drilling and/or seismic, in return for the farmor (seller) transferring a significant equity to the farminee. Where the farminee pays the normal exploration Actual Costs of the work being done for the interest being acquired and then also covers some or all of the Actual Costs of the farmor. This extra Actual Cost is called a premium (or promote).

A value for the permit can be considered based on:

- 1) the total Actual Cost of the farm-in, that is the agreed Actual Cost of exploration plus the premium; or, more conservatively,
- 2) based on just the Actual Cost of the premium.

Both methods are valid.

In estimating the worth of a permit using the farm-in method, Fluid usually calculates the premium and sets that as the middle value with a range being determined as a 20-25% increase for the high value and a 20-25% decrease for a low value. At other times the premium value may be set as high or low depending on market conditions and other circumstances.

The full Actual Cost of the farm-in is not often applied by Fluid. Any combinations may be employed.



Fluid nearly always applies the premium value of a deal when determining exploration asset values.

iii. Committed Work Programs

In cases where a permit has a committed work program, one that cannot usually be varied, a third method can be considered where the value of the permit is the Actual Cost required to retain it and explore for hydrocarbons. This is similar to the total Actual Cost of a farm-in. The government can be considered to have farmed out the permit, so this is treated in a similar way to method ii(1), above.

d. Company Expenditure

A company or Joint Venture (JV) has often expended money on exploration of a permit. These back costs, as they are often called, can be viewed as an investment in the asset, which can then form part of a valuation.

e. Company Forward Budgets

A company or JV will often have a budget for the expenditure in any particular year. This would usually have Board approval. The forward approved budget that applies to the asset being valued may be used to assist with the valuation.



6.0. STATEMENTS

6.1. Limitations

Fluid has primarily relied on data supplied by Asset and on several independent reports commissioned by Asset and/or operators of permits that Asset holds interests in. Other data has included geological studies by Fluid on behalf of Asset and interpreted technical studies and technical reports. These were compiled and written by various industry and government bodies as well as consultants. The material was reviewed for its quality, accuracy and validity and was considered to be acceptable.

In addition, Farm-in Agreements and other pertinent material pertaining to the permits was provided by Asset, either in full or in part. It is believed that the information received is reliable and there is no reason to believe that any material facts have been withheld. However, the level of review of the information provided to us does not amount to an audit, verification or due diligence, save to the extent necessary to satisfy ourselves that it is reasonable for us to rely on that information, and no warranty can be given that this review has analysed all of the matters which a more extensive examination might reveal. Fluid has not been required to check the status of Asset's interests in the permits and status of overriding royalty interests.

No warranty can be given that this review has analysed all of the matters, which an extensive examination might reveal.

This report or any reference thereto, may not be included in any other document or distributed for any other purpose without the prior written consent of Fluid to the purpose of such distribution and to the form and context in which the report or reference appears.

The opinions and statements in this report are made in good faith and in the belief that such opinions and statements are not misleading.

6.2. Declaration

6.2.1. Independence

This report is our genuine opinion and the product of our professional judgment. Fluid has not had and, at the date of this report, does not have any relationship with Asset or its related bodies corporate that could be regarded as capable of affecting Fluid's ability to provide an unbiased opinion in relation to this report. In particular, neither the author of this report, or any director or senior employee of Fluid involved in preparing the report has a substantial interest in, or is a substantial creditor of, or has any material financial interest in the transaction.

6.2.2. Fees and other benefits

A fee will be received for the preparation of this report. Payment of the fee is not contingent on any matter. We have obtained an indemnity from MEC in respect of claims made by a third party against us as a result of: (i) reliance by us on information provided by Asset which was incomplete, inaccurate, out of date or otherwise erroneous; (ii) failure by Asset to provide us with material information; and (iii) other claims related to or arising out of our provision of the report (except as



a result of our negligence). This indemnity is a contractual arrangement between Fluid and Asset, and does not affect, or limit Fluid's liability to third parties in connection with this report. Fluid will receive no other benefit for the preparation of the report. The author of this report has no pecuniary or other interest which could be regarded as capable of affecting his ability to provide an unbiased opinion in relation to this report.

6.2.3. Changes in facts or circumstances

Advance copies of this report were provided to the Directors of MEC and minor changes were made as a consequence. There have been no material changes made to the report. The author confirms that there has been no material change of circumstances, or of available information that Fluid is aware of since this report was compiled, and Fluid is not aware of any significant matters arising from this evaluation that are not covered by this report, which might be of a material nature.

