
TRANSERV ENERGY LIMITED

ACN 079 432 796

NOTICE OF GENERAL MEETING

A General Meeting of the Company will be held at Level 21, Allendale Square, 77 St Georges Terrace, Perth WA 6000 on Thursday 10 March 2011 at 11.00am (WST).

This 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.

Should you wish to discuss any matter please do not hesitate to contact the Company by telephone on (08) 9324 1177

TRANSERV ENERGY LIMITED

ACN 079 432 796

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of Shareholders of Transerv Energy Limited (**Transerv** or **Company**) will be held at Level 21, Allendale Square, 77 St Georges Terrace, Perth on 10 March 2011 at 11.00am (WST) (**Meeting**).

The Explanatory Memorandum to this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this 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 on 8 March 2011 at 11.00am (WST).

Terms and abbreviations used in this Notice and the Explanatory Memorandum are defined in Section 11 of the Explanatory Memorandum.

AGENDA

1. Resolution 1 – Change to Scale of Activities

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

“That, subject to Resolutions 2, 3, 4, 7 and 8 being passed, for the purposes of Listing Rule 11.1.2 and for all other purposes, the Company be authorised to make a significant change in the scale of its activities on the terms and conditions in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion

The Company will disregard any votes cast on this resolution by a person (or any associate of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed.

However, the Company will not disregard a vote if:

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

2. Resolution 2 – Authority to Issue Converting Shares and Transerv Options

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

"That, subject to Resolutions 1, 3, 4, 7 and 8 being passed, and pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of:

- (a) *1,764,000,147 Converting Shares to the Latent Shareholders (or their nominees); and*
- (b) *336,000,000 Transerv Options to the Latent Optionholders (or their nominees),*

as consideration for the acquisition of the entire share capital of Latent and in accordance with the terms and conditions in the Explanatory Memorandum accompanying this Notice."

Voting Exclusion

The Company will disregard any votes cast on this resolution by Latent Shareholders or Latent Optionholders or any of their associates who may participate in the issue of the Converting Shares or Transerv Options (or any associate of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed.

However, the Company will not disregard a vote if:

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

3. Resolution 3 – Related party approval for acquisition of Latent Securities from an entity associated with Mr Craig Burton

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

"That, subject to Resolutions 1, 2, 4, 7 and 8 being passed, and pursuant to and in accordance with Listing Rule 10.1 and for all other purposes, Shareholders authorise and approve the acquisition by the Company, pursuant to and as part of the transaction approved in Resolution 2, Latent Securities from a related entity of Mr Craig Burton on the terms and conditions in the Explanatory Memorandum accompanying this Notice."

Independent Expert's Report

The Independent Expert has concluded that the granting of the Security is fair and reasonable to non-associated Shareholders. Please refer to the Explanatory Memorandum and the Independent Expert's Report included in Schedule 5 to this Notice.

Voting Exclusion

The Company will disregard any votes cast on the resolution by Mr Craig Burton or his associates.

However, the Company will not disregard a vote if:

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

4. Resolution 4 – Approval of Converting Shares

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

"That, subject to Resolutions 1, 2, 2, 7 and 8 being passed, and for the purposes of Section 246B(1) of the Corporations Act and clause 2.4 of the Constitution of the Company and for all other purposes, the Company be authorised to create a new class of share on the terms and conditions in Schedule 3 and in the Explanatory Memorandum accompanying this Notice (Converting Shares)."

5. Resolution 5 – Ratification of Prior Placement

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 7.4 and for all other purposes, Shareholders ratify the issue of 130,000,000 Shares each at an issue price of \$0.016 (Prior Placement) which raised \$2,080,000 before costs, on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast on this Resolution 5 by a person who participated in the Prior Placement. However, the Company will not disregard a vote if:

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

6. Resolution 6 – Authority to Issue Placement Shares

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

*"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve and authorise the Directors to allot and issue up to 250,000,000 Shares each at an issue price of at least 85% of the average market price over the last five day on which sales in the Shares were recorded before the day on which the issue was made, or if there is a prospectus relating to the issue, over the last five days on which sales in the Shares were recorded before the date of the prospectus (**Placement Shares**) and on the terms and conditions in the Explanatory Memorandum accompanying this Notice (**Placement**)."*

Voting Exclusion

The Company will disregard any votes cast on this resolution by a person (or any associate of such a person) who may participate in the Placement and a person (or any associate of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed.

However, the Company will not disregard a vote if:

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

7. Resolution 7 – Election of a Director – Stephen Keenihan

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

"That, subject to the passing of Resolutions 1, 2, 3, 4 and 8, for the purpose of clause 13.3 of the Constitution and for all other purposes, Mr Stephen Keenihan, being eligible to act as a Director, be elected as a Director."

8. Resolution 8 – Election of a Director – Will Barker

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

"That, subject to the passing of Resolutions 1, 2, 3, 4, and 7, for the purpose of clause 13.3 of the Constitution and for all other purposes, Mr Will Barker, being eligible to act as a Director, be elected as a Director."

Dated 9 February 2011

BY ORDER OF THE BOARD

BRETT MITCHELL
Company Secretary

TRANSERV ENERGY LIMITED

ACN 079 432 796

EXPLANATORY MEMORANDUM

1. Introduction

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the Meeting to be held at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia on 10 March 2011 at 11.00am (WST).

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding whether or not to pass the Resolutions in the Notice.

This 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	Summary of Transaction
Section 4	Resolution 1 – Change to Scale of Activities
Section 5	Resolution 2 – Authority to Issue Converting Shares and Transerv Options
Section 6	Resolution 3 – Approve Acquisition of Securities from a related party of Mr Craig Burton
Section 7	Resolution 4 – Approval of Converting Shares
Section 8	Resolution 5 – Ratification of Prior Placement
Section 9	Resolution 6 – Authority to Issue Placement Shares
Section 10	Resolution 7 – Election of Director – Stephen Keenihan
Section 11	Resolution 8 – Election of Director – Will Barker
Section 12	Definitions
Schedule 1	Latent Shareholders and Latent Optionholders
Schedule 2	Pro forma Balance Sheet
Schedule 3	Terms and Conditions of Converting Shares
Schedule 4	Terms and Conditions of Transerv Options
Schedule 5	Independent Expert Report

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

2. Action to be taken by Shareholders

Shareholders should read this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

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 provided. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

3. Summary of Latent Acquisition

3.1 Background

The Company announced on 24th December 2010 that it had entered into a conditional agreement to acquire a 100% interest in Latent Petroleum Pty Ltd (**Latent**) which holds rights to the Warro Gas Project and the Alberta Project (**Latent Acquisition**).

This Meeting has been called by the Board of Transerv to seek the necessary approvals required as a result of that announcement.

3.2 Latent and its Projects

(a) Warro Gas Project

The Warro gas accumulation lies in EP321 and EP407, in the Peth Basin, Western Australia.

Warro is located approximately 200 km north of Perth and 31 km east of both the Dampier Bunbury Natural Gas Pipeline and the Dongara Perth Parmelia Pipeline. The accumulation covers an area of approximately 7,000 hectares and is about 4,000m below the surface. An independent reserve assessment carried out by Gaffney Cline and Associates established P50 contingent resources of 1.1TCF.

Latent holds a free carried 25% interest in, and is operator of, the Warro Gas Project. The Joint Venture participant is Alcoa. Alcoa is earning a 65% interest in Warro by funding a staged evaluation and construction programme that includes drilling wells, constructing production infrastructure, and conducting seismic surveys. Alcoa must pay A\$100 million of total project works expenditure to earn a 65% participating interest in EP321 and EP407.

During 2009, the Warro joint venture drilled and tested Warro 3. This well produced gas at rates of over 5mmcf/d and confirmed the reservoir model and presence of gas reserves in the field. The well results were reviewed by tight gas and fracture stimulation experts, namely, The Discovery Group and Ely & Associates. This review determined that the Warro field is analogous to the Granite Wash play in Oklahoma and Texas. The Granite Wash has been successful in recent years due to the application of large scale slick water fracture stimulation programs, firstly in vertical wells and more recently in multi stage horizontal wells. During December 2010, the Warro joint venture agreed to drill Warro 4 and conduct a 100sq km 3D programme. The seismic is expected to be recorded in the first quarter of 2011 and Warro 4 drilling is expected during April to May 2011. The fracture stimulation and testing of the well will be carried out immediately following completion of the well.

On 7 January 2011, the Company announced that the Warro joint venture received formal funding approval from Alcoa for up to \$22 million of expenditure to undertake the drilling of Warro 4 and to conduct the 3D seismic program. The Latent Acquisition will see the Company consolidate its interest in the Warro Gas Project to 35% and obtain operatorship. The Company's free carry will increase from \$40 million of project expenditure by farm-in partner Alcoa to \$100 million, effectively reducing the Company's future expenditure commitment by up to \$9 million.

(b) **Alberta Project**

Latent owns a 50% interest in the Alberta Project, a tight gas and condensate play in southern Alberta, Canada. The Alberta Project contains hydrocarbon bearing reservoirs which are expected to be commercial with the application of modern horizontal fracture stimulation technology, used successfully in nearby formations.

The Alberta Project is situated within an oil and gas play in predominantly tight sandstone reservoirs, in southern Alberta, Canada.

Location of Alberta Project



The concept underpinning the Project is that the target formation is known to be hydrocarbon charged but is not yet fully exploited. In Alberta, the nearby Cardium and Bakken formations have enjoyed substantial success as a result of the application of horizontal fracture stimulation technology. The target play is hydrocarbon bearing along its entire length, the parameter that has limited its yield in previous drilling has been low permeability. Reservoir modelling indicates the same horizontal frac technology that has led to the successful exploitation of the Cardium and Bakken is likely to enable commercial production from this play.

To date the play has produced over 20 mmbbl of liquids and 1 Tcf of gas from several thousand wells. Almost all of this production has come from mildly stimulated vertical wells. A typical target profile per section (256 hectares) of the Alberta Project is as follows:

- Significant historical production from vertical wells with established reservoir profile;

- Horizontal well expected to initially produce 150 to 400 barrels of oil equivalent (boe) per day;
- Payout on capital expenditure between 6 to 18 months per well;
- Original oil in place of between 2 and 4 million barrels of oil equivalent (boe) per section;
- Up to 1 million boe per section recoverable;
- Recoverable reserves of 100,000 to 250,000 boe per well; and
- Drilling, racking and completion costs of about C\$3.5m per well.

Drilling is currently planned to commence in the first half of 2011. Five potential well locations have been chosen and detailed engineering and design work has commenced to determine the best means to drill and fracture stimulate the wells.

3.3 Commercial Terms of the Latent Acquisition

Transerv, Latent and the shareholders of Latent have entered into a merger implementation agreement pursuant to which Transerv shall acquire all of the securities in Latent for the following consideration:

- (a) 1,764,000,147 Converting Shares; and
- (b) 336,000,000 unlisted Transerv Options, exercisable within four years from the date of issue at 1.5 cents per option, subject to the achievement of certain performance criteria.

During Negotiations on the Latent Acquisition, the Company and Latent agreed that any commercial benefit derived from the sale of the Amazon well should remain with existing Shareholders. As a result, the Company has structured the Converting Shares so that they will convert into Shares following the Company distributing the commercial benefit (if any) from the Amazon well to existing Shareholders (excluding the Converting Shareholders).

The Converting Shares convert to Shares on a 1 for 1 basis on the earlier of the following occur:

- (a) Transerv making a determination (acting reasonably) that the Amazon Project is not commercial;
- (b) Transerv selling (directly or indirectly) its interest in the Amazon Project and distributing all proceeds (whether cash or scrip) from such sale to the Ordinary Shareholders (with a record date prior to the conversion of the Converting Shares);
- (c) 12 months from the date of issue of the Converting Shares: or
- (d) The occurrence of the takeover of Transerv

All recipients of Converting Shares have agreed to enter 12 month voluntary escrow agreements. Converting Shares that are issued to related parties will be escrowed or restricted for a period prescribed by ASX pursuant to Chapter 9 of the ASX Listing Rules.

If the Converting Shares convert into Shares before 12 months from their date of issue, Shares that are issued to related parties will not become quoted until the expiry of the escrowed or restricted period prescribed by the ASX pursuant to Chapter 9 of the ASX Listing Rules.

Full terms of the Converting Shares are included in Schedule 3.

The Transerv Options cannot be exercised for at least 12 months from the date of issue. The options are to be issued as consideration for the acquisition of existing Latent options which were issued to acquire the Alberta Project. The principal performance criterion is 2 million barrels of oil equivalent C2 resource being declared by an independent expert (based on the results of at least one new horizontal well into the play). Full terms of the options are included in Schedule 4.

Settlement of the Implementation Agreement is subject to conditions precedent, including:

- (a) confirmatory due diligence investigations on Latent by Transerv;
- (b) the Warro 4 well not reaching target depth prior to completion of the Transaction;
- (c) an independent expert report concluding that the Latent Acquisition is fair and reasonable and in the best interest of Transerv's shareholders;
- (d) Transerv obtaining shareholder approval of the issue of the Converting Shares and Transerv Options; and
- (e) other conditions as are typical for similar transactions.

There are also normal commercial warranties in the Implementation Agreement.

3.4 Capital Structure of the Company

The capital structure of the Company prior to and following Settlement is set out below:

Form of Security	Pre-Settlement	Latent Acquisition Consideration	Pro-Forma
Ordinary Shares	1,262,349,071	-	1,262,349,071
Converting Shares	-	1,764,000,147	1,764,000,147
Total Shares (Ordinary & Converting)	1,262,349,071	1,764,000,147	3,026,349,218
Options (Ex. 2.5 cents by 31/01/11)	87,500,000	-	87,500,000
Options (Ex. 1.5 cents within 4 years, vesting hurdles)	-	336,000,000	336,000,000
Total Options	87,500,000	336,000,000	423,500,000

3.5 Balance Sheet

A consolidated pro forma Balance Sheet of the Company post Settlement is in Schedule 2.

3.6 Expert's Report

ASX Listing Rule 10.1 prevents a company from acquiring a substantial asset from a substantial holder without shareholder approval if the substantial holder and the substantial holder's associates have a relevant interest in at least 10% of the issued shares in the company.

At the date the Company entered into the Latent Acquisition Mr Burton had a relevant interest in 13.4% of the Shares. Following completion of the Prior Placement and as at the date of this Notice, Mr Burton's relevant interest in the Shares was 9.3%. Notwithstanding this reduction in Mr Burton's relevant interest, the Company is still seeking approval under ASX Listing Rule 10.1.

Mr Burton holds 2,000,000 shares and 952,381 options in Latent which are being acquired by Transerv as part of the overall transaction.

Mr Burton's relevant interest in the Shares will increase to 13.6% following conversion of the Converting Shares into Shares. Mr Burton's relevant interest in the Shares will increase to 16.4% if Mr Craig Burton's Transerv Options also vest and are exercised (assuming no current unlisted options in Transerv are exercised).

The Company appointed BDO Corporate Finance (WA) Pty Ltd as an independent expert (**Independent Expert**) and commissioned it to prepare a report to provide an opinion as to whether or not the proposal in Resolution 2 is fair and reasonable to the existing Shareholders (**Independent Expert's Report**).

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 acquisition of Latent Securities from a related entity of Mr Craig Burton is fair and reasonable to the existing Shareholders.

Section 11 and 12 of the Independent Expert's Report deals with the Independent Expert's basis for concluding that the proposal is fair and reasonable as the value of the consideration provided to the related party of Mr Burton for the acquisition of Latent Shares and Latent Options is the market value of those Latent Shares and Latent Options. Please refer to Schedule 5 for further details.

The Company recommends that you read the Independent Expert's Report, a copy of which is at Schedule 5 to this Notice.

3.7 Advantages and Disadvantages

The advantages and disadvantages of the Latent Acquisition are detailed in sections 12.4 and 12.5 (respectively) of the Independent Expert's Report.

3.8 Board Recommendation

Based on the information available, including that contained in this Explanatory Memorandum (specifically in this section 3) and the Independent's Expert's Report (including the advantages and disadvantages outlined therein), all of the Directors consider the Latent Acquisition is in the best interests of the Company and accordingly, the Board recommends Shareholders to vote in favour of all Resolutions.

3.9 New Board Members

Upon settlement of the Latent Acquisition (and subject to such persons providing and not having withdrawn their consents to act as directors) Latent has the right to appoint two Directors of the Company. Resolution 7 seeks to appoint Mr Stephen Keenihan as a Director (refer to Section 9 for further details). Resolution 8 seeks to appoint Mr Will Barker as a Director (refer to Section 10 for further details).

