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INDAGO ENERGY LIMITED

ABN 75 117 387 354

NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY MEMORANDUM

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**TIME:** 9.00am (Melbourne time)

**DATE:** Wednesday, 11 December 2019

**PLACE:** Level 6, 412 Collins Street, Melbourne, Vic 3000

**This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting. Should you wish to discuss the matters in this Notice of Meeting please contact the Company Secretary on +61 3 9642 0655.**

## **NOTICE OF ANNUAL GENERAL MEETING**

Notice is given that the Extraordinary General Meeting (**EGM**) of the Shareholders of Indago Energy Limited (**Indago** or the **Company**) will be held at 9.00am (Melbourne time) on Wednesday 11 December 2019 at Level 6, 412 Collins Street, Melbourne, VIC 3000.

The Explanatory Statement to this Notice of Meeting provides additional information on the matters to be considered at the EGM. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

### **ITEMS FOR APPROVAL**

#### **1. Resolution 1: Election of Director – Mr Andrew Seaton**

To consider, and if thought fit, to pass the following as an Ordinary Resolution:

*"That Mr Andrew Seaton is elected as a director."*

#### **2. Resolution 2: Change of Company Name**

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

*"That, with effect from the date that ASIC alters the details of the Company's registration in accordance with section 157 of the Corporations Act, the name of the Company be changed to Hydrocarbon Dynamics Limited."*

Resolution 2 is a special resolution. For a special resolution to be passed, at least 75% of the votes cast by shareholders entitled to vote on Resolution 2 must be in favour of the resolution.

#### **3. Resolution 3: Grant of Incentive Rights to Mr Stephen Mitchell**

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

*"That, for the purpose of section 195(4) and sections 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 3,500,000 incentive rights to Stephen Mitchell (and/or his nominees), on the terms and conditions set out in the Explanatory Statement"*

#### ***Voting exclusion statement***

The Company will, in accordance with ASX Listing Rule 14.11, disregard any votes cast in favour of **Resolution 3** by or on behalf of the person who is expected to participate in, or who will obtain a material benefit as a result of the grant the subject of this resolution and his associates.

However, the Company need not disregard a vote cast on the resolution if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

#### ***Voting prohibition statement***

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- the proxy is the Chair; and
- the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

#### **4. Resolution 4: Grant of Incentive Rights to Mr Andrew Seaton**

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

*"That, for the purpose of section 195(4) and sections 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 2,000,000 incentive rights to Andrew Seaton (and/or his nominees), on the terms and conditions set out in the Explanatory Statement"*

### **Voting exclusion statement**

The Company will, in accordance with ASX Listing Rule 14.11, disregard any votes cast in favour of **Resolution 4** by or on behalf of the person who is expected to participate in, or who will obtain a material benefit as a result of the grant the subject of this resolution and his associates.

However, the Company need not disregard a vote cast on the resolution if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

### **Voting prohibition statement**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- the proxy is either:
  - (iii) a member of the Key Management Personnel; or
  - (iv) a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- the proxy is the Chair; and
- the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

## **5. Resolution 5: Grant of Incentive Rights to Mr Ray Shorrocks**

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

*“That, for the purpose of section 195(4) and sections 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 2,000,000 incentive rights to Ray Shorrocks (and/or his nominees), on the terms and conditions set out in the Explanatory Statement”.*

### **Voting exclusion statement**

The Company will, in accordance with ASX Listing Rule 14.11, disregard any votes cast in favour of **Resolution 5** by or on behalf of the person who is expected to participate in, or who will obtain a material benefit as a result of the grant the subject of this resolution and his associates.

However, the Company need not disregard a vote cast on the resolution if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

### **Voting prohibition statement**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- the proxy is either:
  - (v) a member of the Key Management Personnel; or
  - (vi) a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- the proxy is the Chair; and
- the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

## **6. Resolution 6: Grant of Incentive Rights to Mr Nicholas Castellano**

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

*“That, for the purpose of section 195(4) and sections 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 1,500,000 incentive rights to Nicholas Castellano (and/or his nominees), on the terms and conditions set out in the Explanatory Statement”.*

### **Voting exclusion statement**

The Company will, in accordance with ASX Listing Rule 14.11, disregard any votes cast in favour of **Resolution 6** by or on behalf of the person who is expected to participate in, or who will obtain a material benefit as a result of the grant the subject of this resolution and his associates.

However, the Company need not disregard a vote cast on the resolution if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

**Voting prohibition statement**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- the proxy is either:
  - (vii) a member of the Key Management Personnel; or
  - (viii) a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- the proxy is the Chair; and
- the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel

**7. Resolution 7: Grant of Incentive Rights to Mr Allan Ritchie**

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

*“That, for the purpose of section 195(4) and sections 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 1,500,000 incentive rights to Allan Ritchie (and/or his nominees), on the terms and conditions set out in the Explanatory Statement”.*

**Voting exclusion statement**

The Company will, in accordance with ASX Listing Rule 14.11, disregard any votes cast in favour of **Resolution 8** by or on behalf of the person who is expected to participate in, or who will obtain a material benefit as a result of the grant the subject of this resolution and his associates.

