

For personal use only



*Searching to secure
Africa's energy future*



P R O S P E C T U S

For the offer of up to 35 million Shares at an issue price of \$0.20 each to raise up to \$7 million (Offer).

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. You should consider carefully the risk factors in Section 6 in light of your personal circumstances and seek professional advice before you decide whether to invest. The Offer does not take into account your investment objectives, financial situation or particular needs. The Shares offered by this Prospectus should be considered speculative.

ACN 143 101 535



Sponsoring Broker
DJ Carmichael Pty Limited

For personal use only



For personal use only

CORPORATE DIRECTORY

Directors

Mr Ian Tchacos
Non-Executive Chairman

Mr John Wareing
Executive Director

Mr Robert Downey
Executive Director

Mr Kevan Fearnley
Non-Executive Director

Mr Philip Moore
Non-Executive Director

Company Secretary

Mr Bernard Crawford

Registered Office

29 Bay Road
Claremont WA 6010

Telephone: +61 8 9386 7996
Facsimile: +61 8 9386 7997
Email: info@instinctenergy.com

Website

www.instinctenergy.com

Share Registry*

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: +61 8 9315 2333

Solicitors

Cooper Legal
15/251 Adelaide Terrace
Perth WA 6000

Namibian Solicitors

Lorentz Angula Inc.
3rd Floor, Unit 4 LA Chambers
Ausspenn Plaza, Dr Agosthino Neto Rd
Windhoek Namibia

Investigating Accountant

RSM Bird Cameron Corporate Pty Ltd
8 St George's Terrace
Perth WA 6000

Auditors

RSM Bird Cameron Partners
8 St George's Terrace
Perth WA 6000

Independent Geologist

MBA Petroleum Consultants Pty Ltd
27 Douglas Street
Milton QLD 4064

Sponsoring Broker

DJ Carmichael Pty Limited
Level 3 London House
216 St George's Terrace
Perth WA 6000

* This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.

IMPORTANT NOTICE

This Prospectus is dated 23 August 2011 and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which the Prospectus relates.

The expiry date of this Prospectus is at 5:00pm AWST on that date which is thirteen (13) months after the date this Prospectus was lodged with ASIC (Expiry Date). No Shares may be issued on the basis of this Prospectus after the Expiry Date.

Instinct Energy Ltd will apply to the Australian Securities Exchange (ASX) within seven (7) days after the date of this Prospectus for Official Quotation of the Shares the subject of 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 these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares the subject of this Prospectus should be considered speculative.

Web site – Electronic Prospectus

A copy of this Prospectus is available to download from the Company's website www.instinctenergy.com. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

Exposure Period

This Prospectus will be subject to an Exposure Period of seven (7) days, which may be extended by ASIC by not more than seven (7) days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for Shares under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge applications prior to the expiry of the Exposure Period.

CONTENTS

1	Investment Overview.....	4
2	Details of the Offer	10
3	Instinct and Project Overview.....	14
4	Namibian Energy Outlook.....	26
5	Directors and Corporate Governance	32
6	Investment Risks.....	35
7	Independent Geologist’s Report.....	43
8	Investigating Accountant’s Report	68
9	Independent Solicitor’s Report.....	81
10	Significant Documents	121
11	Additional Information.....	127
12	Directors’ Authorisation.....	139
13	Glossary.....	140

1 INVESTMENT OVERVIEW

1.1 Important Notice

Potential investors should read this Prospectus in its entirety.

This Section provides an overview of the Offer and Instinct Energy Limited (**Instinct** or the **Company**). It is intended that this Section be read in conjunction with the information contained in the other Sections of the Prospectus. Please refer to Section 13 of the Prospectus for terms and abbreviations used in this Prospectus.

Neither the Company nor any other person guarantees the performance of the Shares offered pursuant to this Prospectus, or the performance of the Company or the return on any investment. An investment in the Company should be considered speculative.

1.2 The Offer

The Company invites Applicants to apply for a total of up to 35,000,000 Shares at a price of \$0.20 per Share. The proceeds of the Offer (less applicable Offer costs) will be paid to the Company. If the Offer is fully subscribed, the Offer costs will be approximately \$650,000.

All of the Shares offered under this Prospectus will rank equally with all the Shares currently on issue.

On completion of the Offer, the Shares offered under this Prospectus will represent approximately 52% of the undiluted share capital of the Company.

1.3 Instinct Company Overview

Instinct is a Sub-Saharan African energy explorer initially focussing on Coal Bed Methane (**CBM**), coal and Unconventional Gas opportunities in Namibia. The Company has interests in two Exploration Licences covering approximately 22,000km² across the Huab and Caprivi basins in Namibia where the exploration focus will be CBM and, if successful with current overlapping mining applications, coal.

The Company has lodged 11 Mining Exclusive Prospecting Licence (**Mining EPL**) applications for the coal rights over the area of the Caprivi Exploration Licence.

Instinct has evaluated and prepared CBM Exploration Licence applications over two other prospective CBM basins in Namibia which cover an area of approximately 48,000km². These applications may be progressed following completion of the IPO.

Instinct is seeking to explore, appraise and ultimately commercialise resources to participate in the market opportunities which exist in Namibia and Sub-Saharan Africa. More generally Instinct aims to supplement energy supply and replace other energy fuels to meet existing supply shortfalls as well as projected new demand for energy, particularly for gas-fired generation.

In contrast to its energy-rich neighbours such as Angola and the Republic of South Africa, Namibia has no developed hydrocarbons or coal resources capable of being utilised for power generation or gas reticulation.

Gas derived from CBM is an ideal clean fuel source for electricity generation. Instinct's Exploration Licences, if able to yield commercial volumes of gas, are ideally placed to meet the growing demand for domestically available clean energy. Methane derived from CBM or Unconventional Gas production could be used to supply new power stations as well as displace existing coal and heavy oil power stations which currently rely on imported fuel.

Surplus electricity could potentially be exported to South Africa, supplementing its growing gas and electricity imports from Mozambique. Namibia could also utilise Instinct produced gas in the rapidly growing mining, commercial, residential and transportation sectors.

In an upside resource case CBM to LNG may provide the opportunity to sell gas to other world markets.

Instinct plans to efficiently explore within its current license areas to establish the CBM potential of the Huab and Caprivi basins and, if successful with the Caprivi Coal Applications, the coal potential of the Caprivi basin.

The Company also proposes to secure additional CBM, coal and conventional oil and gas rights in Namibia and other neighbouring countries in order to expand its geographical footprint and resource base.

The Company's strategy is to exploit its early mover advantage in Namibia to establish a material resource base at high equity levels to which it can attract larger international partners to either fund development or provide an exit for investors.

1.4 Pro Forma Capital Structure

The capital structure of the Company following completion of the Offer (assuming the Offer is fully subscribed) is set out in Table 1.1. On completion of the Offer, new Shareholders will hold approximately 52% of the undiluted share capital of the Company.

Table 1.1

Shares	Number
Shares on issue at date of Prospectus ¹	32,280,000
Shares now offered under this Prospectus	35,000,000
Total Shares on issue at completion of the Offer	67,280,000
Performance Rights	Number
Founder Performance Rights on issue at date of Prospectus ²	20,000,000
Board and Management Performance Rights on issue at date of Prospectus ³	12,800,000
Total Performance Rights on issue at completion of the Offer⁴	32,800,000

Notes:

1. Refer to the Investigating Accountant's Report in Section 8 of this Prospectus for further information.
2. The rights attaching to the Founder Performance Rights (including the achievement criteria) are summarised in Section 11.3 of this Prospectus.
3. The rights attaching to the Board and Management Performance Rights (including the achievement criteria) are summarised in Section 11.3 of this Prospectus.
4. Approximately 12 weeks after the Company's successful admission to the Official List, the Company plans to undertake the Entitlement Issue of Options. Refer to Sections 2.11 and 11.4 of this Prospectus for further details.

1.5 Investment Highlights

- Sub-Saharan focussed energy explorer with a large established CBM position and overlapping coal applications in Namibia.
- Instinct's licences, if able to yield commercial volumes of gas, are ideally placed to meet rapidly growing domestic demand and displace energy imports.
- Large equity interest in two extensive CBM exploration license areas - the Huab basin and the Caprivi basin licence areas total an area of approximately 22,000km².
- The stratigraphic sequence provides multiple targets for gas hydrocarbons which may be present in commercial quantities in a variety of play types including CBM, shale gas/oil and conventional gas/oil.
- A targeted CBM exploration program has been planned to yield multi-basin drilling activity following completion of the IPO.
- Overlapping coal applications provide potential to define coal resources at minimum additional cost in conjunction with CBM exploration.
- Potential to exploit its early mover advantage to establish a material resource base at high equity levels which can attract larger international partners to either fund development or provide an exit for investors.
- The coastal location of the Huab basin presents the opportunity for CBM to LNG in the event that a large scale resource can be defined.
- The Caprivi Link Power Interconnector linking the national grids of Namibia, Botswana, Zambia and Zimbabwe could be used to export electricity generated from future gas discovered by Instinct.
- Assets are located in a politically stable, energy deprived country.
- Management has strong in-country relationships and partnerships with its black empowerment partner, geotechnical advisors and drilling service providers.
- Board and management have a successful track record in project formation and energy company development as well as access to relevant CBM skills.
- Attractive fiscal terms have been established for the CBM Exploration Licences.
- Regional and domestic energy demand is not satisfied and increasing.

1.6 Key Investment Risks

Prospective investors in the Company should be aware that subscribing for Shares the subject of this Prospectus involves a number of risks.

These risks are set out in detail in Section 6 of this Prospectus and investors are urged to consider the risks carefully (and if necessary, consult their professional advisers) before deciding whether to invest in the Company.

The key risks include, but are not limited to:

Risk area

- **Exploration Risk:** CBM and coal exploration is speculative and involves significant risk. There can be no assurance that the exploration proposed by the Company will result in discoveries of an economic resource of CBM, other hydrocarbons or coal.
- **Status of Exploration Licence Applications:** The Company's assets include the Caprivi Coal Applications. The Company cannot guarantee that any of those applications will be granted or that the terms upon which they may be granted will not be excessively onerous.
- **Proposed Namibian Minerals Policy Changes:** The Namibian Minister for Mines and Energy has proposed that coal will be declared a strategic mineral. Accordingly there is a risk that the Caprivi Coal Applications will not be granted or that the terms upon which they may be granted will not be acceptable to the Company. If this is the case the Company will not be able to realise any value from the Caprivi Coal Applications.
- **Non Renewal of Exploration Licences:** Each Exploration Licence is granted for a specific term and carries with it annual expenditure and reporting commitments. Consequently the Company could lose title to the Exploration Licences if these conditions are not met or if insufficient funds are available to meet expenditure commitments.
- **Gas Prices:** Gas prices received will depend on the availability of markets, transport and marketing costs. Any substantial decline in the prices of gas or an increase in transport or marketing costs could have a material adverse effect on the value of any resource found by the Company.
- **Location and Infrastructure Risks:** Common to any form of gas exploration is the significant costs which may be associated with transporting products to market. The location of the Exploration Licences, in particular the Huab Basin, is a significant distance from any transport related infrastructure (eg. gas pipeline) so it is likely that infrastructure and transportation costs will be high. These costs may have a material adverse effect on the ability of the Company to realise value from any discovery of CBM or coal.
- **Operating Risks:** The Company could be adversely affected by disruptions to operations caused by geological conditions, adverse weather conditions, unanticipated operational and technical difficulties, industrial and environmental accidents, changing government regulations and other factors beyond the control of the Company.

- **Exploration Budgets:** The exploration costs of the Company described in Section 3 and in the Independent Geologist's Report in Section 7 are based on certain assumptions with respect to the method and timing of exploration. These estimates and assumptions are subject to significant uncertainties and the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely affect the viability of the Company's Projects.
- **Environmental Risks:** The Company's operations and projects are subject to Namibian laws and regulations regarding environmental compliance and relevant hazards. Significant liability could be imposed for damages, clean up costs or penalties in the event of discharges into the environment or non-compliance with environmental laws.
- **Adequacy of Capital Resources:** While the Company has a capital raising strategy in place, there are no guarantees that significant resources or funds will be found in the future. The lack of capital could have a material adverse effect on the Company and its ability to maintain its Projects.

1.7 Purpose of the Offer and Use of Funds

The purpose of the Offer is to provide Instinct with the necessary funds required to explore its Projects for CBM and coal and to identify potential acquisition opportunities.

Assuming the Offer is fully subscribed, it is intended that the proceeds raised under the Offer will be applied as follows.

Use of Funds	\$5 Million Raising		\$7 Million Raising	
	Year 1 (\$)	Year 2 (\$)	Year 1 (\$)	Year 2 (\$)
Drilling and Evaluation ¹	2,401,500	771,000	2,401,500	2,015,900
Licence Rental	200,000	200,000	200,000	200,000
Local Education/Training	100,000	100,000	100,000	100,000
New Licence Rental/ Application	-	-	-	100,000
Expenses of the Offer	550,000	-	650,000	-
General and Administration	1,106,000	1,071,500	1,106,000	1,626,600
TOTAL	4,357,500	2,142,500	4,457,500	4,042,500
TOTAL		6,500,000²		8,500,000³

Notes:

1. The funds raised under the Offer will contribute to the proposed exploration expenditure as set out in detail in the Independent Geologist's Report in Section 7 of this Prospectus.
2. The funds raised under the Offer will be added to the current cash balance of approximately \$1,500,000.
3. In the event that more than the minimum and less than the full subscription is raised, the Company intends to allocate the funds raised primarily towards the evaluation and exploration of the Exploration Licences (after expenses of the Offer) and budgets will be scaled back proportionally based on the level of subscription received. Prospective investors should also be aware that if the Offer is not fully subscribed, the Company will not be able to conduct an exploration programme which is as comprehensive as the exploration currently proposed and commented on in Section 7 of this Prospectus.

The “Use of Funds” table on page 8 is a statement of current intentions as at the date of this Prospectus. As with any budget, intervening events (including exploration success or failure) and any new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.

Exploration expenditures will be reviewed on an on-going basis, depending upon the nature of results forthcoming from the respective work programs.

Further, it is the Company’s intention to increase and accelerate its exploration and drilling programs to achieve results as soon as practicable and, subject to encouraging results being obtained, to delineate Contingent Resources. The Company may seek to raise additional funds within two years after listing on ASX to the extent required to increase and accelerate the exploration and drilling programs as determined by the Board.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve its stated objectives.

1.8 Indicative Timetable

Event	Date
Lodgement of Prospectus with ASIC	23 August 2011
Exposure period ends	29 August 2011
Offer Opening Date	30 August 2011
Offer Closing Date	28 October 2011
Allotment of Shares and dispatch of holding statements	4 November 2011
Expected date for listing on ASX	8 November 2011

* The above dates are indicative only and may be varied by the Company without notice.

1.9 Restricted Securities

Subject to the Company being admitted to the Official List, certain of the existing Shares and Existing Performance Rights on issue prior to the Offer are likely to be classified by ASX as Restricted Securities and will be required to be held in escrow in accordance with the Listing Rules.

1.10 Summary Only

This summary is not intended to provide full details of the investment opportunity. Investors must read this Prospectus in its entirety in order to make a fully informed decision.

2 DETAILS OF THE OFFER

2.1 The Offer

By this Prospectus, the Company offers for subscription up to 35,000,000 Shares at an issue price of \$0.20 each to raise up to \$7,000,000 (before expenses of the Offer).

The Shares offered under this Prospectus will rank equally with the existing Shares on issue.

The Company may seek to raise additional funds within two years after listing on ASX to the extent required to increase and accelerate the exploration and drilling programmes as determined by the Board.

2.2 Minimum Subscription

The minimum subscription to be raised pursuant to this Prospectus is \$5,000,000.

If the minimum subscription has not been raised within four months after the date of this Prospectus, all applications will be dealt with in accordance with the Corporations Act.

2.3 How to Apply for Shares under the Offer

Application for Shares under the Offer must be made using the Application Form enclosed with this Prospectus.

Payment for the Shares must be made in full at the issue price of \$0.20 per Share. Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. Completed Application Forms and accompanying cheques must be mailed or delivered to the Company's Share Registry, Security Transfer Registrars, as follows:

By post	By hand
PO Box 535 Applecross WA 6953 Australia	770 Canning Highway Applecross WA 6153 Australia

Cheques should be made payable to "Instinct Energy Limited – Float Account" and crossed "Not Negotiable".

Completed Application Forms must reach one of the above addresses by no later than the Closing Date.

2.4 Oversubscriptions

No oversubscriptions beyond a total of 35,000,000 Shares will be accepted by the Company.

2.5 Allotment

Subject to ASX granting approval for the Company to be admitted to the Official List, the allotment of Shares to Applicants will occur as soon as possible after the Offer is closed, following which statements of shareholdings will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell Shares before they receive their holding statements will do so at their own risk.

Pending the allotment and issue of the Shares or payment of refunds pursuant to this Prospectus, all Application Monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

The Company retains an absolute discretion in allocating Shares under the Offer and reserves the right to allot to an Applicant a lesser number of Shares than the number for which the Applicant applies or to reject an Application. The Company may reject any Application or allocate fewer Shares than applied for under the Offer.

If an Application is not accepted, or is accepted in part only, the corresponding proportion of the Application monies will be refunded.

The acceptance of Applications is at the absolute discretion of the Directors. The Company will not be liable to any person not allocated Shares.

2.6 ASX Listing

The Company will apply to ASX within seven days after the date of this Prospectus for Official Quotation of the Shares offered under this Prospectus. If ASX does not grant permission for Official Quotation of the Shares within three months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Shares offered by this Prospectus will be allotted or issued. In that circumstance, the Company will not allot or issue any Shares and will repay all Application Monies without interest as soon as is practicable.

2.7 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, 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 action has been taken to register or qualify these Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

2.8 No Underwriter

The Offer is not underwritten.

2.9 Commissions on Application Forms

The Company reserves the right to pay a commission of 5% (exclusive of GST) of amounts subscribed to any Australian Financial Services Licensee in respect of valid Applications lodged and accepted by the Company and bearing the stamp of the Australian Financial Services licensee. Payments will be subject to the receipt of a proper tax invoice from the licensed securities dealer or Australian Financial Services Licensee.

The Company has engaged Carmichael Corporate Pty Ltd (**DJ Carmichael Pty Limited** or **DJC**) as sponsoring broker to the Offer. In consideration for the provision of these services, the Company will pay DJC a sponsoring broker fee of \$50,000 (excluding GST) and a 5% brokerage fee on the gross amount of all funds raised by DJC under the Offer. Please refer to Section 10.3 for further details.

2.10 CHESS

The Company will apply to participate in the Clearing House Electronic Sub-register System (**CHESS**). CHESS is operated by ASX Settlement and Transfer Corporation Pty Ltd (**ASTC**), a wholly owned subsidiary of ASX, in accordance with the Listing Rules and the ASTC Settlement Rules.

Under CHESS, the Company will not issue certificates to Shareholders. Instead, the Company will provide Shareholders with a holding statement (which is similar to a bank account statement) that sets out the number of Shares allotted to that Shareholder under this Prospectus.

A statement will routinely be sent to Shareholders at the end of any calendar month during which their holding changes. A holder may request a statement at any other time however a charge may be incurred for additional statements.