In addition, Brent Villemarette will become the Company's Chief Technical Officer. Mr Villemarette has 26 years of experience in the application of sound reservoir engineering principles and practices. He is experienced in reservoir analysis and performance optimization, project feasibility studies, reserve replacement strategies, field development plans, and acquisition analyses as well as assessing the commercial viability of exploration prospects, new field developments and facility upgrades.

3.10 Capital Raising

On 12 January 2011, the Company announced that it had successfully completed a placement of 380,000,000 Shares each at an issue price of \$0.016 to raise \$6,080,000 before costs. The Shares were issued to institutional and sophisticated investors of Argonaut Securities Pty Ltd.

The funds raised by the Company under the Prior Placement will be applied to general working capital and to further advance the Company's existing interest in the Amazon Project.

4. Resolution 1 – Change to Scale of Activities

4.1 Background

Resolution 1 seeks approval from Shareholders for a change to the scale of the activities of the Company in relation to the Latent Acquisition.

Resolution 1 is an ordinary resolution. Resolution 1 is subject to the approval of Resolutions 2, 3, 4, 7 and 8.

4.2 Listing Rule 11.1 Requirements

Chapter 11 of the Listing Rules requires Shareholders to approve any significant change in the nature or scale of a company's activities. The completion of the Latent Acquisition by the Company will have the effect of increasing the scale of the Company's activities.

Resolution 1 seeks Shareholder approval to allow the Company to complete the Latent Acquisition thereby increasing the scale of its activities (not its nature).

Where a Company seeks to change the scale of its activities, it must:

- (a) under Listing Rule 11.1.1, notify ASX of the proposed change;
- (b) under Listing Rule 11.1.2, obtain shareholder approval to undertake the change, if required by ASX; and
- (c) under Listing Rule 11.1.3, meet the requirements of Chapters 1 and 2 of the Listing Rules as if the Company was applying for admission to the official list of ASX, if required by ASX. The ASX has confirmed that the Company does not need to re-comply with the requirements of chapters 1 and 2 of the Listing Rules.

See Section 3 of this Explanatory Memorandum for further information on the Latent Acquisition and the likely affect that the Latent Acquisition will have on the Company.

A voting exclusion statement is included in the Notice.

5. Resolution 2 – Authority to Issue Converting Shares and Transerv Options

5.1 Background

In accordance with the terms and conditions of the Implementation Agreement, the Company is to acquire a 100% interest in Latent through the issue of Converting Shares and Transerv Options. Further details of the securities to be issued are outlined above in Section 3.

Resolution 2 seeks Shareholder approval for the allotment and issue of up to 1,764,000,147 Converting Shares and 336,000,000 Transerv Options at Settlement, which forms part of the total consideration to be issued to Latent Shareholders and Latent Optionholders (including to Mr Craig Burton).

5.2 Listing Rule 7.1 – Shareholder approval Converting Shares and Transerv Options

Listing Rule 7.1 requires Shareholder approval for the issue of the securities to Latent Shareholders and Latent Optionholders. Listing Rule 7.1 provides that, subject to certain exceptions, Shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of the Company's securities then on issue.

Given the issue of securities to Latent Shareholders and Latent Optionholders under Resolution 2 will exceed the balance of the 15% threshold and none of the exceptions contained in Listing Rule 7.2 apply, Shareholder approval is required in accordance with Listing Rule 7.3.

The effect of Resolution 2 will be to allow the Directors to issue the Converting Shares and Latent Options pursuant to the Implementation Agreement during the period of 3 months after the Meeting (or a longer period if allowed by ASX), without using the Company's 15% annual placement capacity.

Resolution 2 will not take effect unless Resolutions 1, 3, 4, 7 and 8 are also passed. Resolution 2 is an ordinary resolution.

The Company has sought approval from ASX in relation to Listing Rules 6.1 and 6.2 to the extent necessary to enable it to create the Converting Shares as a new class of securities. The Company expects to receive confirmation from the ASX that the Converting Shares are fair and reasonable to comply with the Listing Rules before the date of the Meeting.

5.3 Specific Information Required by ASX Listing Rule 7.3

For the purposes of Shareholder approval of the issue of the Vendor Shares and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) the maximum number of securities the Company can issue under Resolution 2 is:
 - (i) 1,764,000,147 Converting Shares to Latent Shareholders; and
 - (ii) 336,000,000 Transerv Options to Latent Optionholders;
- (b) the Company will issue and allot the Converting Shares and Transerv Options no later than 3 months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow) and it is intended that allotment will occur on the same date;
- (c) the Converting Shares will have a deemed issue price of \$0.015 each;
- (d) each Transerv Option entitles the optionholder to subscribe for one Share. The Transerv Options have an exercise price of \$0.015 each and expiry date which is 4 years following the date of its grant;

- (e) the Converting Shares and the Transerv Options will be issued for nil cash consideration, but rather as consideration for the acquisition of Latent Shares and Latent Options (as the case may be). Accordingly no funds will be raised from the issue of the Converting Shares or the Transerv Options;
- (f) all of the Converting Shares and Transerv Options issued to the Latent Shareholders and Latent Optionholders will be escrowed or restricted for a period prescribed by ASX pursuant to Chapter 9 of the ASX Listing Rules. To the extent that ASX does not impose escrow restrictions on the Latent Shareholders and Latent Optionholders in respect of the Converting Shares or the Transerv Options of at least one year the Latent Shareholders and Latent Optionholders have agreed that the Converting Shares issued to the Latent Shareholders and Latent Optionholders will be subject to a 12 month trading lock from the date of issue of the Converting Shares or the Transerv Options;
- (g) the terms and conditions of the Converting Shares are summarized in section 5.4 below and are in full in Schedule 3 and Transerv Options are in full in Schedule 4;
- (h) the issue and allotment of the Converting Shares and Transerv Options will occur progressively; and
- (i) a voting exclusion statement is included in the Notice.

5.4 Summary of Converting Shares

The Converting Shares will have the following terms and conditions:

- (a) The Converting Shares convert to Shares on a 1 for 1 basis on the earlier of the following to occur:
 - (i) Transerv making a determination (acting reasonably) that the Amazon Project is not commercial;
 - (ii) Transerv selling (directly or indirectly) its interest in the Amazon Project and distributing all proceeds (whether cash or scrip) from such sale to the Ordinary Shareholders (with a record date prior to the conversion of the Converting Shares);
 - (iii) 12 months from the date of issue of the Converting Shares; or
 - (iv) the occurrence of a takeover or Transerv.
- (b) The Converting Shares are not quoted.
- (c) The Converting Shares are not transferable.
- (d) The Converting Shares do not have any voting rights.
- (e) The Converting Shares do not permit the holders to participate in the new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (f) The Converting Shares do not carry entitlement to the dividend.
- (g) The Converting Shares do not have any right to participate in the profits or assets of the Company on or upon winding up of Transerv only to the extent of \$0.0001 per Converting Share.

The full terms of the Converting Shares are in Schedule 3.

6. Resolution 3 – Related party approval for acquisition of Latent Securities from an entity associated with Mr Craig Burton

6.1 Background

Resolution 3 seeks approval from Shareholders to approve the acquisition of Latent Securities held by a related entity of Mr Craig Burton, who is a substantial shareholder of the Company who has a relevant interest of greater than 10% in the issued Shares in the Company.

At the date the Company entered into the Latent Acquisition Mr Burton had a relevant interest in 13.4% of the Shares. Following completion of the Prior Placement and as at the date of this Notice, Mr Burton's relevant interest in the Shares was 9.3%. Notwithstanding this reduction in Mr Burton's relevant interest, the Company is still seeking approval under ASX Listing Rule 10.1.

As consideration for the overall acquisition of Latent, the Company will issue 294,000,000 Converting Shares and 140,000,000 Transerv Options to a related party of Mr Craig Burton on terms set out in Resolution 2.

Resolution 3 is an ordinary resolution and is subject to the approval of Resolutions 1, 2, 4, 7 and 8.

6.2 Listing Rule 10.1 Requirements

ASX Listing Rule 10.1 prevents a company from acquiring a substantial asset from a substantial holder without shareholder approval if the substantial holder and the substantial holder's associates have a relevant interest in at least 10% of the issued shares in the Company.

The effect of passing Resolution 3 will be to allow the Company to complete the Latent Acquisition without breaching Listing Rules 10.1.

For the purposes of Listing Rule 10.10, the following information is provided:

- (a) the Independent Expert's Report in Schedule 5 sets out:
 - (i) the effect of the Latent Acquisition and Implementation Agreement on the Company; and
 - (ii) whether the Latent Acquisition is fair and reasonable to Shareholders;
- (b) a voting exclusion statement is included in the Notice.

7. Resolution 4 – Approval of Converting Shares

The Company seeks Shareholder approval to create the Converting Shares as a new class of shares on the terms and conditions in Schedule 3.

Resolution 4 will not take effect unless Resolutions 1, 2, 3, 7 and 8 are also passed. Resolution 4 is a special resolution.

The Company has sought approval from ASX in relation to Listing Rules 6.1 and 6.2 to the extent necessary to enable it to create the Converting Shares as a new class of securities. The Company expects to receive confirmation from the ASX that the Converting Shares are fair and reasonable to comply with the Listing Rules before the date of the Meeting.

Under clause 2.3 of the Constitution and, subject to the Corporations Act, the ASX Listing Rules and the Constitution, the Directors may at any time issue such number of shares either as ordinary shares or shares of a named class or classes (being either an existing class or a new class) at the issue price that the Directors determine and with such preferred, deferred, or other special rights or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Directors shall, in their absolute discretion, determine.

Section 246C(5) of the Corporations Act provides that if a company has one class of share and seeks to issue a new class of share, such issue is taken to vary the rights attached to the shares already issued.

Under section 246B(1) of the Corporations Act, if a company has a constitution which sets out the procedure for varying or cancelling (in the case of a company with share capital) rights attached to shares in a class of shares, those rights may be varied or cancelled only in accordance with the procedure.

In accordance with clause 2.3 of the Constitution, if at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, whether or not the Company is being wound up:

- (a) with the consent in writing of the holders of three quarters of the issued shares of that class; or
- (b) authorised by a special resolution passed at a separate meeting of the holders of the shares of the class.

Accordingly, the Company seeks approval from Shareholders for the issue of the Converting Shares as a new class of shares on the terms set out in Schedule 3 of this Explanatory Memorandum.

The Company is also seeking approval in Resolution 2 from Shareholders to issue Converting Shares to the Latent Shareholders.

8. Resolution 5 – Ratification of Prior Placement

8.1 General

On 12 January 2011 the Company announced it had completed a placement of 380,000,000 Shares to institutional and sophisticated investors of Argonaut Securities Pty Ltd at \$0.016 each to raise \$6,080,000 before costs.

250,000,000 of the Shares issued under the Prior Placement were issued pursuant to approval given by shareholders pursuant to Listing Rule 7.1 at the general meeting held on 9 December 2010.

130,000,000 of the Shares issued under the Prior Placement were issued within the Company's 15% annual limit permitted under Listing Rule 7.1, without the need for Shareholder approval. Resolution 5 seeks shareholder approval of the ratification of the issue of 130,000,000 Shares.

The effect of Shareholders passing Resolution 5 by ratifying the issue of the 130,000,000 Shares will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

The funds raised by the Company under the Prior Placement will be applied to general working capital and to further advance the Company's existing interest in the Amazon Project.

Refer to Section 3.9(a) of the Explanatory Memorandum for further details.

8.2 Listing Rule 7.4

The Shares issued under the Prior Placement were issued within the Company's 15% annual limit permitted under Listing Rule 7.1, without the need for Shareholder approval. The effect of Shareholders passing Resolution 5 by ratifying the issue of the Shares will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

Resolution 5 is an ordinary resolution.

8.3 Specific Information Required by ASX Listing Rule 7.5

For the purposes of Shareholder approval of the Prior Placement and the requirements of Listing Rule 7.5, information is provided as follows:

- (a) 130,000,000 Shares were issued on 18 January 2011 under the Company's 15% annual limit permitted under Listing Rule 7.1.
- (b) The Shares were issued at \$0.016 per Share.
- (c) The Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing shares on issue.
- (d) The Shares were allotted to institutional and sophisticated investors of Argonaut Securities Pty Ltd.
- (e) The proceeds from the issue of Shares will be used to provide working capital and to further advance the Company's existing interest in the Amazon Project.
- (f) A voting exclusion statement is included in the Notice.

9. Resolution 6 – Authority to Issue Placement Shares

9.1 General

Resolution 6 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue and allotment of up to 250,000,000 Shares each at an issue price of at least 85% of the average market price over the last five day on which sales in the Shares were recorded before the day on which the issue was made, or if there is a prospectus relating to the issue (**Prospectus**), over the last five days on which sales in the Shares were recorded before the date of the prospectus.

None of the subscribers will be related parties of the Company.

The Latent Acquisition is not conditional upon any further capital raisings, accordingly an additional capital raising is not obligatory. However the Directors are seeking authority to undertake a raising should it be deemed appropriate and in the best interests of the company to increase its working capital position. Proceeds from any placement will predominantly be used to provide general working capital and to fund any additional exploration and development costs of its projects.

Refer to Section 3.9(b) of the Explanatory Memorandum for further details.

9.2 Listing Rule 7.1 – Shareholder approval of the issue of Placement Shares

Listing Rule 7.1 requires Shareholder approval for the proposed issue of Placement Shares. Listing Rule 7.1 provides, subject to certain exceptions, that Shareholder approval is required for any issue of securities by a listed company, where the securities proposed to be issued represent more than 15% of the company's securities then on issue.

Given the issue of the Placement Shares under Resolution 6 will exceed this 15% threshold and none of the exceptions in Listing Rule 7.2 apply, Shareholder approval is required in accordance with Listing Rule 7.3.

The effect of Resolution 6 will be to allow the Directors to issue the Placement Shares during the period of 3 months after the Meeting (or a longer period if allowed by ASX) without using the Company's 15% placement capacity.

Resolution 6 is an ordinary resolution.

The Company has entered into an agreement with Argonaut Securities Pty Ltd to place up to 250,000,000 Shares each at an issue price of at least 85% of the average market price over the last five day on which sales in the Shares were recorded before the day on which the issue was made, or if there is a prospectus relating to the issue, over the last five days on which sales in the Shares were recorded before the date of the Prospectus.

9.3 Specific Information Required by Listing Rule 7.3

For the purposes of Shareholder approval of the issue of Placement Shares and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) the maximum number of Placement Shares the Company can issue under Resolution 6 is 250,000,000 Shares;
- (b) the Company will issue and allot the Placement Shares no later than 3 months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow) and it is intended that allotment will occur on the same date;

- (c) the Shares to be issued under the Placement will be issued by the Company at an issue price of at least 85% of the average market price of Shares over the last five days on which sales in the Shares were recorded before the day on which the issue is made, or if there is a prospectus relating to the issue, over the last 5 days on which sales in the Shares were recorded before the date of the prospectus;
- (d) as subscriptions to the Placement have not yet been arranged, the allottees will be identified at the Directors' discretion but will be sophisticated and professional investors (pursuant to section 708(8), 708(10) and 708(11) of the Corporations Act), who are not related parties or associates of related parties of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing issued Shares;
- (f) the funds raised from the issue will be used to fund any additional exploration and development costs of the Company's project and providing general working capital. The value of funds to be raised is unable to be ascertained given the inherent uncertainty regarding the future Share price which is subject to a range of factors, many of which are outside the control of the Company. If the Placement is completed at not less than 85% of the Share price on 12 January 2011, the Placement would raise approximately \$4,250,000 before costs;
- (g) the issue and allotment of the Placement Shares will occur progressively; and
- (h) a voting exclusion statement is included in the Notice.

10. **Resolution 7 – Election of a Director – Mr Stephen Keenihan**

Clause 13.3 of the Constitution allows the Company in a general meeting by ordinary resolution to appoint any person as a director, but only where the total number of directors does not at any time exceed the maximum number specified by the Constitution.

Pursuant to the Implementation Agreement, the Vendors are entitled to nominate two directors for appointment to the Board of the Company. Mr Stephen Keenihan, being eligible, seeks election.

Mr Keenihan has more than 34 years of experience in the energy industry, within and outside Australia. He has primarily been involved with oil and gas activities but also a broad range of experience in other energy and electricity projects including coal, gas, wind, biofuels and geothermal. He has previously held management roles with Apache Energy, Griffin Energy, Novus Petroleum, WMC Petroleum, LASMO and Woodside. He has extensive expertise in oil and gas exploration activities but experience covers a broad range of disciplines including development, operations, commercial and marketing activities both operated and non-operated.

