

# **ODYSSEY ENERGY LIMITED**

ABN 73 116 151 636

## **PROSPECTUS**

**For a non-renounceable pro rata offer of up to 143,699,892 Shares at an issue price of \$0.02 each on the basis of one Share for every two Shares held at the Record Date plus one Listed Option exercisable at \$0.05 each on or before 31 December 2014 for every two Shares issued pursuant to the Offer.**

**THIS OFFER CLOSSES AT 5.00PM WST ON 31 JANUARY 2011**

**VALID ACCEPTANCES MUST BE RECEIVED BEFORE THAT TIME.**

**Please read the instructions in this Prospectus and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement under the Offer.**

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. IT SHOULD BE READ IN ITS ENTIRETY.**

**IF YOU ARE IN DOUBT ABOUT WHAT TO DO, YOU SHOULD CONSULT YOUR PROFESSIONAL ADVISER WITHOUT DELAY.**

**THE SECURITIES OFFERED BY THIS PROSPECTUS ARE OF A SPECULATIVE NATURE.**

# CORPORATE DIRECTORY

## Directors

Mr Ian Middlemas - Chairman  
Mr Mark Pearce  
Mr David Cruse

## Company Secretary

Mr Mark Pearce

## Registered and Corporate Office

Level 9, BGC Centre  
28 The Esplanade  
Perth WA 6000

Telephone: +61 8 9322 6322  
Facsimile: +61 8 9322 6558

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
Perth WA 6000

Telephone: 1300 557 010  
International: +61 3 9415 4000  
Facsimile: +61 8 9323 2033

## Stock Exchange Listing

Australian Securities Exchange  
ASX Code for Shares: **ODY**  
ASX Code for Listed Options: **ODYO** (Proposed)

## Lead Manager

Argonaut Capital Limited

## Solicitors to the Company

Hardy Bowen Lawyers

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# IMPORTANT NOTICES

This Prospectus is dated 14 December 2010 and was lodged with ASIC on that date with the consent of all Directors. Neither ASIC nor ASX nor their respective officers take any responsibility for the contents of this Prospectus.

No Securities will be issued on the basis of this Prospectus any later than 13 months after the date of this Prospectus (being the expiry date of this Prospectus).

A copy of this Prospectus is available for inspection at the registered office of the Company at Level 9, BGC Centre, 28 The Esplanade, Perth, Western Australia, during normal business hours. The Company will provide a copy of this Prospectus to any person on request. The Company will also provide copies of other documents on request (see Section 5.4).

The Company has applied for Official Quotation by ASX of the Securities offered by this Prospectus.

The Securities offered by this Prospectus should be considered speculative. Please refer to Section 3 for details relating to investment risks.

Applications for Securities by Eligible Shareholders can only be made on an original Entitlement and Acceptance Form sent with this Prospectus. The Entitlement and Acceptance Form sets out an Eligible Shareholders' entitlement to participate in the Offer.

Applications for Shortfall Securities by parties to whom the Company makes a Shortfall Offer can only be made on the appropriate Shortfall Application Form sent with this Prospectus.

Revenues and expenditures disclosed in this Prospectus are recognised exclusive of the amount of goods and services tax, unless otherwise disclosed.

No person is authorised to give any information or to make any representation in connection with the Offer and Shortfall Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer and Shortfall Offer.

No action has been taken to permit the offer of Securities under this Prospectus in any jurisdiction other than Australia.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons into whose possession this document comes should seek advice on and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws. This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

This document is important and should be read in its entirety before deciding to participate in the Offer. This does not take into account the investment objectives, financial or taxation or particular needs of any Applicant. Before making any investment in the Company, each Applicant should consider whether such an investment is appropriate to his/her particular needs, and considering their individual risk profile for speculative investments, investment objectives and individual financial circumstances. Each Applicant should consult his/her stockbroker, solicitor, accountant or other professional adviser without delay. Some of the risk factors that should be considered by potential investors are outlined in Section 3.

By returning an Entitlement and Acceptance Form, you acknowledge that you have received and read this Prospectus and you have acted in accordance with the terms of the Offer detailed in this Prospectus.

Definitions of certain terms used in this Prospectus are contained in Section 7. All references to currency are to Australian dollars and all references to time are to WST, unless otherwise indicated.

Eligible Shareholders with registered addresses in Australia only can obtain a copy of this Prospectus during the period of the Offer on the Company's website, [www.odysseyenergy.com.au](http://www.odysseyenergy.com.au). The electronic version of this Prospectus does not include the Entitlement and Acceptance Form which accompanies the printed copy of this Prospectus to be mailed to Eligible Shareholders with registered addresses in Australia on or around 10 January 2011.

## PROPOSED TIMETABLE

Lodgement of Prospectus with ASIC and ASX	14 December 2010
Existing Shares quoted on an "ex" basis	24 December 2010
Record Date	4 January 2011
Prospectus and Entitlement and Acceptance Form despatched to Eligible Shareholders	10 January 2011
Closing Date	31 January 2011
Securities quoted on a deferred basis	1 February 2011
Anticipated date for the issue of the Securities	8 February 2011

This timetable is indicative only and subject to change. Subject to the Listing Rules, the Directors reserve the right to vary these dates, including the Closing Date for the Offer, without prior notice. Any extension of the Closing Date will have a consequential effect on the anticipated date for allotment and issue of the Securities. The Directors also reserve the right not to proceed with the whole or part of the Offer at any time prior to allotment. In that event, the relevant Application Monies will be returned without interest.

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## 1. Details of the Offer

### 1.1 The Offer

The Company is making a non-renounceable pro-rata offer of Shares at an issue price of \$0.02 each to Eligible Shareholders on the basis of one Share for every two Shares held at 5:00 pm (WST) on the Record Date plus one Listed Option for every two Shares issued pursuant to this offer (**Offer**).

Each Listed Option issued pursuant to this Prospectus entitles the Optionholder to subscribe for one Share. The Listed Options are exercisable at \$0.05 each on or before 31 December 2014.

At the date of this Prospectus the Company has 287,399,784 Shares on issue. On the basis that no unlisted options are exercised prior to the Record Date, the Offer is for 143,699,892 Shares and 71,849,946 Listed Options.

Where the determination of the entitlement of Eligible Shareholders results in a fraction of a Security, such fraction will be rounded down to the nearest whole Security.

Refer to Section 5.1 and Section 5.2 for a summary of the rights attaching to the Shares and Listed Options.

### 1.2 Recapitalisation of the Company

On 30 September 2010 the Company announced that it was undertaking a recapitalisation of the Company consisting of the following:

- a placement of up to 125,000,000 Shares at \$0.02 per Share together with one Listed Option for every two Shares subscribed for at no further consideration (**Placement**);
- a conversion of up to \$2.0 million (revised to \$2.1 million) of the debt relating to convertible notes into equity in the Company on the same terms as the Placement; (**Debt to Equity Conversion**); and
- the Offer.

Shareholders approved the Placement and the Debt to Equity Conversion at a general meeting of Shareholders held on 1 December 2010. The Placement and the Debt to Equity Conversion were completed on 3 December 2010. The funds raised from the Placement were primarily used to retire debt and to pay creditors.

The participants in the Placement and those persons who were issued Securities pursuant to the Debt to Equity Conversion will be entitled to participate in the Offer.

Completion of the Offer will result in an increase in the cash on hand of up to approximately \$2.87 million (before the payment of associated costs).

The funds raised pursuant to the Offer will be used to continue exploration activities and to pursue new opportunities in the resources sector. Further details of the use of the funds is in Section 4.2.