6.2.4. Currency of Report

This report has been prepared based on information available up to and including 21 June 2018. It has been prepared in accordance with the VALMIN Code applicable to the Valuation of Mineral and Petroleum Assets and Securities.

6.2.5. Consent for use

Fluid has given and not withdrawn its written consent to the inclusion of this report in the Independent Expert's Report as requested by RSM in the form and context in which this report appears.



7.0. Qualifications of the Authors

7.1. Larry Franks (Director of Fluid Energy and Principal Petroleum Engineer)

Larry Franks is an experienced Consultant Petroleum Engineer with wide technical expertise gained while working with a broader group of specialised consultants covering a wide range of disciplines. These include geology, geophysics, reservoir engineering, drilling, production, surface facility design, technical risk assessment and pipelines as well as the areas of environment and safety. In particular, Larry has expertise in Naturally Fractured Reservoirs and Unconventional Resources, in the evaluation and development of existing fields and in under-balanced drilling operations. Larry has over 32 years of experience in the Oil and Gas Industry covering both exploration and development projects in numerous countries including the United Kingdom, Australia, Africa, North America, Central America, China, Asia and the Middle East.

His expertise has focused on tight gas and fractured reservoirs and, in particular, he has been responsible for the technical evaluation, reservoir management and development of the Palm Valley gas field in Central Australia as Magellan Petroleum's Operations Manager (25 years at Magellan) and in assisting Central as a consultant.

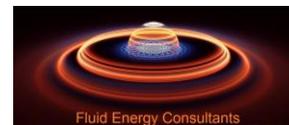
He also has considerable experience in the use of under-balanced drilling techniques and completion strategies, which are necessary if these types of reservoirs are to be successfully developed. The design and implementation of drilling projects is one of Larry's major consulting activities.

A handwritten signature in blue ink, appearing to read "Larry Franks", is positioned above the printed name.

Larry Franks

Director and Principal Engineer

0412 184 253



8.0. ABBREVIATIONS

A\$	Australian dollars
BCFG	Billion Cubic Feet of Gas
BO	Barrels of oil.
BOPD	Barrels of oil per day
CAD\$	Canadian Dollars
C1 or 1C	Equivalent to Proven (P90) category of a recoverable hydrocarbon volume
C2	Equivalent to Probable (P90 to P50) category of a hydrocarbon volume
2C	P90 plus (P90-P50)
C3	Equivalent to Possible (P50-P10) category of a hydrocarbon volume
3C	P90 plus (P90-P50) plus (P50-P10)
COSg	Geological Chance of Success
COSe	Economic Chance of Success
°C	degrees Celsius
DII	Department of Industry and Investment
EMV	Expected monetary value
Ft, OR, ‘	Foot / feet
GIP	Gas in Place
JV	Joint Venture
km	Kilometre
km ²	Square kilometre
Lead	Potential hydrocarbon trap that requires further work to determine if it might become a prospect.
m	Metre
ma	million ago (years)
\$m	millions of dollars
M ³ /t	cubic meters of gas per tonne of coal
mmCFD	million cubic feet a day
mmBO	million barrels of oil
MW	mega-watt
mW/m ²	milli-watts per square metre
NPV	Net Present Value
OOIP	Original oil in place
Prospect	Potential hydrocarbon trap that is ready to drill - exploration
P1 or 1P	Proven category of a hydrocarbon reserve volume
P2	Probable category of a hydrocarbon reserve volume
2P	Proven plus Probable
P3	Possible category of a hydrocarbon reserve volume
3P	Proven plus Probable plus Possible
P90	90% of the potential recoverable hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).
P50	50% of the potential recoverable hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).