Subject to the successful completion of the Implementation Agreement, Resolution 7 proposes Mr Keenihan as a new director of the Company in accordance with clause 13.3 of the Constitution.

Resolution 7 is an ordinary resolution and is subject to the approval of Resolutions 1, 2, 3, 4 and 8.

11. Resolution 8 – Election of a Director – Mr Will Barker

Clause 13.3 of the Constitution allows the Company in a general meeting by ordinary resolution to appoint any person as a director, but only where the total number of directors does not at any time exceed the maximum number specified by the Constitution.

Pursuant to the Implementation Agreement, the Vendors are entitled to nominate two directors for appointment to the Board of the Company. Mr Will Barker, being eligible, seeks election.

Mr Barker has extensive experience in the exploration and development of unconventional gas projects. His experience covers exploration and development activities, gas compression facility and pipeline construction, government relations, business development and general management.

Subject to the successful completion of the Implementation Agreement, Resolution 8 proposes Mr Barker as a new director of the Company in accordance with clause 13.3 of the Constitution.

Resolution 8 is an ordinary resolution and is subject to the approval of Resolutions 1, 2, 3, 4 and 7.

12. Definitions

In this Explanatory Memorandum and Notice:

Alberta Project means Latent's interest in the oil and gas project located in Central Alberta, Canada.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited ACN 009 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

Company or **Transerv** means Transerv Energy Limited ACN 079 432 796.

Converting Shares has the meaning given in Resolution 4 with further terms and conditions in Schedule 3.

Board means the board of Directors.

boe means barrels of oil.

Constitution means the Constitution of the Company.

Converting Shares has the meaning set out in Section 3.2 of the Explanatory Memorandum.

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

Director means a director of the Company.

Explanatory Memorandum means the explanatory memorandum attached to the Notice.

Implementation Agreement means the implementation agreement between the Company, Latent, Latent Shareholder and Latent Optionholder dated 23 December 2010 to acquire all of the Latent Shares and Latent Options.

Latent means Latent Petroleum Pty Ltd (ACN 121 651 072).

Latent Acquisition has the meaning provided in Section 3 of the Explanatory Memorandum.

Latent Option means an option to acquire a Latent Share with an exercise price of \$2.20 and an expiry date which is 4 years from the date of issue.

Latent Optionholder means a holder of a Latent Option as identified in Part 2 of Schedule 4.

Latent Securities means Latent Shares and Latent Options.

Latent Share means a full paid ordinary share in the capital of Latent.

Latent Shareholder means a holder of a Latent Share as identified in Part 1 of Schedule 1.

Listing Rules means the listing rules of ASX.

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

Notice means this notice of meeting.

Placement has the meaning given in Resolution 6.

Placement Shares has the meaning given in Resolution 6.

Prior Placement has the meaning given in Resolution 5.

Proxy Form means the proxy form attached to the Notice.

Resolution means a resolution contained in this Notice.

Schedule means a schedule to this Notice.

Settlement means settlement of the Latent Acquisition in accordance with the Implementation Agreement.

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

Shareholder means a shareholder of the Company.

Transerv Option means an unlisted option to acquire one Share with an exercise price of \$0.015 and an expiry date which is 4 years from the date of issue and on the terms set out in Schedule 4.

Warro Gas Project means Latent's interest in the gas project in EP321 and EP407, located in the Peth Basin, Western Australia.

WST means Western Standard Time, being the time in Perth, Western Australia.

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

Schedule 1 – Latent Shareholders and Latent Optionholders

Part 1 – Latent Shareholders

Latent Shareholders	Shares held in Latent	Shares to be received as consideration
Argonaut Investments Pty Limited (ACN 114 113 129)	2,000,000	294,000,000
Seaspin Pty Ltd (ACN 077 417 826) as trustee for the Aphrodite Trust	2,000,000	294,000,000
Craig Ian Burton as trustee for the CI Burton Family Trust	2,000,000	294,000,000
Stephen Leslie Keenihan and Sheridan Jay Keenihan as trustee for the SL and SJ Keenihan Family Trust	2,160,000	317,520,000
Russell Graham Stephenson and Pamela Christine Stephenson	1,680,000	246,960,000
Houston Nominees Pty Ltd (ACN 008 842 519)	48,001	7,056,147
Villemarette Nominees Pty Ltd (ACN 123 427 485)	1,680,000	246,960,000
TOTAL	12,000,001	1,764,000,147

Part 2 – Latent Optionholders

Latent Optionholders	Shares held in Latent	Shares to be received as consideration
Craig Burton as trustee for the CI Burton Family Trust	952,381	140,000,000
Seaspin Pty Ltd (ACN 077 417 826) as trustee for the Aphrodite Trust	952,381	140,000,000
Stephen Keenihan and Sheridan Keenihan as trustee for the SL and SJ Keenihan Family Trust	380,953	56,000,000
TOTAL	2,285,715	336,000,000

Schedule 2 – Consolidated Pro Forma Balance Sheet

Proforma Transerv Balance Sheet	Notes	Prior to the transaction 30-Nov-10 \$	Post transaction \$	Post transaction fully diluted \$
CURRENT ASSETS				
Cash	1	8,365,126	8,482,840	13,522,840
Other receivables and prepayments		64,118	781,037	781,037
Inventory	2	-	252,726	252,726
TOTAL CURRENT ASSETS		8,429,244	9,516,603	14,556,603
NON-CURRENT ASSETS				
Property, plant and equipment		6,622	80,197	80,197
Exploration and evaluation expenditure	3	11,751,000	50,155,000	50,155,000
TOTAL NON-CURRENT ASSETS		11,757,622	50,235,197	50,235,197
TOTAL ASSETS		20,186,866	59,751,800	64,791,800
CURRENT LIABILITIES				
Trade and other payables	4	12,820	686,832	686,832
TOTAL CURRENT LIABILITIES		12,820	686,832	686,832
NON CURRENT LIABILITIES	5	-	1,250,000	1,250,000
NET ASSETS		20,174,046	57,814,968	62,854,968
Shares on issue		1,262,349,071	3,026,349,218	3,362,349,218
Value per share		0.0160	0.0191	0.0187

Notes:

1. Cash has been adjusted to reflect the bonus cash payments of \$117,600 in the post transaction scenario, and exercise of Options of \$5.04m in the fully diluted scenario
2. Latent inventory has been impaired to realisable value at 50%
3. Exploration and evaluation expenditure has been amended to the ISIS valuations
4. Trade and other payables include Latent's \$400,000 tax liability in post transaction scenarios
5. Excess costs are no longer allocated as Latent's PPA liability and therefore this is excluded from post transaction scenarios. The liability payable to Alberta Vendors of \$1.25m has been included in the post transaction scenarios.

Schedule 3 – Terms and Conditions of Converting Shares

Rights attaching to the Converting Shares

- (e) **(Converting Shares)** Each Converting Share is a share in the capital of Transerv.
- (f) **(General Meetings)** The Converting Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of Transerv that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of Transerv.
- (g) **(No Voting Rights)** The Converting Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of Transerv Shareholders.
- (h) **(No Dividend Rights)** The Converting Shares do not entitle the Holder to any dividends.
- (i) **(Rights on Winding Up)** The Converting Shares participate in the surplus profits or assets of Transerv upon winding up of Transerv only to the extent of \$0.0001 per Converting Share.
- (j) **(Not Transferable)** The Converting Shares are not transferable.
- (k) **(Reorganisation of Capital)** If at any time the issued capital of Transerv is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (l) **(Application to ASX)** The Converting Shares will not be quoted on ASX. Subject to the Corporations Act and the ASX Listing Rules, upon conversion of the Converting Shares into fully paid ordinary shares (**Shares**), Transerv shall apply for the official quotation of the Shares arising from the conversion on ASX.
- (m) **(No Participation in Entitlements and Bonus Issues)** Holders of Converting Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (n) **(No Other Rights)** The Converting Shares give the Holders no rights other than those expressly provided by these terms and those provided that where such rights at law cannot be excluded by these terms.

Conversion of the Converting Shares

- (o) **(Conversion)** Each Converting Share will convert into a Share on the earlier of:
 - (i) Transerv making a determination (acting reasonably) that the Amazon Project is not commercial;
 - (ii) Transerv selling (directly or indirectly) its interest in the Amazon Project and distributing all proceeds (whether cash or scrip) from such sale to the Transerv Shareholders (with a record date prior to the conversion of the Converting Shares) net of:
 - (A) the tax payable in relation to the sale of the Amazon Project (after utilization of any carry forward losses); and
 - (B) the amount equal to the amount of the development costs incurred by Transerv in relation to the Amazon Project Well#1 in excess of \$1,000,000 (if any);

- (iii) 12 months from the date of issue of the Converting Shares; or
- (iv) the occurrence of a Transerv Takeover (defined below).
- (p) **(Conversion Procedure)** The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Converting Shares into Shares in accordance with the conversion milestones above.
- (q) **(Ranking of Shares)** The Shares into which the Converting Shares will convert will rank pari passu in all respects with existing Shares.
- (r) **(Takeover)** A **Transerv Takeover** means:
 - (i) the occurrence of:
 - (A) the offeror under a takeover offer in respect of all Shares announcing that it has achieved acceptances in respect of 50.1% or more of the Transerv Shares; and
 - (B) that takeover bid has become unconditional; or
 - (ii) the announcement by Transerv that:
 - (A) shareholders of Transerv have at a court convened meeting of shareholders voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all Transerv Shares are to be either cancelled or transferred to a third party; and
 - (B) the court, by order, approves the proposed scheme of arrangement.
- (s) **Amazon Project** means the oil and gas project located in south Louisiana, USA, in which Transerv holds a 5% working interest.

Schedule 4 – Terms and Conditions of Transerv Options

The Transerv Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (t) Each Transerv Option gives the Transerv Optionholder the right to subscribe for one Share. To obtain the right given by each Transerv Option, the Transerv Optionholder must exercise the Transerv Options in accordance with the terms and conditions of the Transerv Options.
- (u) None of the Transerv Options can be exercised for a period of 12 months from the date of their issue (**Vesting Period**).
- (v) Following the expiration of the Vesting Period, the Transerv Options may be exercised subject to and conditional upon the occurrence of one of the following events:
 - (i) in relation to:
 - (A) 224,000,000 Transerv Options, on satisfaction of the 2 million Barrel Milestone. If Transerv receives certification by an Independent Expert that C2 (Contingent Resource) equal to or greater than 1,000,000 barrels of Oil Equivalent but less than the 2 million Barrel Milestone, a pro-rata number of 224,000,000 Transerv Options shall vest; and
 - (B) 112,000,000 Transerv Options, on satisfaction of the 2 million Barrel Milestone and satisfaction of the Net Acreage Milestone. If Woma (or a related party) secures further acreage in the AMI but such acreage is less than the Net Acreage Milestone, a pro-rata number of 112,000,00 Transerv Options shall vest (provided the 2 million Barrel Milestone is satisfied); or
 - (ii) the sale of the Company's interest in the Alberta Project in whole or in part (directly or indirectly) at a price that implies a value on the Alberta Project of \$5,000,000 more than the cost base (for taxation purposes) at the time of such sale; or
 - (iii) any other event which is deemed by the Directors of the Company (excluding the Latent Nominee Directors) to be reasonable for the vesting the Transerv Options; or
 - (iv) successful completion of a Transerv Takeover (defined below).
- (w) The Transerv Options can not be exercised until they have vested.
- (x) The Transerv Options will expire at 5:00 pm (WST) on the date which is four (4) years from the date of issue (Expiry Date). Any Transerv Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (y) The amount payable upon exercise of each Transerv Option will be \$0.015 (**Exercise Price**).
- (z) The Transerv Options held by each Transerv Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (aa) Subject to the Transerv Options vesting, a Transerv Optionholder may exercise their Transerv Options by lodging with the Company, before the Expiry Date:

- (i) a written notice of exercise of Transerv Options specifying the number of Transerv Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the amount of the total Exercise Price for the number of Transerv Options being exercised (**Exercise Notice**).
- (bb) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (cc) Within 10 Business Days of receipt of the Exercise Notice accompanied by the amount of the total Exercise Price for the number of Transerv Options being exercised, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Transerv Options specified in the Exercise Notice.
- (dd) All Shares allotted upon the exercise of Transerv Options will upon allotment rank pari passu in all respects with other Shares.
- (ee) The Company will not apply for quotation of the Transerv Options on ASX. The Company will apply for quotation of all Shares allotted pursuant to the exercise of Transerv Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (ff) If at any time the issued capital of the Company is reconstructed, all rights of a Transerv Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (gg) There are no participating rights or entitlements inherent in the Transerv Options and Transerv Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Transerv Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give Transerv Optionholders the opportunity to exercise their Transerv Options prior to the date for determining entitlements to participate in any such issue.
- (hh) A Transerv Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Transerv Option can be exercised.
- (ii) A Transerv Option shall be transferable following vesting of the Transerv Option in accordance with paragraph (c) and the expiry of the Vesting Period.
- (jj) **2 million Barrel Milestone** means Transerv receiving certification by an independent expert that a C2 (Contingent Resource) equal to or greater than 2,000,000 barrels of Oil Equivalent (Net Acres) as calculated in accordance with the guidelines of the Society of Petroleum Engineers on the Alberta Project following receipt and inclusion of the results of at least one horizontal well drilled on the Alberta Project.
- (kk) **Alberta Project** means the oil and gas project located in Central Alberta, Canada and contained within the Alberta Project Leases
- (ll) **Alberta Project Leases** means those leases in which Woma holds (or will hold by the Settlement Date) including any further leases acquired within the AMI.
- (mm) **AMI** means the area of mutual interest as defined in the co-operation agreement between Woma, Mako Energy Limited and Warren Energy Limited.

- (nn) **Independent Expert** means an independent person who is considered an expert by the guidelines of the Society of Petroleum Engineers.
- (oo) **Latent Nominee Directors** means Stephen Keenihan and Will Barker.
- (pp) **mcf** means 1,000 cubic feet of gas.
- (qq) **Net Acreage Milestone** means the occurrence that Woma (or any related party) legally secures at least 4000 Net Acres after 1 December 2010 on the Alberta Project (but excluding any acres which have been acquired for minimum statutory bid).
- (rr) **Net Acres** means the total net acreage within the AMI (including any additional acreage acquired within AMI) in respect of which Woma has an interest determined in respect of each Alberta Project Lease by multiplying the participating interest of Woma by the relevant number of acres.
- (ss) **Oil Equivalent** means the barrels of oil or condensate plus the number barrels of oil equivalent which is equal to ten percent (10%) of the volume of gas calculated in mcfs.
- (tt) **Sale** means the direct or indirect sale or disposal of all or part of the Company's interest in the Alberta Project to a third party on bona fide arms length terms (excluding any sale or disposal through a farm-out arrangement).
- (uu) **A Transerv Takeover** means:
- (i) the occurrence of:
 - (A) the offeror under a takeover offer in respect of all Shares announcing that it has achieved acceptances in respect of 50.1% or more of the Shares; and
 - (B) that takeover bid has become unconditional; or
 - (ii) the announcement by the Company that:
 - (A) shareholders of the Company have at a court convened meeting of shareholders voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all Shares are to be either cancelled or transferred to a third party; and
 - (B) the court, by order, approves the proposed scheme of arrangement.
- (vv) **Woma** means Woma Energy Ltd.

Schedule 5 – Independent Expert's Report



INDEPENDENT EXPERT'S REPORT
Transerv Energy Limited

18 January 2011



Financial Services Guide

18 January 2011

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (“BDO” or “we” or “us” or “ours” as appropriate) has been engaged by Transerv Energy Ltd (“Transerv”) to provide an independent expert’s report on the Transaction to acquire all of the securities in Latent Petroleum Pty Ltd. You will be provided with a copy of our report as a retail client because you are a shareholder of Transerv.

Financial Services Guide

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 services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take 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



Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately \$25,000.

Except for the fees referred to above, neither BDO, 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. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from Transerv for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

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.

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 must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 Subiaco WA 6872.

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 organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561.

Further details about FOS are available at the FOS website www.fos.org.au 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 1 of this FSG.



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18 January 2011

Transerv Energy Limited
Level 21 Allendale Square
77 St Georges Terrace
PERTH WA 6000

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 24 December 2010, Transerv Energy Limited (“**Transerv**”) or “**the Company**”) announced that the Company was to acquire all of the securities in Latent Petroleum Pty Ltd (“**Latent**”). The offer price for the acquisition is the issue of 1,764,000,147 Converting Shares to the Latent shareholders which ultimately convert into ordinary shares on a one to one basis, and 336,000,000 Options to the Latent Optionholders which vest upon the achievement of milestones in respect of the Alberta Project.