However, the Company need not disregard a vote cast on the resolution if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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.

**Voting prohibition statement**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- the proxy is either:
  - (ix) a member of the Key Management Personnel; or
  - (x) a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- the proxy is the Chair; and
- the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel

**By order of the Board**



**Julie Edwards  
Company Secretary  
8 November 2019**



## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders of the Company in connection with the business to be conducted at the EGM to be held at Level 6, 412 Collins Street, Melbourne, Vic 3000 at 9.00am (Melbourne time) on Wednesday 11 December 2019.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions at the EGM.

### **RESOLUTION 1: ELECTION OF DIRECTOR – MR ANDREW SEATON**

In accordance with clause 13.4 of the Company's Constitution, Mr Seaton retires and, being eligible, offers himself for election as a Director.

Mr Seaton was a senior executive with Santos for twelve years, the last six of which he served as Chief Financial Officer and prior to that, as General Manager - Commercial and Finance. He currently serves as Chief Financial and Commercial Officer of Australian Naval Infrastructure. Prior to his role with Santos, Mr. Seaton worked in various roles with National Australia Bank, Merrill Lynch, Kinhill Engineers as well as with a subsidiary of Exxon Mobil. He is currently a non-executive director of Strike Energy.

*The Directors, with Mr Seaton abstaining, unanimously recommend that Shareholders vote in favour of this Resolution.*

### **RESOLUTION 2: CHANGE OF COMPANY NAME**

It is proposed that the name of the Company be changed to "Hydrocarbon Dynamics Limited". The Company will also request that the ASX change the Company's listing code to "HCD", after the name change takes effect.

The directors recommend the change of name to better reflect the nature and strategic value of the operations of the Company.

Section 157 of the Corporations Act enables a company to change its name by special resolution passed at a general meeting. For a special resolution to be passed, at least 75% of the votes cast by shareholders entitles to vote on Resolution 2 must be in favour of the resolution.

*The Directors unanimously recommend that Shareholders vote in favour of this Resolution.*

### **RESOLUTION 3, 4, 5, 6 and 7: GRANT OF INCENTIVE RIGHTS TO MR STEPHEN MITCHELL, MR ANDREW SEATON, MR RAY SHORROCKS, MR NICHOLAS CASTELLANO AND MR ALLAN RITCHIE**

Resolutions 3 to 7 seek shareholder approval for the grant of a total of 10,500,000 Incentive Rights. The Board acknowledges the skills and experience that Messrs Mitchell, Seaton, Shorrock, Castellano and Ritchie bring to the Company and wishes to grant Incentive Rights as an incentive to contribute to the Company and to more closely align the interests of directors with that of the Company shareholders and shareholder wealth creation. The grant of the Incentive Rights can also partially compensate for the lower levels of fixed remuneration and is an important tool to attract and maintain experienced and successful people.

Accordingly, shareholders are being asked to approve Resolutions 3 to 7 to grant Incentive Rights on the terms and conditions set out below.

<b>Resolution</b>	<b>Director</b>	<b>Number of Incentive Rights</b>
3	Mr Stephen Mitchell	3,500,000
4	Mr Andrew Seaton	2,000,000
5	Mr Ray Shorrock	2,000,000
6	Mr Nicholas Castellano	1,500,000
7	Mr Allan Ritchie	1,500,000
Total		10,500,000

## **Considerations in determining the number of proposed incentive rights**

The Directors (with the relevant Director abstaining due to a material personal interest) considered each Director's experience, the current market price of the Shares and current market practice when determining the number of incentive rights to be issued to each Director.

The Board considers that incentive rights are an important tool in rewarding, retaining and incentivising staff of the Company and increasing goal alignment between shareholders, directors and executives.

Those Directors, who do not have an interest in the outcome of the relevant resolution, recommend that Shareholders vote in favour of each resolution regarding the Incentive Rights for the reasons set out below.

1. The Directors consider that it is important for the Company to be able to attract and retain experienced directors and that the proposed grant of the Incentive Rights to each Director is appropriate taking into account the relevant Director's level of experience and anticipated ongoing contribution to the Company.
2. The Directors consider that the proposed number of Incentive rights to be granted to each Director is appropriate to:
  - motivate the relevant Directors to pursue long term growth and success of the Company (within an appropriate control framework);
  - align the interests of key leadership with the long-term interests of the Company's shareholders; and
  - ensure a clear correlation between performance and remuneration, in accordance with the Company's remuneration policy.
3. The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd ed.) (Principles) note that it is generally acceptable for non-executive directors to receive securities as part of their remuneration to align their interests with the interests of other security holders. Likewise the Principles note that equity-based remuneration can be an effective form of remuneration for executives.

