



ASX RELEASE

14 April 2014

## Aurora Scheme Booklet and Independent Expert's Report

- **Scheme Booklet registered with ASIC and to be dispatched to shareholders**
- **Independent Expert concludes Scheme is in the best interests of Aurora shareholders**
- **Aurora Directors unanimously recommend shareholders vote in favour**
- **Scheme meeting 21 May, expected implementation 10 June\***

Aurora Oil & Gas Limited (ASX:AUT, TSX:AEF) (**Aurora**) is pleased to announce that the Australian Securities and Investments Commission has registered the scheme booklet in relation to the proposed scheme of arrangement (**Scheme Booklet**) under which Baytex Energy Corp. (**Baytex**) will acquire, through its wholly owned subsidiary Baytex Energy Australia Pty Ltd, all of the shares in Aurora (**Scheme**). This follows the issuance of orders earlier today by the Federal Court of Australia approving dispatch of the Scheme Booklet.

Further, the independent expert appointed by the Aurora Board to review the transaction, Grant Samuel & Associates Pty Limited, has concluded that the Scheme is fair and reasonable and in the best interests of Aurora shareholders. The independent expert valued Aurora at A\$3.76 – A\$4.29 per share.

A copy of the Scheme Booklet, including the independent expert's report, is attached to this announcement and is available for review on the Aurora website at [www.auroraoag.com.au](http://www.auroraoag.com.au)

Printed copies of the Scheme Booklet, including the independent expert's report, will be sent to Aurora shareholders over the next few days.

If the Scheme is approved and all conditions precedent under the Scheme Implementation Deed between Aurora and Baytex, a copy of which was released to the ASX on 7 February 2014 (**SID**), are satisfied (or waived), shareholders will receive a total cash payment of \$4.10 (or the Canadian dollar equivalent) per Aurora share.

The Scheme consideration is at the upper end of the Independent Expert's valuation range and represents a 56% premium to \$2.62, being the last closing price of Aurora's shares on ASX on 6 February 2014, the last trading day prior to announcement of the SID and a substantial premium over the prices at which Aurora's shares have traded over an extended period of time.

Aurora's directors have considered the advantages and disadvantages of the proposed Scheme and unanimously recommend that shareholders vote in favour of the resolution required to implement the Scheme, in the absence of a superior proposal. The Aurora directors also intend to vote all Aurora shares that they control in favour of the Scheme, which amount to approximately 5.5% of the total current Aurora shares on issue.

If you have any questions in relation to the Scheme, please contact the Aurora shareholder information line on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia).

\*All dates are indicative only and are subject to the Court approval process, ASX approval and the satisfaction or, where applicable, waiver of conditions under the SID. Any changes to the above timetable will be announced to ASX and notified on Aurora's website at [www.auroraoag.com.au](http://www.auroraoag.com.au) and under Aurora's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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# SCHEME BOOKLET

**For a scheme of arrangement  
in relation to the proposed  
acquisition by Baytex Australia  
of all of your Aurora Shares for  
\$4.10 cash per Aurora Share**

YOUR DIRECTORS UNANIMOUSLY RECOMMEND  
THAT YOU APPROVE THE SCHEME BY VOTING IN  
FAVOUR OF THE RESOLUTION, IN THE ABSENCE  
OF A SUPERIOR PROPOSAL

This is an important document and requires your  
immediate attention. You should read this document  
carefully and in its entirety before deciding whether or not  
to vote in favour of the resolution to approve the Scheme.  
If you are in doubt as to what you should do, you should  
consult your legal, financial or other professional adviser.

**VOTE  
YES**



ACN 008 787 988

If, after reading this Scheme Booklet, you have any questions about the Scheme, please call the Aurora information line on 1800 095 654 (within Australia) or +61 2 8767 1004 (outside Australia) Monday to Friday between 6.30am and 5.30pm (Perth time). If you have questions regarding the number of Aurora Shares you hold or how to vote, please contact the Registry on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) Monday to Friday between 6.30am and 5.00pm (Perth time).

If you have recently sold all of your Aurora Shares, please disregard this document.



Financial Advisers



Legal Advisers

# Important notices



## Defined terms

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 9.

## This Scheme Booklet

This Scheme Booklet includes the explanatory statement required to be sent to Aurora Shareholders in relation to the Scheme under Part 5.1 of the Corporations Act. A copy of the proposed Scheme is set out in Attachment C to this Scheme Booklet.

You should read this Scheme Booklet carefully and in its entirety before making a decision as to how to vote on the resolution to be considered at the Scheme Meeting. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

## Responsibility for information

- (a) Except as provided in paragraphs (b) to (e) below, the information in this Scheme Booklet has been provided by Aurora and is the responsibility of Aurora. Baytex, Baytex Australia and their directors, officers, employees and advisors do not assume any responsibility for the accuracy or completeness of any such Aurora information.
- (b) Baytex and Baytex Australia have provided and are responsible for the Baytex Information. Aurora and its directors, officers, employees and advisors do not assume any responsibility for the accuracy or completeness of the Baytex Information.
- (c) Gilbert + Tobin has provided and is responsible for the information contained in Sections 7.1 to 7.4 (Australian tax consequences) and Davies Ward Phillips & Vineberg LLP has provided and is responsible for the information contained in Section 7.5 (Canadian federal income tax considerations). None of Aurora, Baytex or Baytex Australia assumes any responsibility for the accuracy or completeness of the information contained in Section 7. Neither Gilbert + Tobin nor Davies Ward Phillips & Vineberg LLP assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Sections 7.1 to 7.4, or Section 7.5 respectively.
- (d) The Independent Expert, Grant Samuel, has provided and is responsible for the information contained in Attachment E to this Scheme Booklet. Aurora does not assume any responsibility for the accuracy or completeness of the information contained in Attachment E to this Scheme Booklet except in relation to information given by it to the Independent Expert. Baytex and Baytex Australia do not assume any responsibility for the accuracy or completeness of the information contained in Attachment E to this Scheme Booklet. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in Attachment E.
- (e) The Independent Technical Expert, RISC Pty Ltd, has provided and is responsible for the information contained in the Independent Technical Expert's Report set out in the Independent Expert's Report contained in Attachment E to this Scheme Booklet. Aurora does not assume any responsibility for the accuracy or completeness of the information contained in the Independent Technical Expert's Report except in relation to information given by it to the Independent Technical Expert. Baytex and Baytex Australia do not assume any responsibility for the accuracy or completeness of the information contained in the Independent Technical Expert's Report. The Independent Technical Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Scheme Booklet other than that contained in the Independent Technical Expert's Report.

Computershare has had no involvement in the preparation of any part of this Scheme Booklet other than being named as Aurora's Registry. Computershare has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet. Orient Capital has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the proxy solicitation agent in respect of the Scheme and as operator of the Aurora information line. Orient Capital has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

## Important notice associated with Court order under subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of the meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter members must reach their own decision); or
- (b) has prepared, or is responsible for the content of, the explanatory statement.

## Investment decisions

The information in this Scheme Booklet does not constitute financial product advice. This Scheme Booklet has been prepared without reference to the investment objectives, financial situation or particular needs of any Aurora Shareholder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision. Independent legal, financial and taxation advice should be sought before making any investment decision in relation to your Aurora Shares.

## ASIC, ASX and TSX involvement

This document is the explanatory statement for the Scheme between Aurora and the holders of Aurora Shares as at the Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Attachment C.

A copy of this Scheme Booklet (including the Independent Expert's Report) has been lodged with and registered for the purposes of section 412(6) of the Corporations Act by ASIC. ASIC has been requested to provide a statement in accordance with section 411(17) (b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, then it will be produced to the Court on the Court Approval Date.

Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will be lodged with ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet (including the Independent Expert's Report) will be filed with TSX and on SEDAR with applicable Canadian securities regulatory authorities. The Scheme has not been approved or disapproved by TSX or any Canadian securities regulatory authority, nor has TSX or any Canadian securities regulatory authority passed on the fairness or merits of the Scheme or upon the accuracy or adequacy of the information contained in this Scheme Booklet and any representation to the contrary is unlawful.

Neither TSX nor any of its officers take any responsibility for the accuracy or completeness of this Scheme Booklet.

## Disclosure regarding forward looking statements

This Scheme Booklet contains both historical and forward-looking statements.

The forward-looking statements in this Scheme Booklet are not based on historical facts, but rather reflect the current views of Aurora or, in relation to the Baytex Information, Baytex and Baytex Australia, held only as at the date of this Scheme Booklet concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe Aurora's, Baytex's or Baytex Australia's objectives, plans, goals or expectations are or may be forward-looking statements.

The statements in this Scheme Booklet about the impact that the Scheme may have on the results of Aurora's operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward looking statements.

Any other forward-looking statements included in this Scheme Booklet and made by Aurora have been made on reasonable grounds. Although Aurora believes that the views reflected in any forward-looking statements in this Scheme Booklet (other than the Baytex Information, the information in Section 7 and the information in Attachment E) and Baytex believes that the views reflected in any forward-looking statements included in the Baytex Information, have been made on a reasonable basis, no assurance can be given that such views or forward-looking statement will prove to have been correct.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either Aurora's or Baytex's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. These factors include, but are not limited to, risks related to: receipt of all necessary regulatory or shareholder approvals required to complete the Scheme and the satisfaction or waiver of the Conditions, exploration, development and production, oil and gas prices, markets and marketing, reserve and resource estimates being inherently uncertain, environmental concerns, availability of, and access to, drilling equipment, contractual risk and management of growth. Deviations as to future results, performance and achievements are both normal and to be expected. Aurora Shareholders should note that the historical financial performance of Aurora is no assurance of future financial performance of Aurora (whether the Scheme is implemented or not). Aurora Shareholders should review carefully all of the information included in this Scheme Booklet. Any forward-looking statements in this Scheme Booklet are expressly qualified by these cautionary statements and such forward-looking statements are made only as of the date of this Scheme Booklet. None of Aurora, Baytex, Baytex Australia or any of their directors give any representation, assurance or guarantee to Aurora Shareholders that any forward looking statements will actually occur or be achieved. Aurora Shareholders are cautioned not to place undue reliance on such forward looking statements.



Subject to any continuing obligations under law, regulation or the ASX Listing Rules, none of Aurora, Baytex or Baytex Australia give any undertaking to update or revise any forward-looking statements after the date of this Scheme Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

## Privacy and personal information

Aurora, Baytex and Baytex Australia may collect personal information to implement the Scheme. The personal information may include the names, contact details and details of holdings of Aurora Shareholders, plus contact details of individuals appointed by Aurora Shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act. Aurora Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them and can contact the Registry by calling 1300 455 198 in Australia or 1800 564 6253 in Canada if they wish to exercise those rights.

The information may be disclosed to print and mail service providers, and to Aurora, Baytex and Baytex Australia and their respective related bodies corporate and advisers to the extent necessary to effect the Scheme. If the information outlined above is not collected, Aurora may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively or at all. Aurora Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should inform that individual of the matters outlined above.

## Notice to persons outside Australia

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is based on financial statements that have been prepared in accordance with Australian equivalents to International Financial Reporting Standards, which may differ from generally accepted accounting principles in other jurisdictions.

This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

## Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

## Times and dates

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Perth, Australia. All dates following the date of the Scheme Meeting are indicative only and are subject to the Court approval process, ASX approval and the satisfaction or, where applicable, waiver of the Conditions (see Section 1.2).

## Currency

The financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated. A reference to \$ and cents is to Australian currency, unless otherwise stated.

## Date

This Scheme Booklet is dated 14 April 2014.

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# Chairman's letter



Dear Aurora Shareholder,

On 7 February 2014, Aurora Oil & Gas Limited (**Aurora**) announced that it had entered into a Scheme Implementation Deed with Baytex Energy Corp. (**Baytex**) under which it is proposed Baytex, through its wholly owned subsidiary Baytex Energy Australia Pty Ltd (**Baytex Australia**) will acquire 100% of the ordinary shares in Aurora pursuant to a scheme of arrangement (**Scheme**).

If the Scheme is implemented, Aurora Shareholders (on the Record Date and other than Excluded Baytex Shareholders) will receive \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) per Aurora Share from Baytex Australia (**Scheme Consideration**).

This Scheme Booklet contains details of the Scheme, including the basis for the Aurora Directors recommending the Scheme and the Independent Expert's Report, together with information on how to cast your vote. I encourage you to read it carefully.

**Your directors believe that the Scheme is in the best interests of Aurora Shareholders. Accordingly, your directors unanimously recommend you vote in favour of the Scheme and intend to vote all the Aurora Shares they control, amounting to approximately 5.5% of the total number of Aurora Shares on issue in favour of the Scheme, in each case in the absence of a Superior Proposal.**

In recommending the Scheme, your directors have taken into account the following:

- **Substantial premium to Aurora trading price:** The Scheme Consideration represents a premium of 56% to the Aurora closing share price of \$2.62 on 6 February 2014 (**Last Trading Date**)<sup>1</sup>. The Scheme Consideration also represents a substantial premium over the prices at which Aurora Shares have traded over an extended period of time (for example, a 41% premium to the VWAP of Aurora Shares for three months up to and including the Last Trading Date).
- **The Independent Expert has concluded that the transaction is in the best interests of Aurora Shareholders:** Following announcement of the Scheme, your Board appointed Grant Samuel as an Independent Expert to review the transaction and opine on whether the Scheme was in the best interests of Aurora Shareholders. Grant Samuel has assessed the full underlying value of Aurora at between \$3.76 and \$4.29 per Aurora Share and has therefore concluded that the transaction is fair and reasonable, and in the best interests of Aurora Shareholders.
- **Aurora Shares are likely to trade below the Scheme Consideration in the event the Scheme does not proceed:** While Aurora has an attractive portfolio of assets and growth opportunities, your directors believe that the Aurora Share price is likely to fall if the Scheme is not implemented and no Superior Proposal emerges.
- **The Scheme Consideration delivers certain cash value:** If the Scheme is not implemented and no Superior Proposal emerges, your directors consider the Aurora Share price is likely to fall. In contrast, if implemented the Scheme Consideration delivers certain cash proceeds to be paid to Aurora Shareholders in June.

Your directors have decided, having regard to the advantages and disadvantages of the Scheme, to recommend the Scheme in the absence of a Superior Proposal.

<sup>1</sup> the last trading date before announcement of the Scheme Implementation Deed



## Key dates

DATE	EVENT
5.00pm (Toronto time), 14 April 2014	Notice Record Date - Date and time for determining Canadian Beneficial Holders who must be provided with notice of the Scheme Meeting and a voting instruction form
9.30am, 19 May 2014	Scheme Meeting Proxies - Last date and time by which proxy forms for the Scheme Meeting must be received by the Registry
7.00pm, 19 May 2014	Date and time for determining eligibility to vote at the Scheme Meeting
9.30am, 21 May 2014	Scheme Meeting

### IF SCHEME PARTICIPANTS APPROVE THE SCHEME AT THE SCHEME MEETING

26 May 2014	Second Court Date to approve the Scheme
27 May 2014	<p>Effective Date - this is the date on which the Scheme comes into effect and is binding on Aurora Shareholders (other than the Excluded Baytex Shareholders). Court order lodged with ASIC and announced on ASX and filed on SEDAR</p> <p>Aurora Shares will be suspended from trading at the close of trading on the Effective Date on ASX and TSX. If the Scheme proceeds, this will be the last day that Aurora Shares will trade on ASX and TSX</p>
7.00pm, 3 June 2014	Record Date - all Aurora Shareholders (other than the Excluded Baytex Shareholders) who hold Aurora Shares on the Record Date will be entitled to receive the Scheme Consideration
10 June 2014	Implementation Date - all Scheme Participants will be sent the Scheme Consideration to which they are entitled on or around this date*

\* The Scheme requires the Scheme Consideration to be sent to Scheme Participants as soon as practicable, and in any event within 5 Business Days of the Implementation Date.

All dates are indicative only and are subject to the Court approval process, ASX approval and the satisfaction or, where applicable, waiver of the Conditions (see Section 1.2). All dates and times, unless otherwise indicated, refer to the date and time in Perth, Australia. Any changes to the above timetable will be announced to ASX and notified on Aurora's website at [www.auroraog.com.au](http://www.auroraog.com.au) and under Aurora's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

# Purpose of this Scheme Booklet

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On 7 February 2014, the Aurora Directors unanimously recommended, in the absence of a Superior Proposal, that Aurora Shareholders vote in favour of a proposal under which Baytex would acquire all of the shares in Aurora for \$4.10 cash per Aurora Share.

