



13 April, 2018

RESPONSE TO UNAUTHORISED CORRESPONDENCE SENT TO SHAREHOLDERS

MEC Resources Ltd (ASX: MMR) (“the Company” or “MEC”) is aware of recent unauthorised communication to shareholders concerning the exploration of PEP11, offshore Sydney Basin.

The Company’s investee Advent Energy Ltd holds an 85% interest in PEP11 through wholly owned subsidiary Asset Energy Pty Ltd.

Shareholders should note that the letter was not sent by MEC.

The unauthorised communication to shareholders is from Peter Richards, Tom Fontaine on behalf of themselves and other shareholders associated with a shareholder interest group that previously threatened action to remove the existing directors of MEC. Shareholders will recall that this group has demonstrated association with former MEC Resources Managing Director David Breeze.

The Company reiterates the strategic logic in supporting acquisition of a modern, high-quality broadband 3D seismic at the earliest opportunity. The benefits of this will include

- i. prioritising and de-risking the next drilling program in PEP11,
- ii. potentially providing a ‘pipeline’ of multiple drilling targets, and
- iii. reducing potential commercial development timeframes.

MEC is entirely supportive of Advent’s current strategy of undertaking as a next step after the completion of the Baleen 2D HR Seismic Survey the undertaking of a 3D Seismic Survey and, **then**, proceeding to drilling.

Advent’s proposed staged approach, undertaken in conjunction with standard industry practice, has as its aim to progressively de-risk the exploration effort before proceeding to the higher cost activity of drilling an offshore well.

In undertaking the 2D seismic survey, Advent maintains compliance with the work commitments of the title, and seeks to identify shallow geological features to assist in future well design.

In undertaking the 3D seismic survey, Advent will, with the benefit of the results of the 2D Seismic Survey, seek to confirm volumetric estimates of key prospects and leads in PEP11, while looking to identify a number of additional potential drilling targets, enabling their prioritisation, and demonstrate multiple direct hydrocarbon indicators to de-risk exploration drilling and attract appropriate investment.

Upon achieving suitable confidence from the seismic data, it is intended that one or more wells may be drilled into one or more prospects.

The opposite strategy supported by the minority rogue shareholding group appears to be attempting to achieve short term share price gains through the hype generated by a drilling

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program. This would come at the expense of good oil-field practice in de-risking the exploration objectives prior to investing heavily in a drilling program. This could also come at the expense of all other shareholders who believe in the long term commercial potential of PEP11.

You would have remembered that during 2010, the first well was drilled in PEP11 under the leadership of Mr David Breeze without sufficient understanding of the geology, and based on sub-optimal 2D seismic data only. More than \$26M was expended which depleted the financial resources of the Company and its investee companies. Although this group cites a share price high of \$1.13 share price at that time, the concerns highlighted by this group are the direct consequence of the decision by Mr Breeze as Managing Director then. The depletion of cash put enormous constraints on the Company's ability to continue investing in the high capex business of oil and gas exploration.

A modern technology 3D seismic survey would provide the best chance of ensuring future commercial success in PEP11 ensuring that we commit resources only when the chances of success are higher. This is a standard industry practice for high cost offshore exploration. It clearly demonstrates that Mr Fontaine, Mr Richards and their minority interest group do not have relevant industry experience or knowledge to add constructive value to our PEP11 work program.

Shareholders may be concerned to know about whether the interests of Peter Richards, Tom Fontaine, and associates such as David Breeze are consistent with theirs. We firmly believe that they are not for the following reasons.

It is clear from the statement in their unauthorised correspondence that they have a “*strategy to limit the erosion of our equity*”. that they intend to protect their own interests and not those of you and the majority of shareholders.

The grandest of intentions of this minority shareholder group cannot be carried out with the skills and experiences of their representatives:

- Mr Fontaine was until late 2017 a director of BPH Energy Ltd (with Mr David Breeze, also the former MEC Resources Managing Director). BPH raised significant funding during 2017 via offers to shareholders and advising that they intended that they would invest further in oil and gas, specifically Advent Energy. Subsequent to these raisings, no funding was directed towards Advent Energy despite clear invitation by Advent Energy Ltd to do so. Furthermore, BPH's funds were transferred to Grandbridge, purportedly repaying an informal debt, despite MEC's demands of repayment of a formal loan facility that continues to remain unpaid and is shortly proceeding to trial.
- Mr Richards claims to have been a director of a public company and an expert witness for ASIC, yet the notice he sent to shareholders breaches the Corporations Act (Section 173 (3a)) as he procured the shareholder register for another purpose than for what it is now being utilised. You **cannot therefore assume that this group will comply with the law**. He does not to our knowledge have any experience in managing an entity associated with petroleum exploration, nor has any proven track record or qualification in subsurface science.
- David Breeze, as former Managing Director of the Company, was **unable to complete any work commitments** across any of the petroleum titles for which he

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was ultimately responsible **since 2014**. His track record as demonstrated as Managing Director of both Grandbridge (ASX: GBA) and BPH Energy (ASX: BPH) is equally proven by the share prices of both companies. GBA trading has been suspended from trading on the ASX for lack of funds since early 2017, and BPH Energy's share value has been trading at the lowest possible price on ASX.

However, your Company has, as demonstrated by recent announcements:

- ✓ Supported the performance of work commitments in PEP11 toward **undertaking and achieving environmental acceptance for and operational success** of the Baleen 2D HR Seismic Survey. This is a **work commitment achievement**.
- ✓ **Secured title tenure** for each of PEP11 and EP386 for the benefit of all shareholders.
- ✓ Facilitated and encouraged all shareholders to contribute to the ongoing success of the Company through rights issues of shares such that shareholders may **avoid potential dilution effect**. We note that David Breeze and his associated entities inclusive of BPH Energy Ltd (ASX: BPH) chose not to participate in these issues and continue to complain about dilution.
- ✓ Supported the **addition of new talented, experienced and highly qualified individuals to the board** of investee Advent Energy Ltd. These include the appointment of Ms Diana Hoff and Mr Stephen Kelemen. Each has considerable track record in leading and managing considerable petroleum assets and operations over their long careers in the petroleum industry.

Furthermore, the minority shareholding group has not demonstrated how they are able to fund a \$20M drilling program and quantify the dilutionary effect it has on shareholders with this huge capital raising.

Based on the current share price of the Company, shareholders' interest in the Company may be reduced to approximately 20% of its current proportion to enable the rogue shareholding group to effectively fund the drilling of PEP11. For example, a shareholder who holds 1% of the total shares of the company may then subsequently hold 0.2% of the company as a consequence of the minority group's ill-defined proposal.

Based on the above observations, shareholders should have serious doubts about the capacity of this group to achieve their claims. Mr Fontaine and Mr Richards are certainly not "limiting the dilution of your equity". Shareholders should be rightfully dubious about the ulterior motives of Messrs. Richards, Fontaine and Breeze.

We also note that the Company has encouraged these parties to engage with the Company regarding these proposed strategies however no contact has been made by this group who continually feel it is better option to communicate directly with shareholders. The Shareholder Interest Group appear to have their own agenda rather than the interests of the Company as a whole.

We recommend you ignore any communications from Peter Richards, Thomas Fontaine and/or David Breeze, and look forward to your continued support of MEC Resources, its investments and corresponding activities now and into the future.

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