The Company has engaged Argonaut Capital Limited (Argonaut) to act as lead manager of the Placement, the Debt to Equity Conversion and the Offer. Further details are in Section 5.8.

### 1.3 Your entitlement and acceptance

Your entitlement to participate in the Offer will be determined on the Record Date, being 4 January 2011. The entitlement of Eligible Shareholders receiving this Prospectus is shown on the Entitlement and Acceptance Form sent to Eligible Shareholders with this Prospectus.

The number of Securities to which you are entitled is shown on the accompanying Entitlement and Acceptance Form.

Acceptances must not exceed your entitlement as shown on the Entitlement and Acceptance Form, although you may accept for all or only part of your entitlement. If your acceptance exceeds your entitlement, acceptance will be deemed to be for your maximum entitlement and any surplus Application Monies will be returned.

#### **1.4 Opening and Closing Dates**

The Company will accept Entitlement and Acceptance Forms from the Record Date for determining Eligible Shareholders' entitlements (4 January 2011), until 5.00pm WST on the Closing Date, being 31 January 2011 or such other date as the Directors in their absolute discretion shall determine, subject to the requirements of the Listing Rules.

#### **1.5 Shortfall Securities**

This Offer is not underwritten. In the event that not all Eligible Shareholders accept their full entitlement pursuant to the Offer, the Directors reserve the right, subject to any restrictions imposed by the Corporations Act and the Listing Rules to issue the Shortfall Securities at their sole discretion. See Section 5.9 for further details of the Shortfall Offer.

#### **1.6 No rights trading**

The rights to Securities under the Offer are non-renounceable. Accordingly, there will be no trading of rights on ASX and you may not dispose of your rights to subscribe for Securities to any other party. If you do not take up your entitlement to Securities under the Offer by the Closing Date, the Offer to you will lapse.

#### **1.7 Entitlement and Acceptance Form**

Acceptance of a completed Entitlement and Acceptance Form by the Company creates a legally binding contract between the Applicant and the Company for the number of Securities accepted. The Entitlement and Acceptance Form does not need to be signed to be a binding acceptance of Securities.

If the Entitlement and Acceptance Form is not completed correctly it may still be treated as valid. The Directors' decision as to whether to treat the acceptance of an Entitlement and Acceptance Form as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

#### **1.8 Issue and dispatch**

All Securities offered by this Prospectus are expected to be issued, and security holder statements dispatched, on or before the date specified in the timetable.

It is the responsibility of applicants to determine their allocation prior to trading in the Securities. Applicants who sell Securities before they receive their holding statements will do so at their own risk.

#### **1.9 Application Monies held on trust**

All Application Monies received for the Securities will be held in trust in a bank account maintained solely for the purpose of depositing Application Monies received pursuant to this Prospectus until the Securities are issued. All Application Monies will be returned (without interest) if the Securities are not issued.

## **1.10 ASX quotation**

The Company has applied to ASX for the official quotation of the Securities. If permission is not granted by ASX for the official quotation of the Securities offered by this Prospectus within 3 months after the date of this Prospectus (or such period as ASX allows), the Company will repay, as soon as practicable, without interest, all Application Monies received pursuant to this Prospectus.

## **1.11 CHESS**

The Company participates in the Clearing House Electronic Subregister System, known as CHESS. ASTC, a wholly owned subsidiary of ASX, operates CHESS in accordance with the Listing Rules and Securities Clearing House Business Rules.

Under CHESS, Applicants will not receive a certificate but will receive a statement of their holding of Securities.

If you are broker sponsored, ASTC will send you a CHESS statement.

The CHESS statement will set out the number of Securities issued under this Prospectus, provide details of your holder identification number, the participant identification number of the sponsor and the terms and conditions applicable to the Securities.

If you are registered on the Issuer Sponsored subregister, your statement will be dispatched by Computershare Investor Services Pty Ltd and will contain the number of Securities issued to you under this Prospectus and your security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their Shareholding changes. Shareholders may request a statement at any other time, however, a charge may be made for additional statements.

## **1.12 Overseas Shareholders**

This Prospectus and accompanying Entitlement and Acceptance Form do not, and are not intended to, constitute an offer of Securities in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No Offer will be made to Eligible Shareholders resident outside Australia and Securities to which any Eligible Shareholder who is not resident in Australia is entitled will form part of Shortfall Securities.

## **1.13 Risk factors**

An investment in Securities should be regarded as speculative. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company which are in Section 3.

## **1.14 Taxation implications**

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for Securities under this Prospectus.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders. As a result, Shareholders should consult their professional tax adviser in connection with subscribing for Securities under this Prospectus.

## **1.15 Major activities and financial information**

A summary of the major activities and financial information relating to the Company for the financial year ended 30 June 2010 is in the Annual Financial Report which was lodged with ASX on 30 September 2010.

The Company's continuous disclosure notices (i.e. ASX announcements) since 30 September 2010 are listed in Section 5.4.

Copies of these documents are available free of charge from the Company. Directors strongly recommend that Shareholders review these and all other announcements prior to deciding whether or not to participate in the Offer.

## **1.16 Privacy**

The Company collects information about each Applicant provided on an Entitlement and Acceptance Form for the purposes of processing the application and, if the application is successful, to administer the Applicant's security holding in the Company.

By submitting an Entitlement and Acceptance Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Entitlement and Acceptance Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If you do not provide the information required on the Entitlement and Acceptance Form or the Shortfall Application Form, the Company may not be able to accept or process your application.

An Applicant has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

## **1.17 Enquiries concerning Prospectus**

Enquiries concerning the Entitlement and Acceptance Form can be obtained by contacting Computershare Investor Services Pty Ltd by telephone on **1300 557 010**.

Enquiries relating to this Prospectus should be directed to the Company Secretary by telephone on (08) 9322 6322.

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## 2. Action required by Shareholders

### 2.1 Acceptance of Securities under this Prospectus

Should you wish to accept all of your entitlement to Securities, then applications for Securities under this Prospectus must be made on the Entitlement and Acceptance Form which accompanies this Prospectus or by completing a BPAY® payment, in accordance with the instructions referred to in this Prospectus and on the Entitlement and Acceptance Form. Please read the instructions carefully.

Please complete the Entitlement and Acceptance Form by filling in the details in the spaces provided and attach a cheque for the Application Monies indicated on the Entitlement and Acceptance Form.

If you wish to pay via BPAY® you must follow the instructions in the Entitlement and Acceptance Form. You will be deemed to have accepted your entitlements upon receipt of the BPAY® payment by the Company. Eligible Shareholders who elect to pay via BPAY® do not need to return their completed Entitlement and Acceptance Form. If you elect to pay via BPAY® then your payment must be made before 4.00pm (WST) on the Closing Date. Please read the instructions carefully.

Completed Entitlement and Acceptance Forms must be accompanied by a cheque in Australian dollars, crossed "Not Negotiable" and made payable to "**Odyssey Energy Limited – Subscription Account**" and lodged and received at any time after the issue of this Prospectus and on or before the Closing Date at the Company's share registry (by delivery or by post) at:

By delivery           Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
PERTH WA 6000

By Post                Computershare Investor Services Pty Ltd  
Locked Bag 2508  
PERTH WA 6001

If paying via BPAY®, Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment and it is the responsibility of the Applicant to ensure that funds are submitted through BPAY® by the date and time mentioned above. If you elect to pay via BPAY®, you must follow the instructions for BPAY® set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form.

The Company shall not be responsible for any postal or delivery delays or delay in the receipt of the BPAY® payment.