2.11 Entitlement Issue of Options after Listing

All Shareholders registered on the Company's Share Register at a date approximately twelve weeks after the Company is admitted to the Official List will be entitled to participate in a proposed non-renounceable entitlement issue of Options on the basis of one (1) Option for every two (2) Shares held (**Entitlement Issue**).

It is proposed to issue the Options at \$0.01 each, with an exercise price of \$0.30 and an expiry date of 30 June 2013. Application will be made for Official Quotation of the Options. The terms and conditions of the Options proposed to be issued pursuant to the Entitlement Issue are set out in Section 11.4 of this Prospectus.

2.12 Withdrawal

The Directors reserve the right, at any time, to withdraw this Prospectus and the Offer. In this event, the Company will return all Application Monies received without interest within 28 days of giving the notice of withdrawal.

2.13 Risk Factors

Prospective investors in the Company should be aware that subscribing for Shares the subject of this Prospectus involves a number of risks.

These risks are set out in detail in Section 6 of this Prospectus and investors are urged to consider those risks carefully (and if necessary, consult their professional adviser) before deciding whether to apply for Shares under this Prospectus.

The risk factors set out in Section 6 of this Prospectus, and other risks applicable to all investments in listed securities not specifically referred to, may in future affect the value of the Shares. Accordingly an investment in the Company should be considered speculative.

2.14 Privacy Statement

If you complete an Application, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers; regulatory bodies, including the Australian Taxation Office; authorised securities brokers; print service providers; mail houses and the Company's Share Registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the Company's Share Registry at the relevant contact number set out in the Corporate Directory.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (as amended), the *Corporations Act* and certain rules such as the *ASTC Settlement Rules*. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your Application.

2.15 Dividend Policy

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors. It will depend on the availability of distributable earnings, operating results, 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.

2.16 Enquiries

Any questions concerning the Offer should be directed to either Mr Ian Tchacos (Chairman), Mr Robert Downey (Director) or Mr John Wareing (Director) on +61 (8) 9386 7996.

3 INSTINCT AND PROJECT OVERVIEW

3.1 Company Background

Instinct is an Australian-incorporated exploration company established to explore, appraise and develop CBM and coal resources in Namibia and Sub-Saharan Africa.

The Company was incorporated on 13 April 2010 as a public company called CSG Energy Limited. The Company changed its name to Instinct Energy Limited on 2 December 2010.

Details of the Company's Projects are set out in this Section and full particulars of the geological settings and work undertaken by previous explorers is set out in the Independent Geologist's Report in Section 7 of this Prospectus.

3.2 Instinct Corporate Objectives

The Company aims to immediately commence operations to determine the CBM potential of the Huab and Caprivi basins and if successful with current applications assess the coal potential of the Caprivi basin in Namibia. The Company has already assessed the potential of other prospective sedimentary basins in Namibia with a view to securing additional acreage after the IPO. Over time the Company also plans to secure additional CBM, coal or conventional oil and gas rights in Namibia and neighbouring countries to expand the Company's energy asset portfolio.

The Company operates its current acreage positions and believes operatorship capability is critical to controlling its asset base, continuing to build the necessary skills base, developing further in country relationships and accessing new opportunities.

If successful in establishing potentially prolific coal resources from its large acreage position (which is held at high equity), the Company's strategy is to gain leverage from its early entry position in Namibia to attract larger international partners to either fund the development of its asset base or provide an exit opportunity for Shareholders.

3.3 Exploration Licence Portfolio

Instinct has been awarded two Exploration Licences in the Huab and Caprivi basins in Namibia covering an area of approximately 22,000km². Instinct is the operator of the Exploration Licences and holds an 85% legal and beneficial interest in each of the Exploration Licences.

The Namibian national oil company Namcor and the Black Empowerment Entity (BEE), the Kunene Regional Development Trust, each have a carried interest in the Exploration Licences at participation rates of 10% and 5% respectively through the exploration and development phases. In accordance with the license agreements, expenditures carried by Instinct on behalf of Namcor and the BEE during the exploration and development phases will be repaid from any future production.

The Company has evaluated and prepared Exploration Licence applications for potential lodgement over two other prospective CBM basins which cover an area of approximately 48,000km². These may be lodged post IPO depending on the availability of funds and the relative potential of alternative exploration opportunities.

The Company has also lodged 11 Mining EPL's for the coal rights over the area of the Caprivi Exploration Licence.

The two Exploration Licences which comprise the current CBM Exploration Licence portfolio and the Caprivi Coal Applications are described below in Tables 3.1 and 3.2 respectively.

Table 3.1: Instinct CBM Exploration Licence Portfolio

Permits	Basin	Interest (%)	Status	Licence Expiry Date	Licence Area (km ²)	Committed Work Programme (US\$)
1913B 2013A	Huab	85	Granted, 2 year term	6 April 2013	11,582	\$570,000
1723 1724 1725 1823 1824	Caprivi	85	Granted, 3 year term	6 April 2014	10,848	\$450,000

Table 3.2: Instinct Coal Exploration Licence Applications

Permit	Application Date	Length
Itomba	15 June 2011	3 Years
Kabbe	15 June 2011	3 Years
Kalambesa	15 June 2011	3 Years
Kasheshe	15 June 2011	3 Years
Sibbinda	15 June 2011	3 Years
Mbozi	15 June 2011	3 Years
Kongola	15 June 2011	3 Years
Kwena	15 June 2011	3 Years
Chinchimane	15 June 2011	3 Years
Linyati	15 June 2011	3 Years
Sangwali	15 June 2011	3 Years

Refer to the material contract summaries in Sections 10.1, 10.2 and the Independent Solicitor's Report in Section 9 of the Prospectus for further details of Instinct's Exploration Licences and the Caprivi Coal Applications.

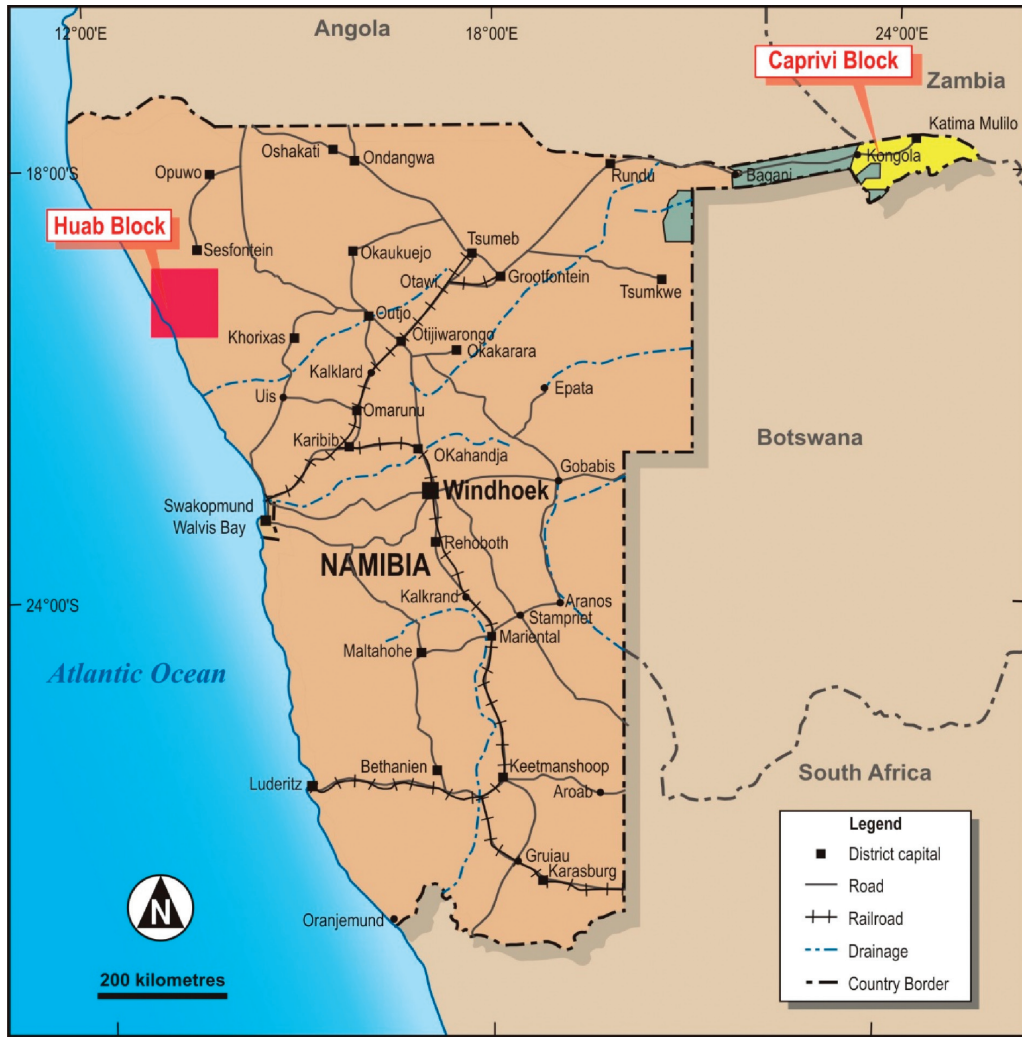


Figure 3.3. Location of the CBM Exploration Licences

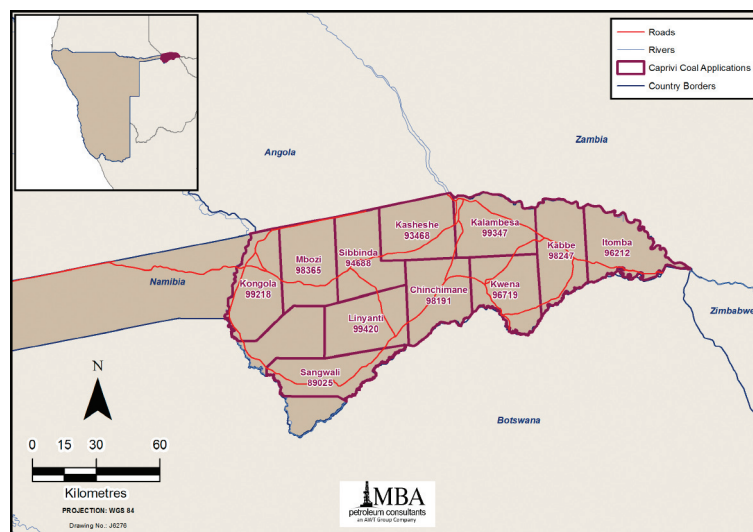


Figure 3.4: Location of Coal Exploration Licence Applications

For personal use only

3.4 Hydrocarbon Potential and Regional Geology of CBM Portfolio

Huab Basin

Exploration History

Whilst data is limited, seventeen coal exploration bores drilled in the 1970's and 80's within and proximal to the Exploration Licence area reported coal intersections of up to 10 metres in thickness. It is likely that the bores were poorly drilled with inadequate sampling protocols and low core recovery. No previous seismic work has been identified within the area however low resolution airborne magnetics surveys have been acquired.

Hydrocarbon Potential

Hydrocarbons may be present in commercial quantities in a variety of play types including CBM, shale gas/oil and conventional gas/oil. These are outlined below.

Coal Bed Methane (CBM): Although as yet untested, the Verbrandeberg Formation within the basal Ecca Group is prospective for CBM. Local borehole data indicates that some areas host at least 10 metres of bituminous to anthracitic coal within the depth range required for economic CBM extraction.

Shale Gas/Oil: The Karoo sequence is prospective for shale gas/oil, particularly within the Huab Formation. This sequence hosts oil shales and other organic rich units and attains a maximum thickness of 75 metres although details of the source richness or thickness of these sequences are not available.

Conventional Hydrocarbons: Within the Exploration Licence area there are numerous source, reservoir and sealing units. It is feasible that these could coalesce to produce an economic conventional hydrocarbon accumulation if the relative timing of generation, migration and deformation was favourable. Potential source rocks include the coals of the Verbrandeberg Formation and the organic rich marine shales of the Huab Formation.

Above these are the sandstones of the Tsarabis and Twyfelfontein Formations which are predicted to attain over 20% porosity making them excellent reservoir candidates. Shales are present at numerous levels in the sequence, and along with the surface volcanics are expected to provide good seals. Traps may be present as classic anticlinal features, fault offsets or stratigraphic transitions.

Geologic Summary

The Exploration Licence area host the Late Carboniferous to Late Permian (**Karoo**) sediments overlain by younger Cretaceous sediments and volcanics. The limited exploration to date has established that numerous coal seams up to and exceeding 1.5 metres in thickness are present within the Karoo Sequence. This sequence is a prolific coal producer in neighbouring Botswana, Zambia and Zimbabwe.

The Huab Basin is a thermal sag basin believed to have formed during the release of heat after rifting in eastern Africa from the Late Palaeozoic to Early Mesozoic. Sedimentation began in the Late Carboniferous and a change to warmer conditions during the Permian to Jurassic saw the deposition of coals, carbonates, shales, sands and other terrestrial and shallow marine units. Extensive erosion and truncation during the Early Cretaceous was followed by aeolian deposition and regional volcanics. These volcanics, referred to as the Etendeka Traps, form a veneer over the older sediments in the Exploration Licence areas.

It is believed that thermal maturity at the base of the sequence is sufficiently high to suggest hydrocarbon generation has occurred. The basin fill exhibits the elements required for a commercial hydrocarbon accumulation - source rocks, reservoirs and seals.

Numerous NW-SE and N-S trending faults traversing the Exploration Licence area have been mapped. These faults have the potential to act as hydrocarbon traps and/or conduits, and to promote fracture permeability in coal seams and conventional reservoirs.

Caprivi Basin

Exploration History

The Caprivi basin remains untested, unexplored and relatively little is known about it. Structural data is scarce and basin architecture is derived from aerial photography, elevation and magnetic data. Its fill is inferred from adjacent basins in Botswana, Zambia and Zimbabwe.

Hydrocarbon Potential

The Exploration Licence area is located just north of a basement high in Botswana where there has been little known CBM and/or coal exploration since Botswana has abundant coal and CBM prospective areas further south. Zambia to the north has operating coal mines and an emerging CBM/hydrocarbon exploration environment.

The eastern extent of the Caprivi area is proximal to the westernmost tip of Zimbabwe and the world class Hwange coal field and Wankie Coal Mine. Like the Hwange coal field, the Caprivi is overlain by basalts which in turn are overlain by Kalahari beds.

If as predicted the Caprivi Basin hosts a typical Karoo sequence below the basalts, it may result in hydrocarbons occurring in a variety of play types including CBM, shale gas/oil and conventional gas/oil. These plays would be similar to those described for the Huab Basin as equivalent stratigraphy is expected.

Geologic Summary

Geological information available from Namibian sources is relatively scant due to the lack of historical mineral exploration. Stratigraphic information obtained from the Department of Water Affairs has been from groundwater exploration. Ground water data has been utilised to interpret the geological framework of the Caprivi area.

It is prognosed that the basin is an extension of the Kafue Trough, a large NE to SW trending faulted depression in south western Zambia. Based on inferred data from adjacent basins a volcanic veneer is predicted to overlay a basin filled with Karoo sediments. Analogous sediments are prolific coal producers in neighbouring Botswana, Zambia and Zimbabwe. The coals in these locations are recognised for their CBM potential, with thick continuous seams up to 12 metres in thickness reported in the literature.

3.5 Exploration Strategy

Instinct has undertaken a detailed review of the CBM potential of a number of coal bearing basins in Namibia prior to the IPO. In April 2011 Instinct secured extensive exploration areas in the Huab and Caprivi basins. It has high graded the Huab and Caprivi basins as the best opportunities to establish a substantial CBM resource and commercialise it.

Instinct will undertake an extensive exploration program in the Huab and the Caprivi Basins to determine the hydrocarbon potential of each basin and if successful with its coal applications determine the coal potential of the Caprivi.

The work program will be split into two phases, the first being an exploration program (**Phase 1**) to determine the resource potential of each basin, the key coal characteristics and the preferred areas in each basin for further appraisal, pilot drilling and development.

The second is an appraisal program (**Phase 2**) to establish a reserves base in the event that a potentially commercial resource is identified during Phase 1.

This Offer is intended to fund the Phase 1 program in the Huab and the Caprivi with potentially some additional funding being available to commence a Phase 2 program.

Phase 1 Programme

Operational planning and well programming for the Phase 1 work program, which will include up to three stratigraphic wells in the Caprivi basin and up to four stratigraphic wells in the Huab basin, was commenced prior to lodging this Prospectus. The planning phase includes well design, site access, landowner agreements and environmental approvals necessary to execute the Phase 1 drilling programmes.

The intention of undertaking this work is to enable Phase 1 drilling operations to commence immediately following the successful completion of the Offer. It is likely some geophysical work such as airborne gravity will be utilised during the Phase 1 program to develop a more detailed understanding of basin architecture.

In the Huab basin the first two or three wells in the Phase 1 program will be Reverse Circulation (**RC**) chip holes to determine key geological parameters such as coal distribution, depth and thickness in a cost effective manner. The resulting cuttings will also provide insight into coal quality and potential gas content and composition. Data from these chip holes will be interpreted and modelled to delineate the most prospective portions of the basin. Following these chip holes it is intended that at least one core hole will be drilled.

In the Caprivi basin (due to the greater drill depths required) it is intended to core the sandstone, shale and coal sections within the expected hydrocarbon sequence after rotary and RC drilling the top hole for all wells. Coal intervals will be cored and desorbed to test gas content and composition. Other relevant tests such as stress testing and ultimate and proximate analyses may be also undertaken. The wells will be wireline logged and can be drill stem tested (DST) to test producibility and other reservoir properties. This data is essential for resource and reserve estimates, directing future work and moving towards pilots and/or field development if coal sequences are likely to be commercially viable.

The Company also intends to utilise gravity surveys during Phase 1 to help delineate the deeper parts of each basin, the block faults and other important structural elements.

The Phase 1 work program and expected budget for each basin is summarised in Section 3.6 of this Prospectus.

Phase 2 Programme

Following a successful Phase 1 campaign the Phase 2 program is likely to include seismic acquisition to better define the aerial distribution of coal measures and the potential for any conventional gas structures.

A trial or pilot production testing program may be deployed in Phase 2 to determine the longer term production potential of discovered coal measures with appropriate characteristics determined by Phase 1. This phase of appraisal is focussed on determining a potential reserve base and reducing the uncertainty of any Contingent Resources delineated during Phase 1. A pilot production testing program is usually a precursor for commercialisation of resources to delineate reserves in accordance with the guidelines of the Petroleum Resources Management System 2007 (SPE-PRMS).

In addition to the geological, commercial and infrastructure aspects of the exploration programs, Instinct is committed to undertaking community consultation, environmental and water management, occupational health and safety management and landholder liaison in a responsible manner.

3.6 Summary of CBM Exploration Work Program

The Phase 1 exploration program is expected to consist of up to 3 wells in the Caprivi basin and up to 4 wells in the Huab basin. It is likely that some geophysical work such as airborne gravity will be utilised during the Phase 1 program to develop a more detailed understanding of basin architecture, important structural elements and assist in the placement of future wells.

