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**Tap Oil Limited**  
ABN 89 068 572 341  
Level 1, 47 Colin Street  
West Perth WA 6005  
Australia  
T: +61 8 9485 1000  
F: +61 8 9485 1060  
E: [info@tapoil.com.au](mailto:info@tapoil.com.au)  
[www.tapoil.com.au](http://www.tapoil.com.au)

## RESPONSE TO SHAREHOLDER QUERIES ON SECTION 203D NOTICE

Tap Oil Limited (**ASX: TAP**) has received a number of queries from shareholders relating to the Board spill proposed by the largest Tap shareholder, Thai entrepreneur Mr Yenbamroong. In order to provide all shareholders with an opportunity to receive the answers to these questions, the Company has prepared the attached responses.

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**Enquiries:**

Troy Hayden            Managing Director/CEO  
Anna Sudlow            Commercial and IR Manager  
Telephone:            +61 8 9485 1000  
Email:                    [info@tapoil.com.au](mailto:info@tapoil.com.au)  
Website:                [www.tapoil.com.au](http://www.tapoil.com.au)

**Media Enquiries:**

Rebecca Lawson  
Media & Capital Partners  
Telephone            +61 433 216 269

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## **RESPONSE TO SHAREHOLDER QUERIES ON SECTION 203D NOTICE**

**In late February, Tap Oil received notice from its major shareholder, Thai entrepreneur Mr Chatchai Yenbamroong, to remove the majority of the Board. What is the current status of the spill?**

Mr Yenbamroong gave notice of his intention to call a meeting of Tap shareholders to consider the removal of all but one of Tap's directors in late February. It has now been nearly two months since that notice was received and there is still no indication from Mr Yenbamroong as to whether he still intends to convene such a meeting.

As Mr Yenbamroong has indicated that he intends to call such a meeting (rather than requisition the Company to do so), we are really waiting for him to bring this matter to a close. As 28 days' notice must be given to shareholders to convene such a meeting, the earliest Mr Yenbamroong can now hold his meeting is in late May. We suggested to Mr Yenbamroong that he consider combining his meeting with the Company's Annual General Meeting on 26 May to minimise the inconvenience for shareholders, but he declined to do so.

This situation is unfortunate as it continues to create investor uncertainty and resultant share price pressure the longer it drags on.

The lack of any clear timetable for shareholders to consider Mr Yenbamroong's proposal raises concerns about his motives for initiating the Board spill, particularly when at the same time he has been demanding early payment of amounts by Tap in circumstances where Tap believes there is no proper legal or commercial basis for making such demands.

**Isn't Mr Yenbamroong also now in default with Tap?**

Yes. Mr Yenbamroong's Northern Gulf Petroleum has a US\$10m carry to be repaid to Tap from its share of Manora revenue. Whilst Northern Gulf Petroleum has previously paid US\$1.03m of this carry, Northern Gulf Petroleum has now stopped making these payments. Tap has served both Northern Gulf companies with notices of default under the sale and purchase agreement (**SPA**), which was agreed in October 2010, and reserved all of its rights in respect of its legal remedies. Tap considers that Northern Gulf Petroleum has failed to provide any proper reason for this default.

**Do you know what Mr Yenbamroong's plan is for Tap?**

We are not sure. Mr Yenbamroong has not outlined what his plan or vision for Tap is, nor what he would do differently from the current Directors.

**What about Mr Yenbamroong's nominee directors?**

We are not really sure what is going on there. When he notified Tap of his intention to spill the Board back in February, Mr Yenbamroong named his nominee directors as Mr David Whitby, Mr Alan Stein, Mr David Johnson and Mr James Menzies. However, in his letter to shareholders dated 30 March 2015, he was silent on his proposed nominees and their credentials for running Tap. This leads us to suspect that there may have been a change in his proposed nominees.

**Isn't Mr Yenbamroong potentially conflicted in his dealings with Tap?**

Yes, we believe this to be the case. Mr Yenbamroong's Northern Gulf Petroleum Holdings may be entitled to receive payments from Tap in accordance with the terms of the SPA relating to Tap's acquisition of a 30% interest in Manora. If there are disputes regarding the amount of these payments, a conflict arises between Mr Yenbamroong's interests to maximise the size of any payments owing from Tap and those of all other Tap shareholders.