P10	10% of the potential hydrocarbon volume is greater than this volume on a probabilistic distribution (prospective resource).
£	English pounds
Swanson's Mean	Approximation of the mean of a lognormal probability distribution, usually calculated as $0.3 \times P10 + 0.4 \times P50 + 0.3 \times P10$.
US\$	United States dollars

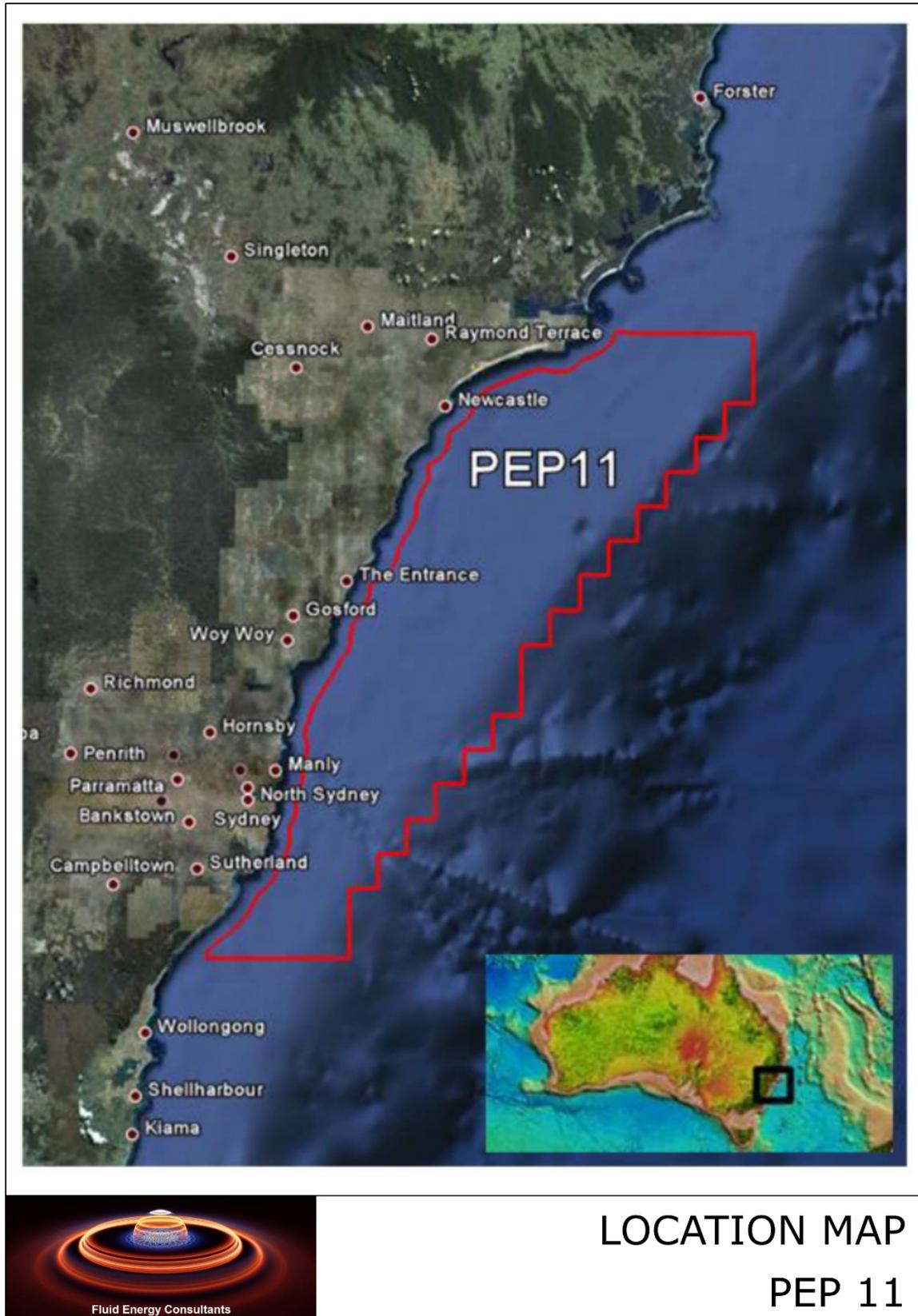
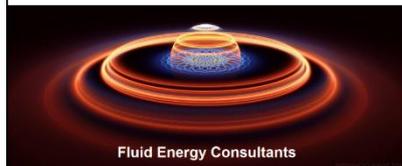
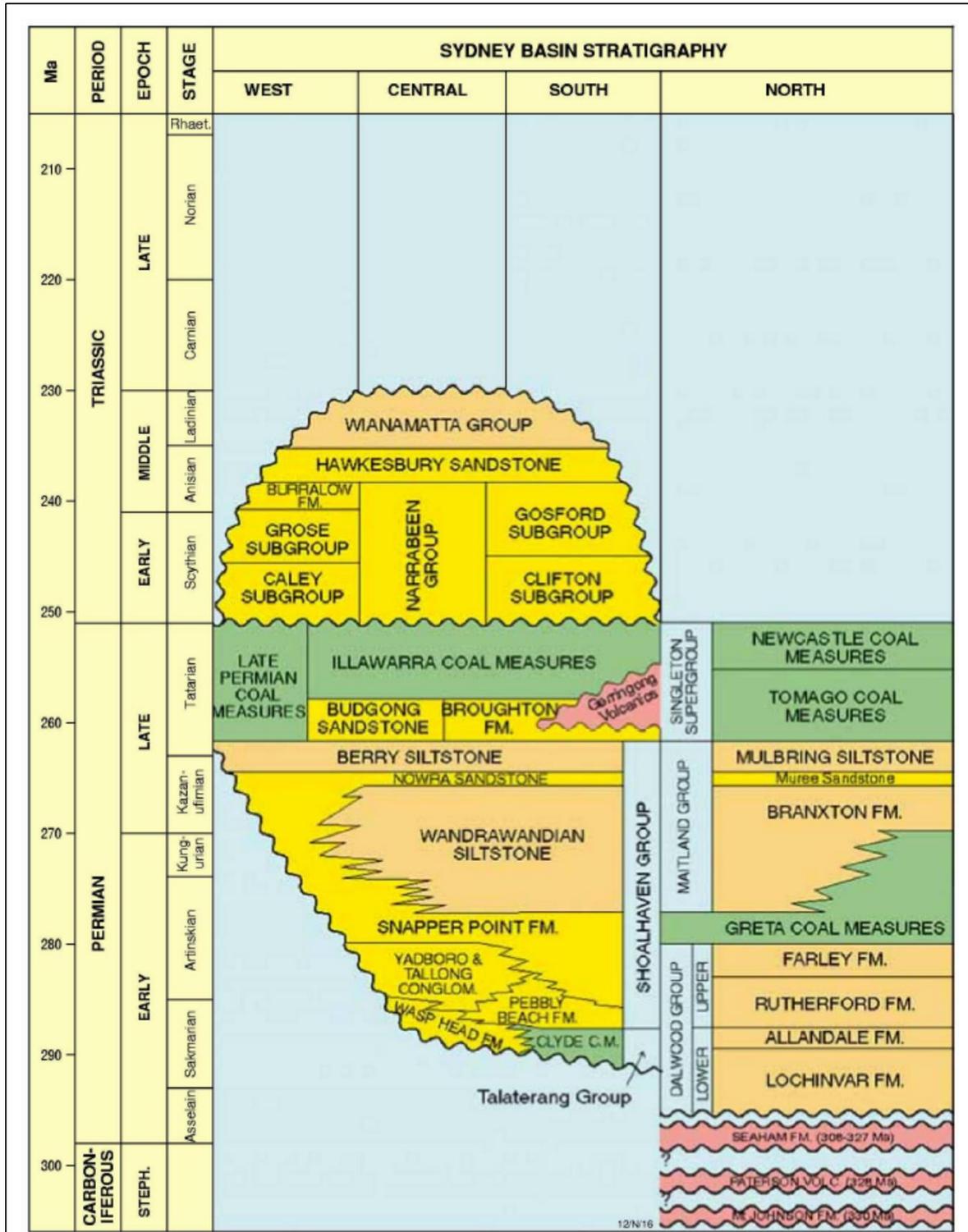
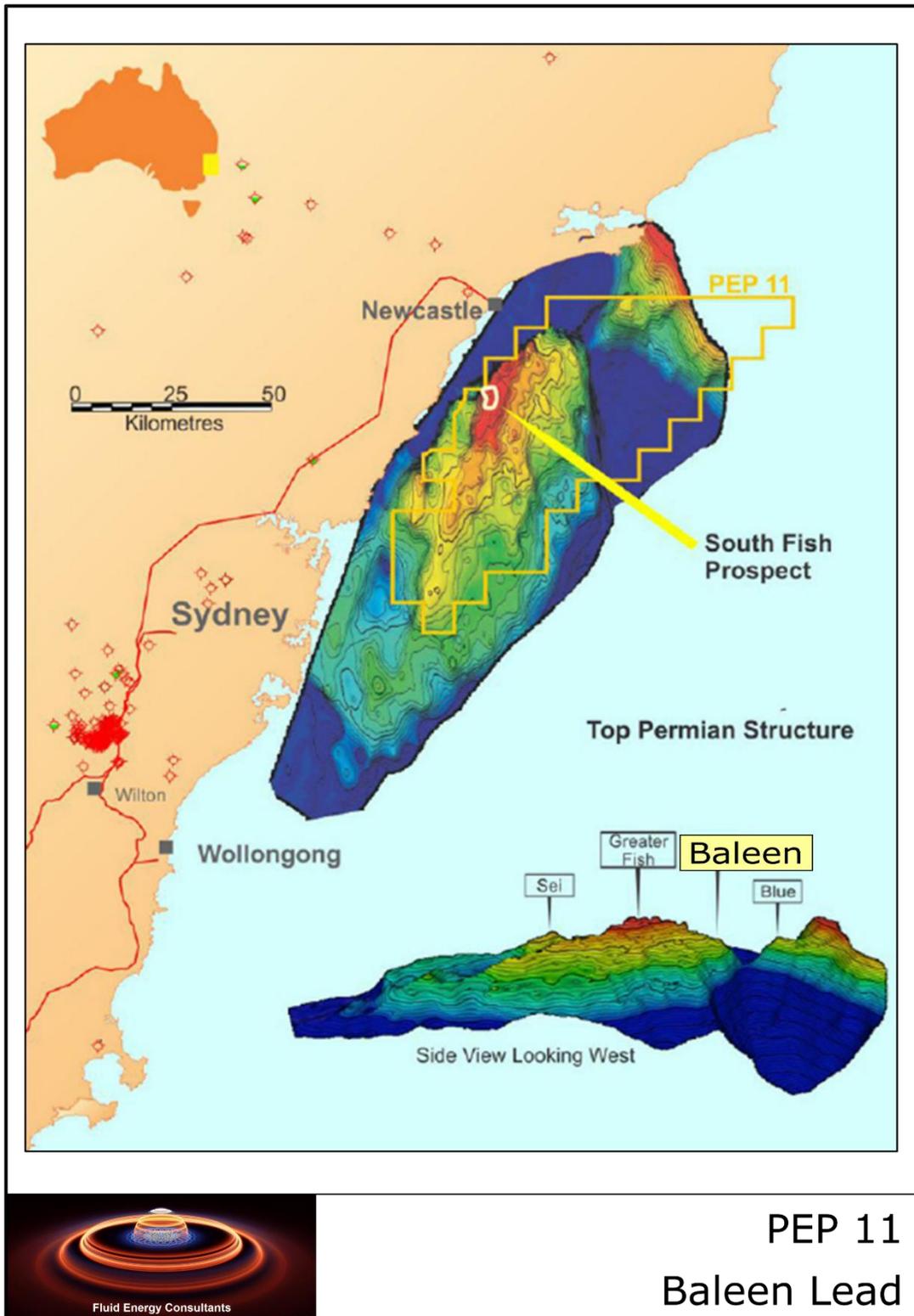