### 2.2 If you wish to take up part of your entitlement only

Should you wish to only take up part of your entitlement, then applications for Securities under this Prospectus must be made on the Entitlement and Acceptance Form which accompanies this Prospectus or by completing a BPAY® payment in respect of the portion of your entitlement you wish to take up, in accordance with the instructions referred to in this Prospectus and on the Entitlement and Acceptance Form. Please read the instructions carefully.

Please complete the Entitlement and Acceptance Form by filling in the details in the spaces provided, including the number of Securities you wish to accept and the Application Monies (calculated at \$0.02 per Share accepted), and attach a cheque for the appropriate Application Monies.

If you wish to pay via BPAY® you must follow the instructions in the Entitlement and Acceptance Form. You will be deemed to have accepted your entitlements upon receipt of the BPAY® payment by the Company. Eligible Shareholders who elect to pay via BPAY® do not need to return their completed Entitlement and Acceptance Form. If you elect to pay via BPAY® then your payment must be made before 4.00pm (WST) on the Closing Date. Please read the instructions carefully.

Completed Entitlement and Acceptance Forms must be accompanied by a cheque in Australian dollars, crossed "Not Negotiable" and made payable to **"Odyssey Energy Limited – Subscription Account"** and lodged and received at any time after the issue of this Prospectus and on or before the Closing Date at the Company's share registry (by delivery or by post) at:

By delivery           Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
PERTH WA 6000

By Post               Computershare Investor Services Pty Ltd  
Locked Bag 2508  
PERTH WA 6001

The Company shall not be responsible for any postal or delivery delays or delay in the receipt of the BPAY® payment.

## **2.3 Entitlements not taken up**

If you do not wish to accept any of your entitlement, you are not obliged to do anything.

The number of Securities you hold and the rights attached to those Securities will not be affected should you choose not to accept any of your entitlement.

## **2.4 Enquiries concerning your entitlement**

If you have any queries concerning your entitlement please contact:

Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
PERTH WA 6000

**Telephone: 1300 557 010**

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### 3. Risk Factors

The activities of Odyssey are subject to a number of risks and other factors which may impact on its future performance. Some of these risks can be mitigated by the use of safeguards and appropriate controls, however many are outside the control of Odyssey and cannot be mitigated. There are also general risks associated with any investment in shares.

Hence, investors should be aware that the performance of Odyssey may be affected and the value of its Shares may rise or fall over any given period. Factors which investors and their advisors should consider before they make a decision whether or not to take up the Offer include but are not limited to the following.

#### 3.1 Specific Risks associated with Odyssey

##### **New Projects and Acquisitions**

The Company has to date and will continue to actively pursue and assess other new business opportunities in the resources sector and in particular the energy sector. These new business opportunities may take the form of direct project acquisitions, joint ventures, farm-ins, acquisition of tenements/permits, or direct equity participation.

The acquisition of projects (whether completed or not) may require the payment of monies (as a deposit and/or exclusivity fee) after only limited due diligence and prior to the completion of comprehensive due diligence. There can be no guarantee that any proposed acquisition will be completed or be successful. If the proposed acquisition is not completed, monies already advanced may not be recoverable, which may have a material adverse effect on the Company.

If an acquisition is completed, the Directors will need to reassess, at that time, the funding allocated to current projects and new projects, which may result in the Company reallocating funds from other projects and/or the raising of additional capital (if available). Furthermore, notwithstanding that an acquisition may proceed upon the completion of due diligence, the usual risks associated with the new project/business activities will remain.

##### **Marion Energy Limited investment**

The Company has an investment of 27,500,000 shares in ASX listed Marion Energy Limited (**Marion**). To date Marion has had significant difficulties in achieving steady production (if any at all) from its gas properties. Accordingly the share price of Marion has fallen significantly affecting the value of the Company's investment. If Marion continues to fail to achieve steady production the value of the Company's investment in Marion could be further materially adversely affected.

Furthermore, Marion has undertaken a number of capital raisings over the last 12 months, and has recently announced that they have recommenced field operations for up to 16 gas wells. Marion has had little to no success in these new operations to date. If these activities are not successful, then the value of the Company's investment in Marion could be further materially adversely affected.

##### **Current Projects**

The Company operates in the start up energy sector which is a high-risk sector.

In mid 2008 the Company acquired a 50% working interest in a new project area in Oklahoma comprising 1,626 gross acres and targeting gas and associated oil in the Woodford Shale at between 6,000 and 8,000 feet.

Due to the sustained decline in gas prices in the US market, the Directors wrote down the value of the project in its accounts to nil, effective from 30 June 2009. The Company considers in the current gas pricing environment that this project is not economic or is unlikely to become economically viable.

## **Limited Operating History of Odyssey**

The Company has limited operating history on which it can base the evaluation of its prospects.

The success of the Company in the short to medium term is dependent upon a number of factors, including the successful:

- identification and acquisition of a suitable energy project;
- completion of a positive feasibility study which demonstrates that the project can be successfully commercialised;
- design, construction and commissioning of the infrastructure required for the project; and
- raising of the funding required to develop and operate the projects.

The prospects of the Company must be considered in light of the considerable risks, expenses and difficulties frequently encountered by companies in the early stage of exploration and development activities, particularly in the energy sector.

Furthermore, as no projects of the Company have yet commenced operations, there can be no guarantee that the business will operate in line with assumed cost structures. Should the level of costs required to operate the business be higher than anticipated then it may have a materially adverse affect on the future performance and prospects of the Company.

There can be no assurance that any new or current projects will be profitable in the future. Should production commence, the operating expenses and capital expenditures of the projects may increase in future years as targeted resources are more difficult to extract.

The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, and other factors, many of which are beyond the Company's control.

The Company expects to incur losses unless and until such time as any new or current projects enter into commercial production and generate sufficient revenues to fund their continuing operations. The development of the new and current projects will require the commitment of substantial resources. There can be no assurance that the Company will generate any revenues or achieve profitability.

## **Reliance on Key Personnel**

The Company is reliant on a small number of key personnel and consultants. The loss of one or more of these key contributors could have an adverse impact on the business.

It may be particularly difficult for the Company to attract and retain suitably qualified and experienced people, given the current high demand in the industry and relatively small size of the Company, compared to other industry participants.

The continued availability of consultants and advisers is to some extent dependent on maintaining the professional relationships that the Company's personnel have developed over time and which may be lost if key personnel cease to be involved with the Company before replacement arrangements can be made. If the involvement of key oil and gas specialists, managers or other personnel cease for reasons of contract termination; ill health; death or disability, technical programs and achievements may be adversely affected.

### **Additional Requirements for Funding**

The Company's funding requirements depend on numerous factors including the Company's ability to generate income from its projects, the results of joint venture operations, future exploration and work programs and the acquisition of new projects. It may require further funding in addition to current cash reserves to fund operations including the drilling of new targets and completion of existing wells.

Additional equity financing, if available, may be dilutive to Shareholders and at lower prices than the current market price. Debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

### **Markets**

The marketability of the Company's production depends in part upon the availability, proximity and capacity of infrastructure such as ports, railways and natural gas gathering systems, pipelines and processing facilities. Federal and state regulation of energy resources production and transportation, tax and energy policies, changes in supply and demand and general economic conditions all could adversely affect the ability to produce and market oil and natural gas.

### **Service Capacity**

Exploration and development activities may be undertaken in locations that have limited or no spare service capacity. There may be delays in securing drilling rigs or other equipment and personnel required to carry out the Company's planned activities.

Due to the demand for equipment and personnel there may also be upward pressure on costs and mechanical failure may result in delays.

Any of these factors may result in cost and time overruns which may have a material impact on the Company's profitability and cash flows.