## **Section 195 (4) of the Corporations Act**

Each of the Directors has a material personal interest in the outcome of Resolutions 3 to 7 (as applicable to each Director) in this Notice of Meeting by virtue of the fact that Resolutions 3 to 7 are concerned with the issue of Incentive Rights to Directors. Section 195 of the Corporations Act essentially provides that a director of a public company may not vote or be present during meeting of directors when matters in which the director holds a material personal interest are being considered. In the absence of Shareholder approval under section 195(4) of the Corporations Act, the Directors may not be able to form a quorum at Board meetings necessary to carry out the terms of these Resolutions. The Directors have accordingly exercised their right under section 195(4) of the Corporations act to put the issue to Shareholders to determine.

## **Section 208 of the Corporations Act**

Section 208(1)(a) of the Corporations Act provides that a company must not, without the approval of the Company's members, give a financial benefit to a related party unless an exception to the prohibition as set out in sections 210 to 216 of the Act applies to that issue. Messrs Mitchell, Seaton, Shorrocks, Castellano and Ritchie, being Directors of the Company, are deemed to be a related party by virtue of section 228(2)(a) of the Corporations Act. The grant of the incentive rights will constitute the giving of a financial benefit to a related party for the purposes of section 229(3)(e) of the Act.

Section 211 of the Corporations Act 2001 states that member approval is not needed to give a financial benefit to a related party of the Company if:

- The benefit is remuneration to a related party as an officer or employee of the Company; and
- To give the remuneration would be reasonable given the circumstance of the Company giving the remuneration and the related party's circumstances, including the responsibilities involved in the office or employments.

The Board, with the relevant Director abstaining, has resolved that the grant of the incentive options to each Director constitutes reasonable remuneration within the meaning of section 211 (1) of the Act as:

- The Company wishes to maximise the use of its cash resources towards the Company's development and equity based incentives are used to supplement cash based remuneration; and
- The granting of the incentive rights proposed is commensurate with market practice.

Accordingly, shareholder approval is not required under section 208(1) of the Act for Resolutions 3 to 7, however approval is still required for the purposes of ASX listing Rule 10.11

## **Listing Rule 10.11**

Listing Rule 10.11 provides that a company must not issue equity securities to related party without the approval of holders of ordinary securities. Further, exception 14 of Listing Rule 7.2 states that approval pursuant to Listing Rule 7.1 is not required if shareholder approval is obtained under Listing Rule 10.11.

As set out above, the Directors are related parties of the Company for the purposes of section 228 of the Corporations Act. Accordingly, Shareholder approval is sought under Listing Rule 10.11 to permit the grant of the Incentive Rights to the Directors.

Resolutions 3 to 7 seek approval for the grant of 10,500,000 Incentive Rights to the Directors for the purposes of satisfying the requirements of Listing Rule 10.11. If Resolutions 3 to 7 are approved, the Incentive Rights granted will not affect the capacity of the Company to issue securities in the next 12 months under Listing Rule 7.1 as those securities, once issued, will be excluded from the calculations under Listing Rule 7.1.

As required by section 2019 of the Corporations Act and Listing Rule 10.13, the following information is provided in relation to Resolutions 3 to 7:

**(a) Related parties to whom the financial benefits are to be given**

Directors Stephen Mitchell, Andrew Seaton, Ray Shorrocks, Nicholas Castellano and Allan Ritchie (and/or their nominees).

**(b) Nature of the financial benefits**

The Company proposes to grant the Incentive Rights as set out below:

Resolution	Director	Number of Incentive Rights
3	Mr Stephen Mitchell	3,500,000
4	Mr Andrew Seaton	2,000,000
5	Mr Ray Shorrocks	2,000,000
6	Mr Nicholas Castellano	1,500,000
7	Mr Allan Ritchie	1,500,000
<b>Total</b>		<b>10,500,000</b>

The Incentive rights will be granted for nil cash consideration. Instead of cash consideration, they are being granted to incentivise the performance of the Directors.

Each Incentive Rights will convert into a share on the following conditions:

- (a) 50% Conversion - 15 cent share price: 50% of the Incentive Rights issued to a holder will convert into Shares on Indago Energy announcing to ASX prior to 1 September 2021 that the closing price of Shares on ASX has exceeded 15 cents for any consecutive 3 month period.
- (b) 50% Conversion – US\$900,000 sales revenue: 50% of the Incentive Rights issued to a holder will convert into Shares on Indago Energy announcing to ASX prior to 1 September 2021 that the Indago Energy group has achieved sales revenue of more than US\$900,000 from the sale of drums of Multi-flow over any consecutive 3 month period (excluding taxes and determined in accordance with Accounting Standards).