Operational planning and well programming commenced prior to the lodgement of this Prospectus in order to enable immediate drilling in the Caprivi which is prone to flooding in December. The planning phase includes well design, site access, landowner agreements and environmental approvals necessary to undertake drilling operations.

Given that there is no CBM industry within Namibia local capability is understandably limited. However, Instinct has the opportunity to develop an indigenous capability, control costs and establish a strong in-country operating base. A local contractor has been identified that has extensive drilling experience throughout Namibia, albeit in water wells and mineral exploration. The exploratory phase of CBM drilling is basically a deep water well, with a few additional safety, sampling and well evaluation requirements.

The following drilling programs have been tailored to the capability of local contractors and the capacity of available drilling equipment with a view to ensuring a reliable, cost effective and fit for purpose solution that satisfies the Company's local content objectives.

Caprivi Basin

The total maximum well depths in the Caprivi are expected to be up to 1,000 metres. The Phase 1 program is expected to include up to 3 wells where coal will be cored below the predicted basalts.

The well objectives are summarised as follows;

- Drill to the base of the basalts as safely, efficiently and cost effectively as possible;
- Case and cement the well to control and isolate surface formations of the Kalahari beds;
- Determine the stratigraphy via coring of the Karoo sequence which may host hydrocarbons in a variety of play types including CBM, shale gas/oil and conventional gas/oil; and
- Electric line logging of the Karoo section including caliper, gamma ray, sonic and density (for the CBM) as well as resistivity and neutron tools (for the conventional plays).

Caprivi Drilling Programme Summary

The Caprivi Basin is subject to seasonal flooding, which limits the time available to carry out any drilling works.

With the wet season usually starting in December, it is hoped that one exploratory hole can be drilled during October and November 2011. This well will be drilled as quickly as possible, whilst ensuring all health and safety requirements are met and that the exploration objectives are achieved. Given the nature of the geology and the in country limitations, it has been decided to drill the Kalahari beds by mud rotary, and the basalts by air hammer. This will maximise rates of penetration given that there is no project interest in these formations. Water aquifers will be cased and cemented to avoid contamination.

Due to rig limitations and possible high water tables/volumes, it has been decided to core the formations below the basalts, initially using a 146mm wireline system and reducing to a 90mm wireline system to core the coal measures.

This combination of methods maximises drilling penetration rates, stratigraphic identification and works within the limits of in country equipment availability.

Huab Basin

The total maximum well depths in the Huab Basin are expected to be up to 500 metres. The anticipated programme includes up to three RC chip holes followed by coring of the predicted coal measures in the fourth well when the stratigraphic sequence is better understood.

From the available information it is thought that the area is overlain by a layer of volcanics (**Basalt**), beneath which lies sedimentary and conglomerate formations, which includes shaley coals and coal beds, to a depth of between 400m and 500m. At this depth it is thought that the basement formations will be encountered.

Huab Drilling Programme Summary

The Huab Basin is not as prone to flooding as the Caprivi.

Due to the anticipated relative shallowness of wells within this area, it is proposed that up to three wells will be drilled by RC with chip recovery and analysis being undertaken, both in the field and in the laboratory, to assess the extent and quality of any coal deposits and their possible gas yield. A subsequent fourth well is anticipated to be drilled by coring the formations below the near surface basalts until the basement rocks are encountered.

Also under consideration at this preliminary stage is to drill the third or fourth well with a view to utilising it as a future production well. Due to the relatively shallow expected occurrence of CBM in the Huab it is anticipated that this can be achieved with the Phase 1 drilling rig. This provides the flexibility to switch from exploration drilling to appraisal/development drilling with the Phase 1 drilling spread.

Caprivi and Huab Phase 1 Exploration Program

Table 3.5: Summary of Instinct's Phase 1 Exploration Program

Activity	2011						2012						2013											
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Caprivi Basin																								
Drilling Pre Planning		■	■																					
- Well # 1 (Cored hole)					■	■	■																	
- Well # 2 (Cored hole)															■	■	■							
- Well # 3 (Cored hole)																		■	■	■				
Caprivi Gravity Survey						■	■	■	■															
Huab Basin																								
Drilling Pre Planning						■	■																	
- Well #1 (Chip hole)							■	■																
- Well #2 (Chip hole)								■	■															
- Well #3 (Chip hole)									■	■														
- Well #4 (Cored hole)															■	■								
Huab Gravity Survey									■	■	■	■												
Activity - \$ 5 million Raise Case		■																						
Activity - \$ 7 million Raise Case																								■

Further information in relation to Instinct's proposed work program and its adequacy as a means of defining exploration prospects within the Exploration Licences is provided in the Independent Geologist's Report in Section 7 of this Prospectus.

Table 3.6: Summary of Program Costs - Details of the Company's proposed exploration programme costs

Phase 1: Work Program Expenditure Estimate				
Activity	\$5 Million Raising		\$7 Million Raising	
	Year 1 (\$)	Year 2 (\$)	Year 1 (\$)	Year 2 (\$)
Caprivi Basin Pre Planning	200,000	-	200,000	-
Caprivi Basin Well # 1	693,000	-	693,000	-
Caprivi Basin Well # 2	-	621,000	-	621,000
Caprivi Basin Well # 3	-	-	-	621,000
Caprivi Geotechnical Analysis	120,000	-	120,000	60,000
Caprivi Gravity Survey	250,000	-	250,000	-
Huab Basin Pre Planning	200,000	-	200,000	-
Huab Basin Well # 1	299,500	-	299,500	-
Huab Basin Well # 2	209,500	-	209,500	-
Huab Basin Well # 3	209,500	-	209,500	-
Huab Basin Well # 4	-	-	-	353,900
Huab Geotechnical Analysis	120,000	-	120,000	60,000
Huab Gravity Survey	-	150,000	-	250,000
Environmental Studies	100,000	-	100,000	50,000
Total Annual	2,401,500	771,000	2,401,500	2,015,900
Total Program		3,172,500		4,417,400

Refer to the notes to the proposed use of application funds table in Section 1.7 of this Prospectus for certain assumptions underlying the above 2-year exploration programme.

The proposed programs substantially exceed the work commitments required under the CBM Exploration Licences.

Possible expenditures relating to the Caprivi Coal Applications are not included in the work program expenditure estimate for Phase 1.

In addition to completing the proposed activities outlined above, the Company intends to endeavour to use its knowledge, people and contacts in Sub-Saharan Africa to generate high quality targets and to pursue business development opportunities in the energy sector. The Company has not yet determined specific criteria for the identification and evaluation of these projects.

3.7 Environment and Community

Instinct is committed to ensuring that the activities of its business are conducted in a way so as to minimise any adverse impacts on the environment and local communities.

In planning and executing its exploration activities, Instinct considers the local environment and actively seeks consultation with local community groups in order to understand the views of stakeholders. Through Instinct’s consultants and black empowerment partner, dialogue will be entered into on a transparent and timely basis, with a view to minimising any social and environmental disturbances caused by exploration activities.

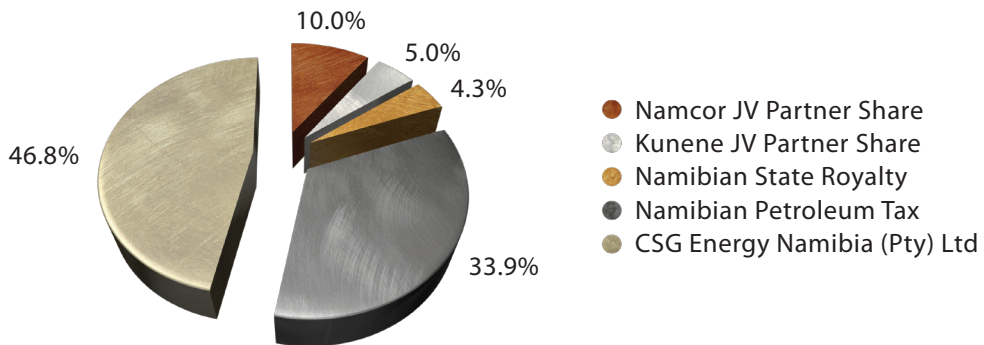
Wherever possible Instinct will seek to employ locals and utilise local contractors with a view to creating new employment opportunities, develop local skills and in the longer term develop a viable CBM service sector that can assist Instinct to develop any commercial resources for the mutual benefit of Instinct’s shareholders and the local community.

Instinct recognises the importance of sustainable development and intends to promote and support programs, services and policies for sustainable development in the regions where it operates.

3.8 Summary of Fiscal Terms

In the event of the discovery and development of hydrocarbons in Instinct’s CBM Exploration Licences it is anticipated that Instinct will receive approximately a 47% share of gross revenues from production after the payment of taxes and royalties. This is considered an attractive revenue split compared to most international jurisdictions.

Figure 3.7: Summary of Expected Share of Gross Revenues in the case of Production



Please refer to Sections 10.1 and 10.2 for a summary of the fiscal terms of the Exploration Licences.

For personal use only

3.9 New Ventures Opportunities

CBM Acreage

Instinct has evaluated and prepared CBM applications for additional acreage in prospective basins in Northern Namibia which may provide approximately an additional 40,000 km² of CBM acreage. The Company will also review opportunities in neighbouring countries such as Zambia, Zimbabwe and Botswana. Following a successful IPO the Company intends to expand its acreage position in a time-frame that allows Instinct to appropriately sequence exploration operations across its portfolio.

Coal Acreage

Instinct is evaluating further coal exploration and appraisal acreage opportunities in Namibia and other prospective sub-Saharan countries.



4 NAMIBIAN ENERGY OUTLOOK

4.1 Energy Background

In contrast to its energy-rich neighbours such as Angola and the Republic of South Africa, Namibia has no developed hydrocarbons or coal resources capable of being utilised for power generation or gas reticulation. Namibia is a relatively small economy within the South African Development Community (SADC), an organisation economically dominated by the Republic of South Africa. South Africa is also the leading energy exporter to the other nations in the community.

Rising populations and income levels, coupled with national policies to provide electricity to rural communities, have resulted in the region experiencing electricity demand growth far outstripping the ability of the power utilities to increase their power supply. This imbalance has resulted in rolling blackouts in South Africa, most pronounced in 2007 and 2008, and a growing awareness within each SADC country that they must look at domestic solutions to reduce dependence on the Republic of South Africa. The Government of Namibia has recently stated that “the security of power supply for Namibia is at stake” and therefore, NamPower (the State electricity utility), and the Government are left with no option but to look at domestic alternatives of power generation.¹

4.2 Energy Policy

The Government of Namibia has taken an active interest in energy security for the nation. In its 1998 Energy Policy White Paper, it stated that, “Namibia will achieve security of energy supply through an appropriate diversity of economically competitive and reliable sources, with emphasis on the development of Namibian resources.”²

The Namibian Constitution explicitly requires the sustainable use of the country’s resources. This was supported by a report commissioned by the Namibian Ministry of Environment and Tourism, pronouncing that “use of energy resources must be in line with the principles of sustainability,”³ and highlighting the potential to convert portions of Namibia’s transport and power generation sector to natural gas. As pointed out by the report, this conversion will reduce imported fuel dependency, reduce CO₂ emissions and honour the country’s obligations under the UN Climate Change protocols.

1 UNDP & Namibia Ministry of Environment and Tourism, *NAMIBIA ENERGY REVIEW FOR THE UNFCCC*, 20 July 2007

2 White Paper Developed by the Energy Policy Committee of the Ministry of Mines and Energy, Namibia May 1998

3 UNDP, above 1

4.3 CBM Potential as an Energy Source

Gas derived from CBM is an ideal clean fuel source for electricity generation. Instinct's Exploration Licences, if able to yield commercial volumes of gas, are ideally placed to meet the growing demand for domestically available clean energy. Methane derived from CBM or Unconventional Gas production could be used to supply new power stations as well as displace existing coal and heavy oil power stations which currently rely on imported fuel.

Surplus electricity could potentially be exported to South Africa, supplementing that country's growing gas and electricity imports from Mozambique. Namibia could also utilise Instinct produced gas in the rapidly growing mining, commercial, residential and transportation sectors.

Namibia has few alternatives to importing energy.

The Kudu Gas Field is currently Namibia's only significant known hydrocarbon asset. Located 170 km off the Southern coast of Namibia, it was discovered in 1974 and has been held by a number of international companies. The development of the 1+ Tcf gas field has repeatedly been delayed over the past thirty years. The current commercialisation plans require an 800 MW combined cycle gas fired power station to be built in remote south-west Namibia. Half the electricity output is expected to be exported to South Africa, and the remaining 400 MW capacity will be reserved for domestic consumption. The project is expected to cost over \$1.2 billion and is forecasted to begin production in 2015. However, the remote location of the proposed power plant, uncertain cost estimates, the recent withdrawal of one its main partners, and the long history of delays for the project make it difficult to forecast its short-term impact on the Namibian energy balance.

4.4 Electricity Generation and Distribution

Namibia generates approximately 380 MW per annum from three power plants, all built in the 1970's; 240 MW electricity from the rainfall-dependent Ruacana Hydro Power Station located in the northern border region with Angola, 120 MW from the coal fired Van Eck plant in Windhoek and 24 MW from the heavy fuel oil Paratus plant in Walvis Bay. Limited power generation capacity, as well as relatively high cost of generation, have resulted in Namibia importing up to 70% of its domestic requirements from Eskom⁴, the power generation utility in South Africa.

By Nampower's own admission, its thermal plants are "extremely expensive to operate due to high fuel transportation costs"⁵ and "Namibia is a net importer of electrical energy and will, for the foreseeable future, rely on electricity imports from the region"⁶. The high import rate of electricity has been based on historical over-capacity in generation in the Republic of South Africa, which is rapidly diminishing due to increasing demand within South Africa and the age of Eskom's power plants.

4 UNDP, above 1

5 Ibid

6 NamPower Managing Director, Paulinus Shilamba, speech entitled *INTRODUCTION OF THE CAPRIVI LINK PROJECT ON THE OCCASION OF THE OFFICIAL COMMISSIONING OF THE CAPRIVI LINK INTERCONNECTOR*, 12 November 2010

Namibia's electricity transmission and distribution systems are considered by the United Nations as "well-developed", and span some 16,000km². The principal link is the main transmission line from the northern border with Angola through the main population areas around the capital city Windhoek and the centre of the country to the southern border with South Africa.

In the next 10 years, Namibia's electricity consumption is expected to grow considerably. In April 2011, the Managing Director of NamPower said demand in Namibia is "expected to nearly double from current levels of around 470 MW by 2014 as new mines are built, further exacerbating the supply-demand situation in the country. NamPower was putting measures in place, including supply deals with other utilities in the region, and may also opt to rent expensive diesel generators, to avoid supply interruptions to the mines. There will be a period when we will struggle a little bit, especially between 2013 and 2016, but we have plans in place to manage the situation during that period."⁸ A proposed desalination plant and a cement plant, plus various other proposed developments that are already in the pipeline will add to this new demand.

Long-term demand forecasts envisage annual average electricity sector growth rates exceeding 3% per annum over the next 30 years.⁹

Namibia has not built a new power station for over 30 years. In fact, in the entire SADC region, no new greenfield power generation plants were built for more than a decade until 2008.¹⁰ Reasons for this include continued dependence on relatively cheap South African power, as well as the lack of new gas or other fuel sources in the region. In 2008, the UN observed that "the scale of the Namibian economy, and its proximity to South Africa often seems to inhibit national action in the hope that the big southern neighbour will initiate the required steps first."¹¹

4.5 New Energy Infrastructure

To reduce its dependence on the Republic of South Africa, Namibia has pursued other regional power projects. In late 2010, Namibia inaugurated the Caprivi Link Interconnector to link the national grids of Namibia, Botswana, Zambia and Zimbabwe. This 350kv 950 km link passes close to Instinct's Caprivi assets and could be used to export electricity generated from future gas produced by Instinct.

⁷ Detlof von Oertzen, Desert Research Foundation of Namibia for UNDP, *NAMIBIAN NATIONAL ISSUES REPORT ON THE KEY SECTOR OF ENERGY WITH A FOCUS ON MITIGATION*, October 2008

⁸ NamPower Managing Director, Shilamba at African Power Conference, April 2011- Johannesburg

⁹ Ibid

¹⁰ UNDP, above 1

¹¹ Van Oertzen for UNDP, above 8



Other initiatives being pursued by NamPower include rehabilitating the Hwange plant in Zimbabwe, which has been prone to frequent shutdowns due to limited maintenance, in exchange for future power deliveries. The Ruacana hydroelectric plant is due to be expanded in 2012, new small scale hydro plants along the border with South Africa's Orange River are being considered, and the Government is inviting private participation in a new coal fired plant in Walvis Bay. In the longer term, NamPower is considering importing power from a large hydroelectric power station proposed in the Democratic Republic of Congo.

In 2008, it was estimated by the UN that one-third of the Namibian population has access to grid electricity, and more than 70% of the urban and some 15% of rural households are connected.¹² Urban electricity consumption accounts for about one-half of the country's total electricity consumption of approximately 3.5 TWh in 2007. Despite substantial rural electrification efforts initiated after independence, more than 100,000 households remain unconnected to the national electricity grid, including many informal settlers living around urban centres.

¹² Van Oertzen for UNDP, above 8

4.6 Energy Relationship with South Africa

Over 95% of all electricity consumed in South Africa (and 45% of all electricity consumed in Africa) is generated by Eskom, the South African power company.¹³ Around 90% of South Africa's electricity supply comes from coal-fired power stations. Cheap domestic coal has made Eskom one of the cheapest electricity providers in the world.¹⁴

In a landmark review of South African Energy statistics published in March 2010,¹⁵ the Department of Energy of the Republic of South Africa observed that the rolling blackouts in 2007/8 were due to electricity supply unable to meet growing demand and that generating capacity was reduced to 30,800 MW against peak power of 32,000 MW. As a result tariffs will rise, 'dislodging South Africa from its position of having the lowest-cost power in the world,' and 'supply to the Southern African Development Community will be reviewed with new contracts offering significantly reduced supply and South Africa no longer being a net exporter of electricity to the Southern African Power Pool.' The UN has estimated that the cost of South African electricity imports to Namibia has almost tripled in the last eight years.¹⁶

By Eskom's own admission, over 40,000MW of new generation capacity will be required by 2025 to meet growing demand across all sectors, including industrial (consumer of 45% of all electricity), mining (20%) and residential and commercial (30%). In 2010, the national energy regulator approved electricity price increases of 25% per year for the next three years. Eskom had requested price increases of 35% over the next three years.¹⁷ Undoubtedly, some of the power price increases will be felt by Eskom's international purchasers.

Eskom's current exports are to the national utilities of Botswana (BPC), Namibia (NamPower), Swaziland (SEC) and Lesotho (LEC). In 2010, Eskom exported 1,459 GWh to Namibia, 11% of its total exports. This number has been steadily decreasing (from over 2,000 GWh in 2008) as South Africa consumes more of its generated power domestically.¹⁸

Due to the limited natural gas production in South Africa (all of South Africa's modest volumes of commercial natural gas production is currently being processed into liquid fuels at PetroSA's plant in Mossel Bay), South Africa is looking at its neighbours, namely Mozambique and, in the future, Namibia, to supply natural gas (and associated electricity) to meet its own growing demands. Eskom has publicly stated; 'The SADC region has considerable potential primary energy capacity, specifically hydro and natural gas, and these primary energy sources offer a future supply option into South Africa. These will not only assist with the growing capacity requirements in South Africa, but will also assist in reducing the country's dependence on coal with its associated carbon emissions.'¹⁹

13 Eskom Integrated Report, 2010

14 Van Oertzen for UNDP, above 8

15 Digest of SA energy stats 2009

16 Van Oertzen for UNDP, above 7

17 Eskom, above 13

18 Ibid

19 Ibid

4.7 Conclusion

The growing economy of Namibia, though small by international and regional standards, is highly dependent on the Republic of South Africa to provide electricity as well as fuel for its own power plants. The Republic of South Africa is no longer able to maintain the energy surplus levels of the past and the Government of Namibia has recognised the need to develop alternatives.