## **3.2 General Risks Associated with Energy Sector Operations**

The Company operates in the energy sector and is subject to risks relating to exploration, drilling and production of oil and gas and other energy based resources which may not generally be associated with other sectors.

The exploitation of oil and gas reserves and other energy based resources and successful project development is considered to be of a high risk nature and contains inherent risks including but not limited to:

### **Commodity Price Volatility**

The demand for, and price of, natural gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas, may have a material adverse effect on the Company's business, financial condition and results of operations.

The price of energy resources (including uranium and coal) fluctuate widely and are affected by numerous factors beyond the control of the Company, such as industrial and retail supply and demand, exchange rates, inflation rates, changes in global economies, confidence in the global monetary system, forward sales of metals by producers and speculators as well as other global or regional political, social or economic events. The supply of these resources often consists of

a combination of new mine production and existing stocks held by governments, producers, speculators and consumers.

Future production, if any, from the Company's projects will be dependent upon the price of the resources being adequate to make the project economic. Future price declines in the market value of the commodity could cause continued development of, and eventually commercial production from, the project to be rendered uneconomic. Depending on the price of the commodity, the Company could be forced to discontinue production or development and may lose its interest in, or may be forced to sell, the project. There is no assurance that, even if commercial quantities of the resource are produced, a profitable market will exist for them.

In addition to adversely affecting future reserve estimates, if any, of any project, declining commodity prices can impact operations by requiring a reassessment of the feasibility of the project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to the project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Acquisition Risks**

Prior to any acquisition, the Company will conduct due diligence on the projects to satisfy themselves in relation to the potential to successfully achieve an economically recoverable hydrocarbon reserve. There can be no guarantee, however, that such a reserve will result from such an acquisition and the Company may have expended resources which do not result in discoveries being economically viable.

### **Exploration and Development Risks**

Oil and gas exploration and development involves significant risks which only occasionally provide high rewards. In addition to the normal competition for prospective ground, and the high costs of discovery and development of an economic deposit, factors such as demand for commodities, stock market fluctuations affecting access to new capital, sovereign risk, environmental issues, labour disruption, project financing, foreign currency fluctuations and technical problems all affect the ability of a company to profit from a discovery.

There is no assurance that exploration and development of the Company's projects, or any other projects that may be acquired in the future, will result in the discovery of an economic oil and gas deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be profitably exploited.

The exploration for, and development of, mineral deposits (including energy based resources) involves a high degree of risk. Few properties which are explored are ultimately developed into producing mines. Resource exploration and development is a speculative business, characterised by a number of significant risks, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits, but also from finding mineral deposits that, although present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices, which fluctuate widely, and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The combination of these factors may result in the Company expending significant resources (financial and otherwise) on a property without receiving a return. There is no certainty that expenditures made by the

Company towards the search and evaluation of mineral deposits will result in discoveries of an economically viable mineral deposit.

The Company has relied on and may continue to rely on consultants and others for mineral exploration and exploitation expertise. The Company believes that those consultants and others are competent and that they have carried out their work in accordance with internationally recognised industry standards. However, if the work conducted by those consultants or others is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays or increased costs in developing its properties.

There can be no assurance that the Company's mineral exploration activities will be successful. If such commercial viability is never attained, the Company may seek to transfer its property interests or otherwise realise value or may even be required to abandon its business and fail as a "going concern".

### **Drilling Risks**

The Company's future drilling operations may be curtailed, delayed or cancelled due to a number of factors including weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with governmental requirements. While drilling may yield some hydrocarbons there can be no guarantee that the discovery will be sufficiently productive to justify commercial development or cover operating costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

### **Operating Risks**

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges of toxic gasses, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Company. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Company.

### **Commercialisation of Discoveries**

It may not always be possible for the Company to participate in the exploitation of any successful discoveries which may be made in any projects in which the Company has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretions by such authorities. It may or may not be possible for such conditions to be satisfied. Further, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Company. As described above, such further work may require the Company to meet or commit to financing obligations for which it may not have planned.

### **Reserve and Resource Estimates**

Hydrocarbon reserve estimates are an expression of judgment based on knowledge, experience and industry practice. Estimates that were valid when made may change significantly when new information becomes available.

In addition, reserve estimates are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate. Should the Company encounter oil and/or gas deposits or formations different from those predicted by past drilling, sampling and similar examinations, reserve estimates may have to be adjusted and production plans may have to be altered in a way which could adversely affect the Company's operations.

Ore Reserve and Mineral Resource estimates are expressions of judgment based on drilling results, past experience with mining properties, knowledge, experience, industry practice and many other factors. Estimates which are valid when made may change substantially when new information becomes available. Ore estimation is an interpretive process based on available data and interpretations and thus estimations may prove to be inaccurate.

The actual quality and characteristics of ore deposits cannot be known until mining takes place, and will almost always differ from the assumptions used to develop resources. Further, Ore Reserves are valued based on future costs and future prices and consequently, the actual Ore Reserves and Mineral Resources may differ from those estimated, which may result in either a positive or negative effect on operations.

Should the Company's projects encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could adversely affect the Company's operations.

### **Results of Studies**

Upon acquisition of a suitable new project, and subject to the results of any future exploration and testing programs, the Company may progressively undertake a number of studies in respect to the Company's new projects. These studies may include scoping, pre-feasibility and bankable feasibility studies.

These studies will be completed within certain parameters designed to determine the economic feasibility of the Company's projects within certain limits. There can be no guarantee that any of the studies will confirm the economic viability of the Company's projects or the results of other studies undertaken by the Company (e.g. the results of a feasibility study may materially differ to the results of a scoping study).

Further even if a study determines the economics of the Company's projects, there can be no guarantee that the project will be successfully brought into production as assumed or within the estimated parameters in the feasibility study once production commences including but not limited to operation costs, mineral recoveries and commodity prices. In addition the ability of the Company to complete a study may be dependent on the Company's ability to raise further funds to complete the study if required.

### **Payment Obligations**

Under the exploration permits and certain other contractual agreements to which the Company is or may in the future become party, the Company's projects are or may become subject to payment and other obligations. Failure to meet these payments and obligations may render the Company's projects' claims liable to be cancelled. Further, if any contractual obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Company.

### **Competition**

The Company will compete with other companies, including major oil and gas companies. Some of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce oil and gas, but also carry out refining operations and market petroleum and other products on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

### **Claims by Indigenous Inhabitants**

The current and future oil and gas assets of the Company may be subject to land claims by indigenous people. Should this occur, the Company's ability to conduct exploration and/or mining activities may be affected, which may have a material adverse effect on the Company's financial performance and the price at which its securities trade.

The Company is not aware of any land claims or potential claims by indigenous people in respect of its exploration activities that could significantly affect its tenure or mining exploration or any future production operations.

### **Insurance**

Insurance of all risks associated with oil and gas exploration and production is not always available and, where it is available, the cost may be high. The company will have insurance in place considered appropriate for the Company's needs.

The business of the Company is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability, particularly as the Company is seeking to acquire new projects.

It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### **Government Regulation**

The oil and gas industry is subject to extensive regulation. Regulations relating to the exploration for and development, production, gathering and marketing of oil and gas may affect the Company's operations. Some of the regulations set forth standards for discharge permits for drilling operations, drilling and abandonment bonds or other financial responsibility requirements, reports concerning operations, the spacing of wells, unitisation and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity to conserve supplies of oil and gas.

The Company cannot predict how existing, or future laws and regulations may be interpreted by enforcement agencies or court rulings, whether additional laws and regulations will be adopted, or the effect such changes may have on the Company's business or financial condition.