Mr Craig Burton, a significant shareholder of Transerv is also a shareholder of Latent.

2. Summary and opinion

2.1. Purpose of the report

The directors of Transerv have requested that BDO Corporate Finance (WA) Pty Ltd (“**BDO**”) prepare an independent expert’s report (“**our Report**”) to express an opinion as to whether or not the acquisition of Latent Shares and Options from Mr Craig Burton and the other Latent Shareholders (“**the Transaction**”) is fair and reasonable to the non associated shareholders of Transerv (“**Shareholders**”). Our Report is prepared pursuant to ASX Listing Rule 10.1 in order to assist the Shareholders in their decision whether to approve the Transaction.

2.2. Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (“**ASIC**”) Regulatory Guide 111 (“**RG 111**”), ‘Content of Expert’s Reports’ and Regulatory Guide 112 (“**RG 112**”) ‘Independence of Experts’.

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- How the value of a Transerv share prior to the Transaction compares to the value of a Transerv share following the Transaction;
- The likelihood of a superior alternative offer being available to Transerv;

- Whether a premium for control is being offered in relation to the issue of Transerv shares and whether this is appropriate;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction; and
- The position of Shareholders should the Transaction not proceed.

2.3. Opinion

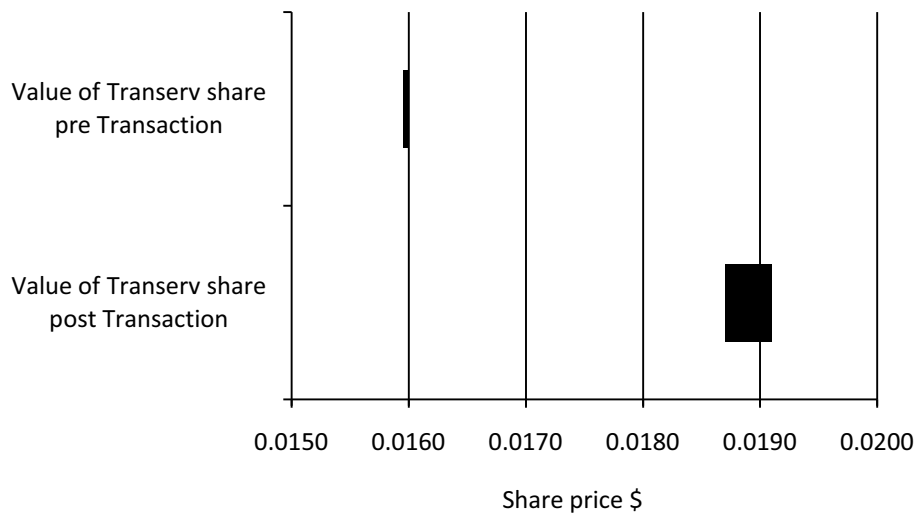
We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is fair and reasonable to Shareholders.

2.4. Fairness

In Section 11 we determine that the Converting shares and Options compare to the increase in the value of Transerv as a result of the Transaction, as detailed hereunder.

Converting shares	Ref	Value \$
Value of Transerv share pre Transaction	9.1	0.0160
Value of Transerv share post Transaction	10.1	0.0191
Fully diluted value of Transerv share post Transaction	10.1	0.0187

The above values are represented graphically below.



We note from the table above that the value of a Transerv share if the Transaction is approved is greater than the value of a Transerv Share prior to the Transaction. Therefore, we consider the Transaction to be fair for Shareholders.

2.5. Reasonableness

We have considered the analysis in Section 12 of this report, in terms of both

- advantages and disadvantages of the Transaction; and
- alternatives, including the position of Shareholders if the Transaction does not proceed.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
11	The Transaction is fair	4.4/ 12.2	The shareholding and therefore control of the current Transerv shareholders would be significantly diluted
4.2	Transerv Shareholders will retain their interest in Amazon following the Transaction	12.5	Former Latent shareholders will have the potential to significantly influence the operations of Transerv
4.1	Transerv will increase its interest in the Warro Project from 10% to 35% and obtain operatorship of the Project	10.1	Transerv would acquire debt of \$1.25 million. However this is unsecured and becomes repayable only if Transerv were to raise \$4,000,000 from a capital raising
4.3/ 12.4	Transerv will be exposed to oil and gas assets in Canada as well as its existing interests in Australia, and the USA		
10.1	The value per share post transaction would increase further than in the analysis of fairness presented if the market value of the Alberta Project was also considered		
12.4	The Transaction does not include any upfront cash payment. Transerv can therefore utilise cash for exploration and any working capital requirements		
4.3	Consideration Options are conditional. The issue of Options as part of consideration does not initially dilute the Shareholders' interests in Transerv, but only at such time as the Options vest and are exercised		
4.1	By acquiring Latent, Transerv will increase its free carry of the Warro Project expenditure from \$40 million to \$100 million, resulting in cost savings of up to \$9 million		

Other key matters we have considered include:

Section	Description
12.1	The lack of alternative Transactions
12.2	Mr Craig Burton and other Latent shareholders' control
12.3	Post announcement movements in share price

3. Scope of the Report

3.1. Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts. Mr Craig Burton has a relevant interest of greater than 10% in the issued shares in the Company and Mr Burton, or related parties of Mr Burton, will be issued 294,000,000 Converting Shares and 140,000,000 Options as consideration for acquiring his shares and options in Latent.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction non-associated shareholders. Accordingly, an independent experts' report is required for the Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Transerv.

3.2. Regulatory guidance

The Listing Rules do not define the meaning of "fair and reasonable". In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions. RG 111 does not provide specific guidance in relation to a fair and reasonable report required by the ASX. However, RG 111 provides guidance on how a control transaction should be considered. We do not consider the Transaction to be a control transaction as Mr Craig Burton and his associates do not obtain a controlling stake in Transerv following the Transaction. As such, we have used RG 111 as a guide for our analysis but have considered the Transaction as if it were not a control transaction.

3.3. Adopted basis of evaluation

RG 111 states that when considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. However, as stated in Section 3.2 we do not consider that the Transaction is a control transaction. RG 111 states that when consideration is in the form of scrip then the expert should consider this value on a minority interest basis.

Consultation Paper 143 was issued by ASIC in October 2010 which proposed updates to the policies on the content of expert reports detailed in RG 111, including provision of guidance on the role of experts in related party transactions. The proposed updates are in draft, the Regulatory Guides being timetabled to be updated in March 2011, however we have taken the proposed updates into consideration when considering the fairness of the Transaction. When considering a related party transaction, the Consultation Paper states that where the proposed transaction consists of an asset acquisition by the entity it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. Where the financial benefit is securities in the entity and the entity is acquiring securities held by a related party, the value of the entity's securities should be compared to the value of the securities it is purchasing.

RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between value of a Transerv share prior to the Transaction and the value of a Transerv share following the Transaction (fairness - see Section 11 "Is the Transaction Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 12 "Is the Transaction Reasonable?").

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances

4. Outline of the Transaction

On 24 December 2010 Transerv announced that the Company was to acquire all of the securities in Latent. If the Transaction is approved Transerv will issue 1,764,000,147 Converting Shares to Latent shareholders which ultimately convert into ordinary shares on a one to one basis, and 336,000,000 Options to Latent Optionholders which vest upon the achievement of milestones in respect of the Alberta Project. The Converting Shares and Options will be subject to a 12 month trading lock period.

Transerv will also repay loans associated with the Alberta Project of approximately \$1.25m.

Mr Craig Burton, a significant shareholder of Transerv, is also a shareholder of Latent.

4.1. Warro Gas Project

Latent and Transerv are currently partners in the Warro Gas Project (“Warro”) located about 200km north of Perth, with a third party, Alcoa of Australia (“Alcoa”). Under a farm-in agreement entered into in June 2008, ownership is as follows:

- Alcoa 65%: Alcoa may earn the 65% interest in Warro by expenditure of \$100 million;
- Transerv 10%: Following completion of the first \$40 million of budgeted expenditure by Alcoa (“free-carry” amount), Transerv will spend \$9 million of the next \$60 million to maintain its 10% interest;
- Latent 25%: Latent is the operator of Warro.

Approval of the Transaction will result in Transerv increasing its ownership of Warro from 10% to 35% and become operator of the project. In addition, Transerv’s free-carry for the project will increase from \$40 million by Alcoa to \$100 million, effectively reducing the Company’s future expenditure by up to \$9 million.

4.2. Amazon Project

The consideration will exclude Transerv’s 5% interest in the Amazon Project (“Amazon”), which is to be held for the benefit of current Transerv shareholders only. This will be achieved by Latent shareholders receiving Converting Shares, which are excluded from participating in any distribution of the value of Amazon.

The Converting Shares will convert to ordinary shares upon the earlier of:

1. Transerv determining that Amazon is not commercial;
2. Proceeds from the sale of Amazon being distributed to ordinary shareholders;
3. 12 months from the date of issue of the Converting Shares; or
4. The occurrence of a Transerv takeover.

4.3. Alberta Project

Latent will own a 50% interest in the Alberta Project, a tight gas and condensate play in southern Alberta, Canada (“Alberta”) which Latent entered into an agreement to acquire in December 2010. As part of the Transaction Transerv will acquire Latent’s interest in Alberta by issuing 336 million Transerv Options to the Latent Optionholders.

The Transerv Options will be exercisable within four years of issue at \$0.015 per Option and will be subject to a 12 month vesting period, following which they will vest on the earlier of:

- 224 million Options on at least two million barrels of C2 (contingent Resource) oil equivalent on the Alberta Project being declared by an independent expert (“two million Barrel Milestone”). If between one million and two million barrels are declared then the Options will vest pro-rata;
- 112 million Options on satisfaction of the two Million Barrel Milestone, and that WOMA Energy Ltd or any related party secures at least an additional 4,000 net acres on the Alberta Project. If less acreage is secured the Options will vest pro-rata;
- The sale of the interest in the Alberta Project where proceeds exceed \$3 million over and above the cost base. If such profit is greater than \$1 million but less than \$3 million the Options will vest pro-rata;
- Successful completion of a Transerv takeover; or
- Any other event deemed by all Company Directors (excluding the latest nominee Directors) to be a reasonable purpose of the vesting.

The previous vendors of Alberta to Latent provided unsecured loans to fund the project. Under the Transaction Transerv will take on these loans which become payable 14 days following a capital raising of at least \$4 million.

4.4. Capital structure

Transerv will issue 1,764 million Converting Shares to the Latent shareholders, and issue 336 million share Options to the Latent Optionholders. Following the proposed issue of Converting Shares, the number of shares on issue will total approximately 3,026 million of which the pre-Transaction Transerv shareholders will have a 41.7% shareholding and Latent shareholders will have 58.3% shareholding, as set out below.

There are currently 87.5 million unlisted Transerv Options on issue, exercisable at \$0.025 before 31 January 2011. If these were exercised then the pre-Transaction shareholders’ holding would increase to 43.4%. This shareholding would decrease to 39.1% if the 336 million consideration share Options issued to Latent shareholders vested.

Transerv Share structure	Current		If Converting Shares are converted		If all Options are exercised	
	Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage
Current shares	882,349,071	69.9%	882,349,071	29.2%	882,349,071	25.6%
Placement January 2011	380,000,000	30.1%	380,000,000	12.6%	380,000,000	11.0%
Current Options	-	-	-	-	87,500,000	2.5%
Current	1,262,349,071	100.0%	1,262,349,071	41.7%	1,349,849,071	39.1%
Consideration shares	-	-	1,764,000,147	58.3%	1,764,000,147	51.1%
Consideration Options	-	-	-	-	336,000,000	9.7%
Consideration	-	-	1,764,000,147	58.3%	2,100,000,147	60.9%
Total	1,262,349,071	100.0%	3,026,349,218	100.0%	3,449,849,218	100.0%



4.5. Board members

Of the current three Transerv Directors, Brett Mitchell (Executive Director) is to be Company Secretary, and the other two Board members (Non-Executive Directors) are to remain on the Board.

Stephen Keenihan, the current Managing Director of Latent, will assume the same role on the Transerv Board. Will Barker will join the Transerv Board as Commercial Executive Director. Brent Villemarette will join the Transerv Management team as Chief Technical Officer.

It is anticipated that the Transerv will relocate to Latent's existing offices in West Perth.

5. Profile of Transerv

5.1. History

Transerv is a company based in Perth, Western Australia, with a mandate to invest in oil and gas projects. Transerv was incorporated as Bluefire Gas Pty Ltd, on 22 July 1997. On 28 November 2003, the Company converted its status to a public company limited by shares. Transerv was admitted to the official list of Australian Securities Exchange on 10 March 2004.

Administrators were appointed to the Company and its subsidiaries on 30 December 2005 and a Deed of Company Arrangement (“DOCA”) was entered into on 26 April 2006 following creditor approval. The Company was released from administration on 24 July 2006 following satisfaction of the terms of the DOCA.

Transerv has a 10% interest in the Warro Gas Project located about 200km north of Perth. The gas field covers an area of approximately 7,000 hectares and is about 4,000m below the surface. The gas is high quality and suitable for sales with only minor dehydration treatment. Infrastructure for the project, should it meet all necessary approvals, will involve production wells, a pipeline to carry the gas to the existing domestic gas pipeline infrastructure, a small gas treatment plant and compressors.

Under a farm-in agreement entered in June 2008, Alcoa may earn a 65% interest in Warro by expenditure of \$100 million. Latent is the project operator and retains a 25% interest. Under the agreement, each party retains control of its share of Warro gas production.

In September 2010, Transerv also acquired a 5% working interest in the Amazon Extension and Thames onshore oil and gas prospects in Louisiana, USA. Under the terms of the agreement, Transerv will pay 9% of the dry hole costs on the first two wells drilled on the prospect to earn a 5% working interest in the prospects, and a 5% share of costs for all subsequent wells, being the same terms as other partners Tango Petroleum Ltd and Quest Petroleum NL.

5.2. Historical Balance Sheets

Balance Sheet	Unaudited As at 30 November 2010 \$	Audited As at 30 June 2010 \$	Audited As at 30 June 2009 \$
CURRENT ASSETS			
Cash	2,619,526	2,841,840	2,606,207
Other receivables and prepayments	64,118	66,988	48,262
TOTAL CURRENT ASSETS	2,683,644	2,908,828	2,654,469
NON-CURRENT ASSETS			
Property, plant and equipment	6,622	7,514	11,722
Exploration and evaluation expenditure	3,882,529	3,882,529	3,882,529
TOTAL NON-CURRENT ASSETS	3,889,150	3,890,043	3,894,251
TOTAL ASSETS	6,572,794	6,798,871	6,548,720
CURRENT LIABILITIES			
Trade and other payables	12,820	92,646	98,381
Deposits held on Trust	-	24,000	62,500
TOTAL CURRENT LIABILITIES	12,820	116,646	160,881
NET ASSETS	6,559,974	6,682,225	6,387,839
EQUITY			
Issued share capital	10,237,575	10,213,575	9,587,075
Reserves	138,118	139,767	139,750
Accumulated losses	(3,815,719)	(3,671,117)	(3,338,986)
TOTAL EQUITY	6,559,974	6,682,225	6,387,839

Source: Audited financial statements at for the years ended June 2009 and June 2010 and the unaudited Management Accounts as at 30 November 2010

5.3. Historical Income Statements

Income Statement	Year ended 30 June 2010 \$	Year ended 30 June 2009 \$
Audit and accounting costs	(23,350)	(26,398)
Employee benefit expense	(245,191)	(238,715)
Professional fees	(40,520)	(83,968)
Depreciation	(4,207)	(3,637)
Administration expense	(135,225)	(161,828)
Reversal of impairment	-	100,000
Gain on asset write off	-	1,341
Loss before financing costs	(448,494)	(413,205)
Net finance income	116,294	68,258
Financial expenses	70	(24,273)
Net finance income	116,364	43,535
Loss before tax	(332,130)	(369,670)
Income tax expense	-	-
Loss for period	(332,130)	(369,670)
Foreign currency translation	16	(37)
Net loss for period	(332,114)	(349,707)

Source: Audited Financial statements Year Ended 30 June 2010

We have not undertaken a review of the unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 “Review of Historical Financial Information” and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management information has not been prepared on a reasonable basis.

Transerv’s most significant assets relate to exploration and evaluation expenditure. The balance has remained at \$3.9 million since 30 June 2009 as no further expenditure has been incurred. The recoverability of the balance is dependent on the successful development and commercial exploitation or sale of the respective areas.

Of total cash balances at 30 November 2010 of \$2.6 million, \$1.8 million related to bank term deposits.