Options include importing power from other nations, such as Botswana, Zambia and Zimbabwe, and possibly in the future, Democratic Republic of Congo, – as well as promoting the development of domestic natural gas resources. Development of the Kudu field would be a major boost for Namibia, but enormous financial and technical challenges have repeatedly delayed development for over 30 years.

Smaller and cheaper to develop resources, such as those that might be discovered by Instinct, may offer another solution for Namibia and its growing requirements.

5 DIRECTORS AND CORPORATE GOVERNANCE

5.1 Directors

Ian Tchacos

Non Executive Chairman

Mr Tchacos is a petroleum engineer with over 25 years' international experience in corporate development and strategy, mergers and acquisitions, exploration, development and production operations, marketing and finance. He has a proven management track record in a range of international company environments. In his last appointment as Managing Director of Nexus Energy Ltd, he was responsible for the company's development from an onshore micro cap explorer to an ASX top 200 offshore producer and operator. Mr Tchacos is currently non-executive Chairman of ADX Energy Limited, and non-executive Chairman of Reidel Resources Limited.

Robert Downey

Executive Director

Mr Downey is a qualified solicitor who has practised mainly in the area of corporate law, initial public offerings, mergers and acquisitions and energy and resources law. He has extensive experience as an adviser, founder and director of various ASX, TSX and AIM companies including Grove Energy Limited, Segue Resources Limited, Rialto Energy Limited, North River Resources plc and Alchemy Resources Limited. Mr Downey has played an integral role in the establishment of Instinct and the acquisition of the Projects.

John Wareing

Executive Director

Mr Wareing is a business professional with 20 years extensive corporate skills developed across several industries. Mr Wareing has been involved in the negotiation and acquisition of over 30 mining leases across the globe. Mr Wareing has extensive corporate and strategy skills and has worked as a consultant, advisor and facilitator to numerous mining companies in Australia and internationally. He has experience with government negotiations across international jurisdictions and has an extensive network of political and business contacts.

Mr Wareing is the Instinct founder and has served on several boards. He has a proven track record in raising capital, the IPO process, corporate governance, mergers and acquisitions and start ups. Personally Mr Wareing has volunteered as a mentor as a part of Curtin University's Link up program and he has received International recognition for a commitment to social responsibility and assisting underdeveloped communities.

For personal use only

For personal use only

Kevan Fearnley

Non Executive Director

Mr Fearnley has over 30 years experience in the oil and gas industry. He successfully co-founded, managed and bought to market the Expro Group of Companies culminating in a UK £100 million listing and in turn a global oil and gas services company. He has an extensive network and experience in oil and gas services marketing and sales, skill procurement, entrepreneurial business incubation and corporate development.

Mr Fearnley was also the co founder and Non Executive Chairman of UK based CBM explorer and producer, Composite Energy. He helped establish Composite Energy with a management team and raised £35 million. Composite Energy has drilled over 15 CBM wells in UK and Poland and formed a JV partnership with BG Group to develop Unconventional Gas in the UK/Europe prior to its takeover by Dart Energy Ltd. He has also assisted in setting up an independent on-shore drilling contracting business, Geometric Drilling Ltd, owning and operating three land rigs.

Mr Philip Moore

Non Executive Director

Mr Moore is a Petroleum Engineer with over 35 years of international oil and gas experience. He has extensive experience in international oil and gas exploration and production operation activity, oil and gas services marketing and business development, corporate development/financing and mergers and acquisitions. He was a founder and CEO of Helix Energy where he led the business through seven years of international growth (200+ staff in 5 countries) to become Europe's largest independent Petroleum Engineering Consultancy prior to its disposal to a NASDAQ listed business.

Bernard Crawford

Company Secretary

Mr Crawford is a Chartered Accountant with over 20 years experience in the resources industry in Australia and overseas. He has held various positions in finance and management with NYSE, TSX and ASX listed companies. Mr Crawford has considerable experience in developing financial and risk management strategies for companies and the implementation of accounting controls and systems.

5.2 Corporate Governance

This Section summarises the corporate governance practices adopted by the Board. The Company's objective is to achieve best practice in corporate governance, and the Company's officers and employees are committed to achieving this objective. The Board is committed to administering its corporate governance structures to promote integrity and responsible decision-making.

The Board will consider on an ongoing basis its corporate governance procedures and whether they are sufficient given the Company's nature of operations and size. The Board is responsible for the overall corporate governance of the Company, and it recognises the need for the highest standards of ethical behaviour and accountability. The following policies and procedures have been implemented and are available in full on the Company's website at www.instinctenergy.com:

- Code of Conduct for Directors and Key Executives;
- Board Charter;
- Share Trading Policy;
- Audit Committee Charter;
- Continuous Disclosure Policy;
- Shareholder Communications Policy;
- Remuneration Committee Charter;
- Diversity Policy; and
- Policy and Procedure for the Selection and Appointment of Directors.

6 INVESTMENT RISKS

6.1 Introduction

An investment in Instinct involves various risks and should be considered speculative, particularly having regard to the stage of Instinct's Projects.

There are a number of risk factors that may have a material adverse effect on Instinct's future operating and financial performance.

Instinct's business activities are subject to risk factors both specific to its business activities and of a general nature. If any of the risks associated with Instinct materialised, Instinct's business, results of operations, financial position and prospects could be materially and adversely affected, which could result in a loss of all or part of your investment.

The principal risk factors are described below. Whilst some of these risk factors can be mitigated by appropriate safeguards and systems, many are outside the control of Instinct and cannot be mitigated.

Most critically the exploration for and development of CBM and coal is a speculative activity that involves a high degree of geological and financial risk.

If any of the risks and uncertainties described below, together with the possible additional risks and uncertainties of which the Directors are currently unaware actually occur, the Company's business, financial position, and the amount of work able to be performed with the funds raised by the Offer could be materially and adversely affected.

In addition, potential investors should be aware that the value of Shares on ASX may rise and fall depending on a range of factors that affect the market price of Shares. These include local, regional and global economic conditions and sentiment towards equity markets in general. The Shares issued under this Prospectus carry no guarantee with respect to the profitability, the payment of dividends, return of capital or the price at which the Shares may trade on ASX.

You should carefully consider the risk factors and uncertainties described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares. You should also seek your own professional advice in relation to the risks associated with an investment in Instinct and should make your own assessment as to whether to invest in the Company.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed and other risk factors may apply.

For personal use only

6.2 Specific Risks

(a) Exploration and Development Risk

Investors should understand that CBM and coal exploration is a high risk undertaking.

The future profitability of Instinct and the value of its Shares are directly related to the results of exploration and any subsequent project development. There are inherent risks in exploration for CBM and coal in general.

No assurances can be given that funds spent on exploration will result in discoveries of CBM or coal that will be commercially viable.

In the event that exploration programs are unsuccessful this could lead to a diminution in the value of the Exploration Licences, a reduction in the cash reserves of the Company and a possible relinquishment of all or part of the Exploration Licences.

(b) Status of Exploration Licences and Exploration Licence Applications

The Company's main assets comprise the Huab and Caprivi Exploration Licences. In addition Instinct has made the Caprivi Coal Applications. The Company cannot guarantee that any of the Caprivi Coal Applications will be granted or that the granted Exploration Licences will be extended beyond their current expiry date. There is a material risk that, in the event that the Company cannot extend the Exploration Licences, the Company's interest in the Exploration Licences may lapse.

(c) Proposed Namibian Minerals Policy Changes

The Namibian Minister for Mines and Energy has made several public comments on a policy of "Public – Private Partnership in the Mining Sector in Namibia". As part of these statements the Minister has declared that certain minerals will be declared as strategic minerals and that licences for strategic minerals will only be issued to state owned companies.

It is understood that coal will be declared a strategic mineral.

Accordingly, there is a risk that the Caprivi Coal Applications will not be granted or that the terms upon which they may be granted will be excessively onerous on the Company. If this is the case the Company will not be able to realise any value from the Caprivi Coal Applications and may have to relinquish them and forfeit any benefit that may be able to be derived from them.

(d) Exploration Licences

Interests in Exploration Licences for CBM are governed by the Petroleum Act. Each Exploration Licence is granted for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, Instinct could lose title to the Exploration Licences if conditions are not met or if insufficient funds are available to meet expenditure commitments.

In the event that Instinct is unable to meet its obligations in relation to the work programs of any of the Exploration Licences, Instinct may decide to apply to the Minister for a variation or an extension of the work program. However, there is a risk that the Minister may elect not to approve the variation or extension, in which case Instinct may be required to relinquish the Exploration Licences.

Further, Instinct may decide to surrender or relinquish areas of the Exploration Licences as priorities change in order to meet budgetary requirements.

Investors should have regard to the Independent Solicitor's Report on the Exploration Licences in Section 9 of the Prospectus.

(e) Sovereign Risk

The availability of rights to explore and operate, as well as industry profitability generally, can be affected by changes in Government policy that are beyond the control of the Company.

As the Company's Projects are located in Namibia, this introduces sovereign risk to investing in Shares. Sovereign risks include, without limitation, changes in the terms of Exploration Licences and Mining EPL's, changes in royalty arrangements, changes to taxation rates and changes in the ability to be able to enforce legal rights. Any of these factors may in the future adversely affect the Company's interests and the market price of Shares.

(f) Production Licences

There is a risk that even if economic quantities of CBM are discovered an application for a production licence with respect to the areas of gas discovered on the Exploration Licences may not be granted.

(g) Gas Prices

Gas prices received will depend on the availability of markets, transport and marketing costs. Any substantial decline in the prices of gas or an increase in transport or marketing costs could have a material adverse effect on Instinct.

(h) Land Access Risk

Land access is critical for exploration to succeed and the ability to be able to negotiate satisfactory commercial arrangements with landowners, farmers and occupiers is often essential.

Access to land for exploration purposes can be affected by land ownership, government regulation and environmental restrictions.

(i) **Operating Risks**

Instinct could be adversely affected by disruptions to operations caused by geological conditions, adverse weather conditions, unanticipated operational and technical difficulties, industrial and environmental accidents, changing government regulations and other factors beyond the control of the Company.

In particular drilling costs may be materially impacted by adverse geological conditions.

The occurrence of operating risks can result in increased costs for the Company and may materially impact on Instinct's competitive position or its ability to fund its activities.

(j) **Location and Infrastructure Risks**

Common to any form of gas exploration is the significant costs which may be associated with transporting products to the market. If the area over which the licence is held is located a significant distance from any transport related infrastructure (eg gas pipeline) then it is likely that infrastructure and transportation costs will be high. Any increase in these costs may have a material adverse effect on Instinct.

The sharing of infrastructure and operating infrastructure (such as gas processing facilities and gas pipelines) with other industry participants is common in the gas sector. As such, Instinct may rely on access to properly maintained operating infrastructure and shared facilities that in some circumstances may not be directly controlled by Instinct in order to deliver its production to market. Any delay or failure to access properly maintained operating infrastructure or share facilities may have a material adverse effect on Instinct.

(k) **Environmental Risks**

Instinct's operations and projects are subject to Namibian laws and regulations regarding environmental compliance and relevant hazards. These laws set standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for the violation of such standards. They also establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted.

Significant liability could be imposed on Instinct for damages, clean up costs or penalties in the event of discharges into the environment, environmental damage or non-compliance with environmental laws or regulations.

Instinct attempts to minimise these risks by conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations where possible, and by carrying applicable insurance coverage. There is also a risk that the environmental laws and regulations may become onerous, making Instinct's operations more expensive.

(l) **Reliance on Third Parties**

Instinct will be reliant on third parties for certain key services including resource and reserve calculation, planning and drilling. Industrial disputes, natural disasters, financial failure, default or inadequate performance in the provision of services by such third parties has the potential to cause a financial loss to Instinct.

(m) **Insurance**

Insurance for all risks associated with gas exploration and production is not always available and, where available, the costs can be high. Instinct will have insurance in place considered appropriate for Instinct's needs. Instinct will not be insured against all possible losses, whether because of the unavailability of cover or because the premiums may be excessive relative to the benefits that would accrue.

(n) **Adequacy of Capital Resources**

While Instinct has a capital raising strategy in place, there are no guarantees that significant resources or funds will be found in the future. The lack of capital could have a material adverse effect on Instinct and its prospects, especially in relation to having sufficient development funding to advance its projects.

(o) **Potential Acquisitions**

As part of its business strategy, Instinct may make acquisitions of significant investments in complementary companies, projects or assets. Any such future transactions would be accompanied by the risks commonly encountered in making such acquisitions.

(p) **Exploration Budgets**

The exploration costs of the Company described in Section 3 and in the Independent Geologist's Report in Section 7 are based on certain assumptions with respect to the method and timing of exploration. By their nature, these estimates and assumptions are subject to significant uncertainties and the actual costs may materially differ from these estimates and assumptions.

Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely affect the viability of the Company's projects. In addition to this, exploration programmes and the phasing of subsequent programmes are based on results and outcomes of previous programmes. Programmes will not necessarily be carried out if results do not warrant them.

(q) **Competition**

A number of other oil and gas companies operate, and are allowed to bid for exploration and production licences and other services, in the areas in which the Company operates. Larger companies in particular may have access to greater resources than Instinct, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

(r) **Resource Estimates**

Resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development plans which may, in turn, adversely affect the Company's operations.

(s) **Ability to Exploit Successful Discoveries**

It may not always be possible for Instinct to participate in the exploitation of successful discoveries made in areas in which the Company has an interest. Such exploitation may involve the need to obtain licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied.

Furthermore, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as those of Instinct. Such further work may also require the Company to meet or commit to financing obligations, which it may not have anticipated or may not be able to commit to due to lack of funds or the inability to raise funds.

(t) **Reliance on Key Personnel**

The responsibility for overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance that there will be no detrimental impact on the Company if one or more of these people cease their relationship with the Company. The inability to be able to retain the services of a sufficient number of suitably qualified personnel could be disruptive to Instinct's development and could affect its operating results.

(u) **Foreign Exchange Risk**

The price of gas in Namibia is denominated in Namibian dollars while the cost base of the Company is in Australian dollars, United States dollars and Namibian dollars. Consequently changes in the Australian dollar exchange rate will impact on the earnings of the Company. The foreign exchange rate is affected by factors beyond the control of the Company including interest rates, inflation and the general economic outlook.

There may be strategies that the Company can implement to hedge currency but this will be a decision taken by Directors after consultation with experts after the issue of this Prospectus.

6.3 General Risks

(a) **General Investment Risks**

There are general risks associated with any investment and the share market. Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies.

(b) **Possible Volatility of Share Price**

The share price of publicly traded energy exploration companies can be highly volatile. The price at which Shares will be traded and the price at which investors may realise their investments will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect small energy exploration companies or quoted companies generally. The market perception of small energy exploration companies may change which could impact on the value of investors' holdings and on the ability of the Company to raise funds by the issue of further Shares in the Company.

(c) **Legal Risk**

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and the value of its Shares.

(d) **Economic Risks**

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

(e) **Market Conditions**

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

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) 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 Board warrant the future performance of the Company or any return on an investment in the Company.

(f) **Government Actions**

The impact of actions by Government may affect the Company's activities including such matters as infrastructure, compliance with environmental regulations, taxation and royalties.

(g) **Application of and changes to Accounting Policies**

Accounting standards and policies may change in the future especially in relation to the application of the International Financial Reporting Standards. Such changes may have an adverse impact on future reported financial results of the Company.

(h) **Investment Speculative**

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 Shares offered under this Prospectus. The Shares 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 Shares.

MBA Petroleum Consultants Pty Ltd
ABN: 93 331 805 926
27 Douglas St
PO Box 2098
MILTON QLD 4064
Australia
Ph:+61 7 3367 3822
Fax:+61 7 3367 3820



Principals: Walter F Muir
Douglas B Barrenger

Technical and Management
Advisors to the Petroleum Industry

6th August 2011

The Directors
Instinct Energy Ltd
29 Bay Road
Claremont
Perth WA 6010

Dear Sirs,

Independent Expert's Report

1. EXECUTIVE SUMMARY

In accordance with your instructions, MBA Petroleum Consultants Pty Ltd (MBA) has prepared an Independent Expert's Report for inclusion in the prospectus for the initial public offering of shares in Instinct Energy Pty Ltd (INS) on the ASX.

INS has requested that MBA address the following issues:

- Review the exploration permits held by INS and detail the work commitments;
- Provide a summary of the regional setting and petroleum system in the Huab and Caprivi Basins;
- Describe the current and planned exploration activities of INS and
- Discuss the chance of exploration success in the permits.

Permit Interests

INS has been granted seven permits in the Huab and Caprivi Basins in Namibia (Figure 1). These exploration permits are for two and three year terms, all commencing on 6th April 2011. INS has an 85% beneficial interest in each of the permits. Namcor and BEE each have a free carried interest in the permits at rates of 10% and 5% respectively through the exploration and development phase following which the capital expended by Instinct will be repaid from production.

INS has also made application for eleven areas for coal exploration in the Caprivi area (Figure 2).

For personal use only

Contents

1. EXECUTIVE SUMMARY	1
2. INTRODUCTION	3
Sources of Information.....	3
Permits Held by INS.....	3
3. HUAB BASIN	5
3.1 Regional Geology.....	5
3.2 Exploration History.....	9
3.3 Plays.....	9
3.4 Work Commitments and Programs.....	10
4. CAPRIVI BASIN	11
4.1 Regional Geology.....	11
4.2 Exploration History.....	11
4.3 Plays.....	12
4.4 Work Commitments and Programs.....	12
5. CAPRIVI BASIN COAL APPLICATIONS	16
5.1 Regional Geology.....	16
5.2 Detailed Geology	16
5.2.1 Itomba Exclusive Prospecting Licence (EPL).....	16
5.2.2 Kabbe EPL.....	16
5.2.3 Kalembeza EPL.....	17
5.2.4 Kasheshe EPL.....	17
5.2.5 Sibbinda EPL	17
5.2.6 Mbozi EPL	18
5.2.7 Kongola EPL.....	18
5.2.8 Kwena EPL	18
5.2.9 Chinchimane EPL	18
5.2.10 Linyanti EPL	18
5.2.11 Sangwali EPL.....	18
5.3 Work Commitments and Programs.....	18
6. STATEMENTS	20
List of Figures	22
List of Tables.....	23
Glossary and Definitions	24

2. INTRODUCTION

Sources of Information

Data used for this study include:

- 1) Geological reports written by Geomine Consulting of Namibia and provided by INS.
- 2) Scientific papers obtained from the Journal of African Earth Sciences
- 3) Records from the Geological Survey Department of Zambia.