### **Environmental and Other Regulatory Requirements**

The Company's operations will be subject to environmental laws, including but not limited to, those governing the management of waste, the protection of water and air quality, the discharge of materials into the environment, and the preservation of natural resources, which may impact and influence the Company's operations. If the Company fails to comply with environmental laws regarding the discharge of oil, gas, or other materials into the air, soil or water it may be subject to liabilities to the government and third parties, including civil and criminal penalties.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before exploration and production activity can commence on any property, the Company must obtain regulatory approvals and there is no assurance that such approvals will be obtained.

The Company has indemnified, and may from time to time in the future agree to indemnify, sellers of producing properties against some liabilities for environmental claims associated with these properties.

### **Title**

The system for obtaining title to oil and gas leases in the USA is complex given that numerous parties may hold the undivided mineral rights to a particular tract of land. Securing the leases to those rights often requires lengthy negotiation with the various parties. In order to independently verify that the parties with whom the Company is dealing are the correct and sole holders of the mineral rights and to analyse the full rights and restrictions applying to the interest held by those parties requires that a company obtain detailed title opinions from appropriately qualified and experienced lawyers. This can be a lengthy and expensive process and the final opinions are often the subject of numerous qualifications. It is therefore customary that such title opinions are not sought until the company proposes to conduct a drilling operation and/or expend significant amounts of money on a particular lease.

The Company has adopted this customary approach and, accordingly, may not have obtained the detailed title opinions on its leases other than those that are currently in production or on which drilling has been proposed in the near future.

As a consequence there may be third parties that hold or claim mineral rights in relation to the leases held by the Company which have not previously been identified.

Further, some of the leases in which the Company has an interest may have a fixed term and be subject to applications for renewal. The renewal of the term of each lease is usually at the discretion of the relevant lessor. If a lease is not renewed or granted, the Company may suffer significant damage through loss of the opportunity to develop and discover any oil or gas resources on that lease.

### **Land Access**

Immediate access to leases cannot in all cases be guaranteed. The Company may, from time to time, be required to seek consent of landholders or other persons or groups with an interest in real property encompassed by the Company's leases. Compensation may be required to be paid by the Company to land holders in order that the Company may carry out exploration and/or production activities.

## **3.3 General Risks**

### **Changes in Legislation and Government Regulation**

Changes to legislation in Australia and the USA or any other jurisdiction that the Company may operate in, including changes to the taxation system, may affect future earnings and the relative attractiveness of investing in the Company. Changes in government policy or statutory changes may affect the Company and the attractiveness of an investment in it.

### **Foreign Exchange Risk**

The Company's main business undertakings are currently based in the USA, and as a result, revenues, cash inflows, expenses, capital expenditure and commitments will be primarily denominated in USA dollars. However, should the Company acquire a new project, it may be exposed to adverse foreign exchange movements for the relevant currency of that jurisdiction.

Furthermore, no hedging strategy has yet been developed by the Company. This may result in the Company being exposed to the effects of the change in currency (exchange rate) risk, which may have an adverse impact on the profitability and/or financial position of the Company.

## **Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

## **Market Conditions**

Share market conditions may affect the value of the Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- general economic outlook;
- interest rates and inflation rates;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

## **Dividends**

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

## **Taxation**

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Securities under this Prospectus.

## **Investment Speculative**

There are risks associated with any securities investment. The prices at which the Securities trade may fluctuate in response to a number of factors.

Furthermore, the stock market, and in particular the market for oil and gas exploration companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. There can be no guarantee that these trading prices will be sustained. These factors may materially affect the market price of the Securities regardless of the Company's operational performance.

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus

Therefore, the Securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

## 4. Effect of the issue

### 4.1 Proposed Capital Structure

The table below details the capital structure of the Company on the issue of Shares and Listed Options under the Offer (assuming 100% acceptance).

	Number of Shares	Number of Listed Options	Number of Convertible Notes
Issued capital as at 30 June 2010	59,904,791	-	4,346,000
Convertible notes converted to equity	102,494,993	51,247,498 <sup>2</sup>	(3,153,692)
Placement	125,000,000	62,500,000 <sup>3</sup>	-
<b>Total prior to Offer</b>	<b>287,399,784</b>	<b>113,747,498</b>	<b>1,192,308</b>
Offer <sup>1</sup>	143,699,892	71,849,946	-
<b>Total after Offer</b>	<b>431,099,676</b>	<b>185,597,444</b>	<b>1,192,308</b>

<sup>1</sup> A maximum of 143,699,892 Shares and 71,849,946 Listed Options will be issued pursuant to the Offer.

<sup>2</sup> A maximum of 51,247,498 Listed Options will be issued pursuant to an Option Offer as shown at Section 5.10.

<sup>3</sup> A maximum of 62,500,000 Listed Options will be issued pursuant to an Option Offer as shown at Section 5.10.

### 4.2 Use of Funds

Completion of the Offer will result in an increase in the cash on hand of up to approximately \$2.87 million (before the payment of associated costs).

The funds raised under the Offer are proposed to be expended as follows:

Description of Cash Outflows	Funds from Offer A\$
1. Identification and acquisition of new business opportunities and projects	1,300,000
2. Working Capital	1,454,574
3. Costs of Offer	119,424
<b>Total funds raised under the Offer</b>	<b>A\$2,873,998</b>

### 4.3 Pro-forma Consolidated Statement of Financial Position

	Audited as at 30 June 2010	Pro-forma adjustments		Pro-forma statement of financial position
	\$	Material changes since review date	Issue of securities	\$
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	22,596	509,456	2,754,574	3,286,626
Trade and other receivables	39,527	1,500	-	41,027
<b>Total Current Assets</b>	<b>62,123</b>	<b>510,956</b>	<b>2,754,574</b>	<b>3,327,653</b>
<b>Non-current Assets</b>				
Property, plant and equipment	1,535	-	-	1,535
Available-for-sale financial assets	687,500	(82,500)	-	605,000
<b>Total Non-current Assets</b>	<b>689,035</b>	<b>(82,500)</b>	<b>-</b>	<b>606,535</b>
<b>TOTAL ASSETS</b>	<b>751,158</b>	<b>428,456</b>	<b>2,754,574</b>	<b>3,934,188</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables	1,141,739	(708,587)	-	433,152
Borrowings – convertible notes	2,824,900	(2,049,900)	-	775,000
Borrowings	940,000	(940,000)	-	-
<b>Total Current Liabilities</b>	<b>4,906,639</b>	<b>(3,698,487)</b>	<b>-</b>	<b>1,208,152</b>
<b>TOTAL LIABILITIES</b>	<b>4,906,639</b>	<b>(3,698,487)</b>	<b>-</b>	<b>1,208,152</b>
<b>NET ASSETS</b>	<b>(4,155,481)</b>	<b>4,126,943</b>	<b>2,754,574</b>	<b>2,726,036</b>
<b>EQUITY</b>				
Issued capital	18,323,288	4,470,900	2,754,574	25,548,762
Reserves	94,859	53,105	-	147,964
Accumulated losses	(22,573,628)	(397,062)	-	(22,970,690)
<b>TOTAL EQUITY</b>	<b>(4,155,481)</b>	<b>4,126,943</b>	<b>2,754,574</b>	<b>2,726,036</b>

## **Basis of Preparation**

The pro-forma statement of financial position has been prepared in accordance with the draft ASIC Guide to Disclosing Pro-Forma Financial Information (issued July 2005). The pro-forma statement of financial position is based on the audited statement of financial position as at 30 June 2010 that has then been adjusted to reflect the following material transactions:

### ***Effect of material changes since 30 June 2010:***

- (a) There have been changes to a number of statement of financial position items since 30 June 2010 as a result of the normal operations of the Company and its subsidiaries. Estimates of the material changes are reflected in the Pro-forma adjustments, and include:
- (i) Share placement of 125,000,000 Shares at \$0.02 raising funds of \$2,500,000 before costs. After estimated costs of \$79,000, a net increase in cash and equity of \$2,421,000 has been recorded as a result of the placement;
  - (ii) Debt to Equity Conversion resulting in the issue of 102,494,990 Shares at \$0.02 reducing convertible note borrowings and increasing share capital by \$2,049,900;
  - (iii) Increase in borrowings (prior to repayment) of \$100,000 and interest charges on loan borrowings from 1 July 2010 of \$41,825 (included in accounts payable);
  - (iv) Expenses incurred and estimated to be incurred as a result of the normal operations of the Company of \$120,769;
  - (v) Restatement of the 27,500,000 shares held as an available-for-sale investment in Marion Energy Limited (MAE) to the recoverable amount as at the date of this prospectus of 2.2 cents per share;
  - (vi) Increase in receivables of \$1,500;
  - (vii) Restatement of foreign currency creditors reducing the balance by \$53,105; and
  - (viii) Payments to creditors of \$818,076 and full repayment of loans of \$1,040,000.

### ***Effect of the Offer under this Prospectus:***

- (a) The issue of 143,699,892 Shares and 71,849,946 Listed Options pursuant to this Prospectus to raise \$2,873,998 before estimated costs of approximately \$119,424. The pro-forma is prepared on the basis that the issue raises \$2,754,574 after costs.

#### **4.4 Market price of Shares**

The highest and lowest market sale prices of the Company's Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

Highest: \$0.105 per Share on 30 November 2010 and 1 December 2010.

Lowest: \$0.045 per Share on 4 October 2010.

The latest available market sale price of the Company's Shares on ASX prior to the date of lodgement of this Prospectus with ASIC was \$0.09 per Share on 13 December 2010.

#### **4.5 Dividend policy**

The Directors are not able to say when and if dividends will be paid in the future, as the payment of any dividends will depend on the future profitability, financial position and cash requirements of the Company.

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## 5. Additional information

### 5.1 Rights attaching to Shares

#### (a) General

The Shares to be issued upon exercise of the listed options issued pursuant to this Prospectus are ordinary shares and will, as from their allotment, rank equally in all respects with all ordinary shares in the Company.

The rights attaching to the Shares arise from a combination of the Company's Constitution, statute and general law. Copies of the Company's Constitution are available for inspection during business hours at its registered office. The Constitution has been lodged with ASIC.

A summary of the more significant rights is set out below and assumes that the Company is admitted to the Official List of the ASX. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Company's Shareholders.

#### (b) Reports and Notices

Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.

#### (c) General Meetings

Directors may call a meeting of members whenever they think fit. Members may call a meeting as provided by the Corporations Act. All members are entitled to a notice of meeting. A meeting may be held in two or more places linked together by audio-visual communication devices. A quorum for a meeting of members is 2 eligible voters.

The Company will hold annual general meetings in accordance with the Corporations Act and the Listing Rules.

Shareholders are entitled to be present in person, or by proxy, attorney or representative (in the case of a company) to speak and to vote at general meetings of the Company.

#### (d) Voting

Subject to any rights or restrictions at the time being attached to any class or classes of shares, at a general meeting of the Company on a show of hands, every ordinary Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote and upon a poll, every Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote for any Share held by the Shareholder.

A poll may be demanded by the chairperson of the meeting, any 5 Shareholders entitled to vote in person or by proxy, attorney or representative or by any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote.

#### (e) Dividends

The Directors may declare and authorise the distribution from the profits of the Company, dividends to be distributed to shareholders according to their rights and interests. The Directors may determine the property to constitute the dividend and fix the time for distribution. Except to the extent that the terms of issue of shares provide otherwise, each dividend must be distributed according to the amount paid up on the share in a manner calculated in accordance with the Constitution.

(f) Winding Up

Subject to any rights or restrictions attached to a class of shares, on a winding up of the Company, any surplus must be divided among the Shareholders in the proportions which the amount paid (including amounts credited) on the Shares of a Shareholder is of the total amounts paid and payable (including amounts credited) on the Shares of all Shareholders. Subject to any rights or restrictions attached to a class of Shares, on a winding up of the Company, the liquidator may, with the sanction of a special resolution of the Shareholders:

- (i) distribute among Shareholders the whole or any part of the property of the Company; and
- (ii) decide how to distribute the property as between the Shareholders or different classes of Shareholders.

The liquidator of the Company may settle any problem concerning a distribution.

(g) Transfer of Shares

Generally, Shares in the Company are freely transferable, subject to formal requirements, and to the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia.

(h) Issue of Further Shares

The Directors may, subject to any restrictions imposed by the Constitution and the Corporations Act, allot, issue, grant options over, or otherwise dispose of, further Shares with or without preferential rights on such terms and conditions as they see fit.

(i) Directors

The business of the Company is to be managed by or under the direction of the Directors.

Directors are not required under the Constitution to hold any Shares.

Unless changed by the Company in general meeting, the minimum number of Directors is 3 and the maximum is 10. The existing Directors may appoint a new Director to fill a casual vacancy or as an addition to the Board. Any such Director must retire at the next following annual general meeting of the Company (at which meeting he or she may be eligible for election as a Director).

The Constitution contains provisions relating to the rotation and election of directors. No Director other than the Managing Director may hold office later than the third annual general meeting after his or her appointment or election without submitting himself or herself for re-election.

For a person to be eligible for election as a Director, a nomination for the office of Director and the written consent of the proposed director must be received at the Company's registered office:

- (i) 30 business days prior to the meeting, in the case of a meeting of members that the Directors have been requested by members to call; and
- (ii) 35 business days prior to the meeting, in any other case.

(j) Offer of Shares

Subject to the requirements of the Corporations Act and if applicable, the Listing Rules, the issue of Shares by the Company is under the control of the Directors. Under the Constitution the Company is empowered, without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, to issue shares with preferred, deferred or other rights.

(k) Variation of Shares and Rights Attaching to Shares

Shares may be converted or cancelled with member approval and the Company's share capital may be reduced in accordance with the requirements of the Corporations Act.

Class rights attaching to a particular class of shares may be varied or cancelled with the consent in writing of holders of 75% of the shares in that class or by a special resolution of the holders of shares in that class.

(l) Unmarketable Parcels

The Company may procure the disposal of Shares where the member holds less than a marketable parcel of Shares within the meaning of the Listing Rules (being a parcel of shares with a market value of less than \$500). To invoke this procedure, the Directors must first give notice to the relevant member holding less than a marketable parcel of Shares, who may then elect not to have his or her Shares sold by notifying the Directors.

(m) Share Buy-Backs

The Company may buy-back Shares in itself in accordance with the provisions of the Corporations Act.

(n) Indemnity and Insurance of Officers

Under the Constitution the Company is obliged, to the extent permitted by law, to indemnify an officer (including Directors) of the Company against liabilities incurred by the officer in that capacity, against costs and expenses incurred by the officer in successfully defending civil or criminal proceedings, and against any liability which arises out of conduct not involving a lack of good faith.

To the extent permitted by law the Company may also pay the premium on any insurance policy for any person who is or has been an officer against a liability incurred by that person in his or her capacity as an officer of the Company provided that the liability does not arise out of conduct involving a wilful breach of duty.

(o) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

(p) Listing Rules

Provided the Company remains admitted to the Official List of the Australian Stock Exchange Ltd, then despite anything in the Constitution, no act may be done that is prohibited by the Listing Rules, and authority is given for acts required to be done by the Listing Rules. The Company's Constitution will be deemed to comply with the Listing Rules as amended from time to time.