The Incentive Rights are otherwise on the terms set out in Schedule 1.

The Incentive Rights will be granted no later than 1 month after the date of the Meeting (or such later date to the extent permitted by an ASX waiver or modification of the Listing Rules). It is anticipated that the Incentive Rights will be granted immediately after the Meeting.

**(c) Valuation of the financial benefits**

The Company has engaged RSM Australia Pty Ltd (RSM) to determine a value for the Incentive Rights as set out in the valuation report in Annexure A. RSM has used the Monte Carlo simulation valuation model. RSM has determined that the value of each Incentive Right is \$0.06365, based on the assumptions and inputs set out below:

Valuation date	29 October 2019
Spot price	\$0.087
Exercise price	Nil
Vesting hurdle	\$0.15 and US\$900,000 sales
Expiry date	1 September 2021
Expected future volatility	72.5%
Risk free rate	0.82%
Dividend yield	Nil

Accordingly, the value of the financial benefits to be given to the directors under resolution 3 to 7 are set out below:

Director	Value
Mr Stephen Mitchell	\$222,775
Mr Andrew Seaton	\$127,300
Mr Ray Shorrocks	\$127,300
Mr Nicholas Castellano	\$95,475
Mr Allan Ritchie	\$95,475
<b>Total</b>	<b>\$668,325</b>

**(d) Reason for the financial benefits**

The Incentive Rights are being granted to the Directors to incentivise their performance in their role as a Director of the Company.

**(e) Current remuneration**

The current remuneration (including superannuation) paid to the Directors is set out below.

Director	Position	Salary/fees per annum AUD
Stephen Mitchell	Executive Chairman	\$219,000
Andrew Seaton	Non-Executive Director	\$54,000
Ray Shorrocks	Non-Executive Director	\$48,000
Nicholas Castellano	Executive Director	\$262,000*
Allan Ritchie	Non-Executive Director	\$58,000

\*Mr Castellano is remunerated US\$180,000 per year.

Nicholas Castellano is also paid a royalty of approximately AUD\$285,600 per annum (US\$16,000 per month).

**(f) Current security holdings**

The security holdings of the Directors at the date of this Notice are set out below.

Director	Shares
Stephen Mitchell	18,500,002
Andrew Seaton	2,225,350
Ray Shorrocks	3,010,000
Nicholas Castellano	5,668,140
Allan Ritchie	2,756,753

**(g) Historical prices**

The highest and lowest closing prices of shares on the ASX during the 12 months preceding the date of this notice and the latest closing price, are set out below.

Highest (24 July 2019)	Lowest (25 June 2019)	Current (7 November 2019)
\$0.099	\$0.033	0.085

**(h) Dilution**

If all of the Incentive Rights to be granted under Resolutions 3 to 7 vest and are exercised into Shares, and no other Shares are issued by the Company (including under the Share Purchase Plan Shortfall Placement), then Shareholders would be diluted by approximately 2.65%.

**(i) Accounting treatment**

Under the accounting standard AASB 2 Share Based Payment, the Company will recognise an expense in its statement of financial performance based on the fair value of the Incentive Rights over the period from the date that they are granted until they vest. Based on the valuation report set out in section 8(c), the total fair value of the incentive rights to be granted is \$668,325.

**(j) Opportunity costs**

Other than as set out in the Notice, the Company does not consider that there are any material opportunity costs to the Company or benefits forgone by the Company in granting the Incentive Rights under Resolutions 3 to 7.

**(k) Intended use of funds raised**

No funds will be raised from the grant of the Incentive Rights as they are being granted to the Directors to incentivise their performance.

**(l) Directors' interests and recommendations**

Each Director is proposed to receive Incentive Rights under Resolutions 3 to 7 and, therefore, the Directors do not consider that it is appropriate to make a recommendation on how Shareholders should vote on these Resolutions.

**(m) Other information**

Other than as set out in this Explanatory Statement, there is no further information that is to the Company or any of the Directors which Shareholders would reasonably require in order to decide whether or not it is in the Company's best interest to approve Resolutions 3 to 7.