Mr Yenbamroong's Northern Gulf Petroleum Holdings has already demanded US\$14.6m by way of the 31 December 2014 2P reserves progress payment, despite the Manora 2P

reserves estimate not being finalised by the joint venture. In Tap's view, there is no proper legal basis for Northern Gulf Petroleum Holdings to make this demand and Tap believes it has no obligation to make the payment until either the report is complete and agreed through the joint venture process, or via an independent expert process.

Mr Yenbamroong's Northern Gulf companies are also currently refusing to continue repaying the US\$10 million carry that is due to Tap under the SPA. If Mr Yenbamroong gains control of the Tap Board it is unclear how this large payment will be dealt with.

**We understand that Northern Gulf Petroleum Holdings has now issued Tap with a statutory demand for US\$14.6m?**

Tap considers this amount is not due and payable and that there is no proper legal basis for Northern Gulf Petroleum Holdings to make this demand. Tap will take the necessary steps to seek to set aside the demand and seek payment of its legal costs. Tap has US\$25.3 million cash on hand (17 April 2015), and objects to Northern Gulf's attempts to seek such payments in circumstances where Tap believes the amount which Tap is legally obliged to pay has not yet been able to be determined in accordance with the contractual arrangements agreed in the SPA.

**We also understand that Mr Yenbamroong hasn't paid his project costs for Manora and is in default with the Operator, Mubadala Petroleum. How will this impact on the Manora joint venture?**

The Operator, Mubadala Petroleum, issued Mr Yenbamroong's Northern Gulf Petroleum with a default notice on 20 March 2015 in relation to US\$27m in unpaid cash calls, and we understand that this default has still not been rectified. As such, Northern Gulf Petroleum is no longer being provided with any joint venture material and will shortly lose the entitlement to receive revenues from Manora if the default is not rectified. Under the joint venture agreement, if the default is not rectified after 60 days from the notice from the Operator, Northern Gulf Petroleum risks losing its 10% interest in Manora.

Mr Yenbamroong has said that he is disputing the default notice, and that this may result in him taking the Operator to arbitration in Thailand. We think this raises serious concerns about Mr Yenbamroong's relationship with Mubadala – the operator of Tap's flagship Manora asset, and cause tension within the joint venture. It also raises concerns about what impact Mr Yenbamroong's Board spill proposal (which if successful would result in Mr Yenbamroong's nominees comprising 80% of the Tap Board) would have on Tap's relationship with the Operator.

It is obviously not ideal timing for him to have to address this default notice in respect of a 10% interest in Manora, and default notices issued by Tap, at the same time that he is criticising the performance of Tap's existing directors and their financial decision-making, and their ability to manage a 30% interest in Manora.

**Mr Yenbamroong is very critical of the Tap assets and strategy, yet he has increased his stake in Tap to over 19%. Why is this?**

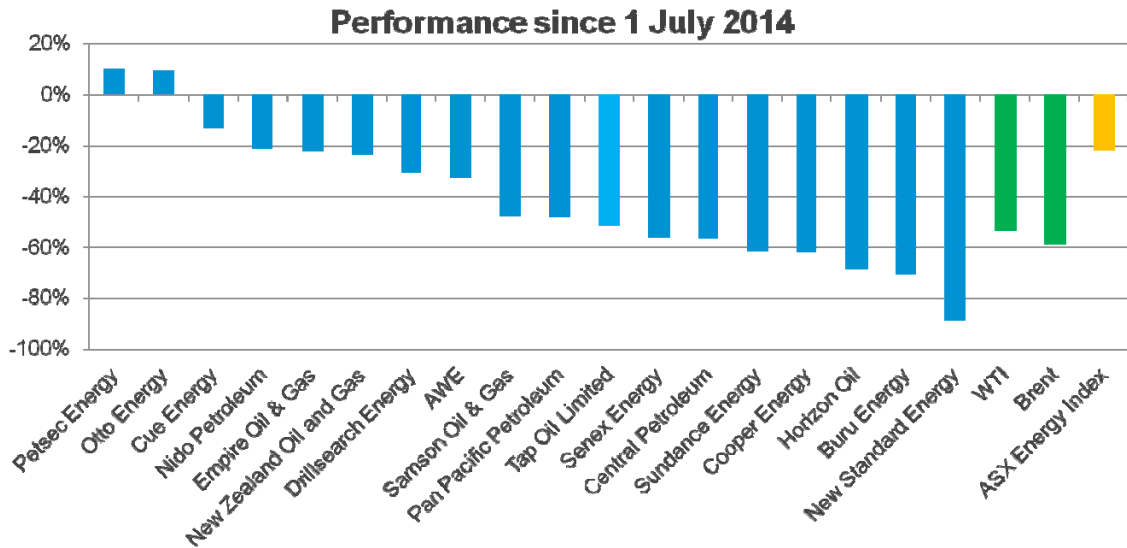
Tap considers that these actions appear inconsistent, and it is difficult to understand in the absence of Mr Yenbamroong's plan for Tap. We note that Mr Yenbamroong has an informed understanding of the value of Manora through the 10% interest he holds through his Northern Gulf companies.