The Aurora Directors intend to vote all Aurora Shares they control in favour of the Scheme, in the absence of a Superior Proposal.

The transaction will be effected via a scheme of arrangement, enabling Aurora Shareholders to vote on the Scheme. Voting will take place at the Scheme Meeting to be held at 9.30am on 21 May 2014 at BDO, 38 Station Street, Subiaco, Perth, Western Australia. This Scheme Booklet is furnished in connection with the solicitation of proxies by management of Aurora for use at the Scheme Meeting.

The purpose of this Scheme Booklet is to explain the terms of the proposed Scheme and provide you with information on the Scheme to assist you in your decision whether or not to vote in favour of the Scheme.

You should read this Scheme Booklet in full before deciding how to vote. The Scheme has a number of advantages, disadvantages and risks, which may affect Aurora Shareholders in different ways depending on their individual circumstances. Aurora Shareholders should seek professional advice on their particular circumstances, as appropriate.

## Reasons to vote in favour of the Scheme



**The Aurora Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal**



**The Independent Expert has concluded that the Scheme is in the best interests of Aurora Shareholders (see the Independent Expert's Report in Attachment E)**



**The Scheme Consideration of \$4.10 per Aurora Share represents a substantial premium to the trading price of Aurora Shares on ASX prior to the announcement of the proposed Scheme on 7 February 2014**



**The Scheme Consideration provides you with certain value for your Aurora Shares, rather than remaining subject to the general and business risks associated with an investment in Aurora**



**Since the announcement of the Scheme, no Superior Proposal has emerged**



**If the Scheme does not proceed, and no Superior Proposal emerges, the Aurora Share price is likely to fall**

For more information about the reasons to vote in favour of the Scheme, please see Section 2.2.

## Reasons not to vote in favour of the Scheme



You may disagree with the Aurora Board and the opinion of the Independent Expert and believe the Scheme is not in your best interests



If the Scheme is implemented you will no longer be an Aurora Shareholder and you will not have the opportunity to participate in any potential future value creation that may result from being an Aurora Shareholder



You may believe that there is the potential for a Superior Proposal to be made in the foreseeable future



The tax consequences of the Scheme may not suit your current financial position



You may believe it is in your best interests to maintain your current investment and risk profile

For more information about the reasons to vote against the Scheme, please see Section 2.3 which Aurora Shareholders should read carefully and in its entirety.

## Next steps



**(a) Carefully read this Scheme Booklet**

This is an important document and you should read it carefully and in its entirety before making a decision on how to vote at the Scheme Meeting.

**(b) Vote on the Scheme**

As an Aurora Shareholder, you are entitled to vote on whether the Scheme should proceed at the Scheme Meeting.

Please refer to the following page of this Scheme Booklet for details on how to vote at the Scheme Meeting, including by proxy.

**(c) Seek further information**

If you have any questions in relation to the Scheme, you can call the Aurora information line on 1800 095 654 (within Australia) or +61 2 8767 1004 (outside Australia) Monday to Friday between 6.30am and 5.30pm (Perth time).

If you have questions regarding the number of Aurora Shares you hold or how to vote please contact the Registry on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) Monday to Friday between 6.30am and 5.00pm (Perth time).

If you have any doubts as to the actions you should take or you have further questions, please contact your legal, financial or other professional advisor.

**(d) Why you should vote**

As an Aurora Shareholder, you have a say in whether Baytex Australia will acquire all of the issued shares in Aurora. This is your opportunity to play a role in deciding the future of Aurora.

# How to vote



## Who is entitled to vote at the Scheme Meeting?

If you are registered on the Register as an Aurora Shareholder (and you are not an Excluded Baytex Shareholder) at 7.00pm (Perth time) on 19 May 2014, then you will be entitled to attend and vote at the Scheme Meeting.

If you are not registered as an Aurora Shareholder but you are a Canadian Beneficial Holder you must be appointed by the applicable intermediary as a proxy in order to attend and vote at the Scheme Meeting. If you are a Canadian Beneficial Holder on the notice record date, you must provide voting instructions using the form sent to you. For further details see "Voting by Canadian Beneficial Holders" at page 12.

## Voting in person, by attorney or corporate representative

If you wish to vote in person, you must attend the Scheme Meeting.

If you cannot attend the Scheme Meeting, you may vote by proxy, attorney or if you are a body corporate, by appointing a corporate representative.

Attorneys who plan to attend the Scheme Meeting should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

A body corporate which is an Aurora Shareholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act. **The representative should bring to the Scheme Meeting evidence of his or her appointment, including any authority under which it is signed.**

## Voting by proxy

If you wish to appoint a proxy to attend and vote at the Scheme Meeting on your behalf, please complete and sign the personalised proxy form accompanying this Scheme Booklet in accordance with the instructions set out on the proxy form or lodge your proxy form online at [www.investorvote.com.au](http://www.investorvote.com.au) in accordance with the instructions given there. You may complete the proxy form in favour of the Chairman of the Scheme Meeting or appoint up to two proxies to attend and vote on your behalf at the Scheme Meeting.

The form of proxy accompanying this Scheme Booklet confers discretionary authority upon the proxy nominee with respect to any amendments or variations to the matters identified herein and any other matters that may properly come before the Scheme Meeting. On any ballot, the Aurora Shares represented by the proxy will be voted or withheld from voting in accordance with the instructions of the Aurora Shareholder as specified in the proxy with respect to any matter to be acted on. If the Aurora Shareholder specifies a choice with respect to any matter to be acted upon, the Aurora Shares will be voted accordingly. If a choice is not specified, the Aurora Shares represented by a proxy given to the Chairman of the Scheme Meeting are intended to be voted in favour of the Scheme Resolution.

An Aurora Shareholder has the right to appoint a person or company (who need not be an Aurora Shareholder) to attend and act for such Aurora Shareholder and on such Aurora Shareholder's behalf at the Scheme Meeting, other than the persons designated in the form of proxy, and may exercise such right by inserting the name in full of the desired person in the blank space provided in the form of proxy.

## **TO BE VALID, PROXY FORMS FOR THE SCHEME MEETING MUST BE RECEIVED BY THE REGISTRY BY NO LATER THAN 9.30AM ON 19 MAY 2014.**

Proxy forms, duly completed in accordance with the instructions set out on the proxy form, may be returned to the Registry:

- by posting them in the reply paid envelope provided;
- by delivering them to Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth, Western Australia 6000 or Computershare Investor Services Inc., 100 University Avenue, 8th Floor, North Tower Toronto, Ontario M5J 2Y1 Canada for Aurora Shareholders on the Registry in Canada;
- by faxing them to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) for Aurora Shareholders on the Registry in Australia. Aurora Shareholders on the Registry in Canada cannot vote by fax;



## Record date for notice and record date for voting

The Court has fixed:

- 5.00pm (Toronto time), 14 April 2014 as the record date for notice of the Scheme Meeting, which is the date and time for determining which Canadian Beneficial Holders must be provided with the notice of the Scheme Meeting and a voting instruction form; and
- 19 May 2014 as the record date for voting, which entitles Aurora Shareholders recorded on the Register at 7.00pm on such date to vote at the Scheme Meeting.

Any person who becomes an Aurora Shareholder by acquiring Aurora Shares between the record date for notice of the Scheme Meeting and the record date for voting and wishes to vote at the Scheme Meeting by proxy should contact the Registry for further information on how to do so. Any person who becomes a Canadian Beneficial Holder between the record date for notice of the Scheme Meeting and the record date for voting and wishes to vote at the Scheme Meeting should contact their broker or intermediary for instructions on how to do so.

## Your vote is important

You are not required to vote at the Scheme Meeting, but your vote is important. Aurora Shareholders (excluding the Excluded Baytex Shareholders) are entitled to one vote per Aurora Share at the Scheme Meeting.

In order for the Scheme to be implemented, the Scheme Resolution must be approved by Requisite Majorities at the Scheme Meeting.

For this reason the Aurora Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal.

If you are unable to attend the Scheme Meeting, the Aurora Directors urge you to complete and return, in the enclosed reply paid envelope, the personalised proxy forms that accompany this Scheme Booklet or lodge your proxy forms online at [www.investorvote.com.au](http://www.investorvote.com.au) in accordance with the instructions given there and on page 11 of this Scheme Booklet.

Voting is not compulsory.

## Joint holders

In the case of Aurora Shares held by joint holders, only one of the joint holders is entitled to vote. If more than one shareholder votes in respect of jointly held Aurora Shares, only the vote of the Aurora Shareholder whose name appears first in the Register will be counted.

## Proxy solicitation agent

Orient Capital has been retained by Aurora as a proxy solicitation agent in connection with the solicitation of proxies for the Scheme Meeting. For these and related services, Orient Capital is expected to receive fees of approximately \$20,500 plus reimbursement of costs relating to telephone calls and reasonable out of pocket expenses.

# Frequently asked questions

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## QUESTION

### AN OVERVIEW OF THE SCHEME

#### What is the Scheme?

The Scheme involves the proposal under which Baytex Australia may acquire 100% of Aurora Shares by way of a scheme of arrangement for \$4.10 cash per Aurora Share. The Scheme was announced by Aurora on 7 February 2014.

The Scheme is a scheme of arrangement between Aurora and Aurora Shareholders (other than the Excluded Baytex Shareholders). A scheme of arrangement is a means of implementing an acquisition of shares under the Corporations Act.

In order for the Scheme to be implemented, all Conditions must be satisfied or waived (where applicable), the Scheme Resolution must be approved by the Requisite Majorities at the Scheme Meeting and the Scheme must be approved by the Court.

Details of this resolution and the Requisite Majorities required to approve the resolution are set out in Section 3.3(b).

If the Scheme becomes Effective you will receive \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) per Aurora Share you hold on the Record Date.

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#### Why have I received this Scheme Booklet?

This Scheme Booklet has been sent to you because you are an Aurora Shareholder and you are being asked to vote on a Scheme which if approved will result in Baytex Australia acquiring all Aurora Shares for \$4.10 cash per Aurora Share.

This Scheme Booklet is intended to help you to decide how to vote on the Scheme Resolution which needs to be passed at the Scheme Meeting to allow the Scheme to proceed.

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#### Who is Baytex?

Through its wholly owned subsidiaries, Baytex is engaged in the acquisition, development and production of crude oil and natural gas in the Western Canadian Sedimentary Basin and in the Williston Basin in the United States. During the year ended 31 December 2013, Baytex's production averaged 57,196 boe/d (weighted 88% to crude oil and natural gas liquids).

Baytex is a public company incorporated under the laws of the Province of Alberta, Canada and listed on the TSX and the New York Stock Exchange under the symbol BTE. At the time of preparing this Scheme Booklet, Baytex had a market capitalisation of approximately CAD\$5.1 billion. As at 12 March 2014, Baytex had approximately 290 employees.

Baytex Australia was incorporated in Australia on 13 March 2014 and is a wholly owned subsidiary of Baytex. Baytex Australia was incorporated for the purpose of acquiring all of the Aurora Shares if the Scheme is implemented, and it does not currently have any other activities.

For more information on Baytex please see Section 5.

<p><b>What do I need to do?</b></p>	<p>You should read this Scheme Booklet carefully and in its entirety and then vote at the Scheme Meeting in person or by appointing a proxy to vote on your behalf. If you are unable to attend the Scheme Meeting you can vote electronically at <a href="http://www.investorvote.com.au">www.investorvote.com.au</a>.</p> <p>Full details of who is eligible to vote and how to vote are set out in the How to Vote Section on page 11.</p>
<p><b>What are the reasons to vote in favour of the Scheme?</b></p>	<p>The reasons to vote in favour of the Scheme are as follows:</p> <ul style="list-style-type: none"> <li>• The Aurora Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal</li> <li>• The Independent Expert has concluded that the Scheme is in the best interests of Aurora Shareholders</li> <li>• The Scheme Consideration of \$4.10 cash per share represents a substantial premium to the trading price of Aurora Shares on ASX prior to the announcement of the proposed Transaction on 7 February 2014</li> <li>• The Scheme Consideration provides you with certain value for your Aurora Shares, rather than remaining subject to the general and business risks associated with an investment in Aurora</li> <li>• Since the announcement of the Scheme, no Superior Proposal has emerged</li> <li>• If the Scheme does not proceed, and no Superior Proposal emerges, the Aurora Share price is likely to fall</li> </ul> <p>Further details of these reasons are set out in Section 2.2.</p>
<p><b>What are the reasons to vote against the Scheme?</b></p>	<p>The reasons to vote against the Scheme are as follows:</p> <ul style="list-style-type: none"> <li>• You may disagree with the Aurora Board and the opinion of the Independent Expert and consider that the Scheme is not in your best interests</li> <li>• If the Scheme is implemented, you will no longer be an Aurora Shareholder and will not have the opportunity to participate in any potential future value creation that may result from being an Aurora Shareholder</li> <li>• You may believe there is the potential for a Superior Proposal to be made in the foreseeable future</li> <li>• The tax consequences of the Scheme may not suit your current financial position</li> <li>• You may believe it is in your best interests to maintain your current investment and risk profile</li> </ul> <p>Further details of these reasons are set out in Section 2.3.</p>
<p><b>What do the Aurora Directors recommend?</b></p>	<p>The Aurora Directors unanimously recommend that you vote in favour of the Scheme Resolution to approve the Scheme, in the absence of a Superior Proposal.</p>
<p><b>How are the Aurora Directors intending to vote?</b></p>	<p>Each of the Aurora Directors intends to vote in favour of the Scheme in respect of all the Aurora Shares they control, in the absence of a Superior Proposal.</p>



## WHAT YOU WILL RECEIVE UNDER THE TRANSACTION

### What will I receive for my Aurora Shares?

If the Scheme is implemented, you will receive:

- \$4.10 cash for each Aurora Share you hold on the Record Date if your address (as shown in the Register) is in a place other than Canada; or
- if your address (as shown in the Register) is in Canada, you will receive \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) for each Aurora Share you hold on the Record Date.

### Am I eligible to receive the Scheme Consideration?

You will be eligible to receive the Scheme Consideration if you are an Aurora Shareholder (and not an Excluded Baytex Shareholder) on the Record Date.

### What is the premium of the Scheme Consideration to Aurora's share price?

The Scheme Consideration of \$4.10 cash per share represents:

- a 56% premium to \$2.62, being the closing price on 6 February 2014, the last trading day prior to announcement of the Scheme Implementation Deed (**Last Trading Date**);
- a 52% premium to \$2.69, being the volume weighted average price (**VWAP**) of Aurora Shares on ASX for one week up to and including the Last Trading Date;
- a 46% premium to \$2.81, being the VWAP of Aurora Shares for one month up to and including the Last Trading Date;
- a 41% premium to \$2.90, being the VWAP of Aurora Shares for three months up to and including the Last Trading Date; and
- a 34% premium to \$3.06, being the VWAP of Aurora Shares for six months up to and including the Last Trading Date.

### When will I receive the Scheme Consideration?

If the Scheme becomes Effective, you will be paid the Scheme Consideration on or around the Implementation Date, and in any event within 5 Business Days of the Implementation Date.

### How will I be paid?

If your address (as shown in the Register) is in a place other than Canada, you will receive \$4.10 per Aurora Share you hold on the Record Date by:

- cheque in Australian currency by pre-paid post to your address (as shown in the Register); or
- if prior to the Record Date you have made an election to the Registry to receive dividend payments by electronic funds transfers, by electronic means in accordance with that election.

If your address (as shown in the Register) is in Canada or you are a Canadian Beneficial Holder, you will receive \$4.10 per Aurora Share you hold on the Record Date or at the discretion of Aurora, the Canadian dollar equivalent (using the Canadian dollar / Australian dollar exchange rate on the Implementation Date or a day between the Implementation Date and the date that is 5 Business Days after the Implementation Date and after deducting any costs, charges or expenses associated with the currency conversion) by:

- cheque in Australian or Canadian currency by pre-paid post to your address (as shown in the Register); or
- if prior to the Record Date you have made an election to the Registry to receive dividend payments by electronic funds transfers, by electronic means in accordance with that election.