Transerv has a contingent liability relating to the Warro Project to maintain its 10% interest. Following expenditure of \$40 million by Alcoa, the Company must spend \$9 million of the next \$60 million of exploration expenditure. However Transerv’s free carry will increase following approval of the Transaction, and will no longer be subject to this contingent liability.

Within the income statement for the year ended June 2009 is income of \$100,000 relating to the reversal of an impairment provision of an investment in Westrans Services Pty Ltd.

5.4. Capital Structure

The share structure of Transerv as at 30 September 2010 is outlined below:

	Number
Total Ordinary Shares on Issue	882,349,071
Top 20 Shareholders	383,767,072
Top 20 Shareholders - % of shares on issue	43.5%

Source: Audited financial statements year ended 30 June 2010. This does not reflect the impact of the share placement of 380 million shares in January 2011.

The range of shares held in Transerv as at 30 September 2010 is as follows:

Range of Shares Held	No. of Ordinary Shareholders
1-1,000	372
1,001-5,000	80
5,001-10,000	105
10,001-100,000	547
100,001 - and over	732
TOTAL	1,836

Source: Audited financial statements year ended 30 June 2010. This does not reflect the impact of the share placement of 380 million shares in January 2011.

The ordinary shares held by the most significant shareholders as at 30 September 2010 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
MR CRAIG IAN BURTON	118,000,000	13.4%
DARTALEPTY LTD	31,000,000	3.5%
MR DON FORSHAW BATLEY	25,300,000	2.9%
CITICORP NOMINEES PTY LIMITED	25,174,058	2.9%
Total Top 4	199,474,058	22.7%
Others	682,875,012	77.3%
Total Ordinary Shares on Issue	882,349,071	100.0%

Source: Audited financial statements year ended 30 June 2010. This does not reflect the impact of the share placement of 380 million shares in January 2011.

There are 46 holders of the total 87,500,000 unlisted Options, of which none own more than 20%. The Options are exercisable at 2.5 cents on or before 31 January 2011.

Source: Audited financial statements year ended 30 June 2010

6. Profile of Latent

6.1. History

Latent Petroleum Pty Ltd, is an Australian-owned, private company formed to develop the Warro Gas Field in the Perth Basin and provide gas to Western Australia. Latent has a 25% interest in, and operatorship of, Exploration Permits, EP321 and EP407 which together cover the Warro Gas Field. In December 2010 Latent entered into an agreement to acquire a 50% interest in the Alberta Project in Canada.

6.2. Historical Balance Sheet

Balance Sheet	As at 30 November 2010 \$	As at 30 June 2010 \$	As at 30 June 2009 \$
CURRENT ASSETS			
Cash On Hand	235,314	259,431	1,527,664
Debtors and prepayments	716,919	60,501	191,509
Inventory - Casing	505,452	717,939	-
TOTAL CURRENT ASSETS	1,457,685	1,037,869	1,719,173
NON-CURRENT ASSETS			
Exploration permits	447,615	454,140	469,800
Exploration and evaluation	4,569,060	4,893,909	3,430,082
TOTAL NON-CURRENT ASSETS	5,016,675	5,348,049	3,899,882
TOTAL ASSETS	6,474,359	6,385,918	5,619,055
CURRENT LIABILITIES			
Trade Creditors	137,061	129,420	47,293
Accrued Expenses	101,953	58,420	142,100
Provision for Annual Leave	24,394	23,000	10,068
Other	410,604	22,918	-
TOTAL CURRENT LIABILITIES	674,012	233,758	199,461
NON-CURRENT LIABILITIES			
Alcoa Australia Ltd	-	3,671,058	2,583,716
TOTAL LIABILITIES	674,012	3,882,516	2,783,177
NET ASSETS	5,800,347	2,481,101	2,835,878
EQUITY			
Shareholders' equity	12,001	12,001	12,001
Retained earnings	5,788,346	2,469,100	2,823,877
TOTAL EQUITY	5,800,347	2,481,101	2,835,878

Source: Special Purpose Financial Report 30 June 2010, Unaudited Management Accounts November 2010

Latent is not a reporting entity and as such has not been independently audited. We have not undertaken a review of Latent's financial information in accordance with Australian Auditing and Assurance Standard 2405 "Review of Historical Financial Information" and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures to suggest that the financial information within the management information has not been prepared on a reasonable basis.

The most significant asset of Latent relates to the exploration permits and the exploration and evaluation expenditure incurred to date. The licence acquisition costs are capitalised when purchased and amortised on a straight line basis over the estimated period of exploration. Upon determination of economically recoverable resources the amortisation ceases and remaining costs are aggregated within exploration expenditure. Costs directly associated with exploration are capitalised as an intangible asset until drilling is completed.

Debtors at 30 November 2010 increased relating to amounts owed from Alcoa. \$398,000 of these amounts has been received in December 2010, and the remaining balance of \$319,000 is expected to be settled in January 2011.

Inventory primarily relates to casings that were considered to be saleable at cost at 30 June 2010. However Latent now considers the resale value to be approximately 50% of inventory cost and therefore the balance at 30 November 2010 should be impaired.

Long term liabilities due to Alcoa relate to Latent's share (25%) of the excess of costs incurred to date above the expenditure commitments under the Warro farm-in agreement. An equivalent balance has been recorded as exploration expenditure.

Latent is in the process of revising the farm-in agreement with Alcoa and has a written agreement under which the excess costs incurred by Alcoa are no longer allocated to Latent as the PPA liability (\$3.7 million as at 30 June 2010). The costs incurred are instead to contribute to Alcoa's 65% entitlement in the Alberta Project, and therefore we have deducted the liability from the balance sheet. However, per the Implementation Agreement, a related tax liability has been generated of \$400,000 which we have added to other current liabilities.

6.3. Capital Structure

The share structure of Latent as at 30 November is outlined below:

Latent Shareholders	Shares held
Argonaut Investments Pty Limited	2,000,000
Seaspin Pty Ltd	2,000,000
Craig Ian Burton as trustee for the CI Burton Family Trust	2,000,000
Stephen Leslie Keenihan and Sheridan Jay Keenihan as trustee for the SL and SJ Keenihan Family Trust	2,160,000
Russell Graham Stephenson and Pamela Christine Stephenson	1,680,000
Houston Nominees Pty Ltd	48,001
Villemarette Nominees Pty Ltd	1,680,000
Other	432,000
TOTAL	12,000,001

Source: Latent Share Registry. The analysis above reflects the transfer of 1 share to Houston Nominees Pty Ltd in December 2010.

The Optionholders of Latent as at 30 November 2010 are outlined below:

Latent Optionholder	Options held
Craig Burton as trustee for the CI Burton Family Trust	952,381
Seaspin Pty Ltd	952,381
Stephen Keenihan and Sheridan Keenihan as trustee for the SL and SJ Keenihan Family Trust	380,953
TOTAL	2,285,715

Source: Latent Share Registry

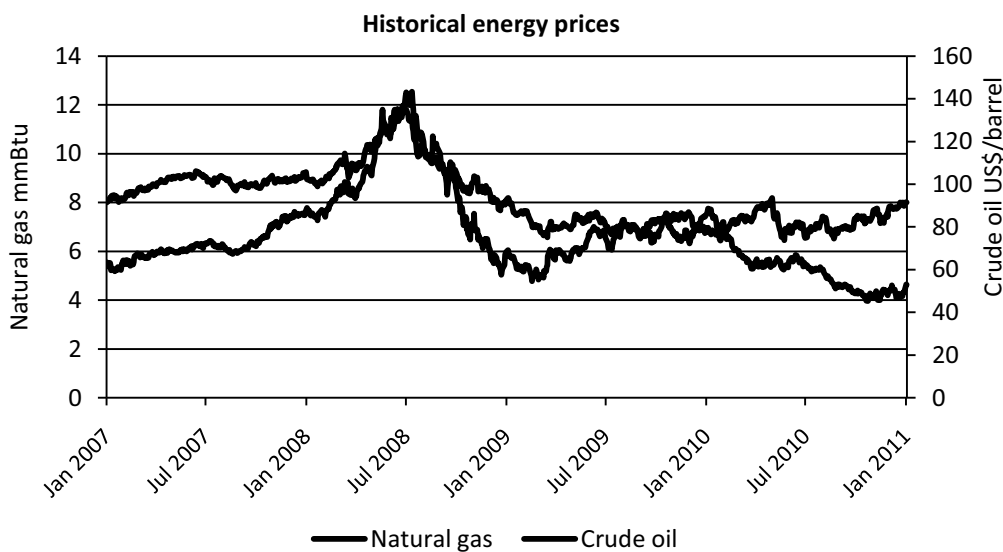
7. Industry analysis

7.1. Background

The global oil and gas industry is one of the largest in the world and, as is inherent to large markets, it is dominated by large highly integrated companies. The scale of operations by such companies, spanning exploration to marketing, and the requirement for considerable initial investment represent very high barriers to entry.

Global primary energy consumption fell in 2009, though this varied greatly across regions. The Organisation for Economic Co-operation and Development (“OECD”) experienced the sharpest decline in energy consumption on record. In contrast, the developing world outside the Former Soviet Union saw energy consumption growing faster than Gross Domestic Product (“GDP”). Globally, the energy intensity of economic activity rose in 2009, fostered by slower growth and by many energy-intensive fiscal stimulus programmes, but against the longer-term trend.

Oil prices began the year at c.\$40 per barrel, and increased steadily during the year as production cuts were greater than the decline in consumption. Natural gas in competitive markets fell sharply and remained weak through most of the year due to falling consumption, continued development of unconventional resources in the US, and rising Liquefied Natural Gas supply.

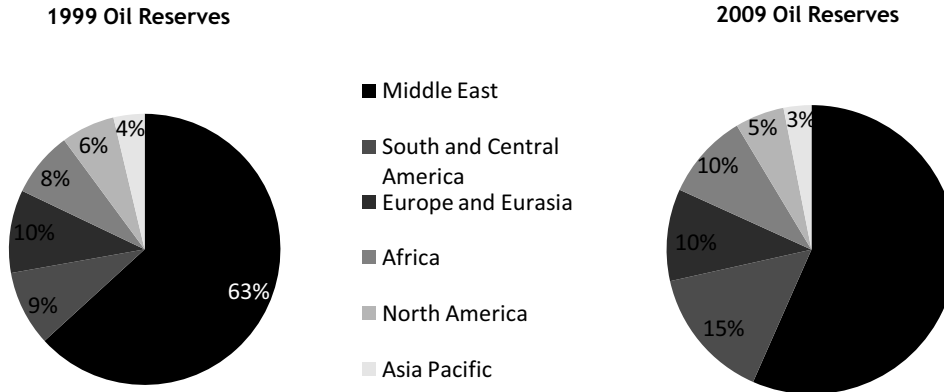


Source: Bloomberg

Following their respective peaks, both oil and gas suffered sharp and sustained price declines in response to a deterioration in economic conditions globally. The downward trend continued into 2009 and uncertainty as to whether the worst of the financial crisis had passed ensured volatility in energy trading throughout the year. Oil prices have started to make some ground back after bottoming out at US\$54.6 in February 2009, however gas continues to test its floor reaching a low of US\$4.0 as recently as October 2010.

7.2. Oil reserves

At the end of 2009, proved global oil reserves stood at 1,333.1 billion barrels, or 181.7 billion tonnes. This compares to a reserve of 1,085.6 billion barrels at the end of 1999, representing a 22.8% increase over the decade. The geographic distribution of these reserves is set out in the graphs below.



Source: BP Statistical Review of World Energy June 2010

The majority of oil reserves are centred in the Middle East, with South and Central America, Europe and Eurasia, and Africa accounting for the majority of the remainder. Daily production statistics are more evenly distributed, with the Middle East producing 30.3% of daily world output, followed by Europe and Eurasia with 22.4%. Within the Middle East, Saudi Arabia claims 19.8% of world oil reserves and produces 12.0% of daily world production, and within Europe and Eurasia, Russia claims 5.6% of reserves and 12.9% of world production.

The largest single consumer of oil in 2009 was the US, consuming 21.7% of the world's total, with the next most significant being China, consuming 10.4%. There is much conjecture as to the point at which oil reserves will be exhausted, predominantly due to the unknown ability of technological advances to bring different sources of oil into production and the ongoing discovery of new reserves.

7.3. Gas Reserves

The proved global reserve of natural gas at the end of 2009 was measured at 187.5 trillion cubic metres, which is a 26% increase on the reserve at the end of 1999. Of the global reserve, the Middle East accounts for 40.6%, and Europe and Eurasia 33.7%. The United States is the largest producer with 20.1% of world output, followed by Russia with 17.6%. No other country contributes more than 6% of global production.

7.4. Outlook

Globally, oil and gas markets experienced a unique period of growth in the lead up to the global financial crisis, growing at a compound annual growth rate of 23.7% for the five years since 2004. However with the sharp and dramatic decrease in economic activity since July 2008, growth has been stunted. While there is sustained pressure to find alternative forms of energy, oil, gas and coal still account for the large majority of energy around the world. As reserves are depleted and alternative fuels become more available with advances in technology, these traditional fuel sources will face a more apparent threat of substitution. However until such point, oil and gas will continue to play a chief role in every economy.

8. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Net Tangible Assets on a going concern basis (“NTA”)
- Quoted Market Price Basis (“QMP”)
- Capitalisation of future maintainable earnings (“FME”)
- Discounted Cash Flow (“DCF”)

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Transerv shares and Latent we have chosen to employ the following methodologies:

- Net tangible assets as our primary method; and
- Quoted market price as our secondary method.

We have chosen these methodologies for the following reasons:

- The most significant assets of both Transerv and Latent are petroleum and gas related and as such require a specialist valuation that may not be accurately provided by other methodologies;
- Transerv is listed on the ASX and this provides an indication of the market value where an observable market for the securities exists;
- Transerv and Latent do not generate regular trading income. Therefore there are no historic profits that could be used to represent future earnings. This means that the FME valuation is not appropriate;
- Transerv and Latent have no foreseeable future net cash inflows and therefore the application of DCF is not possible.

9. Valuation of Transerv prior to the Transaction

9.1. Net Tangible Asset Valuation of Transerv

The value of Transerv's assets on a going concern basis is reflected in our valuation below:

Transerv Balance Sheet	Notes	30-Nov-10 \$	Prior to the transaction Valuation \$
CURRENT ASSETS			
Cash	1	2,619,526	8,365,126
Other receivables and prepayments		64,118	64,118
TOTAL CURRENT ASSETS		2,683,644	8,429,244
NON-CURRENT ASSETS			
Property, plant and equipment		6,622	6,622
Exploration and evaluation expenditure	2	3,882,529	11,751,000
TOTAL NON-CURRENT ASSETS		3,889,151	11,757,622
TOTAL ASSETS		6,572,795	20,186,866
CURRENT LIABILITIES			
Trade and other payables		12,820	12,820
TOTAL CURRENT LIABILITIES		12,820	12,820
NET ASSETS		6,559,975	20,174,046
Total shares on issue	1		1,262,349,071
Value per share			0.0160

We have been advised that there has not been a significant change in the net assets of Transerv since 30 November 2010, other than the placement of 380 million shares in January 2011 which is reflected above. The table above indicates the net asset value of a Transerv share is \$0.0160 prior to the Transaction.

Notes:

The following adjustments were made to the net assets of Transerv as at 30 November 2010 in arriving at our valuation.

1. Cash

In January 2011 Transerv successfully completed a placement of 380 million shares at an issue price of \$0.016, increasing the number of shares on issue from 882 million to 1,262 million. The resulting cash raised net of costs of \$5.7 million has been added to the cash balance at 30 November 2010.

2. Exploration, evaluation and development costs

We instructed Isis Petroleum Consultants ("Isis") to provide an independent specialist market valuation of the exploration assets held by Transerv. Isis considered a number of different valuation methods when

valuing the exploration assets of Transerv. Isis applied the comparable transaction methodology to Warro. The range of value for Transerv's interest in Warro as calculated by Isis as \$11.8 million.

We have not included a value for Amazon in our valuation as the terms of the Converting Shares to be issued for the Latent acquisition have limited rights and convert when:

- (i) It has been determined that Amazon is not commercial; or
- (ii) Transerv has sold its interest in Amazon and distributed all proceeds to existing shareholders;
or
- (iii) 12 months from the date of issue.

The directors of Transerv have advised that they expect that either condition (i) or (ii) will occur prior to the conversion under condition (iii) and that as such Latent shareholders will not obtain any interest in Amazon. As Transerv shareholders will retain their exposure both pre and post Transaction we have excluded this from our analysis.