**Mr Yenbamroong has made some allegations about Tap's Board and Management. How would you respond to these?**

- **Tap share prices have fallen over 75% in the last 5 years**

The fall in the share price, particularly in the last seven months, has been disappointing but in fact the entire small cap sector has fallen, especially since the sharp decline in the

oil price in late 2014. If you look at Tap and its industry peers, there has been a general trend in share price reduction.



Source: Comsec, EIA 20 March 2015

In August / September 2014, with the oil price averaging around US\$100 per barrel, the Tap share price averaged around \$0.65 per share, much the same level as for the average of the 2012 to 2013 period. The share price in fact increased significantly through mid/late 2014 in anticipation of the commencement of Manora production.

Since the announcement of Mr Yenbamroong’s proposed Board spill, the share price has fallen approximately 30%. Tap considers that this is in part due to the uncertainty associated with the status of Mr Yenbamroong’s Board spill proposal and whether it will succeed, as well as his attempts to seek early payment of the 2P reserves progress payment from Tap when Tap considers there is no proper legal or commercial basis for doing so.

Mr Troy Hayden, the MD/CEO of Tap comments:

*“I personally increased my Tap shareholding from 72,275 to 2,286,199 shares during 2014, spending approximately A\$1.15 million of my own savings at an average price of A\$0.52 per share. I felt then, as I feel now, that this is a Company with great assets and long term cash flows from Manora. This share price fall has hurt the value of my investment and I, like many other Tap shareholders, am not happy about it.*

*What really hurts is that one of our own shareholders (and our major shareholder) has initiated actions which have significantly destabilised the Company at a time when we are already in an unstable and depressed oil price environment.”*

- **Management has spent over A\$250 million of shareholder funds on exploration since 2008 which has resulted in zero additional 2P reserves**

Tap made a significant gas discovery at Tallaganda in WA-351-P in 2012 and booked a contingent resource of 48.8 PJ (net) (ASX release 29 January 2013). The Tallaganda structural feature was further proven by the Bunyip-1 discovery in the adjacent permit to the South.

The Zola (2011) and Bianchi (2013) gas discoveries have resulted in Tap booking contingent resources of 37.2 and 16 PJ (net) respectively (ASX release 26 February 2014).

Tap was instrumental in the identification of the Finucane South prospect and oil discovery in 2011 that was later commercialised.

Despite divesting the HJV interests (which were considered by Tap to be significant volumetrically but commercially marginal and subject to litigation risks) and the shutdown of Woollybutt at the end of its productive life, Tap recorded an increase in 2C resource of 1.3 mmbbl oil/condensate and 74.2 PJ of gas between 31 December 2008 and 31 December 2013.

- **Management failed to hedge its debt facility in 2014 which has resulted in very high leverage**

Hedging against an oil price decline would have left the Company in a better position to manage the impact of the declining oil price. With the benefit of hindsight, that indeed is what should have been done.

Tap shareholder feedback has generally been in favour of oil price exposure rather than hedging that exposure. It is also worth noting that before commencing its rapid decline, the Brent oil price had averaged over US\$100 per barrel for more than three years.