## SCHEDULE 1.

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### TERMS OF INCENTIVE RIGHTS

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- (a) **(General Meetings):** Each Incentive Right shall confer on the holder the right to receive notices of general meetings and financial reports and accounts of Indago Energy Limited ("**Indago Energy**") that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of Indago Energy.
- (b) **(No Voting Rights):** The Incentive Rights do not entitle the holder to vote on any resolutions proposed at a general meeting of shareholders of Indago Energy.
- (c) **(No Dividend Rights):** The Incentive Rights do not entitle the holder to any dividends.
- (d) **(Rights on Winding Up):** The holder is not entitled to participate in the surplus assets or profits of Indago Energy in a winding up.
- (e) **(Not Transferable):** The Incentive Rights are not transferable.
- (f) **(Reorganisation of Capital):** If at any time the issued capital of Indago Energy 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 and changed on the same proportional basis as ordinary shares in the event of share consolidations or share splits.
- (g) **(Application to ASX):** The Incentive Rights will not be quoted on ASX. However, upon conversion of the Incentive Rights into fully paid ordinary shares in Indago Energy (**Shares**), Indago Energy must within seven (7) days after the conversion, apply for the official quotation of the Shares arising from the conversion on ASX.
- (h) **(No Other Rights):** An Incentive Right gives the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.
- (i) **(50% Conversion - 15 cent share price):** Subject to clause (k), (l) and (m) below, 50% of the Incentive Rights issued to a holder will convert into Shares on Indago Energy announcing to ASX prior to 1 September 2021 that the closing price of Shares on ASX has exceeded 15 cents for any consecutive 3 month period.
- (j) **(50% Conversion – US\$900,000 sales revenue):** Subject to clause (k), (l) and (m) below, 50% of the Incentive Rights issued to a holder will convert into Shares on Indago Energy announcing to ASX prior to 1 September 2021 that the Indago Energy group has achieved sales revenue of more than US\$900,000 from the sale of drums of Multi-flow over any consecutive 3 month period (excluding taxes and determined in accordance with Accounting Standards).
- (k) **(Change of Control):** Upon a Change of Control (defined below), each Incentive Right will convert into one Share.
- (l) **(Compliance with law):** Conversion of the Incentive Rights is subject to compliance at all times with the Corporations Act and the Listing Rules of ASX.
- (m) **(Expiry):** If conversion has not occurred and no Change of Control has occurred in each case by 1 September 2021, the relevant Incentive Rights will expire.
- (n) **(Conversion Procedure):** Indago Energy will issue the holder with a new holding statement for the Shares as soon as practicable following the conversion of any Incentive Rights into Shares.
- (o) **(Definitions):** For the purposes of these terms a Change of Control occurs when:
  - (i) a takeover bid (as defined in the Corporations Act) is made for the Shares which results in the bidder acquiring a relevant interest (as defined in the Corporations Act) in at least 50% of those Shares; or
  - (ii) pursuant to an application made by Indago Energy to the court under section 411 of the Corporations Act, the court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of Indago Energy or its amalgamation with any other company and that resolution is passed by the requisite majorities which will result in a person and its related bodies corporate being registered as the holder of more than 50% of those Shares.

THE POWER  
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## INDAGO ENERGY LIMITED (“INK”)

AASB 2 - Share Based Payment - Valuation of Performance Rights

30 October 2019

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# CONTENTS

<b>1</b>	Disclaimer	3
<b>2</b>	Executive Summary	4
<b>3</b>	Background On Performance Rights	6
<b>4</b>	Valuation Methodology	7
<b>5</b>	Valuation Assumptions	9
<b>6</b>	Fair Value of Performance Rights	10

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# 1. DISCLAIMER

## **Scope and disclaimer**

This report has been prepared to provide an assessment of the Fair Value, in accordance with AASB 2 – Share Based Payments (“AASB 2”), of the Performance Rights as provided to us by e-mail on 30 October 2019.

We understand this report will be used for assisting in the preparation of INK’s Notice of Meeting. This report is to be used solely for this purposes and should not be used for any other purpose.

In accordance with our normal practice, we hereby expressly disclaim liability to any persons other than those to whom the report is specifically addressed. The information contained in this report may not be used or relied upon by any other party, in any manner whatsoever, without the prior written consent of RSM.

Any party, other than those to whom the report is specifically addressed, who chooses to rely in any way on the contents of this report, does so at their own risk. Neither the whole of this report, nor any part thereof or any reference thereto may be published in any document, statement or in any communication in any form or context with any other third parties without the prior written consent of RSM.

Our valuation opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Accordingly, this report and our opinion may become quickly out-dated and require revision should such conditions change after the issue of our report.

The fee paid to RSM for this valuation assignment is not contingent upon the conclusion, content or future use of this valuation report.

## 2. EXECUTIVE SUMMARY

### Scope

In accordance with your instructions, we have valued the various Performance Rights proposed to be issued by Indago Energy Limited (“INK” or “the Company”) and which require shareholder approval at INK’s EGM.

The valuation is required to assist in the preparation of INK’s Notice of Meeting and is in accordance with AASB 2.