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**Am I entitled to vote at the Scheme Meeting?**

If you are registered as an Aurora Shareholder (and you are not an Excluded Baytex Shareholder) on the Register at 7.00pm (Perth time) on 19 May 2014, then you will be entitled to attend and vote at the Scheme Meeting.

If you are not registered as an Aurora Shareholder but you are a Canadian Beneficial Holder, you must be appointed by the applicable intermediary as a proxy in order to attend and vote at the Scheme Meeting. In accordance with applicable Canadian securities laws, Aurora has elected to seek instruction directly from non-objecting beneficial shareholders. If you are a Canadian Beneficial Holder on the notice record date, you may provide voting instructions using the form sent to you.

Details of the Scheme Meeting and voting are set out in the How to Vote Section on page 11.

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**How do I vote?**

Voting at the Scheme Meeting may be in person, by attorney, by proxy or, in the case of a corporation, by corporate representative. Details on how to vote by proxy, attorney or corporate representative are set out on page 11. If you wish to vote in person, you must attend the Scheme Meeting. If you cannot attend the Scheme Meeting, you may complete the enclosed personalised proxy forms in accordance with the instructions or lodge your proxy forms online at [www.investorvote.com.au](http://www.investorvote.com.au) in accordance with the instructions given there. The deadline for lodging your proxy form for the Scheme Meeting is 9:30am on 19 May 2014.

If you are a Canadian Beneficial Holder, you should read the Section headed *Voting by Canadian Beneficial Holders for directions on how to vote*.

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**When and where will the Scheme Meeting be held?**

The Scheme Meeting will be held at BDO, 38 Station Street, Subiaco, Perth, Western Australia on 21 May 2014 at 9.30am (Perth time).

Details of the Scheme Meeting and voting are on page 11.

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**Is voting compulsory?**

Voting is not compulsory. However, the Scheme will only be successful if it is approved by the Requisite Majorities so your vote is important and Aurora Directors encourage you to vote.

If the Scheme is approved, you will be bound by the Scheme whether or not you voted and whether or not you voted in favour of it.

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**What vote is required to approve the Scheme?**

For the Scheme to proceed, the Scheme Resolution must be passed by:

- a majority in number (more than 50%) of Aurora Shareholders (other than the Excluded Baytex Shareholders) who vote on the Scheme Resolution; and
- at least 75% of the votes cast on the Scheme Resolution.

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**What happens if I do not vote or if I vote against the Scheme?**

If you do not vote, or vote against the Scheme, the Scheme may not be approved at the Scheme Meeting by the Requisite Majorities of Aurora Shareholders. If this occurs then the Scheme will not proceed, you will not receive the Scheme Consideration and you will remain an Aurora Shareholder.

However, if the Scheme is approved by the Requisite Majorities and the Scheme is implemented, your Aurora Shares will be transferred to Baytex Australia under the Scheme and you will receive the Scheme Consideration for each Aurora Share you hold on the Record Date whether or not you voted in favour of the Scheme.

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**Can I keep my shares in Aurora?** If the Scheme is implemented, your Aurora Shares will be transferred to Baytex Australia. This is so even if you did not vote at all or you voted against the Scheme at the Scheme Meeting.

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**When will the results of the Scheme Meeting be available?** The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to ASX and posted on SEDAR and Canadian newswires once available. Even if the Scheme Resolution is passed at the Scheme Meeting by the Requisite Majorities, the Scheme will only proceed if it is approved by the Court.

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**What happens in the event the Scheme is not approved?** If the Scheme is not approved by the Requisite Majorities of Aurora Shareholders at the Scheme Meeting or by the Court then the Scheme will not proceed and no Aurora Shares will be acquired by Baytex Australia. In these circumstances, you will retain your Aurora Shares, they will not be acquired by Baytex Australia and you will not receive the Scheme Consideration. Aurora will continue to operate as a stand-alone entity listed on the ASX and the TSX and the price of Aurora Shares is likely to fall.

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**When will Aurora Shares stop trading on ASX and TSX?** If the Scheme is implemented, Aurora Shares are expected to stop trading on the Effective Date.

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## FURTHER INFORMATION

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**What if I have further questions?** If you have any questions about the Scheme or you would like additional copies of this Scheme Booklet, please contact the Aurora information line on 1800 095 654 (within Australia) or +61 2 8767 1004 (outside Australia) Monday to Friday between 6.30am and 5.30pm (Perth time).

If you have questions regarding the number of Aurora Shares you hold or how to vote, please contact the Registry on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) Monday to Friday between 6.30am and 5.00pm (Perth time).

For information about your individual financial or taxation circumstances please consult your financial, legal, taxation or other professional adviser.

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# 1 Summary of the Scheme

## 1.1 Scheme

On 7 February 2014, the Aurora Board recommended to Aurora Shareholders a proposal which, if implemented, will deliver to Aurora Shareholders \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) for the acquisition of each Aurora Share pursuant to the Scheme.

This Scheme Booklet outlines the proposal being put to Aurora Shareholders (excluding the Excluded Baytex Shareholders) in relation to the Scheme, pursuant to which Baytex will, subject to approval by Aurora Shareholders (excluding the Excluded Baytex Shareholders) and the Court, acquire all of the Aurora Shares on issue for consideration of \$4.10 cash per Aurora Share.

## 1.2 Conditions precedent

The Scheme is subject to a number of customary conditions precedent. The following Conditions are outstanding as at the date of this Scheme Booklet:

- (a) **(Court approval)** The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.
- (b) **(Shareholder approval)** The Scheme Resolution being passed by the Requisite Majorities (see Section 3.3(b) for further details) at the Scheme Meeting under section 411(4)(a).
- (c) **(Restraints)** No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Transaction is in effect at 8:00am on the Second Court Date.
- (d) **(Material Adverse Change)** No Material Adverse Change occurs, is announced or is otherwise discovered by Baytex (whether or not it becomes public) between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date.
- (e) **(Prescribed Occurrence)** No Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date.

The Conditions are set out in clause 3 of the Scheme Implementation Deed which is Attachment B to this Scheme Booklet.

## 1.3 Implementation of the Scheme

The Scheme is proposed to be undertaken pursuant to a court approved scheme of arrangement. A scheme of arrangement is a legal arrangement that shareholders vote on and, if the Requisite Majorities of shareholders vote in favour of it and it is approved by the Court, it binds the company and all of its shareholders upon the Court orders approving the scheme of arrangement being lodged with ASIC. Approval of a scheme of arrangement requires a 50% majority of the number of shareholders voting and 75% of the total votes cast being in favour of the scheme, as well as approval by the Court.

The Scheme will become binding on Aurora and Aurora Shareholders (other than the Excluded Baytex Shareholders) only if the Conditions are satisfied or waived.

## 1.4 If the Scheme is approved

If the Scheme is approved and implemented, Scheme Participants will receive a cash payment of \$4.10 (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) per Aurora Share.

## 2 Aurora Directors' recommendation and matters relevant to your vote on the Scheme

### 2.1 Recommendation

The Aurora Directors at the date of this Scheme Booklet are Jonathan Stewart (Executive Chairman), Douglas E. Brooks (Chief Executive Officer and Executive Director), Graham Dowland (Finance Director and Executive Director), Fiona Harris (Non-Executive Director), Alan Watson (Non-Executive Director), Bill Molson (Non-Executive Director) and John Atkins (Non-Executive Director). The Aurora Directors unanimously recommend you vote in favour of the Scheme, in the absence of a Superior Proposal.

### 2.2 Reasons for recommendation and advantages of the Scheme

The factors which the Aurora Directors have taken into account in recommending the Scheme to you include:

**(a) The Aurora Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal**

The Aurora Directors unanimously recommend that Aurora Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal and the Aurora Directors who control Aurora Shares intend to vote those shares in favour of the Scheme in the absence of a Superior Proposal.

As at the date of this Scheme Booklet, no Superior Proposal has emerged.

**(b) The Independent Expert considers that the Scheme is fair and reasonable and has concluded that the Scheme is in the best interests of Aurora Shareholders**

Aurora appointed Grant Samuel to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is fair and reasonable and therefore in the best interests of Aurora Shareholders.

The Independent Expert has assessed the full underlying value of Aurora to be in the range of \$3.76 to \$4.29 per Aurora Share. The Scheme Consideration of \$4.10 cash per Aurora Share falls within the value range assessed by the Independent Expert. Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Aurora Shareholders.

The Independent Expert's Report is included in Attachment E to this Scheme Booklet. The Aurora Directors encourage Aurora Shareholders to read the Independent Expert's Report carefully and in its entirety.

**(c) The Scheme Consideration of \$4.10 cash per share represents a substantial premium to the trading price of Aurora Shares on ASX prior to the announcement of the proposed transaction on 7 February 2014**

The Scheme Consideration being offered to you under the Scheme of \$4.10 cash per Aurora Share represents a substantial premium to the trading price of Aurora Shares prior to the announcement by Aurora of the Scheme Implementation Deed on 7 February 2014, being:

- a 56% premium to \$2.62, being the closing price of Aurora Shares on ASX on 6 February 2014, the last trading day prior to announcement of the Scheme Implementation Deed (**Last Trading Date**);
- a 52% premium to \$2.69, being the VWAP of Aurora Shares on ASX for one week up to and including the Last Trading Date;
- a 46% premium to \$2.81, being the VWAP of Aurora Shares for one month up to and including the Last Trading Date;
- a 41% premium to \$2.90, being the VWAP of Aurora Shares for three months up to and including the Last Trading Date; and
- a 34% premium to \$3.06, being the VWAP of Aurora Shares for six months up to and including the Last Trading Date.

## Scheme Consideration premia



Source: IRESS.

Note: VWAP represents the market volume weighted average price on ASX in the relevant period up to and including 6 February 2014 (being the last trading day prior to the announcement of the Scheme Implementation Deed on 7 February 2014).

**(d) The Scheme Consideration provides you with certain value for your Aurora Shares, rather than remaining subject to the general and business risks associated with an investment in Aurora**

The Scheme Consideration offered to you is 100% cash. If the Scheme is implemented, Scheme Participants will receive \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) per Aurora Share.

The Scheme provides an opportunity for you to sell your Aurora Shares and represents a fair and reasonable offer. The certainty of the all cash proposed consideration should be compared against the risks and the uncertainties of remaining an Aurora Shareholder, which include, but are not limited to the risks set out in Sections 6.3 and 6.4.

**(e) Since the announcement of the Scheme, no Superior Proposal has emerged**

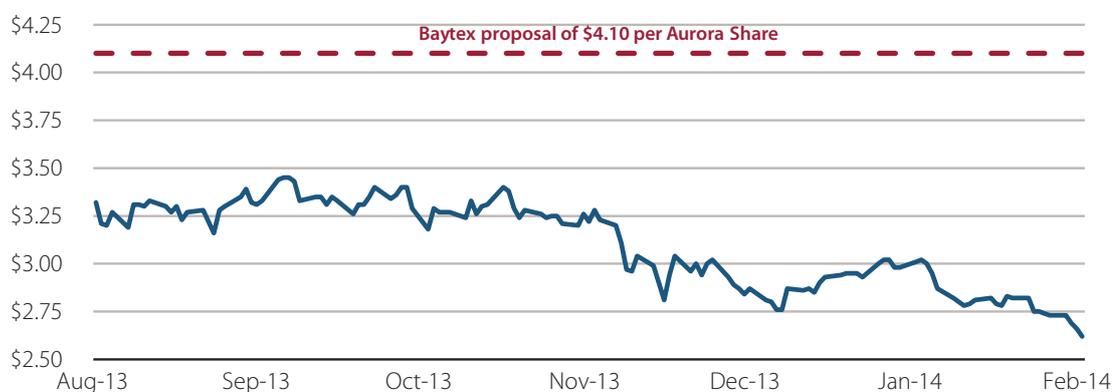
Since the announcement of the execution of the Scheme Implementation Deed on 7 February 2014 and up to the date of this Scheme Booklet, no Superior Proposal has emerged.

The Aurora Board considers that the potential advantages of the Scheme outweigh the potential disadvantages.

**(f) If the Scheme does not proceed, and no Superior Proposal emerges, the Aurora Share price is likely to fall**

If the Scheme is not implemented, Aurora Shares will continue trading on the ASX and the TSX. It is likely that Aurora Shares will fall to lower prices as in this event Aurora's Share price will no longer reflect the value associated with the Scheme Consideration. Aurora closed on ASX at \$2.62 on 6 February 2014, the Business Day prior to the date the execution of the Scheme Implementation Deed was announced.

### Aurora share price performance over last 6 months prior to announcement of Scheme Implementation Deed



Source: IRESS.

Note: Market data as at 6 February 2014 (being the last trading day prior to the announcement of the Scheme Implementation Deed on 7 February 2014).

## 2.3 Reasons why you may consider voting against the Scheme and disadvantages of the Scheme

Although the Aurora Directors unanimously recommend that you vote in favour of the Scheme Resolution in the absence of a Superior Proposal, factors which may lead you to vote against the Scheme include:

**(a) You may disagree with the Aurora Board and the opinion of the Independent Expert and consider that the scheme is not in your best interests**

Despite the recommendation of the Aurora Board and the opinion of the Independent Expert that the Scheme is in the best interests of Aurora Shareholders, you may believe that the Scheme is not in your best interests or that of other Aurora Shareholders.

**(b) If the Scheme is implemented, you will no longer be an Aurora Shareholder and will not have the opportunity to participate in any potential future value creation that may result from being an Aurora Shareholder**

If the Scheme is implemented you will no longer be an Aurora Shareholder. This will mean that you will not participate in any potential upside that may result, including any appreciation in the value of Aurora, in the right to any potential future dividends on Aurora Shares or the ability to be exposed to the benefits which may result from a possible Superior Proposal.

You will also cease to have the right to influence the future direction of Aurora as you will no longer have voting rights in the Company.

**(c) You may believe there is the potential for a Superior Proposal to be made in the foreseeable future**

You may believe that there is a potential for a Superior Proposal to be made in the foreseeable future. Since the execution of the Scheme Implementation Deed and as at the date of this Scheme Booklet, no Superior Proposal has been received by the Aurora Directors.

**(d) The tax consequences of the Scheme may not suit your current financial position**

Implementation of the Scheme may result in financial consequences which are not favourable for you. For example, it may trigger capital gains tax to the extent the Scheme Consideration received by you exceeds the tax cost base of your Aurora Shares. You should read the taxation considerations outlined in Section 7 and seek professional taxation advice with respect to your individual tax situation.

**(e) You may believe it is in your best interests to maintain your current investment and risk profile**

You may wish to keep your Aurora Shares as you may want to preserve your investment in a publicly listed company with the specific characteristics of Aurora. In particular, you may consider that despite the risk factors relevant to Aurora's potential future operations (including those set out in Sections 6.3 and 6.4), Aurora may be able to return greater value from its assets by remaining independent, or seeking alternative commercialisation strategies.

Implementation of the Scheme may represent a disadvantage for you if you do not want a change in investment profile as it could be difficult to find other assets with similar risk and return characteristics of Aurora, and you may incur transaction costs in undertaking any new investments. You should seek legal, financial or other professional advice in relation to your own circumstances.

# 3 Implementation of the Scheme

## 3.1 Background

On 7 February 2014, Aurora announced that it had entered into the Scheme Implementation Deed with Baytex pursuant to which Aurora agreed to propose the Scheme to Aurora Shareholders (other than the Excluded Baytex Shareholders).

This Scheme Booklet contains important information that you should consider in deciding whether or not to vote in favour of the Scheme Resolution at the Scheme Meeting. The Aurora Directors encourage you to read this Scheme Booklet in its entirety and recommend that you vote in favour of the Scheme Resolution, in the absence of a Superior Proposal.

## 3.2 Scheme Consideration

If the Scheme becomes Effective, all Aurora Shares will be transferred to Baytex (or Baytex Australia) and Baytex (or Baytex Australia) will provide the Scheme Consideration of \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) per Aurora Share to the Scheme Participants.

## 3.3 Steps for implementing the Scheme

### (a) Preliminary steps

Aurora and Baytex entered into the Scheme Implementation Deed on 6 February 2014 pursuant to which, among other things, Aurora agreed to propose the Scheme.

Baytex and Baytex Australia have executed the Deed Poll pursuant to which Baytex and Baytex Australia agree, subject to the Scheme becoming Effective, to provide the Scheme Consideration to which each Scheme Participant is entitled.