For what it's worth, we were preparing to place hedges during 2014, prior to the fall in the oil price. Unfortunately, the oil price crash increased the cost of the put option strategy from approximately US\$2.4m (US\$75/bbl Brent strike price) to approximately US\$8m (US\$65/bbl Brent strike price) and we did not have the free cash to spend on a position of that size. We were also involved in discussions with our lenders regarding liquidity and our ability to hedge was temporarily suspended until we resolved the liquidity issue. As you may have seen, we have now hedged 495,000bbl at US\$62.75/bbl from April to December 2015.

- **Tap has spent almost A\$70 million on staff and administrative costs since 2008**

Since Troy Hayden commenced as Managing Director/CEO in December 2010, there has been a significant reduction in staff from 32 people to 18 full time equivalents and administration costs have reduced from US\$9.6m in 2008 to US\$6.7m in 2014.

In 2015, staff (including senior management) were not paid in cash for their short term incentive award for 2014 and did not receive pay rises. This is in addition to the Board's decision in early 2014 that no 2013 bonuses would be issued to staff and to impose a pay freeze for senior management in 2014.

- **Approximately A\$30 million has been spent on Director and Key Management remuneration since 2008 while consistently posting operating losses and depleting cash flows**

Mr Yenbamroong asserts that much has been spent on administration expenses and, particularly, director and key management remuneration.

Mr Troy Hayden, the MD/CEO has taken a pay cut (23% fixed annual remuneration) and waived short-term and long-term entitlements in exchange for 5 million performance rights which will only vest if certain share price hurdles are met. This provides additional alignment with returns for shareholders, whilst also preserving cash.

Board members have not received an increase in Director fees since 2008, and the total amount available for directors' fees (as approved by shareholders) has not increased since 2010. The number of Non-Executive Directors was reduced from four to three in 2012, saving \$85,000 per year in directors' fees. Tap currently has one less Director than what is being proposed by Mr Yenbamroong based on the four nominees he has put forward.

Director and Key Management remuneration is in line with industry averages and has been supported by shareholders with the Remuneration Report receiving over 94% support from shareholders in the last three years.

- **Mr Yenbamroong has suggested that management has divested assets without developing any long term growth strategy and that none of Tap's current assets are capable of showing any near term growth**

Tap's Board and management have been working hard to simplify the Tap investment proposition by exiting from assets that were not making, or could not reasonably be expected to make, an acceptable return for our shareholders. This included:

- Pre-empting of 20% interest in WA-351-P in January 2011 for US\$15.75m and reselling 25% for US\$40m (US\$30m cash, US\$10m exploration well carry) in May 2011
- Divestment of interests in Brunei with US\$20m of drilling commitments and limited chance of success
- Divestment of Tap's interest in the Harriet Joint Venture for US\$10m, an asset which Tap considers had considerable litigation risk, was no longer making an economic return and had significant restoration and abandonment liabilities associated with it
- Sale of Tap's 8.2% interest in Fletcher-Finucane for A\$21.7m when a reasonable commercial outcome couldn't be reached for Tap to participate in the development
- Farmed down and transferred operatorship to reduce exploration risk in Ghana
- Equity equalisation and farm down in WA-320-P/WA-155-P (Pt II).

All these divestments have provided Tap with a considerable amount of cash to fund growth activities over the last 3 to 4 years (such as the award of acreage in Myanmar and of two new Australian permits) and have meant we have not had to ask shareholders to contribute to the Company via an equity raising, despite the Company funding its share of costs to take Manora into production.

- **Tap's Board and senior management own just over 1% of Tap shares and have presided over significant destruction of shareholder value**

Tap's Board and management own approximately 1.5% of Tap shares. Tap management (other than the MD/CEO) also have 5,235,993 share rights to acquire fully paid shares with vesting dates varying from 1 January 2016 through to 1 January 2018.