## 5.2 Terms and conditions of Listed Options

(a) Entitlement

The Listed Options entitle the holder to subscribe for one Share upon exercise of each Listed Option.

(b) Exercise Price and Expiry Date

The Listed Options have an exercise price of \$0.05 ("Exercise Price") and an expiry date of 31 December 2014 ("Expiry Date").

(c) Exercise Period

The Listed Options are exercisable at any time on or prior to the Expiry Date.

(d) Notice of Exercise

The Listed Options may be exercised by notice in writing to the Company ("Notice of Exercise") and payment of the Exercise Price for each Listed Option being exercised. Any Notice of Exercise of a Listed Option received by the Company will be deemed to be a notice of the exercise of that Listed Option as at the date of receipt.

(e) Shares issued on exercise

Shares issued on exercise of the Listed Options rank equally with the then shares of the Company.

(f) Quotation of Shares on exercise

Application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Listed Options.

(g) Timing of issue of Shares

After a Listed Option is validly exercised, the Company must, within 15 Business Days of the Notice of Exercise and receipt of cleared funds equal to the sum payable on the exercise of the Listed Option:

- (i) issue and allot the Share; and
- (ii) do all such acts matters and things to obtain the grant of official quotation of the Share on ASX no later than 5 Business Days after issuing the Share.

(h) Participation in new issues

There are no participation rights or entitlements inherent in the Listed Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Listed Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least ten business days after the issue is announced. This will give the holders of Listed Options the opportunity to exercise their Listed Options prior to the date for determining entitlements to participate in any such issue.

(i) Adjustment for bonus issues of Shares

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of a Listed Option will be increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Listed Option before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

(j) Adjustment for rights issue

If the Company makes an issue of Shares pro rata to existing Shareholders there will be no adjustment of the Exercise Price of a Listed Option.

(k) Adjustments for reorganisation

If there is any reconstruction of the issued share capital of the Company, the rights of the Optionholders may be varied to comply with the Listing Rules which apply to the reconstruction at the time of the reconstruction.

(l) Quotation of Listed Options

Application for quotation of the Listed Options will be made by the Company.

(m) Options transferable

The Listed Options are freely transferable.

(n) Lodgement Instructions

Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for shares on exercise of the Options with the appropriate remittance should be lodged at the Company's Registry.

### **5.3 Company is a disclosing entity**

The Company is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules of ASX.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office (see Section 5.4 below).

### **5.4 Copies of documents**

Copies of documents lodged by the Company in connection with its reporting and disclosure obligations may be obtained from, or inspected at, an office of ASIC. The Company will provide free of charge to any person who requests it during the period of the issue, a copy of:

- (a) the Annual Financial Report of the Company for the year ended 30 June 2010, being the last financial year for which an annual financial report has been lodged with ASIC in relation to the Company before the issue of this Prospectus; and
- (b) the following continuous disclosure notices given by the Company to notify ASX of information relating to the Company during the period from the date of lodgement of the Annual Financial Report referred to in paragraph (a) and before the date of issue of this Prospectus are as follows:

<b>Date Lodged</b>	<b>Subject of Announcement</b>
30 September 2010	Full Year Statutory Accounts
30 September 2010	Capital Raising and Debt for Equity Swap
25 October 2010	Notice of Annual General Meeting/Proxy Form
26 October 2010	Annual Report to Shareholders
29 October 2010	September 2010 Quarterly Reports
29 October 2010	Notice of General Meeting/Proxy Form
26 November 2010	Results of Meeting
1 December 2010	Results of Meeting
3 December 2010	Appendix 3B / Section 708A Notice
6 December 2010	Appendix 3Y (x 3)
6 December 2010	Notice of initial substantial holder

The following documents are available for inspection throughout the application period of this Prospectus during normal business hours at the registered office of the Company at Level 9, BGC Centre, 28 The Esplanade, Perth, Western Australia:

- i. this Prospectus;
- ii. Constitution; and
- iii. the consents referred to in Section 5.12 and the consents provided by the Directors to the issue of this Prospectus.

## **5.5 Information excluded from continuous disclosure notices**

There is no information which has been excluded from a continuous disclosure notice in accordance with the Listing Rules, and which is required to be set out in this Prospectus.

## **5.6 Determination by ASIC**

ASIC has not made a determination which would prevent the Company from relying on section 713 of the Corporations Act in issuing the Securities under this Prospectus.

## 5.7 Directors' interests

### (a) Directors' Holdings

Set out in the table below are details of Directors' relevant interests in the Securities of the Company at the date of this Prospectus:

Director	No. of Shares held <sup>1</sup>	Entitlement to Subscribe for Shares <sup>2</sup>	Entitlement to Listed Options <sup>3</sup>
Ian Middlemas	15,400,000	7,700,000	3,850,000
David Cruse	5,486,519	2,743,260	1,371,630
Mark Pearce	6,016,000	3,008,000	1,504,000

1. Held directly or indirectly by the Director or a related party of the Director.
2. Entitlement to subscribe for Shares on the basis of one Share for every two Shares held at the Record Date.
3. Entitlement to subscribe for Listed Options on the basis of one Listed Option for every two Shares issued that will be held directly or indirectly pursuant to Option Offer.
4. Pursuant to the Placement approved at a General Meeting held 1 December 2010, the directors are entitled to the following Listed Options which are to be issued under this Prospectus as part of the Option Offer disclosed in Section 5.10:
  - Mr Middlemas – 6,250,000 Listed Options;
  - Mr Cruse – 1,250,000 Listed Options; and
  - Mr Pearce – 2,500,000 Listed Options.
5. Pursuant to the Debt to Equity Conversion approved at a General Meeting held 1 December 2010, Mr Cruse is entitled to 1,251,250 Listed Options which are to be issued under this Prospectus as part of the Option Offer disclosed in Section 5.10.

Except as disclosed in this Prospectus, no Director has any interest nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Company, the Offer or property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer.

### (b) Remuneration of Directors

No person has paid or agreed to pay any amount or has given any benefit to any Director to induce them to become, or qualify as a Director or for services provided by the Director, in connection with:

- (i) the formation or promotion of the Company; or
- (ii) the offer of Securities under this Prospectus,

except as set out below or elsewhere in this Prospectus.

The Company's Constitution provides that the Company may remunerate the Directors. The remuneration shall, subject to any resolution of a general meeting, be fixed by the Directors.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. Total directors' fees paid to all non-executive directors is not to exceed \$150,000 per annum. Director's fees paid to Non-Executive Directors accrue on a daily basis. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and Non-Executive Directors may in limited circumstances receive incentive options in order to secure their services.

Fees for the Chairman are presently \$36,000 (2010 and 2009: \$36,000) and fees for Non-Executive Directors' are presently \$15,000 per annum (2010 and 2009: \$15,000). These fees cover main board activities only. Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees. As Finance Director, Mr Mark Pearce earned fees of \$20,000 per annum for the financial year ended 30 June 2009.

(c) Other Interests

Apollo Group Pty Ltd, a company in which Mr Pearce is a director and beneficial shareholder, receives a monthly retainer of \$15,000 (2010: \$15,000; 2009: \$12,500) for providing administration and company secretarial services and serviced office facilities. Apollo Group Pty Ltd invoiced \$180,000 to the Company during the 30 June 2010 financial year (2009: \$166,000). Apollo Group Pty Ltd will invoice a total of \$90,000 to the Company for the six months to 31 December 2010. Since 30 June 2010, \$41,500 relating to prior year amounts has been paid.