A copy of the proposed Scheme is set out in Attachment C to this Scheme Booklet.

A copy of the executed Deed Poll is set out in Attachment D to this Scheme Booklet.

### (b) Scheme Meeting

The Court has ordered that the Scheme Meeting be held at 9:30am on 21 May 2014 at BDO, 38 Station Street, Subiaco, Perth, Western Australia for the purposes of approving the Scheme Resolution. The Notice of Scheme Meeting for Aurora Shareholders which sets out the Scheme Resolution is included in Attachment A to this Scheme Booklet.

Each Aurora Shareholder (other than the Excluded Baytex Shareholders) who is registered on the Register at 7.00pm (Perth time) on 19 May 2014 is entitled to attend and vote at the Scheme Meeting, either in person or by proxy or attorney or in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act.

Instructions on how to attend and vote at the Scheme Meeting in person, or to appoint a proxy to attend and vote on your behalf, are set out on page 11 of this Scheme Booklet.

The Scheme Resolution must be approved by:

- a majority in number (more than 50%) of Aurora Shareholders (other than the Excluded Baytex Shareholders) present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Aurora Shareholders, by a corporate representative) (the **Headcount Test**); and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting.

If the Scheme is not approved by Aurora Shareholders at the Scheme Meeting by reason only of the non-satisfaction of the Headcount Test and:

- either Aurora or Baytex considers, acting reasonably, that share splitting or some abusive or improper conduct may have caused or materially contributed to the non-satisfaction; and
- Aurora's legal advisers opine that an application to the Court to exercise its discretion to disregard the Headcount Test has a not less than 50% prospect of success,

Aurora must apply to the Court for the Court to exercise its discretion to disregard the Headcount Test and make orders approving the Scheme.



If you have not previously notified the Registry of your nominated bank account or you would like to change your existing nominated bank account, you should contact the Registry on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) before the Record Date.

If a Scheme Participant's whereabouts are unknown as at the Record Date, the Scheme Consideration will be paid into a separate bank account and held by Aurora until claimed or applied under laws dealing with unclaimed money. If you wish to confirm your current address details with the Registry, you may do so using the contact details above.

### 3.5 Determination of persons entitled to Scheme Consideration

#### (a) Dealings on or prior to the Record Date

For the purpose of establishing the persons who are Aurora Shareholders, dealings in Aurora Shares will only be recognised if:

- in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as a holder of the relevant Aurora Shares as at the Record Date; and
- in all other cases, registrable transfers or transmission applications are received at the place where the Register is maintained by 7.00pm on the Record Date (in which case, Aurora must register such transfers or transmission applications before 7.00pm (Perth time) on the Record Date).

Aurora will not accept for registration nor recognise for the purpose of establishing the persons who are Aurora Shareholders any transmission application or transfer in respect of Aurora Shares received after such times or received prior to these times and not in registrable form.

#### (b) Dealings after the Record Date

For the purposes of determining entitlements to Scheme Consideration, Aurora will, until the Scheme Consideration has been paid to Scheme Participants and the name and address of Baytex (or Baytex Australia) has been entered in the Register as the holder of all the Aurora Shares, maintain the Register in accordance with the terms of the Scheme, and the Register in this form will solely determine entitlements to the Scheme Consideration.

As from 7.00pm (Perth time) on the Record Date, each entry currently on the Register will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Aurora Shares relating to that entry.

Any share certificates or statements of holding in respect of Aurora Shares shall, from the Record Date, cease to have any effect as documents of evidence of title in respect of such Aurora Shares.

### 3.6 Aurora Options and Aurora Performance Rights

As at the date of this Scheme Booklet, Aurora has 2,404,823 Aurora Performance Rights and 7,050,000 Aurora Options on issue.

A minimum of 207,962 Aurora Performance Rights will lapse prior to or on the Implementation Date. 42,328 Aurora Performance Rights will vest following the Effective Date and prior to the Record Date and will be settled through the transfer of 42,328 Aurora Shares which are currently held in the Aurora Oil & Gas Employee Share Plan Trust. Aurora Performance Rights and Aurora Options which do not lapse will either vest in accordance with their terms or be the subject of the cancellation deeds contemplated by the Scheme Implementation Deed as described below.

Under the Scheme Implementation Deed, Aurora and Baytex agreed to use reasonable endeavours to enter into deeds with each of the holders of Aurora Performance Rights and Aurora Options pursuant to which:

- each Aurora Option holder will agree to the transfer or cancellation of his or her Aurora Options (to the extent they do not lapse) in exchange for the amounts set out in Attachment D of the Scheme Implementation Deed (such amounts being the assessed value of each Aurora Option using a standard valuation methodology); and
- each Aurora Performance Rights holder will agree to the transfer or cancellation of his or her Aurora Performance Rights (to the extent they do not lapse) in exchange for \$4.10 per Aurora Performance Right.



- (c) **Counter proposal rights** – if Aurora receives a Competing Proposal from a Third Party the following applies:
- (i) if the Aurora Directors consider that a failure to engage with the Third Party may involve a breach by the Aurora Directors of their fiduciary or statutory duties, the Aurora Directors must notify Baytex that Aurora has received a Competing Proposal (but not the identity of the person making the proposal) within 24 hours of that fact;
  - (ii) if the Aurora Directors intend to recommend the Competing Proposal, the Aurora Directors must provide Baytex with details of all material terms of the Competing Proposal from the Third Party (including the identity of the person making the proposal) within 24 hours of its decision to recommend the Competing Proposal;
  - (iii) if Baytex has received notice from the Aurora Directors that they intend to recommend the Competing Proposal, Baytex has the right, but not the obligation, to put forward a counter proposal; and
  - (iv) if Baytex provides a counter proposal and the Aurora Directors decide, in good faith after having obtained financial advice and written advice from its legal advisors, that the counter proposal is more favourable to Aurora Shareholders (taking into account all terms and conditions) than the proposal from the Third Party, then the parties will amend the Scheme Implementation Deed to reflect the counter proposal (if the counter proposal is a scheme), or if the counter proposal contemplates any other transaction, Aurora will make an announcement that it will recommend the counter proposal (in the absence of a Superior Proposal).

### 3.9 Break fee

The break fee provisions are set out in clause 9 of the Scheme Implementation Deed which is Attachment B to this Scheme Booklet.

In summary, Aurora is liable to pay Baytex a break fee of \$18.8 million (excluding GST) if:

- (a) a Competing Proposal is announced by a Third Party before the Scheme Meeting and completes within 12 months of the date of the announcement;
- (b) two or more Aurora Directors change their recommendation or voting intention, or recommend a Competing Proposal; or
- (c) Baytex terminates the Scheme Implementation Deed due to a material breach by Aurora of the Scheme Implementation Deed.

### 3.10 Delisting

If the Scheme becomes Effective, on a date after the Implementation Date to be determined by Baytex, Aurora will apply for termination of the official quotation of Aurora Shares on the ASX and TSX, and to have itself removed from the official list of ASX and delisted from TSX.

### 3.11 End date

If the Scheme has not become Effective on or before 30 June 2014 (or such later date that Aurora and Baytex agree), either Aurora or Baytex is able to terminate the Scheme Implementation Deed. If the Scheme Implementation Deed is terminated, the Scheme will not proceed.

### 3.12 Further questions

If you have any further questions, you should call the Aurora information line on 1800 095 654 (within Australia) or +61 2 8767 1004 (outside Australia) Monday to Friday between 6.30am and 5.30pm (Perth time).

If you have questions regarding the number of Aurora Shares you hold or how to vote, please contact the Registry on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) Monday to Friday between 6.30am and 5.00pm (Perth time).

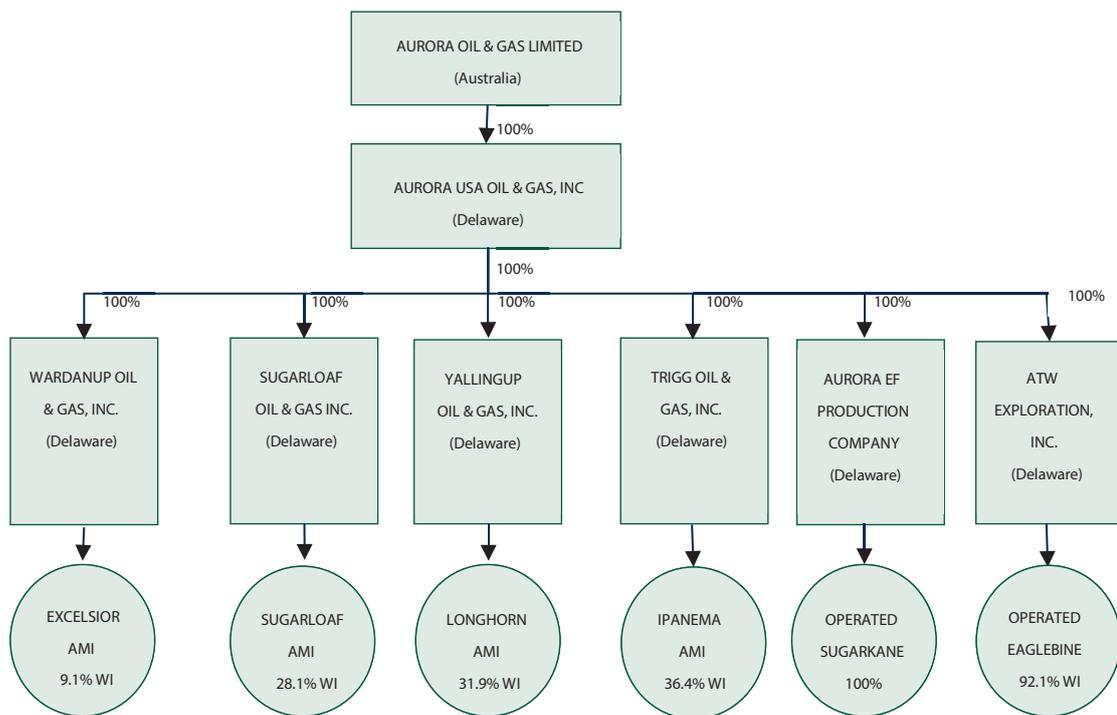
# 4 Information on Aurora

## 4.1 Background to Aurora

Aurora is an ASX and TSX listed oil and natural gas company active in the Eagle Ford Shale in Texas, United States. Its primary asset is leasehold interests in 22,200 net (80,200 gross) acres in the Sugarkane Field located in South Texas in the core of the liquids-rich Eagle Ford. Aurora’s 2013 fourth quarter net production after royalties was ~18,200 Boe/d (82% liquids) of predominantly light, high-quality crude oil. The Sugarkane Field has been largely delineated with infrastructure in place which will facilitate low-risk future annual production growth. In addition, Aurora holds leasehold interests in approximately 14,000 net acres in the Eaglebine play regionally on trend with the Eagle Ford.

Aurora is an Australian corporation with its head and registered office located at Level 1, 338 Barker Road, Subiaco, WA 6008, Australia. Aurora also has an operational office located in Houston, Texas at 1200 Smith Street, Suite 2300, Houston, TX 77002 USA.

The following chart identifies Aurora and its material subsidiaries, together with the jurisdiction of incorporation of each such subsidiary, the percentage of voting securities beneficially owned or over which control or direction is exercised by Aurora and the WI held by such subsidiary in the acreage within the identified Sugarkane Field AMI operated by Marathon and Aurora’s operated Sugarkane Field assets, which collectively constitute Aurora’s principal assets (see “Overview of Aurora’s operations” in Section 4.2 below).



## 4.2 Overview of Aurora's operations

Aurora's principal focus of operation is on the development of its Sugarkane Field interests. The Sugarkane Field covers a multicounty area consisting of Karnes, Live Oak, Atascosa, Bee, DeWitt, Dimmit, Frio, Gonzales, LaSalle, McMullen, Wilson and Zavala Counties in South Texas. These include both the Sugarkane and Eagleville field designations as established by the Railroad Commission of Texas. The reservoir lies between the Austin Chalk formation and the Buda formation prevalent along the Texas Gulf Coast and South Texas.

Unconventional shale production is typically characterized by high initial production rates, followed by steep decline rates and prolonged "tail" production profiles. The majority of Aurora's acreage is located in the central portion of the Eagle Ford trend, primarily within the condensate-rich window, extending into the volatile oil window to the northwest. The Sugarkane Field is over-pressured (generally having a pressure gradient of approximately 0.8 psi per foot), enhancing both the initial production rates and estimated ultimate recovery per well. The combination of high liquids content and high initial production rate results in attractive economics for development wells.

The Eagle Ford is one of the fastest developing unconventional shale developments in North America. There is limited and predictable variation in geological and reservoir properties across the region, with respect to thickness, depth and hydrocarbon composition of shale intersected. Unlike conventional oil and natural gas traps where the target reservoir may fail to contain hydrocarbons, all of the wells drilled on Aurora's leasehold interests are expected to intersect the Eagle Ford formation. Furthermore, a high proportion of the hydrocarbons produced by Aurora from the Eagle Ford are condensate or light/medium oil, which have historically resulted in a higher price realisation per unit than dry natural gas.

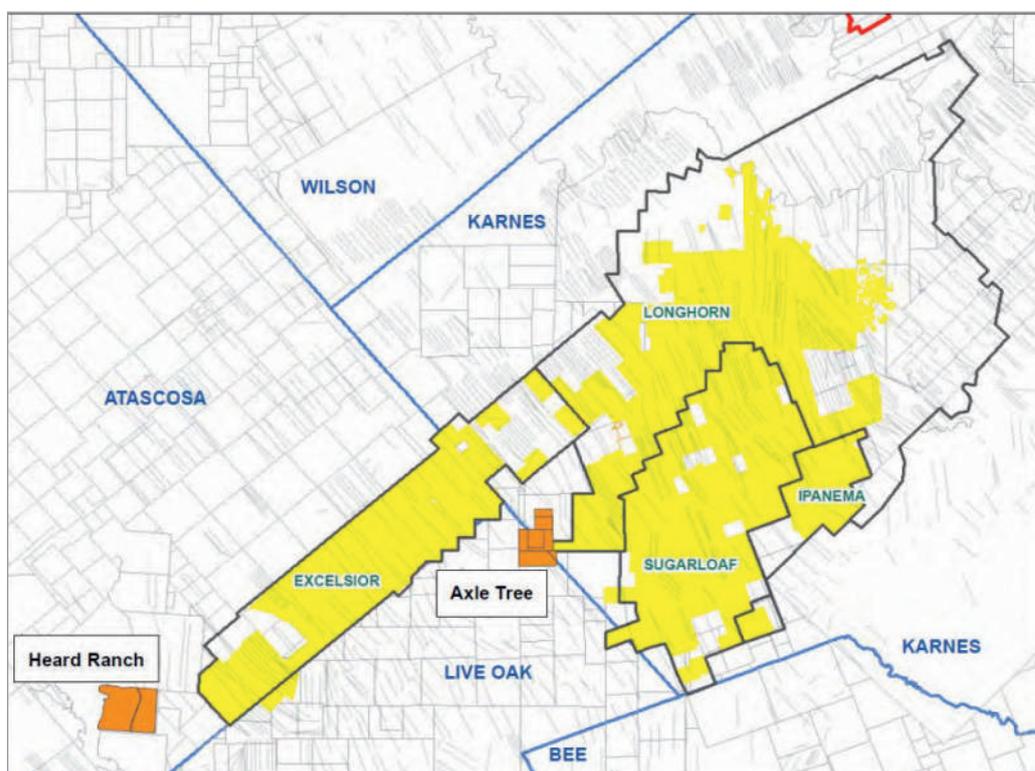
### Non-operated assets

Aurora has WIs in approximately 77,400 gross acres across four AMLs in the Sugarkane Field, together with interests in wells, field infrastructure and related assets in those AMLs. Marathon is the operator of all the acreage and other assets in these Sugarkane Field AMLs. Approximately 97% of this non-operated acreage is held-by-production.

### Operated assets

On 29 March 2013 Aurora acquired its operated Sugarkane Field assets, which sit across approximately 2,800 gross acres comprised of two consolidated blocks (the Heard Ranch and Axle Tree areas), located within the liquids-rich zone of the Eagle Ford shale trend and are either adjacent or very proximate to Aurora's existing Sugarkane Field AMLs operated by Marathon. This acreage is 100% held-by-production. Aurora is the operator of the operated Sugarkane Field assets.