Figure 1 Location of PEP 11 (extracted from MEC data room)



Stratigraphy Sydney Basin

Figure 2 Sydney Basin Stratigraphy (extracted from Preliminary Evaluation of the Petroleum Potential of Australia's Central Eastern Margin, Record 2004/06 by Geoscience Australia)



PEP 11
Baleen Lead

Figure 3 Baleen Lead in PEP 11 (extracted from MEC data room)

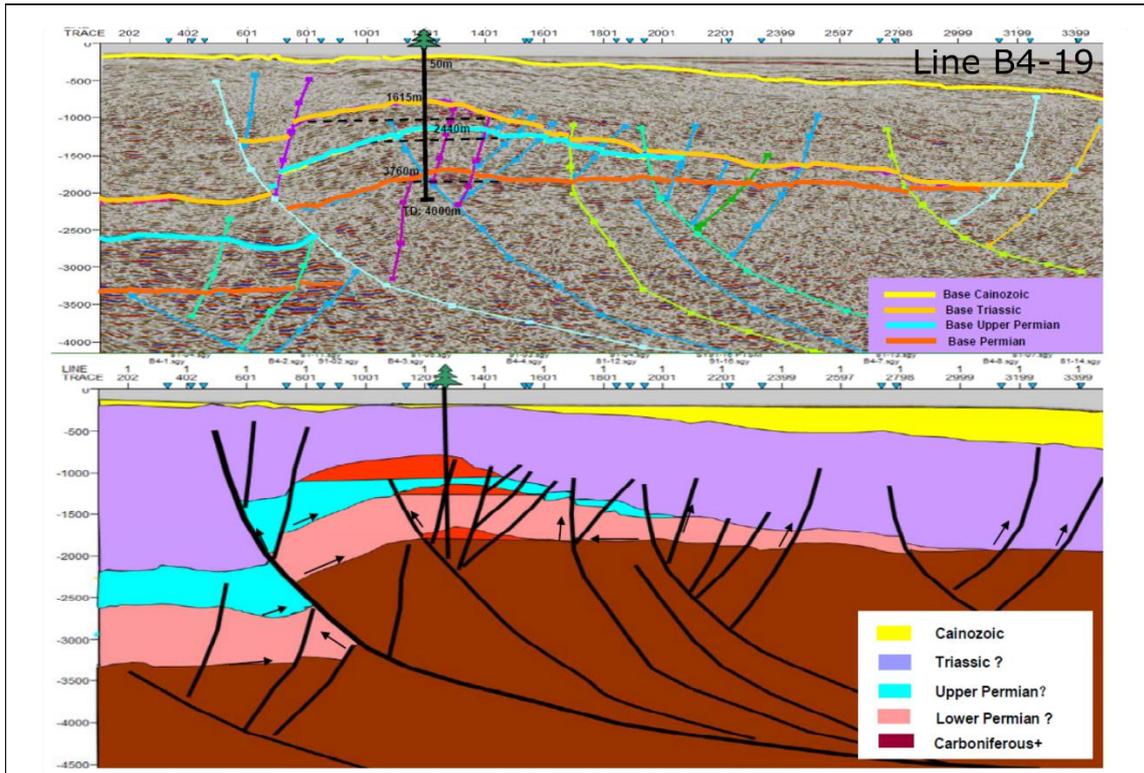


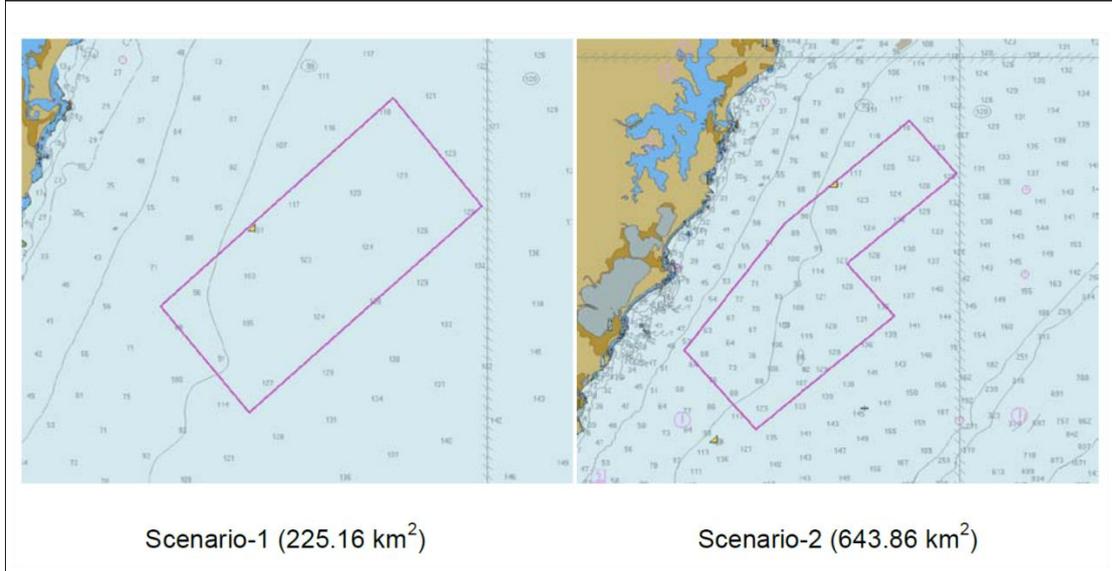
Fig. 7. Seismic profile and interpretation showing proposed source generation and migration pathways and eventual leakage to surface. Compare suggested migration routes to fig. xx seep routes.



PEP 11

Profile of proposed well - Baleen #1

Figure 4 Baleen Lead (extracted from MEC data room)



PEP 11

Possible 3D Seismic Footprint

Figure 5 Possible 3D Seismic Footprint (extracted from MEC data room)

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