For further details please refer to the references included at the end of this report.

Permits Held by INS

A listing of the seven permits held by INS is included in Table 1. Their locations are shown in Figure 1. INS has also made eleven coal “Exclusive Prospecting Licences” (EPLs) covering the Caprivi Basin area. The listing of these applications is in Table 2 and their locations are shown in Figure 2.

TABLE 1 Summary Table of Permits

Permits	Basin	Interest (%)	Status	Licence Expiry Date	Licence Area (km ²)
1913B and 2013A	Huab	85.00	Granted, 2 year term	6 th April 2013	11,582
1723, 1724, 1725, 1823 and 1824	Caprivi	85.00	Granted, 3 year term	6 th April 2014	10,848

TABLE 2 Summary Table of Applications

Permit	Application Date	Length
Itomba	15 June 2011	3 Years
Kabbe	15 June 2011	3 Years
Kalambesa	15 June 2011	3 Years
Kasheshe	15 June 2011	3 Years
Sibbinda	15 June 2011	3 Years
Mbozi	15 June 2011	3 Years
Kongola	15 June 2011	3 Years
Kwena	15 June 2011	3 Years
Chinchimane	15 June 2011	3 Years
Linyati	15 June 2011	3 Years
Sangwali	15 June 2011	3 Years

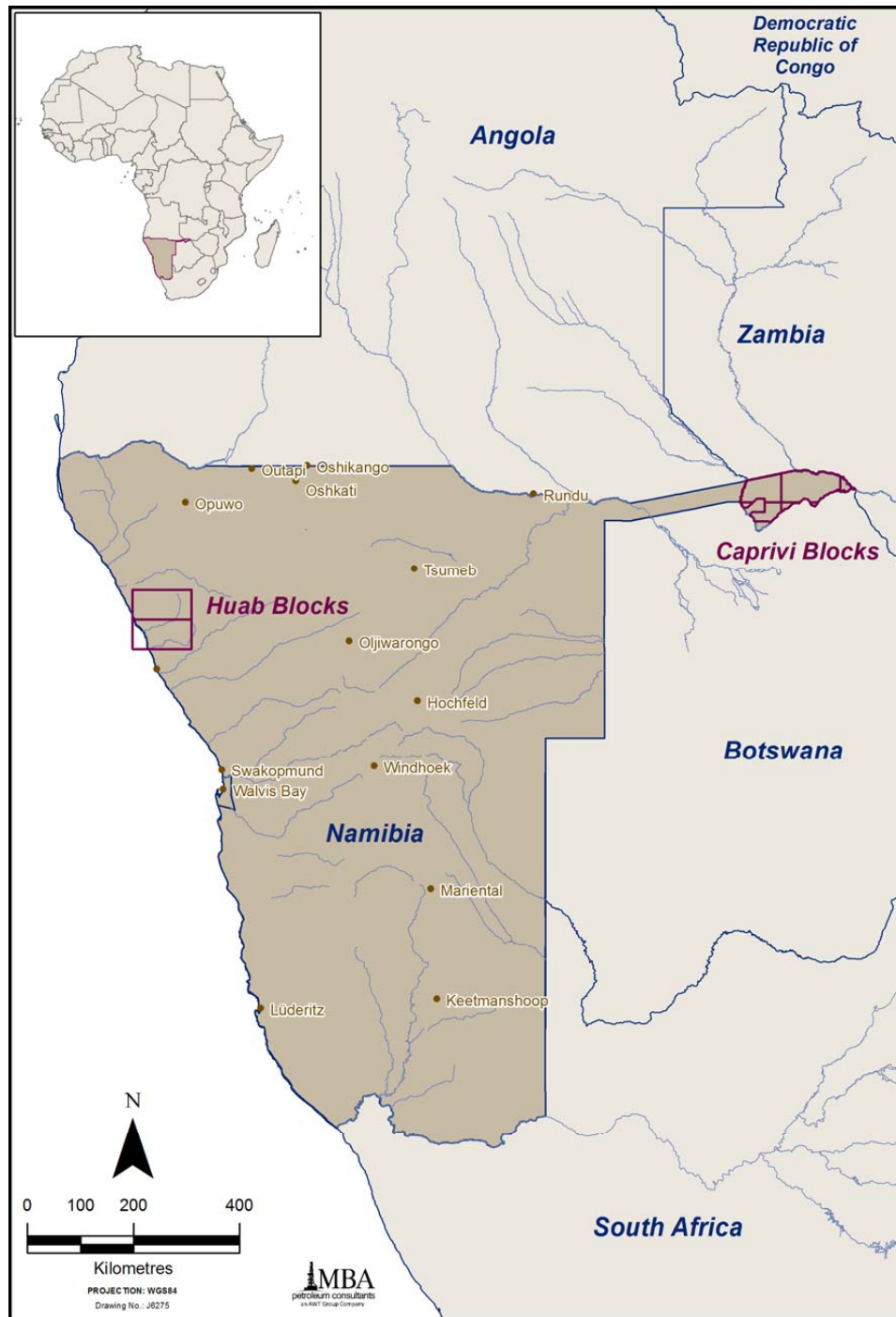


Figure 1 Exploration Permits
4

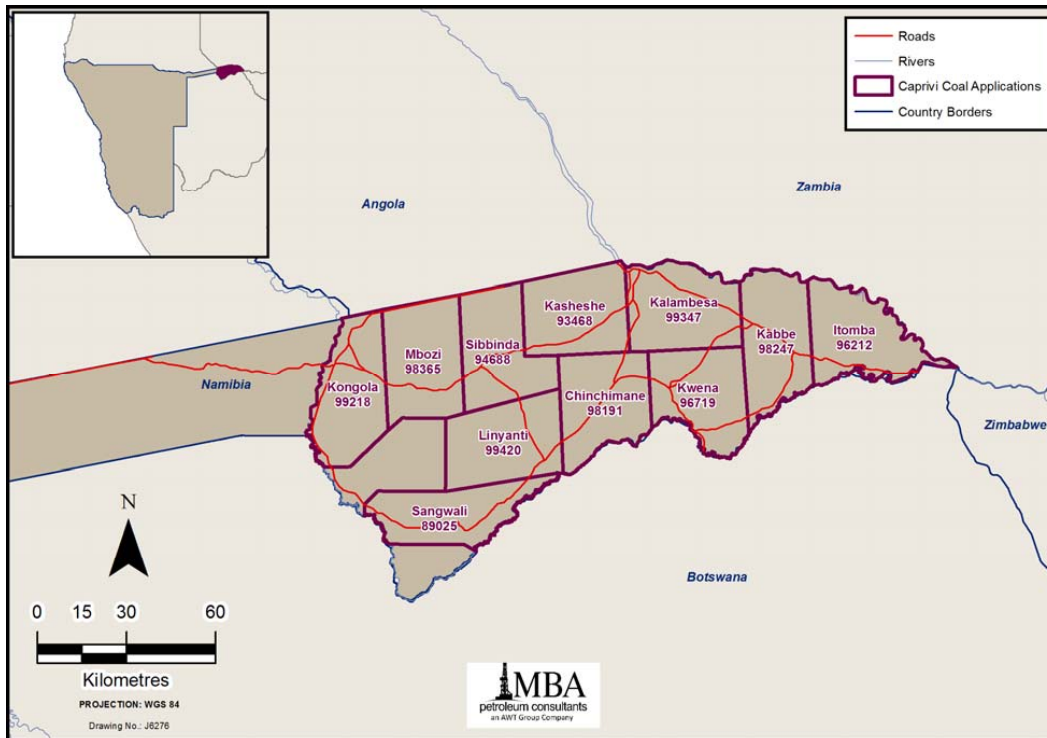


Figure 2 Caprivi Basin Coal Applications

3. HUAB BASIN

3.1 Regional Geology

The 1913B and 2013A permit areas host the Late Carboniferous to Late Permian (Karoo) sediments of the Huab Basin, overlain by younger Cretaceous sediments and volcanics (Leygonie *et al.*, 2011). The limited exploration to date has established that numerous coal seams up to and exceeding 1.5m in thickness are present within the Karoo Sequence. This sequence is a prolific coal producer in neighbouring Botswana, Zambia and Zimbabwe (Cairncross, 2001; Leygonie & Kotze, 2011).

The Huab Basin is a thermal sag basin and encompasses nearly 16000 km² within its onshore portion (Figure 3). It is believed to have formed during the release of heat after rifting in eastern Africa from the Late Palaeozoic to Early Mesozoic (Catuneanu *et al.*, 2005). Sedimentation began in the Late Carboniferous with the deposition of periglacial deposits such as diamictites (Leygonie & Kotze, 2011; Catuneanu *et al.*, 2005). A change to warmer conditions during the Permian to Jurassic saw the deposition of coals, carbonates, shales, sands and other terrestrial and shallow marine units associated with two marine transgression/regression cycles. Extensive erosion and truncation during the Early Cretaceous was followed by aeolian deposition and regional volcanics. These volcanics, referred to as the Etendeka Traps, form a veneer over the older sediments in the permit areas.

Thermal maturity at the base of the sequence is sufficiently high to suggest hydrocarbon generation has occurred (Leygonie *et al.*, 2011). It is apparent that within the basin fill is the framework required for a commercial hydrocarbon accumulation - source rocks, reservoirs and seals.

The stratigraphic units and their inter-relationships are outlined in the stratigraphic column, cross section and surface geology map presented in Figures 4, 5 and 6 respectively.

Numerous NW-SE and N-S trending faults traversing the permit areas have been mapped using outcrop information, aerial photography and airborne magnetics. Some of the major faults are illustrated in the airborne magnetics image shown in Figure 7. The throw of these faults is typically less than 30m, with offsets up to 70m (Leygonie *et al.*, 2011). They have the potential to act as hydrocarbon traps and/or conduits, and to promote fracture permeability in coal seams and conventional reservoirs.

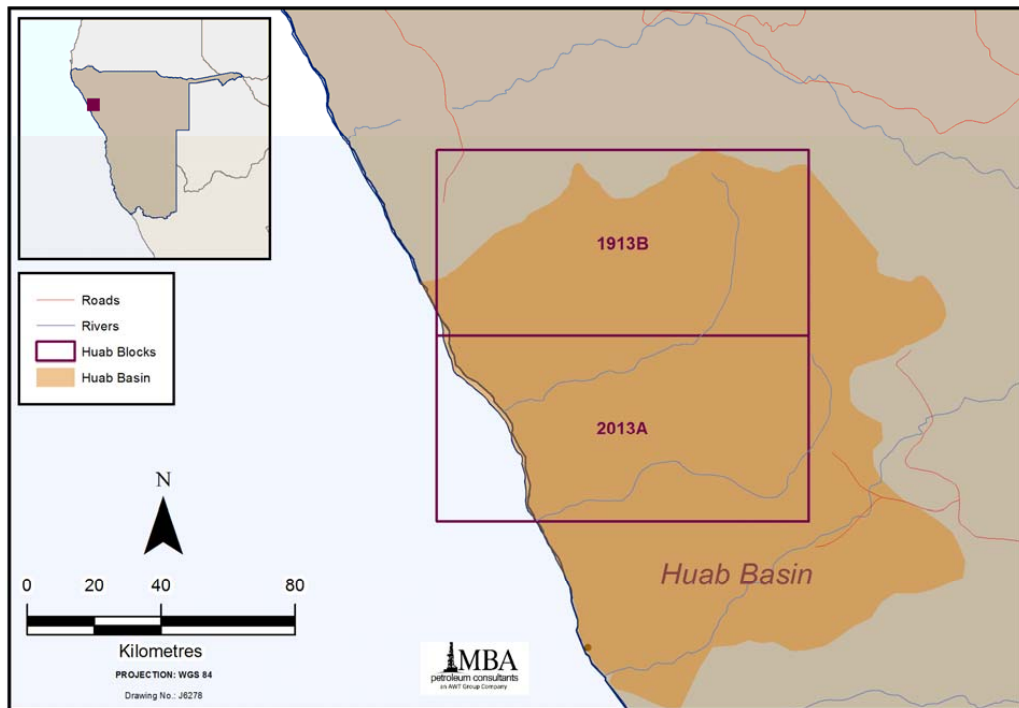


Figure 3 Huab Location Map

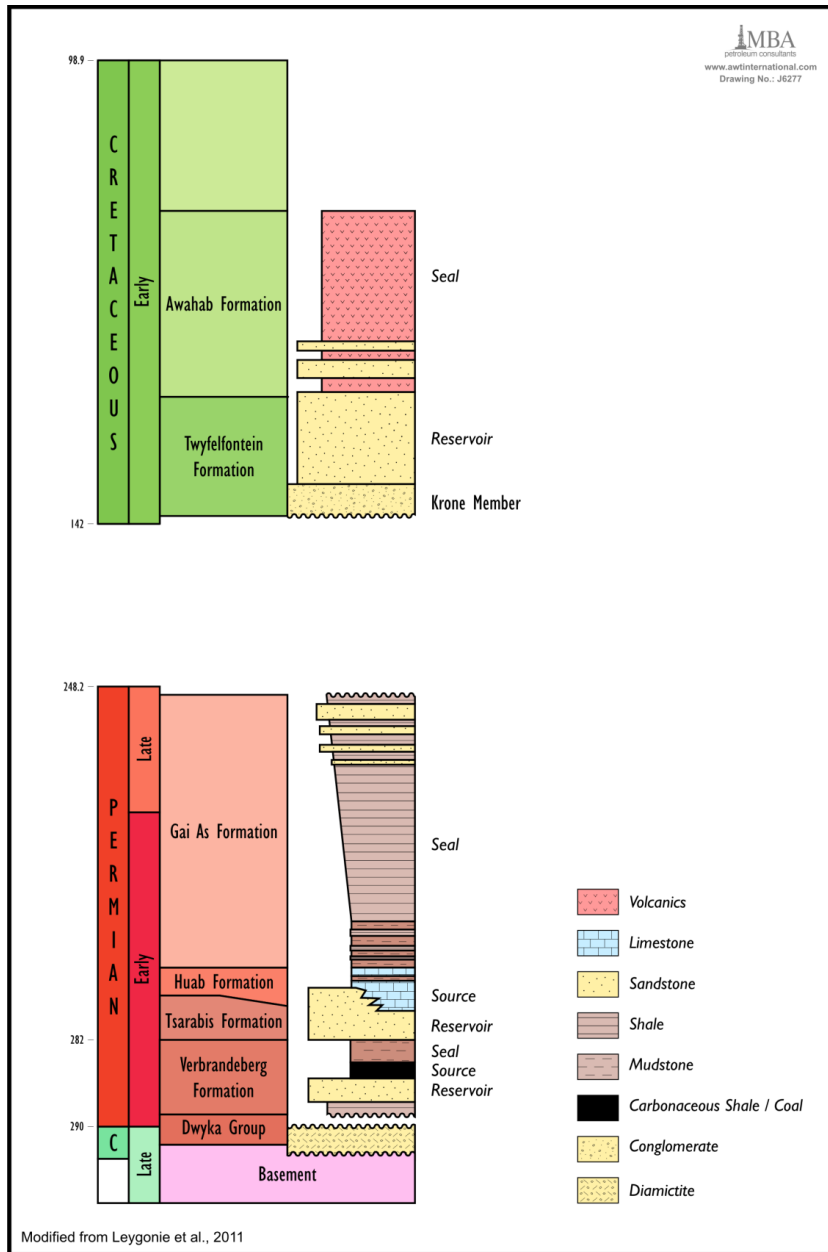


Figure 4

Stratigraphic Section (Modified from Leygonie et. al., 2011)

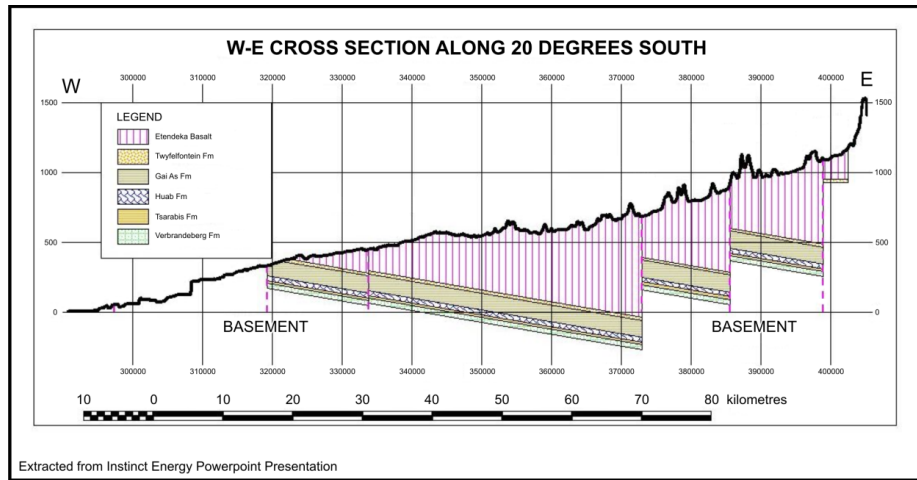


Figure 5 Huab Basin Cross Section Through Permit Areas

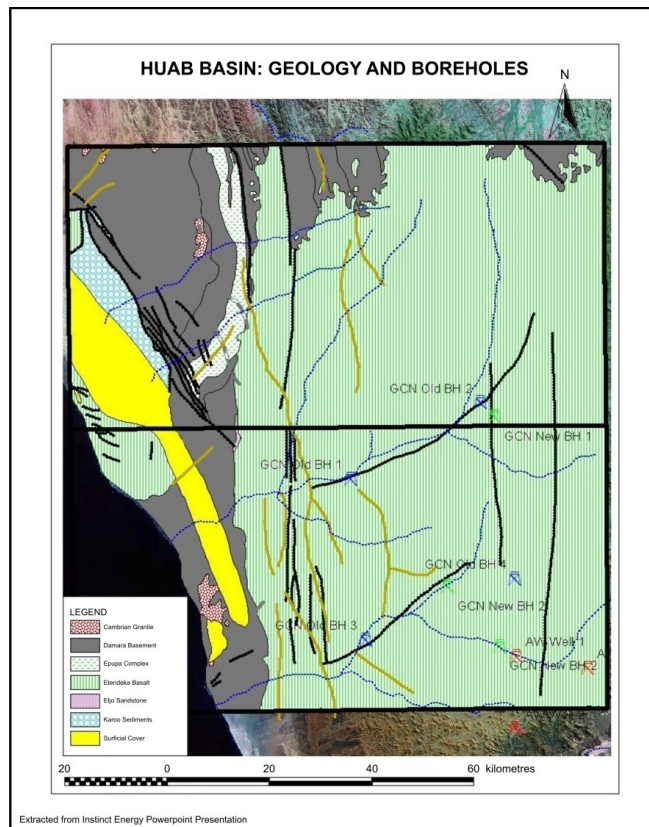


Figure 6 Permit Area Surface Geology and Borehole Locations

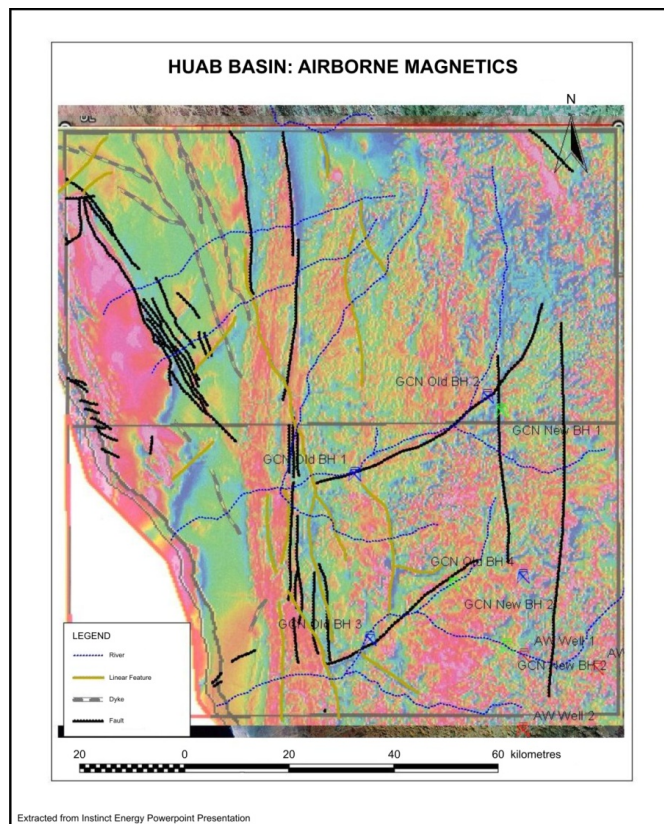


Figure 7 Airborne Magnetics with Mapped Faults

3.2 Exploration History

It is difficult to ascertain the extent of previous exploration due to the lack of available data. However at least 17 coal exploration bores of 1970s and 80s vintage have been confirmed to exist within and proximal to the permit areas (Leygonie & Kotze, 2011). Those within the permit areas are included in Figure 6, though no original data for these bores was available for review. Leygonie and Kotze (2011) report coal intersections of up to 10m in thickness for these bores. They also suggest the bores were poorly drilled with inadequate sampling protocols and low core recovery.