9.2. Quoted Market Prices for Transerv Securities

To provide a comparison to the valuation of Transerv in Section 10.1, we have also assessed the quoted market price for a Transerv share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.22 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

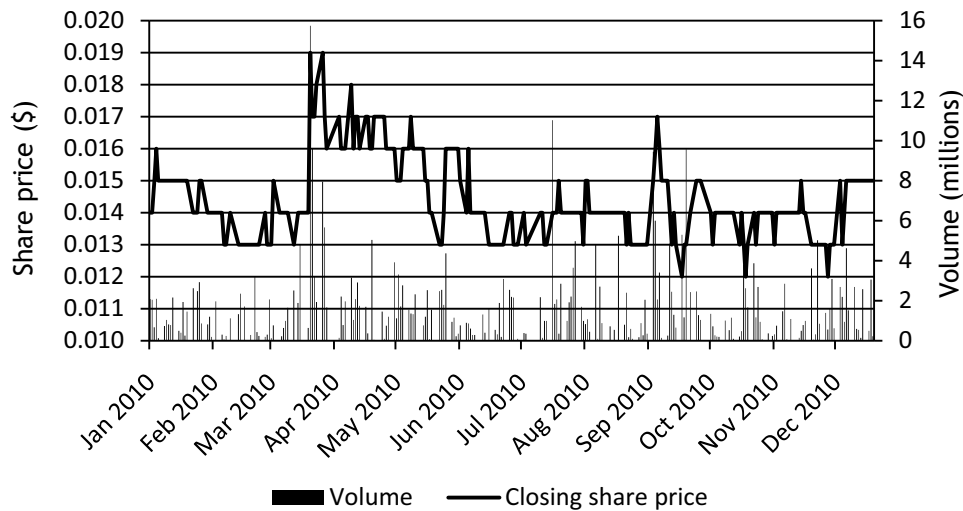
- control over decision making and strategic direction
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

As we are assessing the Transaction for the purposes of Listing Rule 10.1 and have determined that the Transaction is not a control transaction our calculation of the quoted market price of a Transerv share does not incorporate a premium for control.

Minority interest value

Our analysis of the quoted market price of a Transerv share is based on the pricing prior to the announcement of the Transaction. This is because the value of a Transerv share after the announcement may include the affects of any change in value as a result of the Transaction. However, we have considered the value of a Transerv share following the announcement when we have considered reasonableness in Section 12.

Information on the Transaction was announced to the market on 24 December 2010. Therefore, the following chart provides a summary of the share price movement over the year to 23 December 2010 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Transerv shares from 24 December 2009 to 23 December 2010 has ranged from a high of \$0.019 on 29 March 2010 to a low of \$0.012 on 30 November 2010.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement	Closing Share Price Three Days After Announcement
		\$ (movement)	\$ (movement)
21 December 2010	TNP: Amazon Prospect Update	0.015 (↓ 0%)	0.016 (↑ 7%)
9 December 2010	QPN: Large Onshore Amazon Prospect to Spud 18 December	0.015 (↑ 7%)	0.015 (↓ 0%)
16 November 2010	TNP: Amazon Prospect to Spud December 2010	0.014 (↓ 0%)	0.014 (↓ 0%)
27 October 2010	September Quarterly Activity and Cashflow Report	0.014 (↑ 8%)	0.014 (↓ 0%)
14 September 2010	Transerv Acquires Interest in Amazon and Thames Projects	0.014 (↓ 7%)	0.013 (↓ 7%)
30 July 2010	June Quarterly Activity and Cashflow Report	0.014 (↓ 0%)	0.013 (↓ 7%)
19 July 2010	Alcoa Commits to Funding of Warro 4 Well and 3D Seismic	0.014 (↑ 8%)	0.015 (↑ 7%)
28 May 2010	Response to ASX Price Query	0.016 (↑ 14%)	0.016 (↓ 0%)
28 May 2010	Trading Halt	0.016 (↑ 14%)	0.016 (↓ 0%)
30 April 2010	March Quarterly Activity and Cashflow Report	0.016 (↓ 0%)	0.016 (↓ 0%)
24 March 2010	Response to ASX Query	0.017 (↓ 11%)	0.019 (↑ 12%)
28 January 2010	December Quarterly Activity and Cashflow Report	0.015 (↑ 7%)	0.014 (↓ 7%)

To provide further analysis of the market prices for a Transerv share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 23 December 2010.

	23 December 2010	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.015				
Weighted Average		\$0.015	\$0.014	\$0.014	\$0.014

The above weighted average prices are prior to the date of the announcement of the Transaction, to avoid the influence of any increase in price of Transerv shares that has occurred since the Transaction was announced.

An analysis of the volume of trading in Transerv shares for the twelve months to 23 December 2010 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 day	0.015	0.015	226,500	0.0%
10 days	0.015	0.015	10,348,833	1.2%
30 days	0.012	0.015	35,862,077	4.1%
60 days	0.012	0.015	57,844,411	6.6%
90 days	0.012	0.015	79,423,696	9.0%
180 days	0.012	0.017	201,201,432	22.8%
1 year	0.012	0.019	382,529,673	43.2%

This table indicates that Transerv's shares display a moderate level of liquidity, with 43.2% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.53 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

Our assessment is that a range of values for Transerv shares based on market pricing, after disregarding post announcement pricing, is between \$0.012 and \$0.015.

We do not consider the Transaction to be a control transaction as Mr Craig Burton and his associates do not obtain a controlling stake in Transerv following the Transaction. As such, we have used RG 111 as a guide for our analysis but have considered the Transaction as if it were not a control transaction.

9.3. Assessment of Transerv Value

The results of the valuations performed are summarised in the table below:

	Low	High
	\$	\$
Net tangible assets (Section 10.1)	0.0160	0.0160
ASX market prices (Section 10.2)	0.0120	0.0150

Based on the results above we consider the value of a Transerv share to be \$0.0162. The net assets valuation method represents the value of a controlling interest, whereas the Quoted Market Price methodology represents the market value of a minority interest. Therefore we have relied on the net asset valuation of Transerv as our primary valuation methodology, which is consistent with our post Transaction methodology.

10. Valuation of Transerv after the Transaction

10.1. Net Tangible Asset Valuation of Transerv

The value of Transerv's assets on a going concern basis following the Transaction, which includes the acquisition of Latent is reflected in our valuation below:

Balance Sheet	Notes	Prior to the transaction 30 Nov 2010 \$	Post transaction \$	Post transaction fully diluted \$
CURRENT ASSETS				
Cash	1	8,365,126	8,482,840	13,522,840
Other receivables and prepayments		64,118	781,037	781,037
Inventory	2	-	252,726	252,726
TOTAL CURRENT ASSETS		8,429,244	9,516,603	14,556,603
NON-CURRENT ASSETS				
Property, plant and equipment		6,622	80,197	80,197
Exploration and evaluation expenditure	3	11,751,000	50,155,000	50,155,000
TOTAL NON-CURRENT ASSETS		11,757,622	50,235,197	50,235,197
TOTAL ASSETS		20,521,266	59,751,800	64,791,800
CURRENT LIABILITIES				
Trade and other payables		12,820	686,832	686,832
TOTAL CURRENT LIABILITIES		12,820	686,832	686,832
NON CURRENT LIABILITIES	4	-	1,250,000	1,250,000
NET ASSETS		20,508,446	57,814,968	62,854,968
Shares on issue (number)		1,262,349,071	3,026,349,218	3,362,349,218
Value per share		0.0160	0.0191	0.0187

We have been advised that there has not been a significant change in the net assets of Transerv since 30 November 2010. The table above indicates the net asset value of a Transerv share is between \$0.0187 and \$0.0191.

Notes:

The following adjustments (in addition to the acquisition of Latent's assets) were made to the net assets of Transerv as at 30 November 2010 in arriving at our valuation.

1. Cash

We have deducted bonus cash payments totalling \$117,600 that are payable to two Latent employees, which per the Implementation Agreement are to be paid prior to settlement of the Transaction.

We have added to cash \$5.04 million being the proceeds of the exercise price of Options issued to Latent Optionholders in the fully diluted scenario.

2. Inventory

Inventory as at 30 June 2010 was considered to be resalable at the balance sheet value. However Latent no longer considers this to be achievable and an impairment of 50% has been applied.

3. Exploration, evaluation and development costs

Warro Gas Project: We instructed Isis to provide an independent specialist market valuation of the exploration assets held by Transerv and Latent. Isis considered a number of different valuation methods when valuing the exploration assets of Transerv. Isis applied the comparable transaction methodology to Warro. The value for Transerv's interest in Warro as calculated by Isis is \$11.8 million. The value for Latent's interest in Warro as calculated by Isis is \$38.4 million.

Amazon Project: We have not included a value for Amazon in our valuation as the terms of the Converting Shares to be issued for the Latent acquisition have limited rights and convert when

- (i) It has been determined that Amazon is not commercial; or
- (ii) Transerv has sold its interest in Amazon and distributed all proceeds to existing shareholders;
or
- (iii) 12 months from the date of issue.

The directors of Transerv have advised that they expect that either condition (i) or (ii) will occur prior to the conversion under condition (iii) and that as such Latent shareholders will not obtain any interest in Amazon. As Transerv shareholders will retain their exposure both pre and post transaction we have excluded this from our analysis.

Alberta Project: The balance sheet at 30 November 2010 does not include amounts relating to the acquisition of the 50% interest in the Alberta Project for which Latent entered into an agreement to acquire in December 2010. Isis has not performed an independent market valuation of this Project and there have been no comparable relevant transactions on which to base a valuation. A nil valuation for the Alberta Project is included in the analysis above as the value per share on a net assets basis is greater post transaction than prior to the transaction, even when the market value of Alberta is excluded. Inclusion of a market value for the Alberta Project would only increase the share value post transaction and would not alter our opinion. We understand that there are no ongoing liabilities relating to the Alberta Project, other than interest free, unsecured loans provided by the Alberta vendors of \$1.25 million (see below).

4. Long term liabilities

We have added to the 30 November 2010 balance sheet a liability of \$1.25 million relating to loans which were provided by the vendors of Alberta. Under the Implementation Agreement the loans will become repayable following capital raisings by Transerv of at least \$4,000,000.

11. Is the Transaction fair?

The following table summarises our assessment of the current value of Transerv shares compared to the value of shares subsequent to the Transaction:

Converting shares	Ref	Value \$
Value of Transerv share pre Transaction	9.1	0.0160
Value of Transerv share post Transaction	10.1	0.0191
Fully diluted value of Transerv share post Transaction	10.1	0.0187

We note from the table above that the value of a Transerv share if the Transaction is approved is greater than the value of a Transerv Share prior to the Transaction. Therefore, we consider the Transaction to be fair.

12. Is the Transaction reasonable?

12.1. Alternative Transaction

We are unaware of any alternative Transaction that might offer the Shareholders of Transerv a premium over the value ascribed to that resulting from the Transaction.

12.2. Practical level of control

If the Transaction is approved then Mr Craig Burton interest in Transerv will increase from 9.3% to 13.6% following conversion of the Converting Shares into Ordinary Shares. This shareholding will increase to 16.4% if Mr Craig Burton's Transerv Options also vest and are exercised (assuming no current unlisted Options in Transerv are exercised).

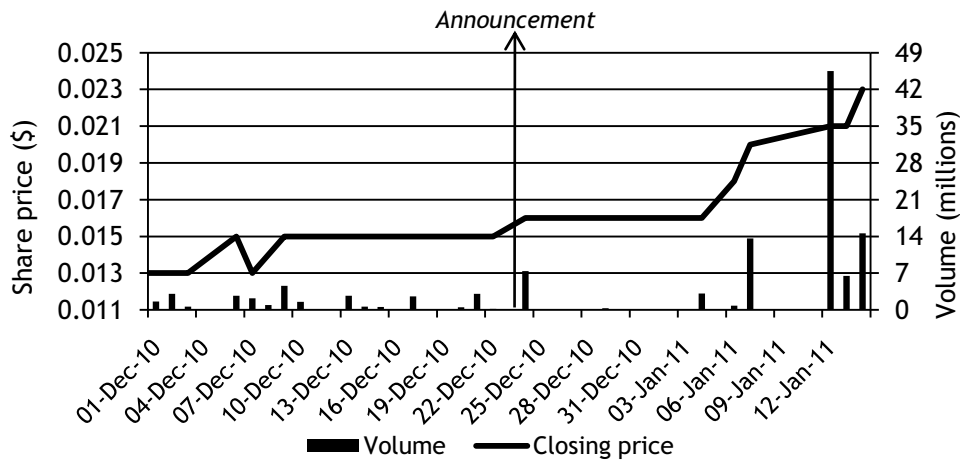
When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved then former Latent shareholders, if they were to act together, will be able to block and pass general resolutions, and block special resolutions, however Mr Craig Burton alone will not be able to block or pass general or special resolutions.

Transerv cumulative post Transaction shareholding						
Shareholder	Ordinary shareholding		+ Converting Shareholding		+ Optionholding	
Mr C Burton & associates	118,500,000	9.3%	412,500,000	13.6%	552,500,000	16.4%
Mr S Keenihan	5,500,000	0.4%	323,020,000	10.7%	379,020,000	11.3%
Seaspin Pty	20,500,000	1.6%	299,500,000	10.4%	299,500,000	9.4%
Argonaut Investments Pty/Argonaut Partners Pty	16,000,000	1.3%	310,000,000	10.2%	310,000,000	9.2%
Mr R Stephenson	5,550,000	0.4%	252,510,000	8.3%	252,510,000	7.5%
Villemarette Nominees Pty	5,550,000	0.4%	252,510,000	8.3%	252,510,000	7.5%
Falcore Pty	-	-	-	-	140,000,000	4.2%
Other Latent shareholders	50,000	0.0%	70,610,147	2.3%	70,610,147	2.1%
Total Latent Shareholders	171,650,000	13.6%	1,935,650,147	63.9%	2,271,650,147	67.5%
Dartale Pty	27,200,000	2.2%	27,200,000	0.9%	27,200,000	0.8%
Mr D Forshaw Batley	25,300,000	2.0%	25,300,000	0.8%	25,300,000	0.8%
Other current shareholders	1,038,199,071	82.2%	1,038,199,071	34.3%	1,038,199,071	30.9%
Total	1,262,349,071	100.0%	3,026,349,218	100.0%	3,362,349,218	100.0%

12.3. Post announcement pricing

We have analysed movements in Transerv’s share price since the Transaction was announced. A graph of Transerv’s share price since the announcement is set out below.

Following announcement of the Transaction on 24 December 2010, Transerv’s share price increased from an average of \$0.014 over the previous month to \$0.023 (64% increase). The volume of shares traded on 24 December 2010 totalled 7,378,549. The share price opened at \$0.015 and closed at \$0.016 representing an increase of 6.7%.



Given the above analysis it is possible that if the Transaction is not approved then Transerv’s share price is likely to decline.

12.4. Advantages of approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

Advantage	Description
The Transaction is fair	As set out in Section 11 the Transaction is fair. RG 111 states that an offer is reasonable if it is fair.
Retained exposure to Amazon	The structure of the Transaction means that Transerv Shareholders retain their interest in Amazon following the Transaction.
Increased exposure to and operatorship of Warro	Transerv will increase its interest in the Warro from 10% to 35% and obtain operatorship of the Project.
Diversification	By acquiring Latent's 50% interest in the Alberta Project Transerv will be exposed to oil and gas assets in Canada as well as its existing interests in Australia, and the USA.
Increase in value relating to the Alberta Project	A nil value for the Alberta Project is included in the net assets valuation. The value per share post transaction would increase further than in the analysis of fairness presented if the market value of the Alberta Project was also considered.
No upfront payment	The consideration is only in the form of Converting Shares and Options and does not include any cash payments. Transerv can therefore utilise cash for exploration and any working capital requirements.
Consideration Options are conditional	The Transerv Options do not vest for 12 months and are then conditional on meeting specified criteria. The issue of Options as part of consideration does not initially dilute the shareholders' interests in Transerv, but only at such time as the Options vest and are exercised. At such a point, the exercise would provide Transerv with additional cash flow for working capital requirements and exploration.
Increase in Transerv's free carry	The farm-in agreement requiring Transerv to contribute \$9 million to project expenditure is between Latent and Transerv. By acquiring Latent, Transerv will increase its free carry of the Warro Project Expenditure by Alcoa from \$40 million to \$100 million, resulting in cost savings of up to \$9 million.