The diagram below is an indicative pictorial representation of Aurora's Sugarkane Field AMLs and the location of the operated assets within the Sugarkane Field. It is not intended to be schematically definitive, to scale or reference ownership of mineral rights.



Aurora also holds ~14,000 net acres located in Trinity County in the Eaglebine, which consists of exploration stage acreage, with one vertical well drilled to date.

### Recent developments

#### 2013 Operational and financial update

Aurora's WI in its Sugarkane Field AMIs and its operated assets and the approximate associated gross and net land positions as of 31 December 2013 are shown in the table below:

	AVERAGE WI	GROSS ACREAGE	NET ACREAGE
Sugarloaf AMI	28.1%	24,000	6,750
Longhorn AMI	31.9%	28,500	9,100
Ipanema AMI	36.4%	4,800	1,750
Excelsior AMI	9.1%	20,100	1,800
Operated Sugarkane Assets	100.0%	2,800	2,800
Total Sugarkane Field		80,200	22,200
Eaglebine Operated Acreage	91.1%	15,000	14,000
<b>Total</b>		<b>95,200</b>	<b>36,200</b>

Based on realised commodity pricing achieved by Aurora for the year ended 31 December 2013, approximately 94% of Aurora's production revenue related to oil, condensate and NGL sales, with the balance being natural gas production revenue.

During the last three years, substantial drilling activity was undertaken across Aurora's Sugarkane Field AMIs and operated assets. As of 31 December 2013, the total number of gross producing wells in which Aurora has an interest was 387, as compared to 216 gross wells as of 31 December 2012 and 71 gross wells as of 31 December 2011.

The following table summarizes the status of wells in which Aurora has a WI, categorized by Sugarkane Field AMI for operated assets, as of 31 December 2013.

	SUGARLOAF	LONGHORN	IPANEMA	EXCELSIOR	AXLE TREE	HEARD RANCH	TOTAL
Producing	97	178	7	86	11	8	387
Workover	-	-	-	-	-	-	-
Fracture Stimulation	-	-	-	-	-	2	2
Completions	3	13	-	10	-	1	27
Drilling	2	4	-	2	-	1	9
<b>Total</b>	<b>102</b>	<b>195</b>	<b>7</b>	<b>98</b>	<b>11</b>	<b>12</b>	<b>425</b>

In addition, Aurora has a WI in 4 wells within the Sugarkane Field AMI's not included in the above table as these wells remain under farmout arrangements requiring all production from these wells to be for the benefit of the farm-inor until payout of capital and other costs.

#### Reserves update

On 3 February 2014, Aurora publicly announced its independently reviewed Reserves Report as at 31 December 2013. The reserves were assessed by Ryder Scott. Set out below is a summary of reserves estimates and the value of future net revenue of Aurora associated with such reserves evaluated by Ryder Scott with an effective date as of 31 December 2013 based on the Aurora 2013 Reserves Report.

**SUMMARY OF OIL AND NATURAL GAS RESERVES  
AS OF 31 DECEMBER 2013 FORECAST PRICES AND COSTS<sup>(1)</sup>**

RESERVES CATEGORY	RESERVES							
	LIGHT AND MEDIUM OIL		NATURAL GAS LIQUIDS / COND.		NATURAL GAS		BOE	
	Gross (MMbbls)	Net (MMbbls)	Gross (MMbbls)	Net (MMbbls)	Gross (Bcf)	Net (Bcf)	Gross (MMBoe)	Net (MMBoe)
PROVED:								
Developed Producing	14.1	10.4	13.1	9.7	42.9	31.7	34.4	25.4
Developed Non-Producing	0.6	0.5	0.0	0.0	0.2	0.2	0.7	0.5
Undeveloped	34.4	25.3	64.6	47.6	184.8	136.3	129.8	95.6
<b>TOTAL PROVED</b>	<b>49.1</b>	<b>36.2</b>	<b>77.8</b>	<b>57.4</b>	<b>227.9</b>	<b>168.1</b>	<b>164.9</b>	<b>121.5</b>
PROBABLE	11.6	8.6	31.0	23.0	98.3	73.0	58.9	43.8
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>60.7</b>	<b>44.8</b>	<b>108.8</b>	<b>80.3</b>	<b>326.2</b>	<b>241.0</b>	<b>223.8</b>	<b>165.3</b>
POSSIBLE	1.4	1.0	32.3	23.8	87.8	64.4	48.4	35.5
<b>TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE <sup>(2)</sup></b>	<b>62.1</b>	<b>45.8</b>	<b>141.1</b>	<b>104.1</b>	<b>414.0</b>	<b>305.4</b>	<b>272.2</b>	<b>200.8</b>

**Note:**

<sup>(1)</sup> Ryder Scott has not, and is not required to, consent to the inclusion of this summary in this Scheme Booklet.

<sup>(2)</sup> Possible reserves are those reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

The table below shows the before tax net present value of future net revenue before income tax of Aurora's reserves on an undiscounted basis and with a 5%, 10%, 15% and 20% discount being applied:

**SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE<sup>(1)</sup>  
AS OF 31 DECEMBER 2013 FORECAST PRICES AND COSTS**

RESERVES CATEGORY	NET PRESENT VALUES OF FUTURE NET REVENUE BEFORE INCOME TAXES DISCOUNTED AT (%/year)				
	0%	5%	10%	15%	20%
PROVED:	(in U.S.\$ million)				
Developed Producing	1,079	857	721	629	564
Developed Non-Producing	28	25	23	21	20
Undeveloped	2,610	1,645	1,101	766	546
<b>TOTAL PROVED</b>	<b>3,717</b>	<b>2,527</b>	<b>1,845</b>	<b>1,416</b>	<b>1,130</b>
PROBABLE	1,143	702	464	324	233
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>4,860</b>	<b>3,229</b>	<b>2,309</b>	<b>1,740</b>	<b>1,363</b>
POSSIBLE <sup>(2)</sup>	701	371	205	111	55
<b>TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE <sup>(2)</sup></b>	<b>5,561</b>	<b>3,600</b>	<b>2,514</b>	<b>1,851</b>	<b>1,418</b>

**Note:**

<sup>(1)</sup> The estimated future net revenue values utilized in the disclosed net present values do not necessarily represent the fair market value of Aurora's reserves.

<sup>(2)</sup> Possible reserves are those reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

The forecast pricing parameters detailed in the table below were used in the Aurora 2013 Reserves Report. NGL pricing was estimated at 30% of the oil pricing. The figures were then adjusted for quality and regional price variations. Further adjustments were made for the calorific value of the gas.

**SUMMARY OF PRICE ASSUMPTIONS  
AS OF 31 DECEMBER 2013 FORECAST PRICES AND COSTS**

PERIOD ENDED	WEST TEXAS INTERMEDIATE PRICE (U.S.\$/Bbl)	NATURAL GAS PRICE (U.S.\$/MMbtu)
2014	94.49	4.23
2015	87.98	4.17
2016	83.74	4.13
Thereafter	83.74	4.13

Within the Aurora 2013 Reserves Report, well costs are based on estimates provided by the operator of Aurora's non-operated acreage, together with internally generated estimates for its operated acreage. These estimates are then adjusted for horizontal well lengths accordingly. In general the well costs are based on a nominal 5,000 foot lateral design with a drill and complete cost of U.S.\$7.5 million. This results in well costs ranging from U.S.\$6.7 million to U.S.\$10.5 million depending on location, depth, lateral length and artificial lift design.

The reserve estimates in this Section were prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook and in accordance with NI 51-101 and consistent with the classification and reporting requirements of the Petroleum Resources Management System (SPE-PRMS) as required by Chapter 5 of the ASX Listing Rules *Additional Reporting on Mining and Oil & Gas Production and Exploration Activities*.

Aurora presents petroleum and natural gas production and reserve volumes in Boe amounts. For the purposes of computing such units, a conversion rate of 6,000 cubic feet of natural gas to one Boe equivalent (6:1) is used. The conversion ratio of 6:1 is based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Aurora Shareholders are cautioned that Boe figures may be misleading, particularly if used in isolation.

Aurora's reserve estimates as presented in this document are constructed using a deterministic method based upon an anticipated development schedule. Future well locations have been designated to reserve categories based on their likelihood to be drilled.

Reported reserves represent the aggregation of reserves from lower risk categories, for example Aurora's 3P reserves represent the arithmetic sum of our proved, probable and possible reserves.

Unless otherwise stated, all evaluations of future net revenue in this Scheme Booklet are after deduction of royalties, development costs, production costs, local taxes and well abandonment costs but before consideration of indirect costs such as administrative, overhead, income tax and other miscellaneous expenses.

Although Aurora believes that the forecasts have been made on a reasonable basis, no assurance can be given that the forecasts will prove to be correct and variances could be material. The forecasts involve known and unknown risks, uncertainties, assumptions and other factors that may cause Aurora's actual results to differ. The recovery and reserve estimates of Aurora's reserves are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein. Neither Aurora nor the Aurora Directors give any representation, assurance or guarantee that the forecasts will be achieved. Aurora Shareholders are cautioned not to place undue reliance on the forecasts.

### 4.3 Financial information

#### (a) Basis of preparation

The following Section summarises certain historical financial information about Aurora for the years ended 31 December 2011, 31 December 2012 and 31 December 2013.

The financial information in this Section is a summary only and is prepared for the purpose of this Scheme Booklet. The information has been extracted from the audited financial report of Aurora for the years ended 31 December 2011, 31 December 2012 and 31 December 2013.

The Company's auditor is BDO Audit. The 31 December 2011, 31 December 2012 and 31 December 2013 financial reports were audited by BDO Audit in accordance with Australian auditing standards.



Further detail on Aurora's financial performance for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 is provided in the results announcements to ASX dated 29 March 2012, 28 February 2013, 28 February 2014 and 21 March 2014. These documents are available as follows:

- from ASX on its website at [www.asx.com.au](http://www.asx.com.au); and
- from Aurora's website at [www.auroraog.com.au](http://www.auroraog.com.au).

**(b) Consolidated Statement of Profit or Loss and Other Comprehensive Income**

Set out below is a summary of Aurora's consolidated statement of profit or loss and other comprehensive income for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013:

	CONSOLIDATED		
	YEAR ENDED DEC 31, 2013 US\$'000	YEAR ENDED DEC 31, 2012 US\$'000	YEAR ENDED DEC 31, 2011 US\$'000
Revenue from continuing operations	562,766	295,059	75,969
Other income	164	5,008	1,052
<b>Total income</b>	<b>562,930</b>	<b>300,067</b>	<b>77,021</b>
Royalties	(149,429)	(77,625)	(20,067)
Production and operating expenses	(60,766)	(34,581)	(6,737)
Depletion, depreciation and amortisation expense	(83,632)	(39,161)	(4,367)
Exploration and evaluation costs	(503)	(4,939)	(652)
Finance costs	(59,493)	(28,027)	(136)
Administrative expenses	(23,967)	(15,134)	(8,783)
Share-based payment expenses	(5,376)	(4,398)	(4,052)
Foreign exchange loss	(346)	-	-
<b>Profit / (Loss) from continuing operations before income tax expense</b>	<b>179,418</b>	<b>96,202</b>	<b>32,227</b>
Income tax expense	(62,988)	(37,356)	(1,643)
<b>Net profit attributable to owners of the Company</b>	<b>116,430</b>	<b>58,846</b>	<b>30,584</b>
<b>Other comprehensive income</b>			
Changes in fair value on equity instruments measured at fair value through other comprehensive income	(405)	957	(1,302)
Changes in fair value of cash flow hedges	(2,942)	(1,154)	-
<b>Other comprehensive (expenses) for the period / year, net of tax</b>	<b>(3,347)</b>	<b>(197)</b>	<b>(1,302)</b>
<b>Total comprehensive income for the year attributable to members of the Company</b>	<b>113,083</b>	<b>58,649</b>	<b>29,282</b>
<b>Earnings / (loss) per share attributable to owners of the Company</b>			
Basic earnings / (loss) per share (US cents per share)	25.97	13.60	7.49
Diluted earnings / (loss) per share (US cents per share)	25.51	13.35	7.37

(c) Consolidated Statement of Financial Position

Set out below is a summary of Aurora's consolidated statement of financial position for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013:

	CONSOLIDATED		
	YEAR ENDED DEC 31, 2013 US\$'000	YEAR ENDED DEC 31, 2012 US\$'000	YEAR ENDED DEC 31, 2011 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	42,379	67,584	70,246
Trade and other receivables	72,989	89,535	14,626
<b>Total current assets</b>	<b>115,368</b>	<b>157,119</b>	<b>84,872</b>
<b>Non-current assets</b>			
Other financial assets	210	842	2,507
Property, plant and equipment	156,243	71,063	21,319
Oil and gas properties	1,320,180	882,373	272,128
Derivative financial instrument	85	–	–
<b>Total non-current assets</b>	<b>1,476,718</b>	<b>954,278</b>	<b>295,954</b>
<b>Total assets</b>	<b>1,592,086</b>	<b>1,111,397</b>	<b>380,826</b>
<b>Current liabilities</b>			
Trade and other payables	205,922	180,619	73,434
Derivative financial instruments	5,937	1,535	–
Provisions	506	334	92
<b>Total current liabilities</b>	<b>212,365</b>	<b>182,488</b>	<b>73,526</b>
<b>Non-current liabilities</b>			
Borrowings	660,976	390,453	30,000
Deferred tax liabilities	145,684	83,523	1,643
Derivative financial instrument	–	114	–
Provisions	2,808	1,705	565
<b>Total non-current liabilities</b>	<b>809,468</b>	<b>475,795</b>	<b>32,208</b>
<b>Total liabilities</b>	<b>1,021,833</b>	<b>658,283</b>	<b>105,734</b>
<b>Net assets</b>	<b>570,253</b>	<b>453,114</b>	<b>275,092</b>
<b>Equity</b>			
Contributed equity	404,512	405,169	290,194
Share-based payment reserve	16,878	12,165	7,767
Fair value reserve	(7,459)	(7,054)	(8,011)
Foreign exchange reserve	(7,505)	(7,505)	(7,505)
Cash flow hedge reserve	(4,096)	(1,154)	–
Retained earnings / (accumulated losses)	167,923	51,493	(7,353)
<b>Total equity</b>	<b>570,253</b>	<b>453,114</b>	<b>275,092</b>

**(d) Consolidated Statement of Cash Flows**

Set out below is a summary of Aurora's consolidated statement of cash flows for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013:

	CONSOLIDATED		
	YEAR ENDED DEC 31, 2013 US\$'000	YEAR ENDED DEC 31, 2012 US\$'000	YEAR ENDED DEC 31, 2011 US\$'000
<b>Cash flows from operating activities</b>			
Receipts from oil & gas sales	579,260	221,539	62,315
Payments to suppliers and employees	(243,023)	(67,433)	(27,368)
Other revenue	141	1,167	–
Interest paid	(48,148)	(11,151)	–
<b>Net cash inflow from operating activities</b>	<b>288,230</b>	<b>144,122</b>	<b>34,947</b>
<b>Cash flows from investing activities</b>			
Payments for capitalised oil & gas assets	(482,349)	(452,635)	(64,514)
Payment for property, plant and equipment	(89,062)	(51,352)	(12,226)
Transaction costs	–	(4,939)	–
Payment for other financial assets	–	(252)	(1,614)
Payment for acquisition of subsidiary, net of cash acquired	–	(98,765)	–
Interest received	52	247	711
<b>Net cash (outflow) from investing activities</b>	<b>(571,359)</b>	<b>(607,696)</b>	<b>(77,643)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares	–	120,138	42,130
Share issue costs	(21)	(5,163)	(3,231)
Proceeds from borrowings	330,000	394,579	30,000
Repayment of borrowings	(60,000)	(39,000)	–
Borrowing costs	(11,124)	(11,558)	(2,328)
Purchase of shares by Aurora Oil & Gas Employee Share Trust	(804)	–	–
<b>Net cash inflow from financing activities</b>	<b>258,051</b>	<b>458,996</b>	<b>66,571</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(25,078)</b>	<b>(4,578)</b>	<b>23,875</b>
Cash and cash equivalents at the beginning of the financial year	67,584	70,246	45,997
Effect of exchange rates on cash holdings in foreign currencies	(127)	1,916	374
<b>Cash and cash equivalents at the end of the financial year</b>	<b>42,379</b>	<b>67,584</b>	<b>70,246</b>



If the Scheme is implemented, the existing Aurora Board will be reconstituted in accordance with the instructions of Baytex with effect on and from the Implementation Date. Accordingly, it is not possible for the existing Aurora Board to provide a statement of their intentions regarding:

- the continuation of the business of Aurora or how the existing business will be conducted;
  - any major changes to be made to the business of Aurora; or
  - the future employment of the present employees of Aurora,
- in each case, after the Scheme is implemented.