The Performance Rights which are the subject of this report, as communicated to us, are as follows:

Condition	Performance Rights
Instrument Type	Performance Rights
Grant date/Valuation Date	29 October 2019
Exercise Price	\$nil
Market Based Vesting Condition	50% of performance rights vest if the closing share price of INK exceeds 15 cents for any consecutive 3 month period.
Non-Market Based Vesting Conditions	50% of performance rights vest if INK achieves sales revenue of more than US\$900,000 from the sale of drums of Multiflow over any consecutive 3 month period.
Number of performance rights	10,500,000

## 2. EXECUTIVE SUMMARY (CONT.)

We have used a Monte Carlo simulation valuation model when valuing INK's Performance Rights within this report.

The valuation of Performance Rights involves many subjective decisions. We have outlined in the body of our report, the assumptions made to arrive at a valuation for INK's Performance Rights. We require INK's directors to evaluate the reasonableness of our assumptions as set out in Section 5 of this report.

### Conclusion

Based on these key assumptions and after consideration of the various other factors which impact on our valuation model the following table outlines our assessed Performance Rights values in accordance with AASB 2. It should be noted that, in accordance with AASB 2 – Share Based Payment, the Fair Value assessment below on takes into account market vesting conditions and does not factor in the probability of non-market vesting conditions or being achieved.

	Number of Rights	Exercise Price (\$)	Value of One Right	Total Fair Value (\$)
<b>Fair Value based on closing share price on 29 October 2019</b>				
Performance Rights with market vesting condition	5,250,000	0.000	0.0403	211,575
Performance Rights with non-market vesting condition	5,250,000	0.000	0.0870	456,750
<b>Total Fair Value in accordance with AASB 2</b>	<b>10,500,000</b>			<b>668,325</b>

### 3. BACKGROUND ON PERFORMANCE RIGHTS

In accordance with your instructions, we have valued the various Performance Rights proposed to be issued by Indago Energy Limited (“INK” or “the Company”) and which require shareholder approval at INK’s EGM.

The parameters of these Performance Rights are outlined in the table below:

Condition	Performance Rights
Instrument Type	Performance Rights
Grant date/Valuation Date	29 October 2019
Exercise Price	\$nil
Market Based Vesting Condition	50% of performance rights vest if the closing share price of INK exceeds 15 cents for any consecutive 3 month period.
Non-Market Based Vesting Conditions	50% of performance rights vest if INK achieves sales revenue of more than US\$900,000 from the sale of drums of Multiflow over any consecutive 3 month period.
Number of performance rights	10,500,000

---

## 4. VALUATION METHODOLOGY

The most commonly used models to value unvested equity interests such as options, performance rights and deferred shares are the:

- Black-Scholes model;
- Binomial option pricing model; and
- Monte Carlo simulations.

Each of these models is discussed below.

### **Black-Scholes model**

The Black-Scholes model is probably the most widely used and best-known theoretical option-valuation model.

The Black-Scholes model is generally used to value vanilla European Options using the following key variables:

- the current spot price of a stock;
- the exercise price of the option;
- the expected volatility of the stock;
- time to expiration; and
- the risk free interest rate.

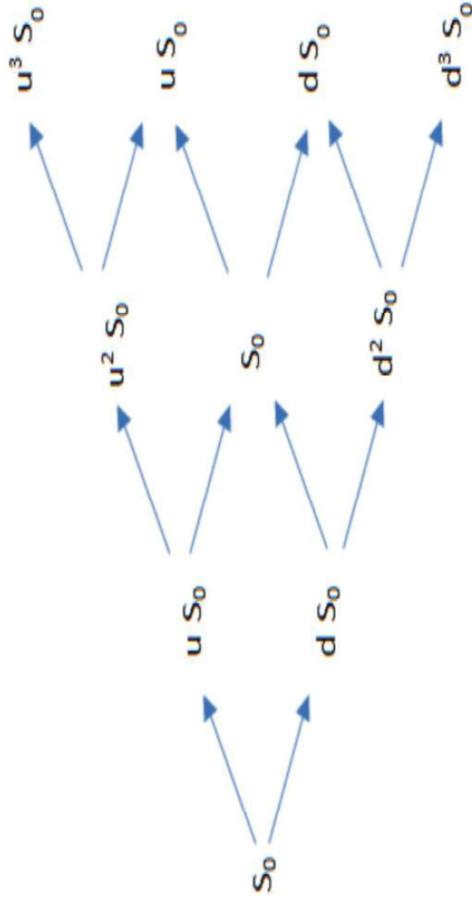
The Black-Scholes model assumes:

- the risk free rate is known and is constant through time;
- the stock price follows a random walk in continuous time with a rate of variance in proportion to the square of the stock price;
- the distribution of possible stock prices at the end of any finite interval is lognormal;
- the variance of the rate of return on the stock is constant;
- the stock pays no dividends and makes no other distributions; and
- the option can be exercised only at maturity.