No previous seismic work has been identified however low resolution airborne magnetics surveys have been acquired.

3.3 Plays

Hydrocarbons in the basin may be present in commercial quantities in a variety of play types including Coal Seam Gas (CSG), Shale Gas/Oil and Conventional Gas/Oil. These are outlined below.

3.3.1 Coal Seam Gas (CSG)

Though it remains untested, the Verbrandeberg Formation within the basal Ecca Group appears prospective for CSG. From reports detailing the scarce local borehole data it is apparent that

some areas host at least 10m of bituminous to anthracitic coal within the depth range required for economic CSG extraction, approximately 70 to 700m below ground level (Leygonie & Kotze, 2011). Single seams up to 1.5m in thickness are noted which is suitable for a range of well completion types (Cairncross, 2001). The variable structural regime should ensure a location can be found where permeability is favourable for gas production. Coal quality is considered poor, which along with the presence of dolerite intrusives increases risk (Cairncross, 2001).

3.3.2 Shale Gas/Oil

The Karoo sequence is prospective for shale gas/oil, particularly within the Huab Formation. This sequence hosts oil shales and other organic rich units and attains a maximum thickness of 75 metres (Leygonie *et al.*, 2011). No details of the source richness or thickness of these sequences are available for discussion in this report.

3.3.3 Conventional Hydrocarbons

Within the permit area are numerous source, reservoir and sealing units. It is feasible that these could coalesce to produce an economic conventional hydrocarbon accumulation if the relative timing of generation, migration and deformation was favourable.

Potential source rocks include the coals of the Verbrandeberg Formation and the organic rich marine shales of the Huab Formation. Above these are the sandstones of the Tsarabis and Twyfelfontein Formations, which are predicted to attain over 20% porosity and make good reservoir candidates (Leygonie *et al.*, 2011). Shales are present at numerous levels in the sequence, and along with the surface volcanics are expected to provide good seals. Traps may be present as classic anticlinal features, fault offsets or stratigraphic transitions.

3.4 Work Commitments and Programs

For the Huab Basin blocks, pursuant to its EPL applications INS have committed to the work program outlined in Table 3. However, they plan to more aggressively pursue the project and perform work over and above the commitment. Two chip holes in the first year and at least one core hole in either the first or the second year are proposed. In addition INS is considering an airborne magnetics survey. Collection and interpretation of such a survey will enable more accurate estimations of the thickness of the young basalts and the depth to the basal Karoo sediments which host the coals. Location of the various fault trends would also be confirmed.

TABLE 3 Huab Basin Permit Details

PERMITS	AWARD DATE	COMMITTED PROGRAM	MINIMUM EXPENDITURE
1913B and 2013A	3 May 2011	Aeromagnetic Study Geological Outcrop Studies Structural Analysis of the Basin	USD 570,000
HUAB BASIN NAMIBIA		Drill one hole Log hole and interpret geological history Geological analysis and desorption on core Resource Evaluation	

INS has provided a drilling program for the wells, which was prepared by an independent drilling consultant from the UK (K Mallin of Geolorme Consultants). The drilling program is high level

and details some of processes required in the drilling, chipping and coring processes, but requires detailed review and finalisation. Current planning by INS includes the drilling of two wells to basement, collecting chip samples at 1 metre intervals. This may then be followed by a well in which cores across the coals identified in the first two holes are collected. This core hole may be completed as a possible future gas producer. The high level cost estimates for these three wells have also been provided by Geolorne. The proposed well costs require a detailed review and should be only used as a guide for future well costs. Based on the INS planned work programs and the Geolorne cost estimations, the planned well program costs would be significantly in excess of the committed work program expenditures shown in Table 3.

The proposed chip holes are a logical and reasonable first step required for gaining a basic understanding of essential geological parameters such as coal distribution, depth and thickness. The resulting cuttings will also provide insight into coal quality and potentially gas content and composition. Data from these chip holes will be interpreted and modelled to delineate the most prospective portions of the blocks. Following these chip holes at least one core hole will be drilled. Coal intervals will be cored and desorption tests will be conducted in order to establish gas content, quality and composition. Other relevant tests such as stress testing and ultimate and proximate analyses may be also undertaken. The well will be wireline logged to establish vital reservoir properties. The above data is essential for resource and reserve estimates, directing future work and moving towards pilots and/or field development.

Overall, INS has provided a balanced, systematic, fair and reasonable work program with no superfluous expenditure or oversights. The work program appears achievable within the permit term.

4. CAPRIVI BASIN

The Caprivi Blocks (Permits 1723, 1724, 1725, 1823 & 1824) are located in far northeastern Namibia and encompass most of the Caprivi Basin. The basin covers some 11,300 km² and remains untested and unexplored (Figure 8).

4.1 Regional Geology

Little is known about the Caprivi Basin. Its fill is inferred from adjacent basins, and as well as being undrilled, displays no surface outcrop. Structural data is scarce and it would appear that all theories relating to the basin are derived from aerial photography, elevation and magnetic data. Together, these suggest the basin is an extension of the Kafue Trough, a large NE to SW trending faulted depression in southwestern Zambia. Beneath a volcanic veneer it is predicted to be filled with Karoo sediments (Leygonie & Kotze, 2011A). Analogous sediments are prolific coal producers in neighbouring Botswana, Zambia and Zimbabwe. The coals in these locations are recognised for their CSG potential, with thick continuous seams up to 12m in thickness reported in the literature (Cairncross, 2001).

A predicted stratigraphic column for the basin is illustrated in Figure 9.

The basin morphology is defined by three large NE - SW trending faults, the Ketima - Sibbinda, Gomare-Linyati and Chobe faults (Figure 10). These faults plunge to the northeast and have up to 50m of throw at the surface (Figure 11 - Leygonie & Kotze, 2011A). An interpreted schematic can be seen in Figure 12, however the true subsurface expression of the faults is unknown.

4.2 Exploration History

No previous drilling or seismic work appears to have been undertaken in the permit areas.

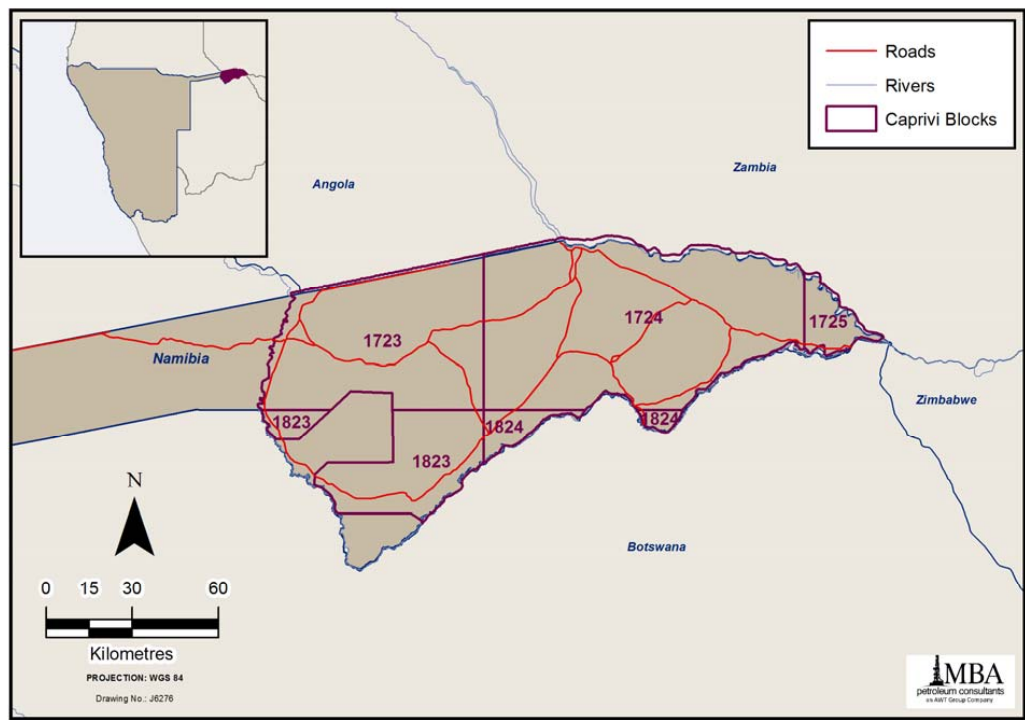


Figure 8 Caprivi Basin Location Map

4.3 Plays

If the Caprivi Basin does indeed host a typical Karoo sequence it may host hydrocarbons in a variety of play types including Coal Seam Gas (CSG), Shale Gas/Oil and Conventional Gas/Oil. These plays would be similar to those described for the Huab Basin in Section 3.3 above, as equivalent stratigraphy is predicted. Despite this, the lack of conclusive data and highly structured nature of the basin increase the risk for exploration.

4.4 Work Commitments and Programs

The agreed work commitment for the Caprivi Basin blocks is detailed in Table 4. As with the Huab Basin, INS intends to target the permits more aggressively. The planned work is considered fair and reasonable.

One core hole in the first year, followed by up to two core holes in the second year are planned. In addition INS is considering an airborne gravity survey. Collection and interpretation of such a survey would enable more accurate estimation of the thickness of the young basalts and the depth to the basal Karoo sediments which host the coals. Location of the various fault trends would also be confirmed. Depth to basement and fault identification at depth will be very important.

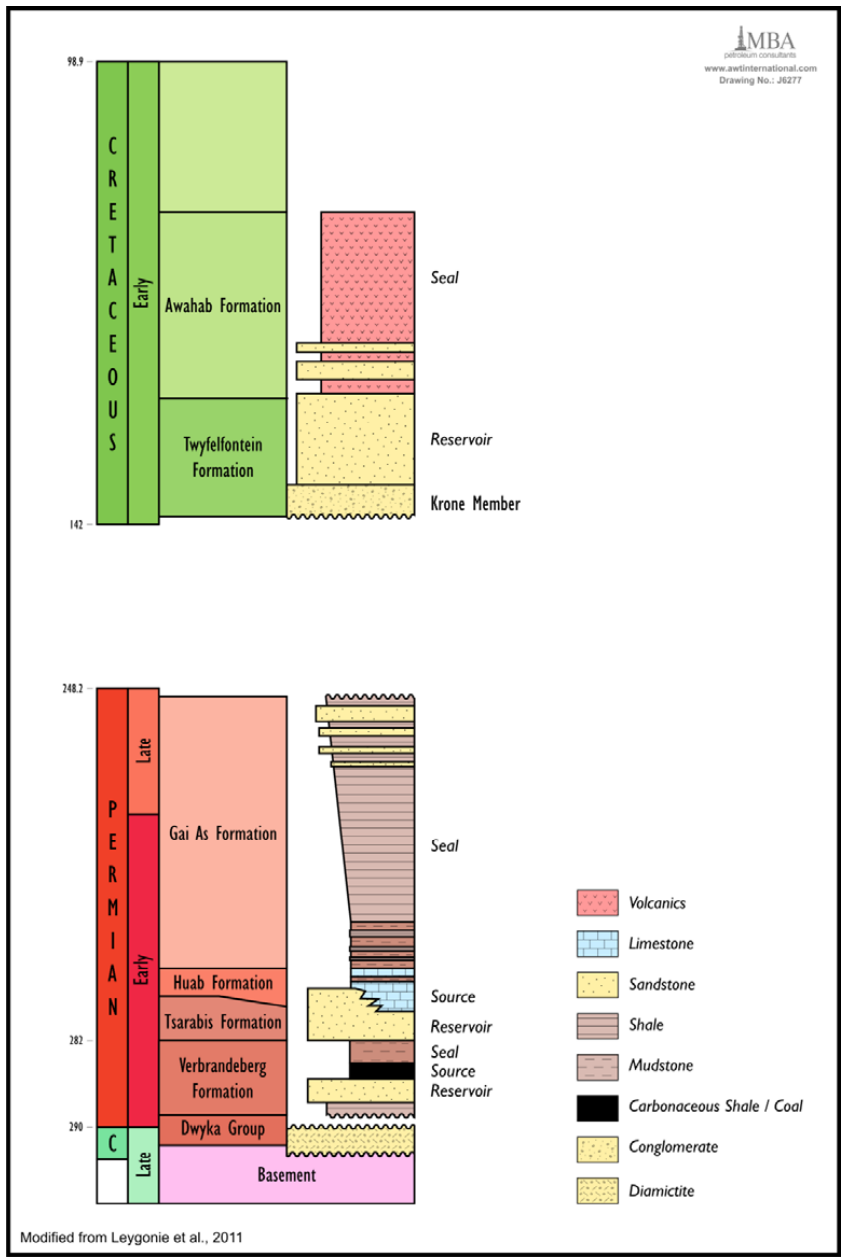


Figure 9 Stratigraphic Section (Modified from Leygonie et. al., 2011)

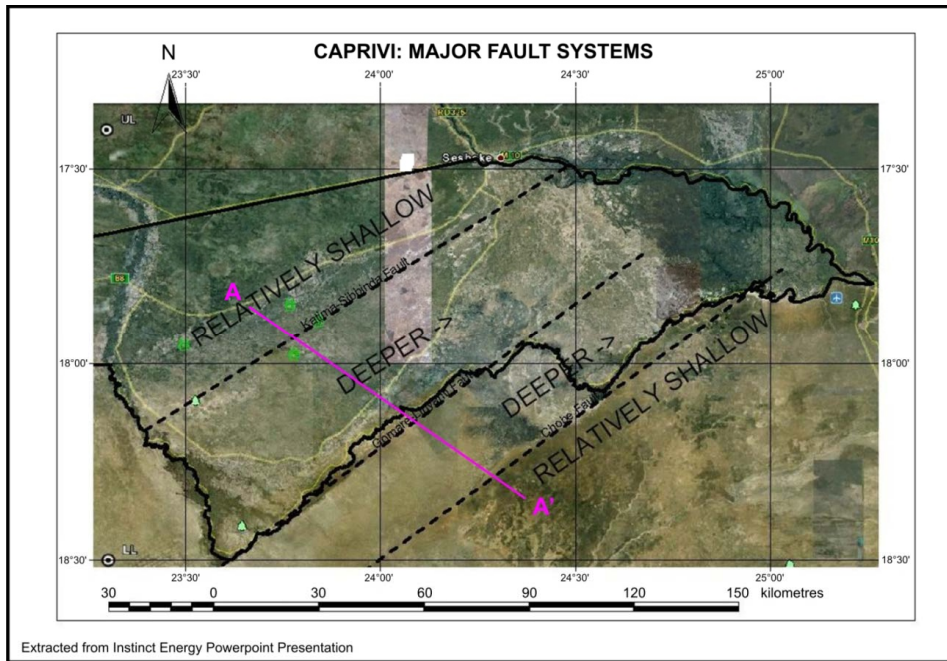


Figure 10 Caprivi Basin Fault Map

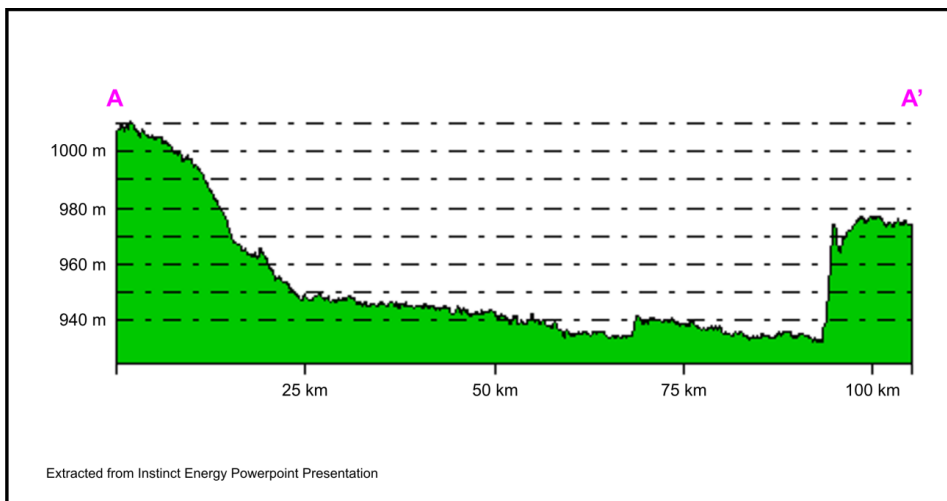


Figure 11 Caprivi Basin Topographic Section Showing Fault Locations

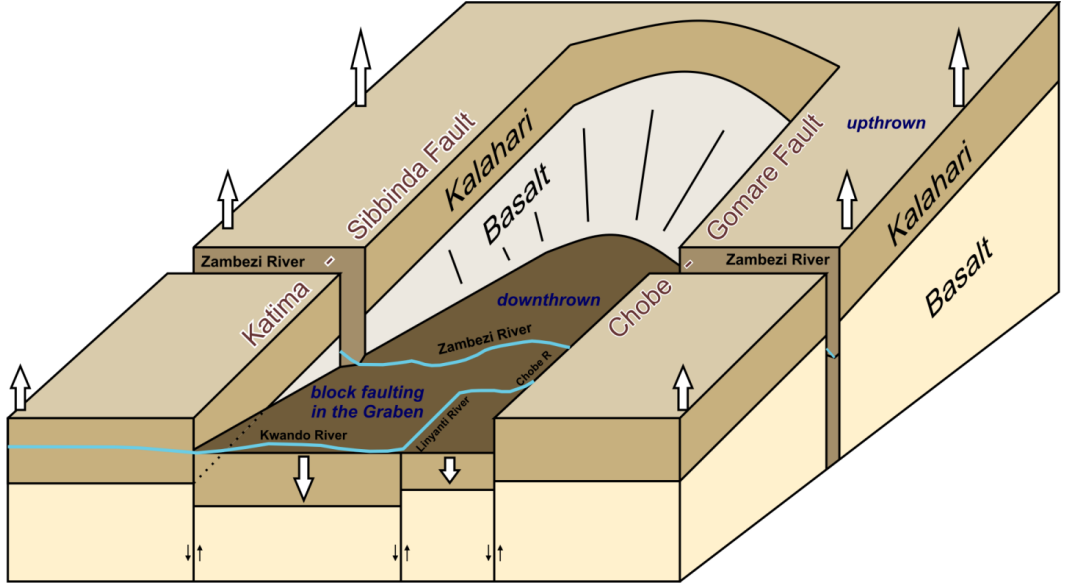


Figure 12 Caprivi Basin Fault Schematic

TABLE 4 Caprivi Basin Permit Details

PERMITS	AWARD DATE	COMMITTED PROGRAM	MINIMUM EXPENDITURE
1723, 1724, 1725, 1823 and 1824	3 May 2011	Aeromagnetic Study Geological Outcrop Studies Structural Analysis of the Basin Drill one hole Log hole and interpret geological history Geological analysis and desorption on core Resource Evaluation	USD 450,000
CAPRIVI BASIN NAMIBIA			

INS has provided a drilling program for the wells, which was prepared by an independent drilling consultant from the UK (K Mallin of Geolorne Consultants). The drilling program is high level and details some of processes required in the drilling and coring processes, but requires detailed review and finalisation. Current planning by INS includes the drilling of three wells to basement, collecting cores across the coal intervals. These cores would be desorbed in canisters to provide gas content information for the coals. The high level cost estimates for these three wells have also been provided by Geolorne. The proposed well costs require a detailed review and should be only used as a guide for future well costs. Based on the INS planned work program

utilising the Geolorne cost estimations, the planned well program costs would be significantly in excess of the committed work program expenditures shown in Table 4.