12.5. Disadvantages of approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
Dilution of control	Former Latent shareholders following the Transaction will hold 58.3% of the share capital of the Company. This will increase to 63.9% if Mr Craig Burton and other common shareholders' current shareholdings of Transerv are considered, and increase further to 67.5% if the Options vest and are exercised (see Section 12.2.). This assumes that no further capital is raised or existing Options are exercised.
Latent will have the potential to significantly influence the operations of Transerv.	By having an interest in Transerv of over 50%, the former Latent shareholders, acting together, would have the ability to pass ordinary resolutions. Ordinary resolutions include but are not limited to: <ul style="list-style-type: none"> • Election/re-election of directors; • Appointment of an auditor; • Acceptance of reports at the annual general meeting; • The ability to make strategic or commercial decisions; and • The ability to increase or decrease the number of directors. They will also have the ability to block the approval of special resolutions at general meetings.
Increase in debt	Transerv would acquire the loans repayable to the vendors of the Alberta Project of \$1.25 million. However these are unsecured and become repayable only if Transerv were to raise \$4,000,000 from a capital raising.

13. Conclusion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is fair and reasonable to the Shareholders of Transerv.

14. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Transerv for the years ended 30 June 2009 and 30 June 2010;
- Unaudited management accounts of Transerv and Latent for the period ended 30 November 2010;
- An independent specialists report on the interests of Transerv and Latent in Warro from Isis Petroleum Consultants;
- The Implementation Agreement between Transerv and Latent;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Transerv.

15. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$25,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Transerv in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Transerv, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Transerv and Latent and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independence of Transerv and Latent and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Transerv, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Transerv and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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16. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been



responsible for over 120 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 12 years in the Audit and Assurance and Corporate Finance areas.

17. Disclaimers and consents

This report has been prepared at the request of Transerv for inclusion in the Explanatory Memorandum which will be sent to all Transerv Shareholders. Transerv engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider if the issue of Converting Shares and Options to Mr Craig Burton in association with the Latent acquisition is fair and reasonable to non associated shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Transerv or Latent in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Transerv. BDO Corporate Finance (WA) Pty Ltd provides no wAmazonity as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time. With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Transerv, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon an independent specialist's report for petroleum based assets of Transerv and Latent, prepared by Isis Petroleum Consultants. The approaches adopted and assumptions made in arriving at their valuations are appropriate for this report. We have received consents from Isis for the use of their valuation reports in the preparation of this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully
BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes
Director

Adam Myers
Associate Director
Authorised Representative



APPENDIX 1 Glossary of Terms

Reference	Definition
Alberta	Oil and gas project located in Alberta, Canada in which Latent has a 50% interest
Amazon Project	Oil and gas project located in Louisiana, USA, in which Transerv has a 5% interest
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FMD	Future Maintainable Dividends
FME	Future Maintainable Earnings
Isis	Isis Petroleum Consultants Pty Ltd
Latent	Latent Petroleum Pty Limited
NTA	Net Tangible Assets
Our Report	This Independent Expert's Report prepared by BDO
ROC	Return of Capital
The Act	The Corporations Act
The Company	Transerv Energy Limited
The Transaction	The proposal to issue 1,764,000,147 Converting Shares in Transerv to the vendors of Latent, and 336,000,000 Share Options in Transerv to the Optionholders of Latent
Transerv	Transerv Energy Limited
VWAP	Volume Weighted Average Price
Warro	Gas project located north of Perth, Australia, in which Transerv has a 10% interest and Latent has a 25% interest and operatorship

APPENDIX 2 Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

Net tangible asset value on a going concern basis (“NTA”)

Asset based methods estimate the market value of an entity’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
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity’s valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity’s value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity’s assets are liquid or for asset holding companies.

Quoted Market Price Basis

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a “deep” market in that security.

Capitalisation of future maintainable earnings (“FME”)

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax (“EBIT”) or earnings before interest, tax, depreciation and amortisation (“EBITDA”). The capitalisation rate or “earnings multiple” is adjusted to reflect which base is being used for FME.

Discounted future cash flows (“DCF”)

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

Multiple of Exploration Expenditure (“MEE”)

The Past Expenditure method is a method of valuing exploration assets in the resources industry. It is applicable for areas which are at too early a stage of prospectivity to justify the use of alternative valuation methods such as DCF. The Past Expenditure method is often referred to as the Multiple of Exploration Expenditure method.

Past expenditure, or the amount spent on exploration of a tenement, is commonly used as a guide in determining value. The assumption is that well directed exploration adds value to a property. This is not always the case and exploration can also downgrade a property. The Prospectivity Enhancement Multiplier (“PEM”) which is applied to the effective expenditure therefore commonly ranges from 0.5 to 3.0. The PEM generally falls within the following ranges:

- 0.5 to 1.0 where work to date or historic data justifies the next stage of exploration;
- to 2.0 where strong indications of potential for economic mineralisation have been identified; and
- to 3.0 where ore grade intersections or exposures indicative of economic resources are present.



APPENDIX 3 Independent Valuation Report



Valuation of Interests in EP 321 and EP 407

Prepared for
Transerv Australia Limited

January 2011

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Declaration

Transerv Australia Limited ("Transerv") commissioned Isis Petroleum Consultants Pty Ltd ("Isis") to prepare a report, as instructed by BDO Corporate Finance (WA) Pty Ltd, on the values of interests in EP 321 and EP 407 in Western Australia. These exploration permits contain the Warro gas accumulation

The evaluation of petroleum assets is subject to uncertainty because it involves judgments on many parameters that cannot be precisely assessed and which may change as new information becomes available.

The statements and opinions attributed to Isis are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, Isis has considered and relied upon data and information provided by Transerv and Latent. Consequently, Isis and its servants do not accept any liability for its accuracy, nor do we warrant that our enquiries have revealed all of the matters that a more extensive examination may disclose.

Neither Isis nor its subcontractors have any pecuniary interest or any other interest in Transerv, EP 321 or EP 407 other than for professional fees received for carrying out this evaluation.

The people that Isis engaged to carry out this valuation have the appropriate qualifications and experience as described in the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("Valmin Code").

Isis declares that this report has been prepared in full compliance with the Valmin Code (2005 Edition).



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1.0 INTRODUCTION

Isis has made an assessment of the fair value of interests in exploration permits EP 321 and EP407 as well as an economic analysis of a the potential development of the Warro gas accumulation contained in these licences.

The following report details the assumptions, methodology, results and conclusions of Isis assessment and analysis.

1.1 EP321 and EP407

The Warro gas accumulation lies in EP321 and EP407, in the Peth Basin, Western Australia. It is operated by Latent Petroleum Pty Ltd ("Latent") whose Joint Venture participants are Alcoa of Australia Limited ("Alcoa") and Transerv Australia Limited ("Transerv").

The accumulation covers an area of approximately 7,000 hectares and is about 4,000m below the surface. Warro is approximately 200 km north of Perth and 31 km east of both the Dampier-Bunbury Natural Gas Pipeline and the Dongara-Perth Parmelia Pipeline.

The planned infrastructure for the project includes production wells, a pipeline to carry the gas to the existing domestic gas pipeline infrastructure, a gas treatment plant and compressors.

1.2 Company Interests

In November 2007, Transerv entered into a funding arrangement to provide Latent with a \$3.6 million seed capital loan facility to secure a right to acquire up to a 10% interest in the Warro Gas Development. Until then, Latent owned 100% of the Warro Gas Field and its interest in this project is its only petroleum asset.

On 13th June 2008, Transerv announced that Alcoa had entered a farm in agreement with Latent on the Warro Project. Under that agreement, Alcoa will earn a 65% interest in the Project by funding a staged evaluation and construction programme that includes drilling wells, constructing production infrastructure and conducting seismic surveys. Following that farm in, Alcoa, Latent and Transerv will hold working interests of 65%, 25% and 10% respectively.

1.3 Contributors

The background and qualifications of the contributors to this report are given below

Eric Tucker

Eric Tucker was the Chief Operating Officer of Isis at the time the analyses for this report was prepared. He directed the work on this report.

Eric Tucker holds a Fellowship Diploma in Geology from the Royal Melbourne Institute of Technology. He has over 30 years of oil and gas exploration, appraisal and development experience.

He worked with BHP / Woodside for 7 years, Hudson Bay Oil & Gas for 5 years, Trans Canada Pipelines for 7 years, as an international consultant for 7 years and for Command Petroleum and Cairn Energy for 8 years. He has held a wide variety of technical positions in successful oil & gas exploration, appraisal and development teams.

Eric established and developed Cairn's geology and geophysics function in Chennai. He was a key member of the subsurface team that made the initial oil discovery in Rajasthan, the Lakshmi and Gauri Gas Fields; the 5 deepwater discoveries in the Krishna Godavari Basin; and the ongoing upgrade of the reserves for the Ravva Oil & Gas Field.

He held the positions of Exploration Manager, Subsurface Manager, Asset Manager, and New Ventures Manager, for Cairn Energy in Sydney -Australia, Chennai – India, and Edinburgh - Scotland from 1997 to 2002.

In late 2002, Eric left Cairn and returned to work as an independent, international oil & gas consultant. He completed the geological and seismic interpretation of the Cabinda South Block, Angola, together with geological evaluations of several operated and gazetted areas in shallow and deep waters in Indonesia, West Africa, India and the North West Shelf.

Guy Allinson

Guy Allinson carried out the technical analyses for this report.

Guy Allinson holds a BSc (Engineering) from Leeds University, UK and a Diploma in Social Science from Birmingham University, UK. He has over 30 years of experience in petroleum economics.

In the UK he worked with ERC Energy Resource Consultants for 3 years and British National Oil Corporation for 2 years. In Australia, he worked for ERC/Robertson Research Australia for 4 years, Schroders Australia for 2 years, Petroconsultants Australasia for 10 years and Cairn Energy Asia Ltd for 2 years. He has presented international oil industry short courses since 1986 and has been an independent consultant for over 10 years. Guy is also a lecturer at the School of Petroleum Engineering, University of New South Wales

Guy has carried out numerous independent valuations of oil and gas properties and oil and gas property economic modelling assignments. He has advised companies and Governments on petroleum fiscal terms and has carried out numerous research and feasibility studies.

1.4 Data

In forming its opinion, Isis has relied on information contained in –

- (a) legal agreements associated with commercial transactions between Latent and Alcoa and Transerv,
- (b) the assumptions used in an economic analysis prepared by Latent and
- (c) publicly available information.

Isis has also viewed a report prepared by Gaffney, Cline and Associates entitled "Independent technical assessment report on Warro Field, Western Australia" dated February 2008 ("GCA Report").

1.5 Site Inspection

Isis did not carry out a site inspection in preparing its report. In Isis' view, a site inspection is not necessary because the valuation relies solely on data contained in legal documents, Operator analyses and public documents. The data used in Isis' analyses is sufficient to allow an informed appraisal to be made.

1.6 Approach

In preparing its report, Isis has analysed the terms of recent acquisitions of interests in EP321 and EP407. In Isis' view, this analysis provides an indication of the market value of Transerv's and Latent's interests.

Isis has also carried out economic analyses that indicate the fundamental or intrinsic values of the Warro development assuming that it goes ahead. In Isis' view, the intrinsic values are an illustration of the fundamental values of Warro discovery if it is developed under the assumptions stated. It does not take into account the uncertainties associated with project appraisal and development. Intrinsic values are included only to illustrate potential value of the asset assuming successful appraisal and development. In Isis' view, the intrinsic values do not reflect the market values of the interests. They serve only as background to indicate potential value assuming success. Market values are indicated by the farmin values imputed from Isis' analyses of recent acquisitions.

Isis has not carried out an estimate of the gas resources in Warro. It relies on the Operator's production profile to illustrate potential intrinsic value. Isis has also viewed the GCA Report which contains estimates of contingent resources. In Isis' view, since it provides an intrinsic value for background purposes only, it is not necessary to verify such estimates in the context of this report. For the same reason, Isis has not carried out an assessment of the reasonableness of the Operator's or GCA's estimate of the gas resources in Warro.

1.7 Risks

In Isis' view, the main uncertainties associated with the Warro project and the valuation include (a) resource estimates, (b) production profile estimates, (c) gas price estimates (d) cost estimates and (e) decisions that will be made during the different stages of the Alcoa farmin.

2.0 ASSESSMENT OF FARMIN VALUE

2.1 Background

Transerv has engaged Isis, who have been instructed by BDO Corporate Finance (WA) Pty Ltd, to prepare a valuation of Transerv's and Latent's interests in exploration permits EP 321 and EP 407 in Western Australia based on the terms of Alcoa's farmin agreed in 2008. Latent provided Isis with data on the terms of that farmin.

2.2 Assessment

2.2.1 Value of Working Interests

Alcoa agreed to farm in to EP321 and EP407 in an agreement with Latent dated 13th June 2008. This was subsequently amended on the 22nd August 2008. However, it is Isis' understanding; the amendment did not materially affect the valuation of the permits as implied by the original farmin.

In the farmin agreement dated 13th June 2008, Alcoa agreed to pay A\$100 million of project works expenditure to earn a 65% participating interest in EP 321 and EP407. The A\$100 million was to be spent in 8 stages and included the costs of drilling wells, a seismic survey, a pipeline and processing plant. The farmin stages and the associated expenditure are set out in Table 1. Any costs that Alcoa incurs above these will be recovered from Latent's and Transerv's share of production.

Farmin stage	Activity	Expected year of expenditure #	Total commitment A\$ million	Cumulative participating interest earned (%)
1	1st exploration well	2009	12.5	12.5%
2	2nd exploration well	2011	12.5	22.5%
3	3D seismic	2011	5.0	27.5%
4	3rd exploration well	2011	11.0	37.5%
5	4th exploration well	2011	10.5	42.5%
6	5th exploration well	2012	10.5	47.5%
7	Pipeline	2012	20.0	60.0%
8	Processing plant	2013	18.0	65.0%
			100.0	

The approximate timing of expenditure that Latent planned and to which Alcoa agreed at the time of the farmin.

Table 1: Project Works Expenditure

At the time of writing, Isis understands that Alcoa has completed stage 1 of the farmin and has committed to continue with stage 2. Under stage 1 Alcoa earned a 12.5% working interest and under further stages pays a further A\$87.5 million to earn a further 52.5% working interest. Alcoa is therefore paying a future premium of A\$35

million to earn a 52.5% working interest. Therefore, Alcoa is, in effect, carrying Latent and Transerv.

Using a 10% nominal discount rate, Isis calculates that the net present value of the A\$35 million premium as at 1 January 2011 is A\$30.093 million. This ignores any effects the expenditure might have on Alcoa's income tax position. Isis does not have sufficient data to determine these tax effects. This represents a premium of A\$0.5732 million per percentage working interest earned, which equals A\$30.093 million divided by 52.5.

To Isis' knowledge, no further relevant farmin transactions have taken place since the Alcoa farmin. Therefore, this is the most appropriate indication of the values of working interests in EP321 and EP407 at the time of writing this report. Isis has calculated the farmin value assuming that the Alcoa farmin is completed.

2.2.2 Value of Latent's Interest

The terms of the Alcoa farmin imply that the value of Latent's 25% working interest is A\$14.330 million, which equals the A\$0.5732 per percentage working interest referred to above multiplied by 25.

Latent is being carried for its 25% working interest share of the A\$100 million. Assuming the timing of expenditure set out above, the discounted value of this carry as at 1st January 2011 is A\$21.495 million. This is the value of the carry to Latent over and above the value of its 25% working interest.

In addition, under a separate agreement between Latent and Transerv, after the first A\$40 million of project works expenditure has been spent, Transerv has commitments to Latent of 15% of the remaining A\$60 million of project works expenditure. The 15% consists of 10% associated with Transerv's 10% working interest plus a 5% premium. The 5% premium is over and above commitments associated with its 10% working interest and Isis calculates that the discounted value of the premium is A\$2.579 million.

Taking into account that -

- (a) the discounted value of Latent's 25% working interest is A\$14.330 million,
plus
- (b) the discounted value of being carried by Alcoa for its share of the remaining A\$100 million commitment is A\$21.495 million,
plus
- (c) the discounted value of receipts of the premium of 5% of project works expenditure over A\$40 million from Transerv is A\$2.579 million,

the total value of Latent's interest in EP321 and EP407 is therefore A\$38.404 million as at 1st January 2011.

2.2.3 Value of Transerv's Interest

The terms of the Alcoa farmin imply that the value of Transerv's 10% working interest is A\$5.732 million, which equals the A\$0.5732 per percentage working interest referred to above multiplied by 10.

Transerv is effectively being carried for its 10% working interest share of the A\$100 million. Assuming the timing of expenditure set out above, the discounted value of this carry as at 1st January 2011 is A\$8.598 million. This is the value of the carry to Transerv over and above the value of its 10% working interest.

In addition, under the separate agreement between Latent and Transerv referred to above, after the first A\$40 million of project works expenditure has been spent, Transerv has commitments to Latent of 15% of the remaining A\$60 million of project works expenditure. The 15% consists of 10% associated with Transerv's 10% working interest plus a 5% premium. The 5% premium is over and above commitments associated with its 10% working interest and Isis calculates the discounted value of this cost to be A\$2.579 million.