### **Binomial model (also known as the lattice model)**

A more integrated and complex model used to value Options and Performance Rights is called the lattice model. This model is a theoretical model like the Black-Scholes model; however, it uses either a binomial or a trinomial distribution process to derive value by separating the total maturity period of the option into discrete periods. When progressing from one time period, or node, to another, the underlying common stock price is assumed to have an equal probability of increasing and/or decreasing by upward and downward price movements. Visually, a binomial lattice model would appear as follows:

## 4. AASB 2 - VALUATION METHODOLOGY (CONT.)



As each node of the binomial lattice represents the value of the option, the model considers the probabilities of various triggering events and early exercise and incorporates the value of the option if such an event occurs. If none of the triggering events occurs, the value of the option at each node will be calculated as the expected value of the two successive nodes using the discount factor.

The lattice model is a more flexible valuation technique that can account for early exercise behaviour and various market and performance conditions.

### Monte Carlo Simulations

Monte Carlo simulation methods are often used to value complex derivative instruments including stock options by simulating various path-dependent conditions. This approach simulates share price movements using assumptions of lognormally distributed prices, averages the payoff values over the range of resultant outcomes, and then discounts the expected payoff at the risk-free rate to get an estimate of the value of the option.

The advantage of Monte Carlo simulation is that it can be used when the payoff depends on the path followed by the underlying common stock value as well as when it depends only on the final value of common stock. Payoffs can occur at several times during the life of the derivative rather than all at the end.

### Valuation methodology adopted

As the Performance Rights have a market based vesting condition of hitting a hurdle share price, with the hurdle share price being 15 cents over a consecutive 3 month trading window, we have utilised the Monte Carlo Simulation valuation model as this enables such vesting conditions to be factored into the assessed Fair Value of the Performance Rights.

This approach:

- simulates share price movements using assumptions of lognormally distributed prices for 250,000 simulations;
- assesses whether, at any time over the vesting period the vesting conditions of the Performance Rights have been achieved;
- averages the payoff values over the range of resultant outcomes; and
- discounts the expected payoff at the risk-free rate to get an estimate of the value of the Performance Rights.

The Monte Carlo simulation has been predicated on an excel based Geometric Brownian Motion simulation model.

## 5. VALUATION ASSUMPTIONS

The inputs and assumptions we have used in the Monte Carlo simulation model to value the Performance Rights are set out below.

Input	
Instrument Type	Performance Rights
Number of performance rights	10,500,000
Valuation Date	29 October 2019
Exercise Price	\$nil
Market Based Vesting Condition	50% of performance rights vest if the closing share price of INK exceeds 15 cents for any consecutive 3 month period.
Spot Price	\$0.087
INK Volatility	72.5%
Risk Free Rate	0.82%

**Spot Price** - Being the closing share price of INK 29 October 2019.

**Exercise Price** – \$nil – subject to achievement of vesting condition, the Performance Rights will convert to an ordinary share of INK for no further consideration.

**INK Volatility** – The volatility of the share price is a measure of uncertainty about the returns provided by the shares. Generally it is possible to predict future volatility of a stock by reference to its historical volatility. A share with a greater volatility has a greater time component of the total value.

Our assumption is predicated on the fact that historical volatility is representative of expected future volatility.

Based on the above, and having regard to the level of liquidity of INK's shares, we have included a volatility for INK of 72.5% in our valuation, based on the weekly share price volatility of INK for the last 4 years. INK should consider whether this is in actual fact a reasonable assumption (i.e. consider any factors which would result in historical volatility not being a reasonable proxy for expected future volatility).

**Risk free rate** - We have determined this based on the yield of the 2 year Commonwealth bonds rate at 29 October 2019.

**Dividend yield** – We have utilised a dividend yield of 0% on the basis that INK has no short term plans to issue dividends.

### Capital Structure Effects

Given that INK has approximately 282 million ordinary shares on issue, the issue of the Performance Rights was determined to have negligible impact on the dilution of the share price at the valuation date.

## 6. FAIR VALUE OF PERFORMANCE RIGHTS

### Scope

Based on these key assumptions and after consideration of the various other factors which impact on our valuation model the following table outlines our assessed Performance Rights values.

	Number of Rights	Exercise Price (\$)	Value of One Right	Total Fair Value (\$)
<b>Fair Value based on closing share price on 29 October 2019</b>				
Performance Rights with market vesting condition	5,250,000	0.000	0.0403	211,575
Performance Rights with non-market vesting condition	5,250,000	0.000	0.0870	456,750
<b>Total Fair Value in accordance with AASB 2</b>	<b>10,500,000</b>			<b>668,325</b>

**RSM Australia Pty Ltd**

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Indago Energy Limited

Indago Energy Limited | ABN 75 117 387 354

# EGM Registration Card

If you are attending the meeting in person, please bring this with you for Securityholder registration.