Mr Troy Hayden, the MD/CEO of Tap comments:

*"I personally increased my Tap shareholding from 72,275 to 2,286,199 shares during 2014.*

*I also hold approximately 5.8 million performance rights that will vest only on the achievement of specific share price hurdles. I personally have a significant investment in Tap and am incentivised to maximise value for shareholders."*

- **Tap announced that it commenced a Strategic Review of its assets and the Company. Can you provide an update on this?**

Tap formalised its Strategic Review process at the end of February. The process is considering a range of options for the business to maximise value for all shareholders, and includes looking at 'whole of company' and asset transactions. To date there has been considerable interest, particularly in the Manora asset, and Tap is investigating these options further.

This review was already underway prior to receiving Mr Yenbamroong's notice of his intention to seek to replace the Board. We initiated it to respond to the change in market conditions in the oil and gas sector, and have since broadened the review to seek to offer shareholders with alternative options to Mr Yenbamroong's proposal, which if successful

would result in the change of control of the Company without Tap shareholders being offered any control premium.

For example, the sale of the Manora asset could potentially provide a viable alternative for shareholders to realise value from Manora in the short term, with the net proceeds of sale (after paying down debt) being able to be distributed via a dividend (which could be fully franked for Australian resident shareholders).

We will obviously update the market in relation to any material developments arising out of this strategic review process.

**The various claims and cross claims between Tap and Mr Yenbamroong are quite complicated and seem to have quite a history. Can you clarify what has gone on?**

This can be a confusing time for shareholders and some may not know the chronology of events.

Date	Event
<b>October 2010</b>	<p>Tap buys a 30% interest in the Manora oil field from Northern Gulf Petroleum Holdings, a Bermudan company owned by Mr Yenbamroong. The sale and purchase agreement (<b>SPA</b>) sets out the progress payments which are agreed in respect of the development of the Manora oil field, including:</p> <ul style="list-style-type: none"> <li>• a Final Investment Decision (<b>FID</b>) Payment, based on Manora oil field development size; and</li> <li>• 2P Reserves Deferred Payment. Payment starts at a development size larger than 10 mmbbl, increasing by \$1.50/bbl up to a maximum of US\$37.5 million at 35 mmbbl. The amount of these payments vary depending on the Manora 2P reserve estimates at 31 December of each year for the first four years following commencement of production, and are only finalised once the calendar year is complete and a due diligence process has been undertaken by the joint venture and/or an independent expert. Any FID Payment paid is deducted from the 2P Reserves Deferred Payment payable.</li> </ul>
<b>July 2012</b>	<p>Manora Final Investment Decision (<b>FID</b>). Tap subsequently pays a FID Payment of US\$7.65 million to Northern Gulf Petroleum Holdings in August 2012 in accordance with its obligations under the October 2010 SPA. This payment was based on Operator's 2P reserves at FID of 20.2 mmbbl.</p>
<b>December 2013</b>	<ul style="list-style-type: none"> <li>• Mr Yenbamroong suggests a further FID Payment of US\$6.75 million be paid to his company following an external reserves review he provided to Tap.</li> <li>• Mr Yenbamroong's request was received after the FID Payment had already been paid in accordance with the SPA, and almost one year in advance of when the next payment is required to be calculated under the SPA.</li> <li>• Tap responds that it shared the Operator's views on 2P reserves and that it would follow the previously agreed SPA and meet its obligations when they fell due.</li> </ul>
<b>December 2014</b>	<ul style="list-style-type: none"> <li>• Northern Gulf Petroleum Holdings requests that an independent expert be engaged immediately to provide a reserves report as at 31 December 2014 and that Tap pay a 2P Reserves Deferred Payment based on this certification.</li> </ul>