## 5.8 Interests of Named Persons

Except as disclosed in this Prospectus, no expert, promoter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity:

- (a) has any interest nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Company, the Offer or property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (b) has been paid or given or will be paid or given any amount or benefit in connection with the formation or promotion of the Company or the Offer.

Argonaut Capital Limited (**Argonaut**) will be paid a management fee of \$130,000 (plus GST) as lead manager of the Placement, the Debt to Equity Conversion and the Offer. Argonaut will also be entitled to all reasonable out-of-pocket expenses it incurs provided that it obtains the prior approval of the Company for expenses exceeding \$3,000.

Hardy Bowen will be paid fees of approximately \$15,000 (plus GST) in relation to the preparation of this Prospectus. In the past two years Hardy Bowen has provided legal services to the Company to a total value of approximately \$19,000.

Computershare Investor Services Pty Ltd has been appointed to conduct the Company's share registry functions and to provide administrative services in respect to the processing of Applications received pursuant to this Prospectus, and will be paid for these services on standard industry terms and conditions.

## 5.9 Shortfall Offer

If the Directors exercise their sole discretion to issue the Shortfall Securities then pursuant to this Prospectus, the Company will offer the Shortfall Securities (**Shortfall Offer**) as a separate offer. The parties to whom Shortfall Offers are made will be determined by the Directors.

Shortfall Shares will be offered at an issue price of \$0.02 each which is the issue price at which the Offer has been made to Eligible Shareholders. One Listed Option will also be issued for every two Shortfall Shares issued pursuant to the Shortfall Offer.

Applications for Shortfall Securities can only be made by completing and returning the Shortfall Application Form which will be sent with this Prospectus to the parties to whom the Company makes Shortfall Offers.

The opening date for the Shortfall Offer is 1 February 2011. The Company will accept Shortfall Application Forms until 5.00pm WST on 14 February 2011. The opening and closing dates of the Shortfall Offer may, subject to the requirements of the Listing Rules, be extended to such other dates as the Directors in their absolute discretion shall determine.

In relation to the Shortfall Offer the Company reserves the right to issue to an applicant a lesser number of Securities than the number applied for in a Shortfall Application Form, reject an application or not proceed with the issuing of the Shortfall Securities or part thereof. If the number of Securities issued is less than the number applied for in a Shortfall Application Form, surplus Application Monies will be refunded in full. Interest will not be paid on Application Monies refunded.

## 5.10 Option Offer

In connection with the Placement and the Debt to Equity Conversion, the Company is also offering 113,747,498 Listed Options for no consideration under this Prospectus (**Option Offer**). Applications can only be made by Applicants completing the Option Application Form which will be sent by the Company together with this Prospectus to the Participants in the Placement and the Debt to Equity Conversion. The purpose of the Option Offer is to ensure that the Options granted under the Placement and the Debt to Equity Conversion can be offered for on-sale within twelve months after their issue without disclosure.

## 5.11 Expenses of issue

The estimated expenses of the issue are as follows:

	\$
Recapitalisation management fee	65,000
ASIC lodgement fee	2,068
ASX quotation fee	13,356
Legal expenses	15,000
Prospectus preparation	7,500
Printing, mailing and other expenses	16,500
<b>Total</b>	<u>119,424</u>

## 5.12 Consents

The following consents have been given in accordance with the Corporations Act and have not been withdrawn as at the date of lodgement of this Prospectus with ASIC:

Argonaut has given, and has not withdrawn, their written consent to being named in this Prospectus as lead manager to the Company. Argonaut have not authorised or caused the issue of this Prospectus or the making of offers under this Prospectus. Argonaut make no representation regarding, and to the extent permitted by law exclude any responsibility for, any statements in or omissions from any part of this Prospectus.

Hardy Bowen has given, and has not withdrawn, their written consent to being named in this Prospectus as solicitors to the Company. Hardy Bowen have not authorised or caused the issue of this Prospectus or the making of offers under this Prospectus. Hardy Bowen make no representation regarding, and to the extent permitted by law exclude any responsibility for, any statements in or omissions from any part of this Prospectus.

Computershare Investor Services Pty Ltd has given and, as at the date hereof, has not withdrawn, its written consent to be named as share registry in the form and context in which it is named. Computershare Investor Services Pty Ltd has had no involvement in the preparation of any part of this Prospectus other than being named as share registrar of the Company. Computershare Investor Services Pty Ltd has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.

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## 6. Authorisation

This Prospectus is authorised by each of the Directors of the Company.

This Prospectus is signed for and on behalf of Company by:

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

**MARK PEARCE**  
DIRECTOR

Dated: 14 December 2010

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## 7. Glossary of Terms

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

**"Acceptance"** means a valid application for Securities made pursuant to this Prospectus on an Entitlement and Acceptance Form.

**"Annual Financial Report"** means the financial report lodged by the Company with ASIC in respect to the year ended 30 June 2010 and includes the corporate directory, Shareholder information, Directors' declaration, financial statements and the notes thereto, of the Company and its controlled entities for the year ended 30 June 2010, together with a Directors' report in relation to that financial year and the auditor's report for the year to 30 June 2010.

**"Applicant"** means a person who submits an Entitlement and Acceptance Form.

**"Application Monies"** means application monies for Securities received by the Company.

**"Argonaut"** means Argonaut Capital Limited ASFL: 221 476.

**"ASIC"** means Australian Securities and Investments Commission.

**"ASTC"** means ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.

**"ASX"** means ASX Limited ACN 008 624 691.

**"Board"** means the Directors meeting as a board.

**"Business Day"** means Monday to Friday inclusive, other than a day that ASX declares is not a business day.

**"CHESS"** means ASX Clearing House Electronic Subregistry System.

**"Closing Date"** means 31 January 2011 or such later date as the Directors may determine.

**"Company"** or **"Odyssey"** means Odyssey Energy Limited ACN 116 151 636.

**"Constitution"** means the constitution of the Company as at the date of this Prospectus.

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

**"Directors"** mean the directors of the Company as at the date of this Prospectus.

**"Eligible Shareholder"** means a person registered as the holder of Shares on the Record Date whose registered address is in Australia and New Zealand.

**"Entitlement and Acceptance Form"** or **"Form"** means the entitlement and acceptance form attached to this Prospectus that sets out the entitlement of Shareholders to subscribe for Securities pursuant to the Offer.

**"Issuer Sponsored"** means securities issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS.

**"Listed Option"** means an option to acquire a Share, each exercisable at \$0.05 cents and expiring on 31 December 2014 and otherwise on the terms and conditions outlined in Section 5.2.

**"Listing Rules"** means the Listing Rules of ASX.

**"Offer"** means as defined in Section 1.1.

**"Official List"** means the official list of ASX.

**"Official Quotation"** means quotation of Securities on the Official List.

**"Optionholder"** means a holder of Listed Options.

**"Option Offer"** means as defined in Section 5.10.

**"Prospectus"** means this prospectus dated 14 December 2010.

**"Record Date"** means the day specified in the Proposed Timetable.

**"Section"** means a section of this Prospectus.

**"Securities"** means Shares and Listed Options offered by this Prospectus.

**"SCH"** means Securities Clearing House.

**"Shareholder"** means a holder of Shares.

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

**"Shortfall Application Form"** means the application form attached to this Prospectus to subscribe for Shortfall Securities.

**"Shortfall Offer"** means as defined in Section 5.9.

**"Shortfall Shares"** means that number of the Shares that form part of the Shortfall Securities.

**"Shortfall Securities"** means that number of the Securities that have not validly been applied for under the Offer by the Closing Date.

**"\$"** means Australian dollars.

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