The intentions of Baytex and Baytex Australia if the Scheme is implemented are as set out in Section 5.6.

#### **4.10 Risks relating to Aurora's business**

There are existing risks relating to Aurora's business and an investment in Aurora which will continue to be relevant to Aurora Shareholders if the Scheme does not become Effective. A summary of the key risks relating to Aurora's business and an investment in Aurora is set out in Sections 6.3 and 6.4.

#### **4.11 Recent Aurora Share price performance**

The latest recorded sale price of Aurora Shares on ASX on 11 April 2014, the Business Day before the date of this Scheme Booklet, was \$4.10, and on TSX, was CAD\$4.22.

The last recorded sale price of Aurora Shares on ASX on 6 February 2014 was \$2.62, being the Business Day before the execution of the Scheme Implementation Deed was announced on ASX. The last recorded sale price of Aurora Shares on TSX on 6 February 2014 was CAD\$2.63.

The volume weighted average price of Aurora Shares on ASX for the 1, 3 and 6 month periods to 11 April 2014 were \$4.11, \$3.98 and \$3.77 respectively. The volume weighted average price of Aurora Shares on TSX for the 1, 3 and 6 month periods to 11 April 2014 were CAD\$4.19, CAD\$3.90 and CAD\$3.59 respectively.

The current price of Aurora Shares on ASX can be obtained from the ASX website ([www.asx.com.au](http://www.asx.com.au)) or Aurora's website ([www.auroraoag.com.au](http://www.auroraoag.com.au)). The current price of Aurora Shares on TSX can be obtained from the TSX website ([www.tmx.com](http://www.tmx.com)) or Aurora's website ([www.auroraoag.com.au](http://www.auroraoag.com.au)).

## 5 Information on Baytex and Baytex Australia

The Baytex Information, including the information in this Section has been prepared and provided by Baytex and Baytex Australia and is the responsibility of Baytex and Baytex Australia. Neither Aurora nor its directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the Baytex Information in this Section.

### 5.1 Overview of Baytex and Baytex Australia

#### Background to Baytex Australia

Baytex Australia was incorporated in Australia on 13 March 2014 and is a wholly owned subsidiary of Baytex. Baytex Australia was incorporated for the purpose of acquiring all of the Aurora Shares if the Scheme is implemented, and it does not currently have any other activities.

#### Background to Baytex

Through its wholly owned subsidiaries, Baytex is engaged in the acquisition, development and production of crude oil and natural gas in the Western Canadian Sedimentary Basin and in the Williston Basin in the United States. During the year ended 31 December 2013, Baytex's production averaged 57,196 boe/d (weighted 88% to crude oil and natural gas liquids).

Baytex is a public company incorporated under the laws of the Province of Alberta, Canada and listed on the TSX and the New York Stock Exchange under the symbol BTE. At the time of preparing this Scheme Booklet, Baytex had a market capitalisation of approximately CAD\$5.1 billion. As at 12 March 2014, Baytex had approximately 290 employees.

Baytex's crude oil and natural gas operations are organised into three business units:

- (a) Alberta/British Columbia (Peace River oil sands and conventional light oil and natural gas properties);
- (b) Saskatchewan (Lloydminster area heavy oil operations); and
- (c) United States (Bakken-Three Forks play in North Dakota).

Baytex's 2014 production guidance is 60,000 to 62,000 boe/d with budgeted exploration and development expenditures of CAD\$485 million, in each case before giving effect to the acquisition of the business of Aurora.

#### Baytex's projects

A summary of Baytex's major projects is below.

##### (a) Peace River Area

Baytex's Peace River oil sands are located in northwest Alberta. Since the beginning of 2000, Baytex has accumulated 306 sections of oil sands leases and grown production from zero to 23,900 bbl/d for the fourth quarter of 2013.

##### (b) Lloydminster Area

The Lloydminster area heavy oil operations include cold primary and thermal (steam-assisted gravity drainage) production. Baytex's Lloydminster heavy oil projects generate consistent, repeatable results with horizontal wells typically producing 30-day peak rates of approximately 70-80 bbl/d and vertical wells typically producing 30-day peak rates of approximately 30-40 bbl/d with gravities ranging from 10 to 18 degrees. Once produced, the oil is delivered to markets in both Canada and the United States via pipelines, tanker trucks or railways.

## 5.2 Directors of Baytex Australia and Baytex

As at the date of this Scheme Booklet, the directors of Baytex Australia are Murray J. Desrosiers and Richard Homsany.

As at the date of this Scheme Booklet, the directors of Baytex are:

- (a) Raymond T. Chan – Executive Chairman and Director;
- (b) James L. Bowzer – President, Chief Executive Officer and Director;
- (c) John A. Brussa – Director;
- (d) Edward Chwyl – Director;
- (e) Naveen Dargan – Director;
- (f) Ruston E.T. Goepel – Director;
- (g) Gregory K. Melchin – Director;
- (h) Mary Ellen Peters – Director; and
- (i) Dale O. Shwed – Director.

## 5.3 Baytex, Baytex Australia and their directors' interests in Aurora securities

### (a) Baytex and Baytex Australia's interests in Aurora securities

At the date of this Scheme Booklet, Baytex, Baytex Australia and their associates do not have a relevant interest or voting power in any Aurora securities.

### (b) Baytex and Baytex Australia directors' interests in Aurora securities

As at the date of this Scheme Booklet, the directors of Baytex and Baytex Australia do not have a relevant interest or voting power in any Aurora securities.

### (c) Acquisition of Aurora securities by Baytex, Baytex Australia and their associates

Other than under the Scheme Implementation Deed, the Aurora Performance Rights cancellation deeds and the Aurora Option cancellation deeds detailed in Section 3.6, in the four months prior to the date of this Scheme Booklet, neither Baytex, Baytex Australia nor any of their Associates have provided or agreed to provide, any consideration for Aurora securities under a purchase or an agreement.

### (d) Pre-Scheme benefits

Other than as described in this Scheme Booklet, none of Baytex, Baytex Australia nor any of their Associates has given, offered to give or agreed to give, a benefit to another person that was likely to induce that person or an Associate to vote in favour of the Scheme or dispose of their Aurora securities during the four month period immediately preceding the date of this Scheme Booklet, where that benefit was not offered to all Aurora Shareholders.

## 5.4 Rationale for Baytex and Baytex Australia's proposed acquisition of Aurora

Baytex, via Baytex Australia's acquisition of Aurora, will acquire premier acreage in the core of the Eagle Ford, one of the leading shale oil plays in the United States, which will strengthen Baytex's position in the oil and natural gas industry.

Baytex's ownership of Aurora's petroleum and natural gas properties and related assets will provide material production, long-term growth and high quality reserves with upside potential. This acquisition will provide Baytex with a platform for further potential growth opportunities.

The assets of Aurora fit with Baytex's existing business model and will position Baytex in another world-class oil resource play. The acquisition will provide Baytex shareholders with exposure to low-risk, repeatable, high-return projects with leading capital efficiencies.

The acquisition adds proved reserves of 106.7 MMboe and proved plus probable reserves of 166.6 MMboe. Reserves are based on Baytex's internal estimates of Aurora's reserves, as at 31 December 2013. This evaluation was prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook.

## 5.5 Funding arrangements for Scheme Consideration

The total consideration to be paid by Baytex Australia is approximately CAD\$1.8 billion, plus assumed debt of approximately CAD\$744 million for a total transaction value of approximately CAD\$2.6 billion. Pursuant to the Scheme Implementation Deed, Baytex has nominated Baytex Australia to acquire 100% of the Aurora Shares for \$4.10 per Aurora Share under the Scheme. The consideration to be paid by Baytex Australia for the acquisition of all the Aurora Shares is \$1,840,021,690.

Aurora also has Aurora Options and Aurora Performance Rights on issue. The Scheme Implementation Deed contemplates the Aurora Options and Aurora Performance Rights will be cancelled for consideration. The consideration for cancelling or acquiring the Aurora Options and Aurora Performance Rights will be paid by Baytex Australia and will be a maximum of \$16,660,083.

To ensure that Baytex Australia has sufficient funds to pay the Scheme Consideration and the consideration under the Performance Rights cancellation deeds and the Option cancellations deeds, Baytex has completed the Equity Raising and entered into a commitment letter for the Term Loan Facility and the Revolving Facilities (defined below).

On the basis of the funding arrangements described below, Baytex and Baytex Australia hold the view, and are of the opinion that they have a reasonable basis to hold the view, that Baytex and Baytex Australia will be able to pay the total Scheme Consideration and related transaction costs.

Baytex is financing the Scheme Consideration through a combination of:

- (a) the proceeds of a CAD\$1.5 billion subscription receipt financing (**Equity Raising**), that closed on 24 February 2014 with the gross proceeds being held in escrow by Valiant Trust Company (**Escrow Agent**) pending the implementation of the Scheme. The Equity Raising was underwritten by a syndicate of underwriters that was co-led by Scotia Capital Inc. and RBC Dominion Securities Inc. At closing, Baytex issued 38,433,000 subscription receipts (**Subscription Receipts**) at a price of CAD\$38.90 per Subscription Receipt with each Subscription Receipt entitling the holder to receive, on implementation of the Scheme, one common share in the capital of Baytex. The Subscription Receipts trade on the Toronto Stock Exchange under the symbol BTE.R;
- (b) drawing on Baytex's new CAD\$200 million non-revolving syndicated term loan facility (**Term Loan Facility**) that has been arranged pursuant to a commitment letter with The Bank of Nova Scotia, a Canadian chartered bank; and
- (c) drawing the balance on Baytex's new CAD\$1.0 billion revolving credit facilities (**Revolving Facilities**) that have been arranged pursuant to a commitment letter with The Bank of Nova Scotia, a Canadian chartered bank, which will replace the existing CAD\$850 million credit facilities of Baytex Energy Ltd., a wholly-owned subsidiary of Baytex.

The Revolving Facilities will be for a four year term extendible annually for a one, two, three or four year period (subject to a maximum four-year term at any time) and contain standard commercial covenants for facilities of this nature. The Revolving Facilities do not require any mandatory principal payments during the four-year term. Advances (including letters of credit in connection with the Revolving Facilities only) under the Revolving Facilities can be drawn in either Canadian or U.S. funds and bear interest at the agent bank's prime lending rate, bankers' acceptance discount rates or London Interbank Offered Rates, plus applicable margins.

The Revolving Facilities and the Term Loan Facility will be secured by a floating charge over all of Baytex's assets, excluding the Aurora Group's assets, and will be guaranteed by certain material restricted subsidiaries other than Aurora and its subsidiaries. The Revolving Facilities will not include a term-out feature or a borrowing base restriction but will restrict Baytex's ability to borrow through the use of customary financial covenants.

The Term Loan Facility is a single drawdown facility that is available solely to finance (directly or indirectly) the acquisition of Aurora together with reasonable transaction costs and expenses related to the Scheme. The Term Loan Facility will have a two year term and provides for mandatory reductions and repayments for specified equity and debt issuances and dispositions.

The Subscription Receipts will be exchanged for common shares in Baytex upon the satisfaction of all other material conditions (other than payment of the Scheme Consideration) necessary to implement the Scheme (**Escrow Condition**).

The gross proceeds from the Equity Raising are being held by the Escrow Agent, and invested in short-term obligations of, or guaranteed by, the Government of Canada (or other approved investments) pending the satisfaction of the Escrow Condition.

Upon satisfaction of the Escrow Condition on or before the End Date, the escrowed funds and the interest earned on the escrowed funds will be released to Baytex to enable Baytex to convert these funds (along with funds advanced under the Term Loan Facility and the Revolving Facilities) to Australian dollars and advance them to Baytex Australia to fund the Scheme Consideration.

The cash necessary to fund the Scheme Consideration and related transaction costs will be provided by Baytex to Baytex Australia pursuant to a share subscription by Baytex in Baytex Australia.

Implementation of the Scheme (and payment of the Scheme Consideration by Baytex Australia) is not conditional on Baytex or Baytex Australia obtaining any funding or financing arrangements.

## 5.6 Baytex and Baytex Australia's intentions if the Scheme is implemented

This Section 5.6 sets out Baytex and Baytex Australia's intentions in relation to:

- (a) the continuation of the business of Aurora;
- (b) any major changes to be made to the business of Aurora; and
- (c) the future employment of the present employees of Aurora,

if Baytex Australia acquires all of the Aurora Shares on issue through implementation of the Scheme.

The intentions set out in this Section have been formed on the basis of facts and information concerning Aurora and the general business environment which is known to Baytex and Baytex Australia at the date of this Scheme Booklet and based on publicly available information and certain limited non-public information made available to Baytex as part of its due diligence review. Accordingly, the statements set out below are statements of Baytex and Baytex Australia's current intentions which are subject to change as new information becomes available or as circumstances change.

Following implementation of the Scheme, Baytex and Baytex Australia intend to undertake a strategic review of the business, assets and operations of Aurora. This review may or may not lead to changes to the business, operations and assets of Aurora, including in relation to its employees and offices, which are contrary to the intentions of Baytex and Baytex Australia described in this Section.

Baytex has the same intentions and knowledge as Baytex Australia in relation to these matters.

- (a) Aurora to be delisted

If the Scheme is implemented, Baytex Australia intends to arrange for Aurora to be removed from the official list of ASX and delisted from the TSX after the Implementation Date.

- (b) Intentions for the continuation of Aurora's business

Neither Baytex Australia nor Baytex currently has any material operations in Australia and therefore no material overlap exists between Baytex Australia or Baytex's operations and Aurora's operations.

Baytex Australia's current intentions for Aurora's businesses is to cause Aurora to:

- (i) continue to participate in the existing acreage operated by Marathon;
- (ii) continue to meet its expenditure obligations under its existing joint ventures;
- (iii) continue the day-to-day operations of Aurora and its subsidiaries substantially as they have previously been conducted;
- (iv) replace Aurora's Board with Baytex Australia's own nominee directors; and
- (v) to transfer all of Aurora's subsidiaries to another entity in the Baytex group and cause Aurora to be deregistered in the short term.

- (c) Future employment of Aurora's present employees

Baytex Australia considers Aurora's employees to be an integral part of the business' culture, reputation and success.

If the Scheme is implemented, it is likely that the elimination of duplicated functions across the Baytex and Aurora businesses may result in some positions becoming redundant. It is Baytex Australia's intention to endeavour to identify suitable alternative roles for affected Aurora employees. There may be instances where there are duplications of duties between Baytex Australia and Aurora, or there may be instances where functions currently staffed within Aurora are not required post the implementation of the Scheme. In these cases it is possible that certain positions may become redundant, and as such, the relevant Aurora employees would receive redundancy payments and other benefits in accordance with their contractual and other legal entitlements.

## 5.7 Other material information

Except as set out in this Section 5, so far as Baytex and Baytex Australia are aware, there is no information relating to:

- (a) Baytex Australia or Baytex; or
- (b) Baytex Australia or Baytex's intentions regarding Aurora, Aurora's business operations and assets and funding of the Scheme Consideration,

material to the making of a decision by an Aurora Shareholder in relation to the Scheme, being information that is within the knowledge of any director of Baytex or Baytex Australia at the time of Aurora lodging this Scheme Booklet with ASIC for registration, which is not disclosed in this Section 5, or elsewhere in this Scheme Booklet.

As at date of this Scheme Booklet, Baytex and Baytex Australia are not aware of any circumstances that would cause any Condition (as set out in Section 1.2) not to be satisfied.



## 6 What if the Scheme is not implemented?

### 6.1 What if the Scheme is not implemented?

If the Scheme is not implemented, there will be no change to Aurora and it will continue to operate on a standalone basis. As such, Aurora will remain listed on ASX and TSX and you will retain your Aurora Shares and they will not be acquired by Baytex Australia. While it is not possible to predict the future performance of Aurora, in deciding whether or not to vote in favour of the Scheme you should have regard to the prospects of Aurora on a standalone basis (i.e. if the Scheme is not approved and implemented).