Date	Event
	<ul style="list-style-type: none"> <li>• Tap advises Northern Gulf that it was not yet able to provide this notice under the process agreed by the parties in the SPA. Tap again declines to make early payment on the basis that it would follow the previously agreed SPA for determining and making such payments.</li> <li>• At the time of his request, Mr Yenbamroong's voting power in Tap was approximately 6%.</li> </ul>
<b>January 2015</b>	<ul style="list-style-type: none"> <li>• Northern Gulf Petroleum, a Singapore company controlled by Mr Yenbamroong and owned by Northern Gulf Petroleum Holdings, holds a 10% interest in the Manora Joint Venture. As a joint venture participant, Mr Yenbamroong has a greater knowledge of the Manora project than other Tap shareholders.</li> <li>• On 8 January Mr Yenbamroong on behalf of Northern Gulf Petroleum requests the Operator to provide a reserves report for Manora as at 31 December 2014. As the calendar year end had only just passed, Operator did not have such a report but instead provided a draft of a report being prepared for the purposes of compliance with the Thai Petroleum Act. This draft report was not prepared for the purposes of the SPA.</li> <li>• On behalf of Northern Gulf Petroleum Holdings, Mr Yenbamroong writes to Tap seeking payment of a 2P Reserves Deferred Payment of US\$14.6m asserted to be owing on the basis of a draft reserves report. Tap notified Mr Yenbamroong that the 2P reserves as at 31 December 2014 had not yet been finalised, and that it considers that there is no proper legal basis for making this request and again declines to make payment.</li> <li>• Discussions held between the Manora Joint Venture participants (including Northern Gulf Petroleum) to defer or cancel four wells. Tap announced the deferral and cancellation of these wells on 27 February once the decision was endorsed by the Operator, Mubadala Petroleum.</li> <li>• Mr Yenbamroong buys approximately 34 million Tap shares on-market and moves from a 6% shareholding to 19.98%. Mr Yenbamroong also offers to underwrite an equity issue for Tap. Details of this proposal were requested by Tap in February 2015 but not provided by Mr Yenbamroong.</li> </ul>
<b>February 2015</b>	<ul style="list-style-type: none"> <li>• Mr Yenbamroong provides Tap with notice of his intention to call a meeting of Tap shareholders to consider resolutions to remove three of the four directors of the Board, and appoint four of his own nominees as directors (which if appointed would comprise 80% of the Tap Board).</li> </ul>
<b>March 2015</b>	<ul style="list-style-type: none"> <li>• Mr Yenbamroong on behalf of Northern Gulf Petroleum Holdings again seeks payment of a 2P Reserves Deferred Payment of US\$14.6m asserted to be owing on the basis of a reserves report prepared for the purposes of reporting under the Thai Petroleum Act. Tap advises again that the report is not a reserves report as required under the SPA, and again declines to make payment as there is no proper legal or commercial basis for doing so.</li> <li>• Northern Gulf Petroleum, controlled by Mr Yenbamroong, is served</li> </ul>



Date	Event
	<p>with a default notice by the Operator for failing to pay US\$27 million in cash calls for the development of Manora.</p> <ul style="list-style-type: none"> <li>Mr Yenbamroong sends Tap shareholders a letter dated 30 March 2015 criticising the Company's recent performance but offering no alternate plan or vision for the Company. The letter did not mention the identity of his nominated directors, nor set a meeting date.</li> </ul>
<p><b>April 2015</b></p>	<ul style="list-style-type: none"> <li>Northern Gulf Petroleum loses attendance and voting rights, as well as the right to access information, in relation to the Manora Joint Venture as the first stage of the default remedies stemming from Northern Gulf's failure to remedy the US\$27m default notice served by the Operator.</li> <li>Tap also serves both Northern Gulf companies with default notices for failing to pay ~US\$1.08 million in part repayment of the amount of US\$10 million owing to Tap in respect of a carry agreed in the SPA.</li> <li>Northern Gulf Petroleum Holdings serves a statutory demand on Tap for payment of US\$14.6m which Northern Gulf alleges is owing in respect to 31 December 2014 2P reserves progress payment. Tap understands that the 31 December 2014 2P reserves have still not been finalised by the Manora Joint Venture, and advises Northern Gulf Petroleum Holdings that it will be applying to have the statutory demand set aside.</li> </ul>

**Person compiling information about hydrocarbons**

The reserve and contingent resource information in this announcement is based on and fairly represents information and supporting documentation prepared by Mr Denis Bouclin B.A.Sc (Hons), M.A.Sc (Engineering), P.Eng., who is a qualified petroleum reserves and resources evaluator and has consented to the inclusion of such information in this announcement in the form and context in which it appears. Mr Bouclin is a part-time employee of the Company, with more than 25 years relevant experience in the petroleum industry. Mr Bouclin is a member of the SPE and APEGA.

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