Taking into account that -

- (a) the value of Transerv's 10% working interest is A\$5.732 million,
- plus
- (b) the benefit of being carried by Alcoa for a 10% share of the project works expenditure is A\$8.598 million,
- less
- (c) the discounted value of the 5% premium paid to Latent is A\$2.579 million,

the total value of Transerv's interest in EP 321 and EP 407 is therefore A\$11.751 million as at 1st January 2011.

3.0 ECONOMIC ANALYSIS

3.1 Assumptions

Isis has also been asked to prepare a cash flow analysis and calculate the fundamental or intrinsic value of the development of the Warro gas accumulation with the main assumptions set out below. These are primarily Latent's assumptions.

Isis accepts, but has not verified the following assumptions made by Latent – the gas and gas condensate production profile, the capital, operating and abandonment costs, the State and private royalty arrangements.

3.1.1 Gas Production

As shown in Figure 1, Latent assumes that gas production starts in 2012 at an average daily rate of 13.3 Terajoules per day ("TJ/d"). It reaches a peak of 80.5 TJ/d in 2014.

The profile yields a recovery of approximately 911 Bcf assuming the cost estimates provided and the range of gas prices used. This recovery compares with a mid-range technical estimate of contingent natural gas resources ("2C") of 1,028 Bcf in the GCA Report for the area of Warro excluding National Park areas. This is based on estimates of gas-in-place and a theoretical recovery factor.

Ultimately, commercial gas recovery will depend on the contractual arrangements for selling the gas. In Isis' view, given the general uncertainties involved in making resource estimates, the recovery resulting from the economic analyses and the 2C recovery in the GCA Report are comparable. In addition, the intrinsic value of Warro is strongly influenced by the annual rate of gas production assumed as distinct from the total gas production (resources).

3.1.2 Condensate Production

Latent assumes that condensate production starts in 2012 at an average daily rate of 110 barrels per day bbl/d. It reaches a peak of 660 bbl/d in 2014. Isis assumes that this profile corresponds to a 2C condensate resources. It yields a recovery of approximately 7.5 million barrels ("MMbbl"). The GCA Report does not contain estimates of condensate resources.

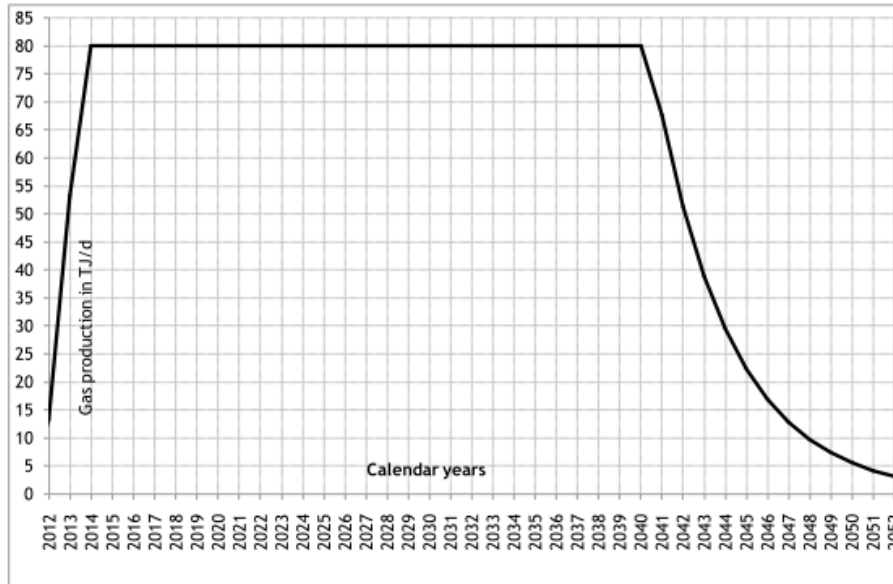


Figure 1: Warro Gas Accumulation Production Profile

3.1.3 Natural Gas Prices

There is large uncertainty in future natural gas prices and therefore Isis has assessed the economics of the Warro development using a range of natural gas prices of between A\$3.00 per Gigajoule (A\$/GJ) and A\$10.00 per GJ in 2010 terms. Isis applies gas price escalation at a rate of 2.5% per year to convert these real prices into nominal terms.

The gas price is the price obtained at the point of sale, which is assumed to be the point where a dedicated pipeline from Warro meets the main domestic pipeline.

3.1.4 Condensate Prices

Latent assumes a real condensate price of A\$75 per bbl in 2010 terms. This is escalated at 2.5% per year to convert the real price into nominal terms.

The condensate price is the price obtained at the point of sale, which is assumed to be point at the field gate. Latent assumes that the condensate will be trucked to the Kwinana refinery.

3.1.5 Capital Costs

Latent assumes that the development of Warro will cost approximately A\$3,570 million in nominal terms. This includes the cost of over 250 production wells, facilities and a pipeline to connect the development to the existing domestic gas pipeline infrastructure.

3.1.6 Operating Costs

Latent assumes that -

(a) Maintenance costs are incurred every 6 years and are 7.5% of certain capital costs.

(b) Office administration costs are A\$1.5 million per year in real 2009 terms. These are escalated at 2.5% per year.

(c) Other fixed operating costs are A\$0.75 million per year in 2012 terms. These are escalated at 2.5% per year.

(d) Variable operating costs are constant throughout the life of the field at A\$0.15 per GJ in nominal terms. Latent therefore assumes that the real variable operating costs decline over time.

3.1.7 Abandonment Costs

Latent assumes that abandonment costs are negligible on a discounted basis. This is based on the assumption that abandonment costs will occur at the end of field life, which is after 2050 in Latent's best estimate. Therefore they are not included in the cash flow analysis.

3.1.8 State Royalty

Latent assumes that State royalties are 5% of well-head value for the life of the project. This is based on the Western Australian State Government's decision in 2009 to reduce the rate of royalty from 10% to 5% for tight gas developments. Latent also assumes that well-head value is gross revenue less total operating costs.

3.1.9 Private Royalties

Latent assumes that private royalties are in total 8.25% of well-head value less depreciation less State royalties.

3.1.10 Income Tax

Latent assumes that the rate of income tax will be 30%. It also assumes depreciation on a units-of-production basis.

3.1.11 Net Present Values ("NPVs")

Isis has calculated nominal after tax net cash flow for the projected life of the Warro development and discounted it to the 1st January 2011. Isis assumes a nominal discount rate of 10% to derive the net present value of the after tax net cash flow.

Isis also examined the effect of changing the gas production decline rates from that shown in Figure 1, which is approximately 25% per year. This is a key uncertainty. However, changing decline rates has a negligible effect on the NPV of development. There reasons are -

(a) The Warro development has a long production peak plateau and decline does not start until 2041 based on the production profile that Latent provided. Therefore, the discounted effect of changing the decline rate is small.

(b) Increasing the decline rate tends to shorten the economic life of the field. This increases the portion of reserves produced in the earlier years of production. This in turn increases depreciation and lowers tax in the early years. The reduced tax leads to increased net cash flow in the early years and this tends to offset the reduction in net cash flow later in field life caused by a faster production decline.

3.2 Results

The nominal NPVs of future after tax net cash flow from the Warro development are shown in Figure 2.

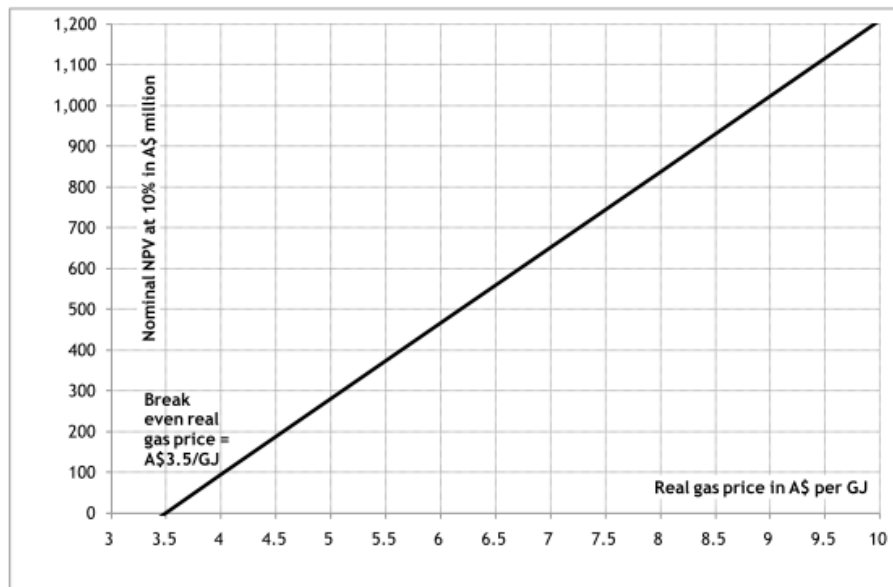


Figure 2: The NPV of the Warro Development as a function of the Real Gas Price

Figure 2 shows that the NPV ranges from zero at a real gas price of approximately A\$3.5 per GJ to approximately A\$1,200 million if the real gas price is A\$10 per GJ.

At real gas prices in the range A\$7.0 per GJ to A\$9.0 per GJ, a range which Isis considers reasonably representative of current gas prices in Western Australia, the NPV of a 100% working interest would range between approximately A\$650 and A\$1,000 million.

A part of the Alcoa farmin, the Latent interest is fully carried for the first 100 million of expenditure. The NPV for Latent's 25% interest is therefore greater than a 25% portion of the 100% project NPVs indicated in Figure 2.

A part of the Alcoa farmin, the Transerv interest is fully carried for the first 40 million of expenditure. The NPV for Transerv's 10% interest is therefore greater than a 10% portion of the 100% project NPVs indicated in Figure 2.

4.0 SUMMARY AND CONCLUSIONS

4.1 Assessment of Farmin Value

Isis estimates that the terms of the Alcoa farmin imply a value of A\$0.5732 million per percentage working interest in EP 321 and EP 407 as at 1 January 2011.

To Isis' knowledge, no further relevant transactions have taken place since the Alcoa farmin. Therefore, this is the most appropriate indication of the values of working interests in EP3 21 and EP 407 at the time of writing this report.

The terms of the Alcoa farmin imply a value of A\$14.330 million for Latent's 25% working interest. Latent also benefits from being carried by Alcoa for the remainder of Alcoa's farmin commitments. Isis estimates that the value of this carry as at 1st January 2011 is A\$21.495 million. In addition, Latent benefits from the terms of its separate agreement with Transerv. Isis calculates that the benefit of this is A\$2.579 million. Therefore, by reference to farmin transactions, the total value of Latent's interest in EP 321 and EP 407 is approximately A\$38.4 million.

The terms of the Alcoa farmin imply a value of A\$5.732 million for Transerv's 10% working interest. Transerv also benefits from being carried by Alcoa. Isis estimates that the value of this carry as at 1st January 2011 is A\$8.598 million. In addition, the discounted cost of the premium associated with Transerv's separate agreement with Latent is A\$2.579 million. Therefore, by reference to farmin transactions, the total value of Transerv's interest in EP 321 and EP 407 is approximately A\$11.8 million.

4.2 Economic Analysis

As at 1st January 2011, the NPV of a 100% working interest in the Warro development in EP 321 and EP 407 lies between zero at a real gas price of A\$3.5 per GJ and approximately A\$1,200 million at a real gas price is A\$10 per GJ. At real gas prices in the range A\$7.00 to A\$9.00 per GJ, the NPV is in the range A\$650 to A\$1,000 million. A 25% working interest share of this would have an NPV of between approximately A\$163 million and A\$250 million. A 10% working interest share of this would have an NPV of between approximately A\$65 million and A\$100 million.

The value of Latent's interest in EP 321 and EP 407 is different to a 25% portion of the NPV of the Warro development because it receives further benefits as described above.

The value of Transerv's interest in EP 321 and EP 407 is different to a 10% portion of the NPV of the Warro development because it has further benefits and costs as described above.

4.3 Valuation Methods

The valuations based on farmin value and the valuations based on intrinsic value are not strictly comparable. A farmin value is an estimate of the price that a company is willing to pay for a working interest. The intrinsic value reflects the underlying value of the projected net cash flow using a range of assumptions including the assumption that the development goes ahead. The intrinsic value therefore assumes appraisal

and development success and the value is contingent on the assumptions that future appraisal and production wells perform as expected and that gas prices, development and operating costs and fiscal terms are similar to those used in the analysis.

4.4 Summary

0 summarises the values attributed to Latent's and Transerv's interests in EP 321 and EP407 based on the different approaches set out above.

Items	Farmin values A\$ million (a)	Intrinsic values A\$ million (b)
Latent's 25% working interest	14.3	163 to 250
Value of Alcoa carry to Latent	21.5	21.5
Value of receipts from Transerv	2.6	2.6
Total value of Latent's interest	38.4	187.1 to 274.1
Transerv's 10% working interest	5.7	65 to 100
Value of Alcoa carry to Transerv	8.6	8.6
Costs of premium payment to Latent	-2.6	-2.6
Total value of Transerv's interest	11.8	71.0 to 106

(a) The numbers might not add exactly because of rounding

(b) Assuming a successful development under the assumptions given

Table 2: Summary of Values

In Isis' view, the farmin values shown in Table 2 are the more appropriate indications of market values because they reflect more closely the prices that willing buyers and sellers are prepared to agree.

TRANSERV ENERGY LIMITED
ACN 0 7 9 4 3 2 7 9 6

PROXY FORM

The Company Secretary
Transerv Energy Limited

By delivery:
Level 21, Allendale Square
77 St Georges Tce
Perth WA 6000

By post:
PO Box Z5446
Perth St Georges Tce WA 6831

By facsimile:
+61 8 9324 2171

I/We ¹ _____

of _____

being a Shareholder/Shareholders of the Company and entitled to _____

votes in the Company, hereby appoint ² _____

or failing such appointment the chairman of the general meeting as my/our proxy to vote for me/us on my/our behalf at the general meeting of the Company to be held at Level 21, Allendale Square, 77 St Georges Tce Perth WA 6000 on 10 March 2011 at 11.00am (WST) and at any adjournment thereof in the manner indicated below or, in the absence of indication, as he thinks fit. If 2 proxies are appointed, the proportion or number of votes that this proxy is authorised to exercise is * [. .]% of the Shareholder's votes*/ [. . .] of the Shareholder's votes. (An additional Proxy Form will be supplied by the Company, on request).

Instructions as to Voting on Resolutions

Important:

The chairman of the meeting intends to vote undirected proxies in favour of all of the Resolutions.

The proxy is to vote for or against the Resolutions referred to in the Notice as follows:

		For	Against	Abstain
Resolution 1	Change to Scale of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Authority to Issue Converting Shares and Transerv Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Related Party Approval – Mr Craig Burton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of Converting Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Ratification of Prior Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Authority to Issue Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Election of Director – Stephen Keenihan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Election of Director – Will Barker	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Authorised signature/s This section **must** be signed in accordance with the instructions overleaf to enable your voting instructions to be implemented.

Individual or Shareholder 1

Sole Director and Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

¹Insert name and address of Shareholder

²Insert name and address of proxy

*Omit if not applicable

Proxy Notes:

A Shareholder entitled to attend and vote at the general meeting may appoint a natural person as the Shareholder's proxy to attend and vote for the Shareholder at that general meeting. If the Shareholder is entitled to cast 2 or more votes at the general meeting the Shareholder may appoint not more than 2 proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder's votes. A proxy may, but need not be, a Shareholder of the Company.

If a Shareholder appoints a body corporate as the Shareholder's proxy to attend and vote for the Shareholder at that general meeting, the representative of the body corporate to attend the general meeting must produce the Certificate of Appointment of Representative prior to admission. A form of the certificate may be obtained from the Company's share registry.

You must sign this form as follows in the spaces provided:

Joint Holding: where the holding is in more than one name all of the holders must sign.

Power of Attorney: if signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of the corporation is to attend the general meeting the appropriate 'Certificate of Appointment of Representative' should be produced prior to admission. A form of the certificate may be obtained from the Company's Share Registry.

Proxy Forms (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be deposited at or received by facsimile transmission at the Perth office of the Company Level 21, Allendale Square, 77 St Georges Tce, Perth WA 6000, or by post to PO Box Z5446, Perth St Georges Tce WA 6831 or Facsimile (08) 9324 2171 if faxed from within Australia or +618 9324 2171 if faxed from outside Australia) not less than 48 hours prior to the time of commencement of the Meeting (WST).