The following are some possible implications of the Scheme not being implemented:

- Aurora will continue as an independent entity listed on ASX and TSX;
- Aurora Shareholders will not receive the payment of \$4.10 cash (or Canadian dollar equivalent) per Aurora Share;
- Aurora Shareholders will continue to hold their Aurora Shares and will be exposed to the risks associated with an investment in Aurora set out in Sections 6.3 and 6.4 of this Scheme Booklet; and
- If the Scheme is not implemented and no alternative proposal emerges, the Directors consider that the market price of Aurora Shares is likely to fall.

### 6.2 Risks associated with Aurora if the Scheme is not implemented

If the Scheme is not implemented Aurora will remain as a listed company and as such Aurora will continue to be subject to various risk factors. The principal risk factors that could have an impact are listed below.

The risks described below are not to be taken as exhaustive. The specific risks considered and others not specifically referred to may in the future materially affect the financial performance of Aurora and the value of Aurora Shares.

### 6.3 Operational risks

#### (a) Commodity prices

The prices of crude oil, NGLs, condensate and natural gas are volatile. A sustained decline in the prices of these commodities could adversely affect Aurora's financial position, financial results, access to capital and ability to grow, and could adversely impact on the level of Aurora's reserves.

Any material decline in commodity prices could result in a reduction of Aurora's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Aurora's reserves. Aurora might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Aurora's expected net production revenue and a reduction in Aurora's oil and natural gas acquisition, development and exploration activities.

Further, declines in commodity prices may cause Aurora to make substantial downward adjustments to its estimated proved reserves. If this occurs, or if Aurora's estimates of production or economic factors change, Aurora may need to write down, as a non-cash charge to earnings, the carrying value of its proved oil and natural gas properties for impairments.

#### (b) Drilling and production risk

Drilling for and producing oil, condensate, NGLs and natural gas are high-risk activities with many uncertainties that could cause Aurora's expenses to increase or its cash flows and production volumes to decrease.

Aurora's future financial condition and results of operations will depend on the success of its exploration, development and production activities. Aurora's oil, condensate, NGLs and natural gas exploration and production activities are subject to numerous risks, including the risk that drilling will result in dry holes or not result in commercially feasible oil or natural gas production.

**(c) Control of production**

Aurora is not the operator of a substantial number of its drilling locations, and, therefore, Aurora will not be able to control the timing of development, associated costs, or the rate of production related to these locations.

As a result, Aurora may have virtually no ability to exercise influence over the operational decisions of the operator, including the setting of capital expenditure budgets and drilling locations and schedules. Dependence on the operator could prevent Aurora from realising its target returns for those locations.

**(d) Market conditions, operation impediments and third party arrangements**

Market conditions, operational impediments or availability of adequate processing or transportation arrangements with third parties may hinder Aurora's access to oil, condensate, NGLs and natural gas markets, delay its production or increase operating costs.

Market conditions or the availability of satisfactory oil, condensate, NGLs and natural gas processing or transportation arrangements may hinder Aurora's access to oil, condensate, NGLs and natural gas markets or delay production.

The availability of a ready market for Aurora's oil, condensate, NGLs and natural gas production depends on a number of factors, including the demand for and supply of oil, condensate and natural gas, the proximity of reserves to gathering, pipeline, storage and terminal facilities, the rates and terms of services associated with the use of those facilities, competition for potentially limited access to or capacity in such facilities and the inability of such facilities to gather, transport, process or store Aurora's production due to shutdowns or curtailments arising from mechanical, operational or weather-related matters.

Aurora's ability to market its production depends in substantial part on the availability and capacity of gathering and transportation equipment and systems, pipelines and processing facilities owned and operated by third parties. A failure to obtain such services on acceptable terms could have a material adverse effect on Aurora's business, financial condition and results of operations. Aurora may be required to shut in or otherwise curtail production from wells due to lack of a market or inadequacy or unavailability of oil or natural gas pipeline or gathering, transportation or processing capacity.

## 6.4 General risks

**(a) Share price risk**

The market price of Aurora Shares will be determined by the share market and will be influenced by a range of factors outside the control of Aurora including fluctuations in the Australian and international share markets, economic activity, interest rates, exchange rates and trading liquidity.

**(b) Risks associated with operating in one geographic area**

Aurora's producing properties are located entirely in the Eagle Ford Shale play in South Texas, making it vulnerable to risks associated with operating in one geographic area.

Aurora's producing properties are in the Sugarkane Field located in the Eagle Ford Shale play in South Texas. As a result of this geographic concentration, Aurora may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of oil or natural gas. Additionally, Aurora may be exposed to additional risks, such as changes in field-wide rules and regulations that could cause it to permanently or temporarily shut-in all of its wells within the Sugarkane Field.

**(c) Ability to fund capital expenditures**

Aurora's business requires substantial capital expenditures and the timing of the occurrence of these capital expenditures can be unpredictable. Aurora may be unable to obtain the capital or financing required to develop its reserves on satisfactory terms or at all, which could lead to a loss of acreage and a decline in Aurora's oil, condensate, NGLs and natural gas reserves.

Aurora may not be able to obtain capital expenditure funding on acceptable terms, or at all, due to a deterioration of credit and capital markets. This may hinder or prevent Aurora from meeting its future capital expenditure requirements and from refinancing its existing indebtedness.



Aurora intends to finance its future capital expenditure requirements primarily through cash flow from its operations, drawings under the Revolving Credit Facility and the proceeds from debt and equity raisings. However, Aurora's financing needs may require it to alter or increase its capitalisation substantially through the issuance of additional equity or the incurrence of additional indebtedness. Additional borrowings will require that a greater portion of Aurora's cash flow from current operations be used for debt service, which will reduce Aurora's ability to use cash flow to fund working capital, capital expenditures and acquisitions.

**(d) Reserves estimates**

Estimates of reserves are not precise. The actual quantities of Aurora's reserves may prove to be lower than estimated.

Numerous uncertainties exist in estimating quantities of proved reserves, probable reserves and possible reserves. Aurora's estimates of such items are based on various assumptions, which may ultimately prove to be inaccurate. Petroleum engineering is a subjective process of estimating accumulations of oil and/or natural gas that cannot be measured in an exact manner. Estimates of economically recoverable oil, condensate, NGLs and natural gas reserves and of future net cash flows depend upon a number of variable factors and assumptions.

**(e) Decline in existing reserves**

Unless Aurora replaces its oil, condensate, NGLs and natural gas reserves, Aurora's reserves and production will decline, which would adversely affect its cash flow and the results of its operations.

Aurora's long term commercial success depends on its ability to find, acquire, develop and commercially produce oil, condensate, NGLs and natural gas reserves. Without the continual addition of new reserves, any existing reserves Aurora may have at any particular time, and the production from those reserves, will decline over time as such existing reserves are exploited.

**(f) Competitive industry**

Competition in the oil, condensate, NGLs and natural gas industry is intense, making it more difficult for Aurora to acquire properties and market oil, condensate and natural gas.

The oil and gas industry is competitive in all its phases. Aurora competes with numerous other organisations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil, condensate and natural gas. Aurora's competitors include oil, condensate, NGLs and natural gas companies that have substantially greater financial resources, staff and facilities than it. Aurora's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling.

**(g) Future acquisitions, joint ventures and investments**

Aurora may be unable to make attractive acquisitions, joint ventures or investments, or successfully integrate acquired business or assets, and any inability to do so may disrupt its business, add additional costs to its operations and hinder its ability to grow.

**(h) Reliance on key personnel**

The loss of key personnel may negatively impact Aurora's business.

The loss of the services of such key personnel may have a material adverse effect on Aurora's business, financial condition, results of operations and prospects.

**(i) Environmental matters and costs may be significant**

The oil and natural gas industry in the US is subject to extensive environmental regulation pursuant to federal, state and local legislation. A breach of such regulation may result in the imposition of civil or criminal fines, natural resource damages, remedial orders, permit revocations, operational shutdowns or other penalties.

A violation of environmental laws or an inability to fully fund the cost of remedying an environmental problem could require Aurora to suspend its operations or enter into interim compliance measures pending completion of the required remedy.

Although Aurora believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that current or future requirements under environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Aurora's financial condition, results of operations or prospects.

**(j) Hedging risk**

Aurora has entered into hedging arrangements that may cause it to forego additional future profits or result in it making cash payments to its counterparties.

Aurora manages the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. Such agreements may have the effect of providing Aurora with a fixed price for a portion of its expected future oil, condensate, NGLs and natural gas production over a fixed period of time. Where Aurora hedges its commodity price exposure, it may forego some of the benefits it would otherwise experience if commodity prices were to increase.

**(k) Impact of laws and regulations**

Aurora is subject to complex US federal, state, local and other laws and regulations that could adversely affect the cost, timing, manner or feasibility of conducting its operations.

Aurora's oil, condensate, NGLs and natural gas exploration, development and production and related disposal operations are subject to complex and stringent laws and regulations. In order to conduct its operations in compliance with these laws and regulations, Aurora (directly or through the operator of its producing properties) must obtain and maintain numerous permits, approvals and certificates from various federal, state, local and governmental authorities.

The areas of regulation with more significant risks of impact to Aurora's operations include pipeline safety, climate change and greenhouse gases, hydraulic fracturing, water use and air emissions.

**(l) Tax risk**

Certain US federal income tax deductions currently available with respect to oil and natural gas development and exploration may be eliminated as a result of future legislation.

President Obama's budget proposal for the fiscal year 2014 recommended the elimination of certain key U.S. federal income tax preferences currently available to oil and natural gas exploration and production companies. These changes include, but are not limited to:

- (i) the repeal of the percentage depletion allowance for oil and natural gas properties;
- (ii) the elimination of current deductions for intangible drilling and development costs;
- (iii) the elimination of the deduction for certain U.S. production activities for oil and gas production; and
- (iv) an extension of the amortization period for certain geological and geophysical expenditures.

These changes did not take place, however it is unclear whether any such changes may occur in the future. The passage of any such legislation could materially affect certain tax deductions that are currently available with respect to oil and natural gas exploration and production and materially affect the economic return from the development of Aurora's reserves.

**(m) Level of indebtedness**

Aurora has a substantial amount of indebtedness, which may adversely affect its cash flows and ability to operate its business and remain in compliance with and repay its debt.

**(n) Reduction in borrowing base under Revolving Credit Facility**

The borrowing base under Aurora's Revolving Credit Facility may be reduced below the amount of borrowings outstanding under those facilities.

Under the terms of Aurora's Revolving Credit Facility, its borrowing base will be subject to redeterminations at least semi-annually based in part on prevailing oil and natural gas prices. A negative adjustment could occur if the estimates of future prices used by the banks in calculating the borrowing base are significantly lower than those used in the last redetermination.



**(o) Ability to generate cash**

To service its indebtedness, Aurora requires a significant amount of cash, and Aurora's ability to generate cash will depend on many factors beyond its control.

Aurora may not be able to generate sufficient cash flows to meet its obligations, including its obligations in respect of its indebtedness. Aurora's earnings and cash flows may vary significantly from year to year due to the cyclical nature of the oil and gas industry. As a result, the amount of debt that Aurora can manage in some periods may not be appropriate for it in other periods. In addition, Aurora's future cash flows may be insufficient to meet its debt obligations and commitments. Any insufficiency could negatively impact Aurora's business.

**(p) No record of dividends**

Aurora has no record of paying dividends. Any determination to pay dividends in the future will be at the discretion of the Aurora Board and will depend upon, among other things, Aurora's results of operations, financial condition, contractual restrictions, capital expenditure and working capital requirements, restrictions imposed by applicable law and other factors the Board deems relevant.

**(q) Dilution**

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of Aurora securities which may be dilutive.

# 7 Taxation implications for Aurora Shareholders

## 7.1 Australian tax consequences

This Section provides a broad summary of the Australian income tax, GST and stamp duty treatment for Australian tax resident Aurora Shareholders if the Scheme proceeds.

Except where expressly stated below, this Section only provides a guide to the general Australian income tax, GST and stamp duty consequences of participating in the Scheme, based on the existing tax laws and administrative practice as at the date of this Scheme Booklet. The tax law is complex and subject to change periodically as is its interpretation by the courts, the Australian Tax Office and any other taxation authority.

Being general in nature, this Section does not take into account the individual circumstances of each Aurora Shareholder and as such should not be relied upon by any individual Aurora Shareholder. All Aurora Shareholders should consult their own taxation advisers regarding the taxation consequences of participating in the Scheme.

This Section is not intended to be an authoritative or complete statement of the Australian tax law applicable to the specific circumstances of every Aurora Shareholder. In particular, the comments contained in this Section are only relevant to those Aurora Shareholders who hold their shares on capital account for income tax purposes. The comments in this Section do not apply to Aurora Shareholders who:

- are in the business of trading, dealing in securities or otherwise hold their Aurora Shares on revenue account or as trading stock;
- are subject to the rules relating to the taxation of financial arrangement (**TOFA**) in Division 230 of the Income Tax Assessment Act 1997 (Cth) in relation to gains and losses on their Aurora Shares;
- acquired their Aurora Shares in return for services or as the result of an employee share plan or employee share option plan;
- are a bank, insurance company, tax exempt organisation or superannuation fund, dealers in securities; or
- are non-Australian tax resident Aurora Shareholders.

## 7.2 Australian income tax consequences

Broadly, a capital gain or a capital loss will arise depending on whether the Scheme Consideration exceeds the cost base of your Aurora Shares. The time of the capital gains tax event will be the Implementation Date.

An Aurora Shareholder will realise a capital gain in connection with the disposal of an Aurora Share equal to the amount of the Scheme Consideration less the cost base (or indexed cost base, if applicable) of that Aurora Share. An Aurora Shareholder will alternatively realise a capital loss equal to the amount by which the reduced cost base of the Aurora Share exceeds the Scheme Consideration. A capital loss may only be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year, subject to the satisfaction of certain loss recoupment tests applicable.

The cost base of an Aurora Share should generally include the amount paid (or deemed to be paid) to acquire the Aurora Share that includes certain incidental costs of the acquisition, such as brokerage fees. Reduced cost base is usually determined in a similar, but not identical manner.

An Aurora Shareholder who is an individual, trust or complying superannuation fund may be entitled to claim the capital gains tax (CGT) discount in calculating any capital gain provided that the:

- Aurora Shares were acquired at least 12 months before the Implementation Date (excluding the acquisition and disposal dates); and
- Aurora Shareholder did not choose to index the cost base of their Aurora Shares (if such choice was available).

The applicable CGT discount that should reduce a net capital gain arising from the disposal of Aurora Shares is as follows:

- 50% for individuals and trustees (except a trust that is a complying superannuation entity); and
- 33 1/3% for a complying superannuation entity.

The CGT discount is applied to the capital gain after any available capital losses are first offset against that capital gain.

### 7.3 GST

Aurora Shareholders will not be liable for GST on the transfer of the Aurora Shares or the receipt of the Scheme Consideration.

### 7.4 Stamp Duty

Aurora Shareholders will not be liable for stamp duty on the transfer of the Aurora Shares.

### 7.5 Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the **Canadian Tax Act**), as of the date of this Scheme Booklet, generally applicable to an Aurora Shareholder in respect of the disposition of Aurora Shares to Baytex Australia under the Scheme. This summary does not address the tax consequences of disposing of Aurora Shares to Baytex Australia that were acquired pursuant to the provisions of a stock option plan or another employee compensation plan, or in respect of, by virtue of, or in the course of employment.