The proposed core holes are a logical and reasonable first step required for gaining a basic understanding of essential geological parameters such as coal distribution, depth and thickness and gas content and composition. Data from these core holes will be interpreted and modelled to delineate the most prospective portions of the blocks. Other relevant tests such as stress testing and ultimate and proximate analyses may also be undertaken. The wells will be wireline logged in order to establish vital reservoir properties. This data is essential for resource and reserve estimates, directing future work and moving towards pilots and/or field development.

Overall, INS has provided a balanced, systematic, fair and reasonable work program with no superfluous expenditure or oversights. The work program appears achievable within the permit term.

5. CAPRIVI BASIN COAL APPLICATIONS

As an adjunct to making application for the hydrocarbon rights for the Caprivi area, INS has made application for the coal rights for almost the entire area as well. The area has been applied for in eleven separate applications (Figure 13). These applications are discussed in detail below.

5.1 Regional Geology

The Caprivi area is underlain by mainly recent surficial deposits overlying a substantial thickness of Kalahari Beds. The Kalahari beds in turn overlie a basalt sequence analogous to the Etendeka Basalts in western Namibia, the Batoka Basalts in the Zambesi Basin and the Stormberg lavas in the Kalahari Basin. No other subsurface information is available as there has been no drilling in the basin. Extrapolation from Zambia, Zimbabwe and Botswana suggests a substantial thickness of Karoo Sequence rocks may exist underneath the basalts. This sequence is the main exploration target for this project and may include coal beds similar to Wankie in Zimbabwe and Maamba in Zambia, where coal seams up to 12m in thickness are recorded (Cairncross, 2001). They are typically of steaming quality, with high ash contents, moderate volatiles and low moisture contents (Cairncross, 2001).

5.2 Detailed Geology

The exploration target is a postulated lower Karoo sequence that may consist of a basal Dwyka-equivalent sequence overlain by a coal-bearing Ecca-equivalent (Wankie Fm, Gwembe Fm). The depth to this target zone may be 200-400m below the basalts. The basalts vary in thickness from perhaps ten to a few hundred metres as a result of filling the palaeo structure. The exact thickness in any location remains unknown. An estimated top coal depth for each EPL is provided below.

5.2.1 Itomba Exclusive Prospecting Licence (EPL)

Structurally, the Itomba EPL can be divided into a relatively shallow SE part and a relatively deep NW part created by the Chobe Fault (Figure 13) which has a surface expression through the area in a SW-NE direction. The amount of downthrow on the Chobe fault to the NW is uncertain. Additional complexity seems to be created by a possible 3-5° SE tilt in the fault block (graben) NW of the Chobe fault. The coal interval (if present) is predicted to occur at a depth of 400m-800m from surface, largely dependent on which side of the Chobe Fault is explored.

5.2.2 Kabbe EPL

The Kabbe EPL is bisected by the Gomare-Linyanti Fault (Figure 13) and bounded in the south by the Chobe Fault. The Kabbe EPL therefore lies fully within the deeper parts of the downfaulted blocks. Both fault blocks seem to show a slight tilt of some 3°-5° to the east. There is no

indication of the exact amount of fault offset. The coal interval (if present) is estimated to occur at 540m-760m below ground level.

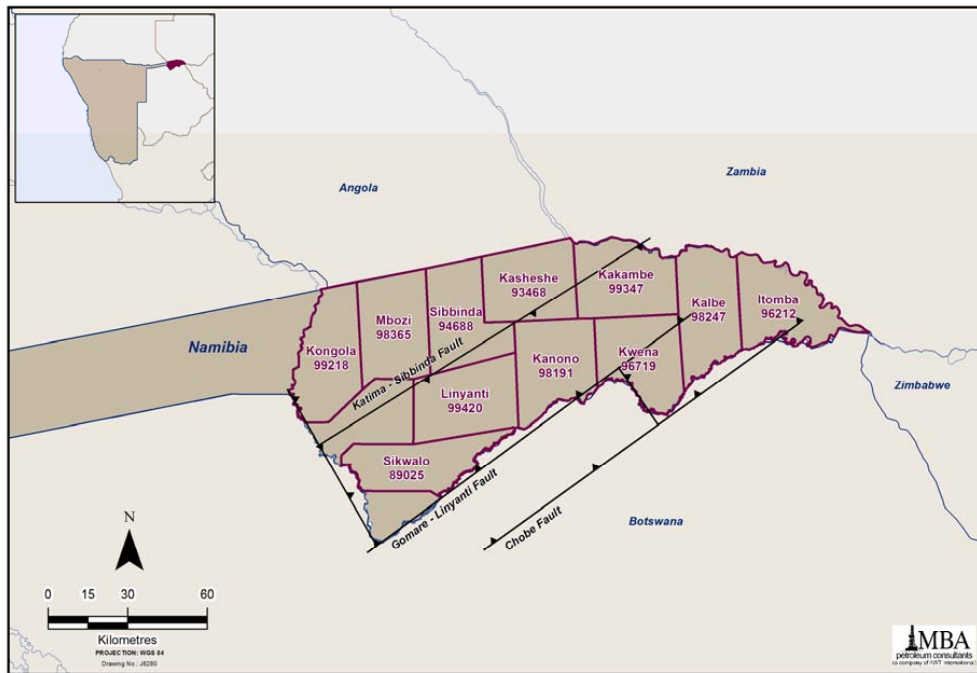


Figure 13 Caprivi Basin Coal Application Areas

5.2.3 Kalembesa EPL

The Kalembesa EPL falls fully within the down-faulted block bound on the western side by the Sibbinda-Katima Fault (Figure 13), and on the eastern side by the Gomare-Linyanti Fault. The amount of fault offset is unknown. The coal interval (if present) is predicted to occur at a depth of 500-720m from surface

5.2.4 Kasheshe EPL

The Kasheshe EPL is bisected by the Katima-Sibbinda Fault (Figure 13) resulting in a deeper Karoo section to the east and a relatively shallow basement to the west. The amount of throw to the east is uncertain. The coal interval (if present) is estimated to occur at 460-640m below ground level in the area east of the Sibbinda-Katima Fault.

5.2.5 Sibbinda EPL

The Sibbinda EPL block is bisected by the Katima-Sibbinda Fault (Figure 13). This fault is downthrown to the east but the offset is unknown. It is expected that the basement will be shallower to the west of the fault. The coal interval (if present) is predicted to occur at a depth of 400-560m from surface in the downthrown portion of the EPL.

5.2.6 Mbozi EPL

The Katima-Sibbinda Fault (Figure 13) cuts through the lower portion of the Mbozi EPL, with an associated throw of unknown amount down to the east. The majority of the EPL area is expected to have a relatively shallow depth to basement of possibly some 400-500m, with coals expected to occur in the lower hundred metres of section.

5.2.7 Kongola EPL

The Katima-Sibbinda Fault (Figure 13) cuts through the very southern part of the Kongola EPL, making for a relatively shallow depth basement over most of the EPL area. Coal is expected to occur at approximately 400m below ground level.

5.2.8 Kwena EPL

The Gomare-Linyanti Fault (Figure 13) bisects the EPL area, and the due to the downwarp to the north of the fault blocks between the Sibbinda-Katima and Gomare-Linyanti, the basement on either side of the bisecting fault is expected to be relatively deep. Coals are hence expected to occur at approximately 600 to 700m below ground level.

5.2.9 Chinchimane EPL

The Gomare-Linyanti Fault (Figures 11 & 12) cuts through the southern boundary of the Chinchimane EPL, which lies almost completely within the downfaulted block (graben) between the Gomare-Linyanti and the Sibbinda-Katima Faults. As a result, the basement may be relatively deep in the EPL area and coals are predicted to occur at a depth of 500 to 650m.

5.2.10 Linyanti EPL

The Linyanti EPL lies within the fault block bounded to the NW by the Sibbinda-Katima Fault (Figure 13) and to the SE by the Gomare-Linyanti Fault. This block is downthrown to the north along a hinge line running along the Kwando River. As the EPL area is so close to the hinge line, the depth to basement is not expected to be overly deep. Coals are expected to be encountered at 560 to 580m below the surface.

5.2.11 Sangwali EPL

The Sangwali EPL is located within the down-faulted block between the Sibbinda-Katima and Gomare-Linyanti Faults (Figure 13). However, since it is close to the hinge line on the Kwando River, the basement depth is not expected to be much deeper than outside of the fault blocks. Coals are predicted to occur at a depth of approximately 400m below ground level.

5.3 Work Commitments and Programs

It is believed that there has been no coal drilling or other significant geological or structural work undertaken in these areas in the past. The main objectives of the initial exploration phase will be to understand the depth to the basin floor, the geology of the sediments (particularly as they pertain to coal) and the location and general movement of the faults which are known from surface expression to exist there. Initial studies will include surface magnetics surveys. Interpretation of these will determine the location of one or more borehole locations that will penetrate basement to determine the existence, quantity and quality of potential coal seams. Follow-up exploration phases will be mainly core drilling to obtain geological intersections and samples for modelling. Detail on the work programs for Years 1 and subsequent years are included in Tables 5 and 6. The commitments in each of the application blocks are identical.

The work programs are a logical approach required to understand the location, depth, thickness and coal quality in the areas. These are well thought out exploration programs which will identify the fault locations at depth then follow that with the drilling campaign to define the coals present.

TABLE 5 Caprivi Basin Coal Application Work Commitments Year 1

Exploration Program	Time frame	Expenditure
Deep EM soundings over selected areas	2 months	N\$250,000
Stratigraphic/geological drill hole	2 months	N\$300,000
Logging, Assaying	1 month	N\$50,000
Total:	5 Months	N\$600,000*

*N\$600,000 is approximately USD88,000

TABLE 6 Caprivi Basin Coal Application Work Commitments Subsequent Years

Exploration Program	Time frame	Expenditure
Additional EM surveys	2 months	N\$250,000
Exploration (Resource) Drilling	2 months	N\$300,000
Logging, Assaying	1 month	N\$50,000
Total:	5 Months	N\$600,000*

*N\$600,000 is approximately USD88,000

6. STATEMENTS

6.1. Limitations

MBA has primarily relied on data supplied by INS. This information consisted of production reports, seismic data, well completion reports, geological and geochemical studies, interpreted technical studies and other technical reports. These were compiled and written by various industry and government bodies. The material was reviewed for its quality, accuracy and validity and was considered to be acceptable. It is believed that the information received from INS is both reliable and complete and there is no reason to believe that any material facts have been withheld. However, no warranty can be given that this review has analysed all of the matters, which a more extensive examination might reveal. The opinions and statements in this report are made in good faith and in the belief that such opinions and statements are not misleading.

6.2 Declaration

MBA Petroleum Consultants has not had and, at the date of this report, does not have any relationship with INS or their subsidiary companies that could be regarded as capable of affecting MBA's ability to provide an unbiased opinion in relation to this report. A fee will be received for the preparation of this report and this is not contingent on the outcome of INS's admission to trading on ASX. MBA will receive no other benefit for the preparation of the report. Neither Wal Muir nor Doug Barringer has any pecuniary or other interest which could be regarded as capable of affecting their ability to provide an unbiased opinion in relation to this report. Advance copies of this report were provided to the Directors of INS and minor changes were made as a consequence. There have been no material changes made to the report.

This report has been prepared based on information available up to and including 4th August 2011. MBA Petroleum Consultants has given and not withdrawn its written consent to the inclusion of this report in the Prospectus in the form and context in which this report appears.

6.3 Qualifications of the Author

Wal Muir

Wal Muir has a B.Sc. (Hons) degree from the University of New South Wales (1978) with a double major in Geology, a major in Pure Mathematics and Honours in Geophysics. He has a Master of Business Administration (1989) from the University of Queensland. Mr Muir has more than 30 years of experience in the petroleum exploration and production industry, both within Australia and overseas. As a Technical Director of AWT International (AWT), he has undertaken projects for many clients in Australia and overseas. AWT is focussed on exploration, development, drilling and petroleum technology in the fields of shale gas, coal seam methane, conventional oil and gas and CO₂ storage sites. MBA is a wholly owned subsidiary of AWT. Wal is a member of the Australian Society of Exploration Geophysicists, Queensland Petroleum Exploration and is a Distinguished Member of the Petroleum Exploration Society of Australia (PESA). He has filled all the executive positions at PESA Queensland, and was Federal President of PESA from 1997 until 1999. Mr Muir is an Adjunct Professor in Biogeosciences at the Queensland University of Technology.



Wal Muir
Director
MBA Petroleum Consultants Pty Ltd

REFERENCES

- Cairncross, B., 2001. *An Overview of the Permian (Karoo) coal deposits of southern Africa*. Journal of African Earth Sciences, **33**, 529-562.
- Catuneanu, O., Wopfner, H., Eriksson, P.G., Cairncross, B., Rubidge, B.S, Smith, R.M.H. & Hancox, P.J., 2005. *The Karoo basins of south-central Africa*. Journal of African Earth Sciences, **43**, 211-253.
- Zambia Ministry of Mines (ZMOM), 1983. *Coal Exploration Zambia (1983 position and projections for the future)*. Zambia Ministry of Mines.
- Leygonie, F.E. & Kotze W.H., 2011. *Assessment of Coal-Bed Methane Potential in the Huab Basin*. Report Compiled by Mineral Exploration International.
- Leygonie, F.E. & Kotze W.H., 2011A. *Report on Geological Review, Field Work, Airborne EM Survey and SRTM Elevation Interpretation*. Report compiled for CSG Energy Namibia by Geomine Consulting.
- Leygonie, F.E., Kotze, W.H. & Wanke, A., 2011. *Huab Basin CBM - Report on Geological Review, Field Work and Airborne Magnetic Survey Interpretation*. Report compiled for CSG Energy Namibia by Geomine Consulting.

List of Figures

Figure 1 Exploration Permits4
Figure 2 Caprivi Basin Coal Applications5
Figure 3 Huab Location Map6
Figure 4 Stratigraphic Section (Modified from Leygonie et. al., 2011)7
Figure 5 Huab Basin Cross Section Through Permit Areas8
Figure 6 Permit Area Surface Geology and Borehole Locations8
Figure 7 Airborne Magnetics with Mapped Faults9
Figure 8 Caprivi Basin Location Map 12
Figure 9 Stratigraphic Section (Modified from Leygonie et. al., 2011) 13
Figure 10 Caprivi Basin Fault Map 14
Figure 11 Caprivi Basin Topographic Section Showing Fault Locations 14
Figure 12 Caprivi Basin Fault Schematic..... 15
Figure 13 Caprivi Basin Coal Application Areas 17

For personal use only

List of Tables

TABLE 1 Summary Table of Permits	3
TABLE 2 Summary Table of Applications.....	3
TABLE 3 Huab Basin Permit Details	10
TABLE 4 Caprivi Basin Permit Details	15
TABLE 5 Caprivi Basin Coal Application Work Commitments Year 1	19
TABLE 6 Caprivi Basin Coal Application Work Commitments Subsequent Years.....	19

Glossary and Definitions

1C Denotes low estimate scenario of Contingent Resources

2C Denotes best estimate scenario of Contingent Resources

3C Denotes high estimate scenario of Contingent Resources

Basin A depression of large size, filled with sediment which is usually structural in origin

Bcf Billion Cubic Feet Gas

Best Estimate

With respect to resource categorization, this is considered to be the best estimate of the quantity that will actually be recovered from the accumulation by the project. It is the most realistic assessment of recoverable quantities if only a single result were reported. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

boe Barrels of oil equivalent. Natural gas is converted to barrels of oil equivalent using a ratio of 5,487 cubic feet of natural gas per one barrel of crude oil.

Bopd Barrels of oil per day

Condensate

A low-density liquid hydrocarbon phase that generally occurs in association with natural gas. Its presence as a liquid phase depends on temperature and pressure conditions in the reservoir allowing condensation of liquid from vapor.

Contingent Resources

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources.

DST Drill Stem Test. A procedure to determine the productive capacity, pressure, permeability or extent (or a combination of these) of a hydrocarbon reservoir.

Exploration Prospecting for undiscovered petroleum.

Gas condensate

Hydrocarbon liquid dissolved in saturated natural gas that comes out of solution when the pressure drops below the dewpoint.

High Estimate

With respect to resource categorization, this is considered to be an optimistic estimate of the quantity that will actually be recovered from an accumulation by a project. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

Hydrocarbon

A naturally occurring organic compound comprising hydrogen and carbon. Hydrocarbons can be as simple as methane [CH₄], but many are highly complex molecules, and can occur as gases, liquids or solids.

Improved Recovery

Improved Recovery is the extraction of additional petroleum, beyond Primary Recovery, from naturally occurring reservoirs by supplementing the natural forces in the reservoir. It includes waterflooding and gas injection for pressure maintenance, secondary processes, tertiary processes and any other means of supplementing natural reservoir recovery processes. Improved recovery also includes thermal and chemical processes to improve the in-situ mobility of viscous forms of petroleum. (Also called Enhanced Recovery.)

Lead A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. A project maturity sub-class that reflects the actions required to move a project toward commercial production.

