



**3D Oil Limited**  
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31 July 2014

Dear Shareholder

### **Re: Hibiscus Petroleum Transaction**

I write in relation to the Company's proposed transactions with Hibiscus Petroleum and related entities (the "Transaction").

Since announcing the intention to enter into the Transaction in May this year, the Company has received a number of shareholder inquiries seeking clarification and context in relation to the Transaction.

Your Company values this feedback, and now provides the following to address matters raised, and provide some further background as to the Company's strategy and objectives in entering into the Transaction.

### **The Transaction and 3D Oil's Strategy**

The Company acknowledges that the Transaction represents a change in direction from our previous core focus on the West Seahorse development project, and that shareholders may have concerns over this change in strategy.

The Company's prime objective is to deliver value to shareholders while minimising the issue of new equity, and it is your Board's strong and united view that the Transaction, if approved, places the Company in a very strong position to achieve this in an environment that is difficult for junior oil and gas companies to secure funding.

As such, the directors unanimously recommend that both resolutions related to the Transaction be approved at the shareholder meeting on 11 August 2014.

The Transaction would help position your Company as one of the strongest Australian junior oil and gas explorers, with significant cash reserves achieved without diluting existing shareholders by issuing new shares.

The Company would also have a funded 24.9% interest in the prospective Sea Lion well (VIC/P57) which is scheduled for drilling in April 2015. Sea Lion is an exciting prospect on a proven trend, and represents one of the last undrilled 4-way dip closures at the prolific 'Top Latrobe' level in the Gippsland Basin.

In addition, the Company's T/49P permit in the Otway Basin is considered highly prospective for gas exploration, with potential to produce discoveries into the east coast gas market. It is generating significant industry interest, demonstrated by Beach Energy's recent purchase of a 20% interest. 3D Oil is currently in advanced discussions with other interested parties.

Beyond these existing project interests, the Company will also be well placed to pursue new exploration and business development opportunities. These could take the form of acreage bids, in a similar manner to T/49P where the Company has created significant shareholder value. Further, the Company's strong position relative to others in the sector may also allow it to negotiate favourable farm-ins, asset purchases, and potential corporate consolidation deals.

### **The Transaction - Context and Background**

The Company has placed a strong focus on the West Seahorse project, and has made significant progress with the asset. Despite this, given the challenging ongoing conditions in investment markets, it has not been possible to achieve an appropriate financing solution for the project, in its current form.

This was the turning point in the Company's ability to participate in the development of West Seahorse, and resulted in a negotiation with our joint venture partners, Hibiscus, which led to the Transaction which will now be presented to shareholders for approval.

It is worth noting that any funding package would have required a significant equity component, which would have resulted in the Company having to raise in the order of \$40 to \$50 million of new equity capital to fund its 49.9% share of the West Seahorse development and the Sea Lion exploration well.

This would have not only been highly dilutive to existing shareholders, it may also have been difficult to achieve in current market conditions. The Transaction provides a way forward that delivers tangible value from West Seahorse and strengthens the Company's financial position.

The alternative is that if the Transaction is not approved, Hibiscus is likely to initiate default proceedings against 3D Oil under the VIC/P57 JOA. The ultimate outcome of this process could be that the Company is forced to sell all of its interest in both VIC/P57 and VIC/L31. In addition, 3D Oil would be required to return the US\$2 million working capital advance, and result in the Company seeking to urgently undertake a capital raising to meet its commitments.

### **The Transaction**

The Transaction is a package of measures that has been negotiated to address various issues relating to 3D Oil and the VIC/P57 joint venture. Your directors believe that, if the Transaction is approved at the General Meeting on 11 August, Hibiscus and HiRex will move to exercise their options so that the Transaction can be fully implemented. To summarise, in this situation;

- 3D Oil will be bought out of West Seahorse (production licence VIC/L31) for US\$16 million. US\$1.95 million of this will be used to pay off 3D Oil's obligations to the joint venture, and it will have no further interest in the project. The Company will receive the balance, US\$14.05 million, in cash.
- 3D Oil will retain a 25% interest in the VIC/P57 exploration permit – which includes the Sea Lion and Felix prospects – and will be funded for US\$7.5 million of expenditure towards the Sea Lion well. These funds represent proceeds from the sale of the Company's share of the Britannia rig to Hibiscus. If, as anticipated, the Sea Lion well costs ~US\$35 million, 3D Oil will have limited further cash contribution to the drilling of this commitment well.
- Of the US\$7.5 million referred to above, US\$2 million has been advanced to 3D Oil as a working capital loan to meet cash calls and other expenses.

### **West Seahorse Valuation**

Much shareholder feedback has been based around the theoretical valuation of the West Seahorse project, and some clarification on this is appropriate at this point in time.

Comment has been passed that 'last year the Company valued West Seahorse at A\$100 million, and how can it only be worth US\$16 million now?'

In reality, on a value-per-share basis, receiving US\$16 million cash for the Company's 49.9% interest in the project is a positive outcome.

Firstly, the Company's only has a 49.9% interest, so our share of that 2013 valuation would have been A\$50 million.

Secondly – and most importantly – the A\$50 million value assumed a financing scenario that, as explained, would have required a highly dilutive share issue. This would have effectively reduced the value per 3D Oil share to one-third of the estimate – to approximately US\$16 million.

In contrast, the Transaction involves no issue of new 3D Oil shares, which means the per-share value of West Seahorse under the Transaction is equivalent to the 2013 valuation of the project.

Plus, the Transaction provides the Company with cash up-front and eliminates a number of risks. The fact that financing was not available to the current joint venture means that the West Seahorse development will not proceed on the time-line previously anticipated, if at all. This change of schedule exposes new risks in terms of delays, approvals, rising input costs and overall feasibility.

### **VIC/P57 Exploration**

As part of the Transaction package, 3D Oil could drop from 49.9% to 24.9% interest in the VIC/P57 permit. We have been asked what value 3D Oil will receive for this aspect of the Transaction.

Firstly, bear in mind that US\$7.5 million contributed by Hibiscus will be retained in the joint venture and be used to fund 3D Oil's 25% interest in the permit commitment well.

Secondly, under the 2012 VIC/P57 farmin agreement, Hibiscus has a right to receive accelerated oil production in part repayment for its funding of the initial \$27 million of West Seahorse project expenditure (that is, production revenue would initially be split ~75/25 rather than ~50/50). This amounts to an obligation on 3D Oil to transfer \$9 million worth of the initial production revenue to Hibiscus.

In the Transaction, the value of this obligation has been taken in to consideration in the valuation of West Seahorse. Therefore, this \$9 million obligation will no longer apply to any future production by 3D Oil from VIC/P57 (eg from a discovery at Sea Lion).

Finally, while your directors are not in a position to endorse the effectiveness of the Rex Virtual Drilling Technology until further evidence is available, we welcome the opportunity to see the VIC/P57 permit reviewed with this potentially transformational new exploration tool that has attracted industry attention elsewhere.

I trust this letter provides appropriate clarification and context to the matters raised by shareholders in relation to the Transaction and also offers an insight in to the Company's rationale in pursuing the Transaction.

Your directors unanimously recommend that you approve the Transaction by voting in favour of both resolutions at the 11 August 2014 General Meeting.

Your board is committed to delivering value to shareholders and I would like to thank all shareholders for their continued support as we strive to achieve this objective.

If you have any questions regarding the Transaction we welcome you to contact myself or the Company on (03) 9650 9866, or by email at [nnewell@3doil.com.au](mailto:nnewell@3doil.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Noel Newell', written in a cursive style.

**NOEL NEWELL**  
**Managing Director**