[EntityRegistrationDetailsLine1Envelope]  
[EntityRegistrationDetailsLine2Envelope]  
[EntityRegistrationDetailsLine3Envelope]  
[EntityRegistrationDetailsLine4Envelope]  
[EntityRegistrationDetailsLine5Envelope]  
[EntityRegistrationDetailsLine6Envelope]

# [HolderNumber]

Holder Number:  
[HolderNumber]

## Vote by Proxy: INK

Your proxy voting instruction must be received by **9:00 am (AEDT) on Monday, 9 December 2019**, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

### SUBMIT YOUR PROXY VOTE ONLINE

Vote online at <https://investor.automic.com.au/#/loginsah>



Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting form.

- ✓ **Save Money:** help minimise unnecessary print and mail costs for the Company.
- ✓ **It's Quick and Secure:** provides you with greater privacy, eliminates any postal delays and the risk of potentially getting lost in transit.
- ✓ **Receive Vote Confirmation:** instant confirmation that your vote has been processed. It also allows you to amend your vote if required.

### SUBMIT YOUR PROXY VOTE BY PAPER

Complete the form overleaf in accordance with the instructions set out below.

#### YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Shareholders sponsored by a broker should advise their broker of any changes.

#### VOTING UNDER STEP 1 - APPOINTING A PROXY

If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise if you leave this box blank, the Chairman of the Meeting will be appointed as your proxy by default.

#### DEFAULT TO THE CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP

#### VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

#### APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

#### SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided

- Individual:** Where the holding is in one name, the Shareholder must sign.
  - Joint holding:** Where the holding is in more than one name, all of the Shareholders should sign.
  - Power of attorney:** If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.
  - Companies:** To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.
  - Email Address:** Please provide your email address in the space provided.
- By providing your email address, you elect to receive all communications dispatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.**

#### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

#### ATTENDING THE MEETING

Completion of a Proxy Voting Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Voting Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.

#### POWER OF ATTORNEY

If a representative as power of attorney of a Shareholder of the Company is to attend the Meeting, a certified copy of the Power of Attorney, or the original Power of Attorney, must be received by the Company in the same manner, and by the same time as outlined for proxy forms.



Contact	<b>Return your completed form</b>		<b>All enquiries to Automic</b>		
	<b>BY MAIL</b> Automic GPO Box 5193 Sydney NSW 2001	<b>IN PERSON</b> Automic Level 5, 126 Phillip Street Sydney NSW 2000	<b>BY EMAIL</b> meetings@automicgroup.com.au		<b>WEBCHAT</b> https://automic.com.au/
			<b>PHONE</b> 1300 288 664 (Within Australia) +61 2 9698 5414 (Overseas)		

STEP 1: Appoint Your Proxy	<b>Complete and return this form as instructed only if you do not vote online</b>
	I/We being a Shareholder entitled to attend and vote at the Extra Ordinary General Meeting of Indago Energy Limited, to be held at <b>9:00 am (AEDT) on Wednesday, 11 December 2019 at Level 6, 412 Collins Street, Melbourne, Vic 3000</b> hereby:
	<b>Appoint the Chairman of the Meeting (Chair)</b> OR if you are not appointing the Chairman of the Meeting as your proxy, please write in the box provided below the name of the person or body corporate you are appointing as your proxy or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit and at any adjournment thereof.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote. Unless indicated otherwise by ticking the "for," against" or "abstain" box you will be authorising the Chair to vote in accordance with the Chair's voting intention.

**AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS**  
 Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolutions 3-7 (except where I/we have indicated a different voting intention below) even though Resolutions 3-7 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.

STEP 2: Your Voting Direction	<b>Resolutions</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
	1. Election of Director – Mr Andrew Seaton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	2. Change of Company Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	3. Grant of Incentive Rights to Mr Stephen Mitchell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	4. Grant of Incentive Rights to Mr Andrew Seaton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	5. Grant of Incentive Rights to Mr Ray Shorrocks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	6. Grant of Incentive Rights to Mr Nicholas Castellano	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	7. Grant of Incentive Rights to Mr Allan Ritchie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.*

STEP 3: Sign Here + Contact Details	<b>SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED</b>		
	Individual or Securityholder 1	Securityholder 2	Securityholder 3
	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>
	Sole Director and Sole Company Secretary	Director	Director / Company Secretary
	Contact Name:		
	<input style="width: 100%; height: 20px;" type="text"/>		
Email Address:			
<input style="width: 100%; height: 20px;" type="text"/>			
Contact Daytime Telephone			
<input style="width: 100%; height: 20px;" type="text"/>			
		Date (DD/MM/YY)	
		<input style="width: 20px; height: 20px;" type="text"/> / <input style="width: 20px; height: 20px;" type="text"/> / <input style="width: 20px; height: 20px;" type="text"/>	

By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).

[HolderNumber] INK

**[HolderNumber]**