Logs The measurement versus depth or time, or both, of one or more physical quantities in or around a well. Logs are measured downhole, and transmitted through a wireline to surface and recorded there.

Low/Best/High Estimates

The range of uncertainty reflects a reasonable range of estimated potentially recoverable volumes at varying degrees of uncertainty (using the cumulative scenario approach) for an individual accumulation or a project.

Low Estimate

With respect to resource categorization, this is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation by a project. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.

mKB metres below the Kelly Bushing on the rig

MMbbl Million Barrels Oil

OCM Oil cut mud. Drilling mud which has mixed with oil from the reservoir.

Play A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects. A project maturity sub-class that reflects the actions required to move a project toward commercial production.

Pool An individual and separate accumulation of petroleum in a reservoir.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target. A project maturity sub-class that reflects the actions required to move a project toward commercial production.

Prospective Resources

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Reservoir

A subsurface rock formation containing an individual and separate natural accumulation of moveable petroleum that is confined by impermeable rocks/formations and is characterized by a single-pressure system.

Resources

The term "resources" as used herein is intended to encompass all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth's crust, discovered and undiscovered, plus those quantities already produced.

Risk The probability of loss or failure. As "risk" is generally associated with the negative outcome, the term "chance" is preferred for general usage to describe the probability of a discrete event occurring.

TD The total depth of the well. When a well has reached TD, no further drilling takes place.

TOC Total Organic Carbon, being the amount of carbon bound in an organic compound. It is a measure of the richness of a source rock.

For personal use only

i n s t i n c t
e n e r g y l i m i t e d

68

RSM Bird Cameron Corporate Pty Ltd

RSM Bird Cameron Corporate Pty Ltd
8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9102
www.rsmi.com.au

Direct Line: (08) 9261 9447
Email: andy.gilmour@rsmi.com.au
AJG/NEM

5 August 2011

The Directors
Instinct Energy Limited
29 Bay Road
CLAREMONT, WA 6010

Dear Sirs

Investigating Accountant's Report

1. Introduction

- 1.1 This report has been prepared at the request of the Directors of Instinct Energy Limited ("Instinct" or "the Company") for inclusion in a Prospectus to be dated on or about 23 August 2011, relating to the proposed offer of up to 35,000,000 fully paid ordinary shares in the Company at an issue price of \$0.20 per share, to raise up to \$7.0 million and the public listing of the shares of the Company on the Australian Securities Exchange ("ASX").
- 1.2 The minimum subscription is 25,000,000 shares at an issue price of \$0.20 to raise \$5 million. The Company will not accept oversubscriptions.
- 1.3 This report has been prepared in accordance with the general disclosure requirements of the Corporations Act 2001 to assist investors make an informed assessment of the financial position and performance of Instinct and its subsidiaries ("the Group").
- 1.4 The future prospects of Instinct, other than the preparation of a Pro-Forma Consolidated Statement of Financial Position of the Group assuming completion of the proposed transactions, are not addressed in this report. This report also does not address the rights attaching to the shares to be issued pursuant to this Prospectus, nor the risks associated with the investment.

2. Background

- 2.1 The Company was incorporated on 13 April 2010 as CSG Energy Limited. The Company was renamed Instinct Energy Limited on 2 December 2010.
- 2.2 The principal activity of the Company is the exploration for economic Coal Bed Methane ("CBM") and coal resources in Namibia and Sub-Saharan Africa.

RSM Bird Cameron
Corporate Pty Ltd
ABN 82 050 508 024
AFS Licence No 255847

Major Offices in:
Perth, Sydney,
Melbourne,
Adelaide and
Canberra

RSM Bird Cameron Corporate Pty Ltd is beneficially owned by the Directors of RSM Bird Cameron. RSM Bird Cameron is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

1

RSM Bird Cameron Corporate Pty Ltd

AFS Licence No 255847

- 2.3 Start-up capital comprising 10,000,000 ordinary fully paid shares was issued in March 2011 for a total consideration of \$157,680.
- 2.4 On 27 June 2011, seed capital of \$2,228,000 was issued comprising 22,800,000 fully paid ordinary shares at \$0.10 per share following the release of an Information Memorandum in February 2011.
- 2.5 The Company owns 100% of the issued share capital of CSG Energy Namibia (Pty) Ltd ("CSG"), a private company incorporated in Namibia.

Huab Basin

- 2.6 On 3 May 2011, CSG was granted a petroleum exploration and production licence from the Ministry of Mines and Energy of Namibia over an area in the Huab Basin. The licence is for two years and requires US \$570,000 to be spent on exploration over the licence term on the Huab Basin tenements. Instinct holds 85% of the licence and the remaining 15% is a free carried interest held by the Namibian national oil company Namcor and the Black Empowerment Entity ("BEE"), the Kunene Regional Development Trust.

Caprivi Basin

- 2.7 On 3 May 2011, CSG was granted a petroleum exploration and production licence from the Ministry of Mines and Energy of Namibia over an area in the Caprivi Basin. The licence is for three years and requires US \$450,000 to be spent on exploration over the licence term on the Caprivi Basin tenements. Instinct holds 85% of the licence and the remaining 15% is a free carried interest held by Namcor and the BEE.
- 2.8 The Group has also applied for additional exploration licences in Namibia. Further details on the Group's projects are provided in Section 3 of the Prospectus.
- 2.9 The Company is now seeking to raise \$7.0 million and obtain a public listing of the shares on the ASX. Funds raised will be used to cover the costs of the offer, exploration expenses and ongoing working capital.

Performance Rights

- 2.10 Shareholders of the Company approved a Performance Rights Plan at a General Meeting on 5 August 2011 and the grant of a total of 32,800,000 performance share rights ("Performance Rights") under this plan.
- 2.11 20,000,000 of the Performance Rights will be issued to the founders of the Company, Namibian consultants and initial shareholders in the Company. The Performance Rights are divided into three equal tranches and convertible into ordinary fully paid shares upon the satisfaction of performance milestones. Each tranche will vest upon the satisfaction of resource, share price or production targets. Details of these Performance Rights and vesting conditions are shown in Section 11.2 and 11.3 of the Prospectus.
- 2.12 The remaining 12,800,000 Performance Rights will be issued to management, directors and key consultants under the same terms as the above Performance Rights. Details of the share holdings and Performance Rights of key personnel are shown in Section 11.5 of the Prospectus.

RSM Bird Cameron Corporate Pty Ltd

AFS Licence No 255847

3. Scope of Examination

- 3.1. You have requested RSM Bird Cameron Corporate Pty Ltd to prepare an Investigating Accountant's Report ("Report") for inclusion in the Prospectus covering the following information:
- The Unaudited Consolidated Statement of Comprehensive Income of the Group for the period ended 30 June 2011;
 - The Unaudited Consolidated Statement of Financial Position of the Group as at 30 June 2011;
 - The Pro-Forma Unaudited Consolidated Statement of Financial Position of the Group as at 30 June 2011, assuming the completion of transactions summarised in Sections 5 and 6 of this Report; and
 - The notes to the Financial Information.
- 3.2. The financial information has been prepared and presented in accordance with the accounting policies set out in Note 1 to the Financial Information.
- 3.3. Our review has been conducted in accordance with the Australian Auditing Standard on Review Engagements ASRE 2405. We made such enquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:-
- An analytical review of all the financial information presented, including a review of the reasonableness of the adjustments used to compile the Pro-Forma Unaudited Consolidated Statement of Financial Position as at 30 June 2011;
 - A comparison of consistency in the application of the recognition and measurement principles in Accounting Standards (including Australian Accounting Interpretations) and the accounting policies adopted by the Group and disclosed in Note 1 of the Appendix to this report;
 - Inspection of financial records; and
 - Enquiries of directors and management.
- 3.4. These procedures were substantially less in scope than that which would be required in an audit examination conducted in accordance with Australian Auditing Standards, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

4. Responsibility

- 4.1. The Directors are responsible for the preparation of the Historical and Pro-Forma Financial Information.
- 4.2. It is our responsibility to review the Historical and Pro-Forma Financial Information and report thereon. We disclaim any responsibility for any reliance on this report or the financial information to which it relates for any other purpose other than for which it is prepared. This report should be read in conjunction with the rest of the Prospectus.

5. Subsequent Events

- 5.1. As detailed in Section 2, shareholders of the Company approved the grant of a total of 32,800,000 Performance Rights on 5 August 2011.

RSM Bird Cameron Corporate Pty Ltd

AFS Licence No 255847

- 5.2. Apart from the above, having regard to the scope of our work, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of the Group have come to our attention that are not otherwise disclosed in this Prospectus, which require further comment upon or adjustment to, the information referred to in this report, or which would cause the information in this report to be misleading.

6. Assumptions Adopted in Compiling the Pro-Forma Financial Information

- 6.1. The Pro-Forma Consolidated Statement of Financial Position of the Group has been included for illustrative purposes only. The Pro-Forma Consolidated Statement of Financial Position as at 30 June 2011 has been prepared by adjusting the Unaudited Consolidated Statement of Financial Position as at that date to reflect the financial effects of the subsequent events detailed above and the following transactions as if they had occurred at 30 June 2011:
- i) The issue of 35,000,000 fully paid ordinary shares at \$0.20 each to raise \$7,000,000 pursuant to this Prospectus ("the Capital Raising"); and
 - ii) The payment of costs associated with the Capital Raising, estimated to be \$650,000 - these costs have been netted against share capital raised.

7. Review Statement on Historical and Pro-Forma Financial Information

- 7.1. Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information set out in the Appendix to this Report does not present fairly:
- The Unaudited Consolidated Statement of Comprehensive Income of the Group for the period ended 30 June 2011 prepared as if the transactions summarised in Sections 5 and 6 of this report had taken place prior to the commencement of the period;
 - The Unaudited Consolidated Statement of Financial Position of the Group as at 30 June 2011; and
 - The Pro-Forma Unaudited Consolidated Statement of Financial Position of the Group as at 30 June 2011, adjusted to include the effects of the Capital Raising proposed in the Prospectus and the completion of the other transactions summarised in Sections 5 and 6 of this report.

8. Declaration

- 8.1. RSM Bird Cameron Corporate Pty Ltd is a licensed investment adviser under the Corporations Act 2001 and is beneficially owned by the directors of RSM Bird Cameron, a large national firm of Chartered Accountants.
- 8.2. Mr A J Gilmour FCA is a director and representative of RSM Bird Cameron Corporate Pty Ltd and a director of RSM Bird Cameron. He has professional qualifications and experience appropriate to the advice offered.
- 8.3. RSM Bird Cameron Corporate Pty Ltd has acted as Investigating Accountant for the Company but has not been involved in the preparation of any other part of this Prospectus. Accordingly, we make no representations as to the completeness and accuracy of the information in any other part of this Prospectus. RSM Bird Cameron Corporate Pty Ltd has not made and will not make any recommendation, through the issue of this report, to potential investors in the Company as to the merits of the investment.

RSM Bird Cameron Corporate Pty Ltd

AFS Licence No 255847

- 8.4. RSM Bird Cameron Corporate Pty Ltd will receive a fee for the preparation of this report based on actual hours spent on the assignment at normal professional rates. RSM Bird Cameron Partners are the appointed auditors of the Company and will receive a fee for this service in line with standard professional rates. With the exception of the above fees, neither Mr A J Gilmour nor RSM Bird Cameron Corporate Pty Ltd will receive any other benefits, either directly or indirectly, from the preparation of this report and have no pecuniary or other interest which could be regarded as affecting the ability to provide an unbiased opinion in relation to the proposed transaction.
- 8.5. RSM Bird Cameron Corporate Pty Ltd has consented to the inclusion of this report in the Prospectus in the form and context in which it appears. At the date of this report, this consent has not been withdrawn.

Yours faithfully

Andrew Gilmour

A J GILMOUR
Director

For personal use only

Appendix A – Historical and Pro-Forma Financial Information

INSTINCT ENERGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 13 APRIL 2010 TO 30 JUNE 2011

	Unaudited Period ended 30 June 2011 \$
Revenue	
Interest revenue	7,379
Expenses	
Consulting and employment expenses	544,445
Administration and corporate expenses	91,172
Foreign exchange losses	79,371
Total expenses	<u>714,988</u>
Loss before income tax	<u>(707,609)</u>
Income tax expense	-
Loss after income tax expense	<u>(707,609)</u>
Other comprehensive income net of tax	-
Total comprehensive loss for the year attributable to members	<u><u>(707,609)</u></u>

Note: The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial information.

Appendix A – Historical and Pro-Forma Financial Information

INSTINCT ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	Unaudited 30 June 2011 \$	Pro-forma Transactions \$	Unaudited Pro-forma \$
Current Assets				
Cash	2	1,591,568	6,350,000	7,941,568
Other assets		8,973	-	8,973
Total Current Assets		1,600,541	6,350,000	7,950,541
Non Current Assets				
Property, plant and equipment		1,159	-	1,159
Exploration and evaluation expenditure	3	178,488	-	178,488
Total Non Current Assets		179,647	-	179,647
Total Assets		1,780,188	6,350,000	8,130,188
Current Liabilities				
Payables	4	142,170	-	142,170
Total Current Liabilities		142,170	-	142,170
Total Liabilities		142,170	-	142,170
Net Assets		1,638,018	6,350,000	7,988,018
Equity				
Contributed equity	5	2,345,627	6,350,000	8,695,627
Accumulated losses	6	(707,609)	-	(707,609)
Share based payment reserve	7	-	-	-
Total Equity		1,638,018	6,350,000	7,988,018

The Pro-Forma Unaudited Consolidated Statement of Financial Position represents the Unaudited Consolidated Statement of Financial Position as at 30 June 2011 adjusted for the subsequent events detailed in Section 5 and the pro-forma transactions outlined in Section 6 relating to the issue of shares pursuant to this Prospectus. The Consolidated Statements of Financial Position should be read in conjunction with the notes to the financial information.

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of financial information are:

a. Basis of preparation

The financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*.

Historical cost convention

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain assets, where appropriate.

Critical accounting estimates and judgements

The preparation of financial information in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

b. Principles of consolidation

The consolidated financial information incorporates the assets, liabilities and results of entities controlled by Instinct Energy Limited at the end of the reporting period. A controlled entity is any entity over which Instinct Energy Limited has the power to govern the financial and operating policies so as to obtain benefit from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

In preparing the consolidated financial information, all inter-group balances and transactions between entities in the Group have been eliminated on consolidation.

c. Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is measured at the fair value of the consideration received or receivable. Interest is recognised using the effective interest rate method.

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

d. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

e. Exploration and evaluation expenditure

Mining tenements are carried at cost, less accumulated impairment losses.

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest or sale of that area of interest, or where exploration and evaluation activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

f. Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

g. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

g. Income tax (cont.)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

h. Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

i. Share-Based Payments

The fair value determined at the grant date of equity-settled share-based payments is treated as the cost of assets acquired or expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Vesting is not conditional upon a market condition. No asset or expense is recognised for share-based payments that do not vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

2. CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2011	Unaudited Pro-forma
	\$	\$
Cash at bank	<u>1,591,568</u>	<u>7,941,568</u>
Cash at 30 June 2011		1,591,568
<i>Adjustments arising in the preparation of the pro-forma balance are summarised as follows:</i>		
Proceeds from the issue of 35,000,000 ordinary shares pursuant to the Prospectus (paragraph 6.1(i))		7,000,000
Payment of capital raising costs (paragraph 6.1(ii))		<u>(650,000)</u>
		6,350,000
Pro-forma balance		<u><u>7,941,568</u></u>

3. EXPLORATION AND EVALUATION EXPENDITURE

	Unaudited 30 June 2011	Unaudited Pro-forma
	\$	\$
Exploration and evaluation expenditure	<u>178,488</u>	<u>178,488</u>

4. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2011	Unaudited Pro-forma
	\$	\$
Trade and other payables	<u>142,170</u>	<u>142,170</u>

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

5. CONTRIBUTED EQUITY

	Number of ordinary shares	\$
Issued at incorporation	24,550,000	-
Share forfeit	(24,550,000)	-
Issued 1 March 2011 (at 0.1 cents)	5,196,650	5,197
Issued 1 March 2011 (at 1.5 cents)	3,098,850	46,483
Issued 1 March 2011 (at 2.0 cents)	300,000	6,000
Issued 1 March 2011 (at 7.12 cents)	1,404,500	100,000
Seed capital issued on 27 June 2011 (at \$0.10 per share)	22,280,000	2,228,000
Share issue costs	-	(40,053)
As at 30 June 2011	<u>32,280,000</u>	<u>2,345,627</u>

Adjustments arising in the preparation of the pro-forma balance are summarised as follows:

Fully paid ordinary shares issued at \$0.20 pursuant to the Prospectus (paragraph 6.1(i))	35,000,000	7,000,000
Costs associated with the share issue pursuant to the Prospectus (paragraph 6.1(ii))	-	(650,000)
	<u>35,000,000</u>	<u>6,350,000</u>
Pro-forma balance	<u>67,280,000</u>	<u>8,695,627</u>

Minimum Subscription

The minimum subscription provided for in the Prospectus is 25,000,000 shares to raise \$5.0 million.

In this situation the costs associated with the share issue would decrease to \$550,000, the cash at bank balance would fall by \$1,900,000 to \$6,041,568, the contributed equity would decrease by \$1,900,000 to \$6,795,627. The total number of shares on issue would be 57,280,000.

6. ACCUMULATED LOSSES

	Unaudited 30 June 2011 \$	Unaudited Pro-forma \$
Accumulated Losses	<u>(707,609)</u>	<u>(707,609)</u>

Appendix A – Historical and Pro-Forma Financial Information

**INSTINCT ENERGY LIMITED
NOTES TO THE FINANCIAL INFORMATION
AS AT 30 JUNE 2011**

7. SHARE BASED PAYMENT RESERVE

The grant of 32,800,000 performance share rights (“Performance Rights”) was approved at a General Meeting of shareholders on 5 August 2011. The Performance Rights are divided into three equal tranches and convertible into ordinary fully paid shares upon the satisfaction of performance milestones. Each tranche will vest upon satisfaction of resource, share price or production targets. Full details of these Performance Rights and vesting conditions are shown in Section 11 “Additional Information” of the Prospectus.

The share-based payment expense arising from the grant of these Performance Rights will be recognised evenly over the vesting period. As the Performance Rights were granted on the same date as this report, there is no accounting impact in the unaudited consolidated statement of comprehensive income or the pro-forma unaudited consolidated statement of financial position.

8. RELATED PARTY DISCLOSURES

- (a) The Directors of Instinct at the date of this report are Ian Tchacos, Robert Downey, John Wareing, Kevan Fearnley and Philip Moore and the Company Secretary is Bernard Crawford.
- (b) Directors’ holdings of shares, directors’ remuneration and other directors’ interests are set out in Section 11 “Additional Information” of the Prospectus.
- (c) The consolidated financial information includes the financial information of Instinct Energy Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest 30 June 2011	Investment \$ 30 June 2011
CSG Energy Namibia (Pty) Ltd	Namibia	100%	\$15

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Group has the following minimum spend requirements for exploration and development expenditure:

- i) US\$570,000 at the Huab Basin area of interest by 6 April 2013; and
- ii) US\$450,000 at the Caprivi Basin area of interest by 6 April 2014.