This summary is based on the provisions of the Canadian Tax Act in force as of the date of this Scheme Booklet, the regulations thereunder in force on the date of this Scheme Booklet (the **Regulations**) and counsel's understanding of the administrative policies of the Canada Revenue Agency (the **CRA**) made publicly available prior to the date of this Scheme Booklet. This summary takes into account all specific proposals to amend the Canadian Tax Act and the Regulations which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Scheme Booklet (the **Tax Proposals**) and assumes that the Tax Proposals will be enacted in their present form. No assurance can be given that the Tax Proposals will be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any other changes in law, whether by judicial, governmental or legislative decision or action or changes in the administrative policies of the CRA, nor does it take into account provincial, territorial or foreign income tax legislation or considerations which may differ materially from those described in this summary.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Aurora Shareholder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, Aurora Shareholders should consult their own legal and tax advisors with respect to the tax consequences to them of having their Aurora Shares acquired based on their particular circumstances, including the application and effect of the income and other taxes of any country, province or other jurisdiction in which the Aurora Shareholders reside or carry on business.**

**This summary does not apply to an Aurora Shareholder that has elected to report its "Canadian tax results" in a currency other than the Canadian currency pursuant to the "functional currency" reporting rules in the Canadian Tax Act.**

For purposes of the Canadian Tax Act, all amounts related to the disposition of the Aurora Shares (including adjusted cost base and proceeds of disposition) must be expressed in Canadian dollars. Amounts denominated in a foreign currency must be converted into Canadian dollars using the rate of exchange quoted by the Bank of Canada at noon on the date such amounts arose, or such other rate as is acceptable to the CRA.

#### (a) Residents of Canada

The following portion of the summary is generally applicable to an Aurora Shareholder who, at all relevant times, for purposes of the Canadian Tax Act: (a) is, or is deemed to be, resident in Canada; (b) deals at arm's length with Baytex Australia and Aurora; (c) is not affiliated with Baytex Australia or Aurora; and (d) holds its Aurora Shares as capital property (a **Resident Shareholder**). Aurora Shares generally will be considered capital property to a Resident Shareholder unless the Resident Shareholder holds such Aurora Shares in the course of carrying on a business or the Resident Shareholder has acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Resident Shareholder: (a) that is a "financial institution", as defined in the Canadian Tax Act for the purposes of the mark-to-market rules; (b) an interest in which is, or for whom an Aurora Share is, a "tax shelter investment", as defined in the Canadian Tax Act; (c) that has entered into a "derivative forward agreement" in respect of the Aurora Shares, as defined in the Canadian Tax Act; or (d) in respect of which Aurora is a "foreign affiliate", as defined in the Canadian Tax Act. Such Resident Shareholders should consult their own tax advisors.

A Resident Shareholder whose Aurora Shares are disposed of to Baytex Australia will realise a capital gain (or capital loss) equal to the amount by which the cash received for such Aurora Shares, net of any reasonable costs of disposition, exceeds (or is less than) the aggregate adjusted cost base to such Resident Shareholder of such Aurora Shares.

A Resident Shareholder who realizes a capital gain or capital loss on the disposition of Aurora Shares will generally be required to include one-half of the amount of any such capital gain (a **taxable capital gain**) in income, and will generally be entitled to deduct one-half of the amount of any capital loss (an **allowable capital loss**) against taxable capital gains realised in the year of disposition. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against net taxable capital gains realised in such year in accordance with the detailed rules in the Canadian Tax Act.

The realisation of a capital gain or capital loss by an individual (including most trusts) may affect the individual's liability for alternative minimum tax under the Canadian Tax Act.

A Resident Shareholder that is a "Canadian-controlled private corporation" (as defined in the Canadian Tax Act) may be liable to pay an additional refundable tax of 6½% on certain investment income, including amounts in respect of taxable capital gains.

#### **(b) Non-Residents of Canada**

The following portion of the summary is generally applicable to a Scheme Shareholder who at all relevant times, for the purposes of the Canadian Tax Act: (a) is a person who is neither resident, nor deemed to be resident, in Canada; (b) holds its Aurora Shares as capital property; and (c) does not use or hold, and is not deemed to use or hold, Aurora Shares, and will not use or hold or be deemed to use or hold Aurora Shares, in connection with carrying on a business in Canada (a **Non-Resident Shareholder**). Special rules, which are not discussed in this summary, may apply to a Non-Resident Shareholder that is an insurer that carries on an insurance business in Canada and elsewhere. Such Non-Resident Shareholders are advised to consult with their own tax advisors.

This summary assumes that the Aurora Shares will not be "taxable Canadian property" as defined in the Canadian Tax Act to any particular Non-Resident Shareholder at the time of the disposition of the Aurora Shares to Baytex Australia. Provided the Aurora Shares are listed on a "designated stock exchange" (which includes the Toronto Stock Exchange and the Australian Securities Exchange) for the purposes of the Canadian Tax Act, the Aurora Shares generally will not be taxable Canadian property of a Non-Resident Shareholder at a particular time provided that at no time during the 60-month period immediately preceding that time: (i) did the Non-Resident Shareholder, persons with whom the Non-Resident Shareholder did not deal at arm's length, partnerships in which the Non-Resident Shareholder or a person with whom the Non-Resident Shareholder did not deal at arm's length holds a membership interest directly or indirectly through one or more partnerships, or any combination thereof, own 25% or more of the issued shares of any class or series of the capital stock of Aurora; and (ii) was more than 50% of the fair market value of the Aurora Shares derived directly or indirectly from any combination of real property situated in Canada, Canadian resource properties, timber resource properties or options in respect of or interests in any such properties.

A Non-Resident Shareholder will not be subject to tax under the Canadian Tax Act in respect of any capital gain realised on the disposition of Aurora Shares to Baytex Australia under the Scheme.



## 8 Additional information

### 8.1 Scheme Implementation Deed and due diligence process

The Scheme Implementation Deed was entered into by Aurora and Baytex on 6 February 2014 following Baytex having conducted due diligence on Aurora. On 5 April 2014, the parties entered into the Deed of Variation to amend the terms of the Scheme Implementation Deed. The Scheme Implementation Deed provided that Scheme Participants would receive the Scheme Consideration in Australian currency on the Implementation Date. The purpose of the Deed of Variation was to provide Aurora with the flexibility to provide Scheme Participants with a registered address in Canada (as shown in the Register) and Canadian Beneficial Holders the Scheme Consideration in Canadian currency. Full details of how Scheme Participants will be paid is set out in Section 3.4(c).

The due diligence conducted by Baytex involved both a review of confidential information and documents as well as interviews with senior management. The due diligence was conducted pursuant to a confidentiality agreement.

The Independent Expert has had access to Aurora's confidential information provided to Baytex for the purpose of its due diligence. The Independent Expert has also conducted interviews with certain members of Aurora's management team.

Aurora is not aware of any material information about Aurora that is material to a decision by an Aurora Shareholder on how to vote in relation to the Scheme and which:

- (a) has not been made available to the Independent Expert in the manner referred to above for the purpose of preparing the Independent Expert's Report;
- (b) is not set out or referred to in this Scheme Booklet; or
- (c) has not otherwise been made available publicly by Aurora.

### 8.2 Aurora Shares, Aurora Options and Aurora Performance Rights held by Aurora Directors and executive officers

The number of Aurora Shares, Aurora Options and Aurora Performance Rights in which individuals who have been an Aurora Director or executive officer of Aurora since the beginning of the financial year ended 31 December 2013 have a relevant interest as at the date of this Scheme Booklet are set out in the table below:

Director/executive officer	Number of Aurora Shares	Number of Aurora Options	Number of Aurora Performance Rights
Jonathan Stewart	19,831,959	None	505,561
Douglas E. Brooks	97,173	750,000	302,538
Graham Dowland	2,257,463	1,050,000	142,789
John Atkins	20,000	500,000	None
Fiona Harris	150,000	500,000	None
Bill Molson	1,512,390	500,000	None
Alan Watson	1,050,000	500,000	None
David Lucke <sup>(1)</sup>	1,893	300,000	111,985
Michael L. Verm	39,723	1,000,000	159,279
Darren Wasylucha	19,721	750,000	140,336
P. Grenville Schoch <sup>(2)</sup>	6,196,554	750,000	None

<sup>(1)</sup> Mr Lucke resigned as Chief Financial Officer of Aurora on or about 7 March 2014. Mr Lucke's holdings set out above are to the best of Aurora's knowledge as of the date of this Scheme Booklet.

<sup>(2)</sup> Mr Schoch resigned as an Aurora Director on 6 February 2014. Mr Schoch's holdings set out above are to the best of Aurora's knowledge as of the date of this Scheme Booklet.

Messrs Stewart, Brooks and Dowland acquired 85,638, 6,409, and 23,635 Aurora Shares respectively following the automatic exercise of Aurora Performance Rights held by them, which vested on 13 February 2014. Save for this, no Aurora Director acquired or disposed of a Relevant Interest in any Aurora Shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

### 8.3 Interests in Baytex held by Aurora Directors

Mr Molson acquired 2,000 Subscription Receipts under Baytex's Equity Raising described in Section 5.5. Each Subscription Receipt entitles the holder to one common share in Baytex upon implementation of the Scheme. Save for this, no Aurora Director holds any interest in Baytex.

Save as noted in this Scheme Booklet, no Aurora Director acquired or disposed of a Relevant Interest in any Baytex shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

### 8.4 Interests held by Aurora Directors in contracts of Baytex

No Aurora Director has an interest in any contract entered into by Baytex.

### 8.5 Other interests of Aurora Directors

No Aurora Director has any other interest, whether as a director, member or creditor of Aurora or otherwise, which is material to the Scheme, other than in their capacity as a holder of Aurora Shares, Aurora Options or Aurora Performance Rights, or as set out in this Scheme Booklet.

### 8.6 Agreements or arrangements with Aurora Directors and executive officers

#### (a) Aurora Options and Aurora Performance Rights

As set out in Section 3.6, the majority of cancellation deeds have now been executed by holders of Aurora Options and Aurora Performance Rights, and execution is progressing. Pursuant to the cancellation deeds, the holder will receive cash consideration for the cancellation of their Options and certain of their Performance Rights, as applicable. The balance of performance rights held shall automatically lapse on the Implementation Date. Holders of Aurora Performance Rights will receive \$4.10 (or the Canadian or United States dollar equivalent) for each Performance Right cancelled and holders of Aurora Options will receive cash consideration in the amounts set out in Attachment D to the Scheme Implementation Deed (such amounts being the assessed value of each Aurora Option using a standard valuation methodology), subject to any prior lapse of such awards.

The table below sets out the Aurora Options and Aurora Performance Rights held by each individual who has been an Aurora Director or executive officer of Aurora since the beginning of the financial year ended 31 December 2013, and the consideration they will receive under the cancellation deeds:

Director / executive officer	Number of Aurora Performance Rights for which consideration will be provided <sup>(1)</sup>	Consideration to be received for cancellation of Performance Rights	Number of Aurora Options held	Consideration to be received for cancellation of Options
Jonathan Stewart	464,813	\$1,905,733	None	Nil
Douglas E. Brooks	285,450	\$1,170,345	750,000	\$300,000
Graham Dowland	130,727	\$535,981	1,050,000	\$2,362,500
John Atkins	None	Nil	500,000	\$327,500
Fiona Harris	None	Nil	500,000	\$335,000
Bill Molson	None	Nil	500,000	\$335,000
Alan Watson	None	Nil	500,000	\$335,000
David Lucke <sup>(2)</sup>	111,985	\$459,139	300,000	\$227,000
Michael L. Verm	124,178	\$509,129	1,000,000	\$350,500
Darren Wasylucha	119,919	\$491,668	750,000	\$530,000
P. Grenville Schoch <sup>(3)</sup>	None	Nil	750,000	\$1,687,500

<sup>(1)</sup> Note: the number of Aurora Performance Rights for which Aurora Directors/executive officers will receive consideration under the cancellation deeds may be lower than the number of Aurora Performance Rights held by such Aurora Director/executive officer as set out in Section 8.2. This is because not all outstanding Aurora Performance Rights will vest or otherwise be eligible to be cancelled under the cancellation deeds.

<sup>(2)</sup> Mr Lucke resigned as Chief Financial Officer of Aurora on or about 7 March 2014.

<sup>(3)</sup> Mr Schoch Resigned as Director on 6 February 2014.

## (b) Transaction payments

Mr Stewart, Mr Dowland and Mr Wasylucha have played a significant role in the negotiation of the Scheme Implementation Deed with Baytex and will continue to have a significant role in the implementation of the Scheme. Mr Brooks and Mr Verm have played a significant role in the operations of the Company in particular preserving the stability and continuity of operations since the announcement of the Scheme. Additionally, Messrs Stewart, Brooks and Dowland would have, in the ordinary course, been entitled to receive an award under Aurora's Long Term Incentive Plan around the time of this Scheme Booklet. In recognition of these factors, the Aurora Board (in the absence of Messrs Stewart, Brooks and Dowland) has resolved to make the following payments to Messrs Stewart, Brooks, Dowland, Verm and Wasylucha, in each case conditional upon the implementation of the Scheme:

Jonathan Stewart	\$479,336
Douglas E. Brooks	\$444,435
Graham Dowland	\$283,783
Michael L. Verm	US\$70,000
Darren Wasylucha	CAD\$100,000

## (c) Retention payments

In addition, in order to preserve stability and continuity of operations during the lengthy period between the announcement of the Scheme and the Implementation Date, the Aurora Board has approved the making of retention payments to all employees of Aurora, conditional upon continued employment and implementation of the Scheme. These amounts have been determined by reference to the short term incentive arrangements established for the first half of 2014. Aurora has substituted these retention payments for the short term incentive program for 2014 pending the outcome of the Scheme.

As employees, Messrs Stewart, Brooks, Dowland, Verm and Wasylucha will receive retention payments as follows:

Jonathan Stewart	\$220,548
Douglas E. Brooks	US\$213,500
Graham Dowland	\$128,012
Michael L. Verm	US\$122,788
Darren Wasylucha	CAD\$95,989

An independent committee of Aurora Directors, acting in good faith, has determined that the value of any benefit that may accrue to Jonathan Stewart through the transaction and retention payments and the cancellation of his Aurora Performance Rights as set out in this Section 8.6 is less than 5% of the Scheme Consideration he expects to receive.

Save as noted in this Scheme Booklet, there are no agreements or arrangements made between any Aurora Director and any other person, including Baytex and Baytex Australia, in connection with or conditional upon the outcome of the Scheme.

## 8.7 Other payments and benefits to directors, secretaries or executive officers of Aurora

The Aurora Directors will retire with effect on and from (and subject to) the implementation of the Scheme. Baytex has not indicated that it will terminate the employment of any executive officer of Aurora on implementation of the Scheme (other than stating its general intentions with respect to the future employment of Aurora's employees as set out in Section 5.6). However, in the event that following implementation of the Scheme the employment of any executive officer is terminated (other than for gross misconduct), under the terms of their employment agreements, Messrs Stewart, Dowland, Brooks, Wasylucha and Verm (COO) are entitled to a severance payment from the Company. The termination payments range from six to 12 months' base salary. Details of the termination provisions for Messrs Stewart, Dowland, Brooks and Verm are set out in the Company's 2013 Annual Report.

Save as noted in this Scheme Booklet, no payment or other benefit is proposed to be made or given to a director, secretary or executive officer of Aurora or any member of Aurora Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in Aurora or any member of the Aurora Group as a result of the Scheme.

## 8.8 Interests of certain persons in the matters to be considered at the Scheme Meeting and in material transactions

Except as otherwise disclosed in this Scheme Booklet, no Aurora Director or Aurora executive officer, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise in any matter to be acted upon at the Scheme Meeting, except for any interest arising from the direct or indirect ownership of Aurora Shares, Aurora Options and Aurora Performance Rights held by such Aurora Directors, Aurora executive officers, associates or affiliates.

Aurora is not aware of any material interests, direct or indirect, of any "informed person" of Aurora, or any associate or affiliate of any informed person, in any transaction since 1 January 2013, or in any proposed transaction which has materially affected or would materially affect the Company or any of its Subsidiaries.

For the purposes of the determination above, "informed person" means: (a) an Aurora Director or officer of the Company; (b) a director or officer of a company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns or controls or directs, directly or indirectly, voting securities of the Company, or a combination of both, carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Company after it has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

## 8.9 Top 20 Aurora Shareholders

As at the date immediately before the date of this Scheme Booklet, the top 20 Aurora Shareholders in the Register held approximately 86.20% of all issued Aurora Shares, as indicated in the following table:

Name	Number of Aurora Shares	Percentage of issued Aurora Shares
CANADIAN REGISTER CONTROL	131,433,319	29.29
CITICORP NOMINEES PTY LIMITED	52,896,287	11.79
NATIONAL NOMINEES LIMITED	39,327,770	8.76
J P MORGAN NOMINEES AUSTRALIA LIMITED	38,749,628	8.63
HSBC CUSTODY NOMINEES <AUSTRALIA>	34,879,131	7.77
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	28,597,773	6.37
HSBC CUSTODY NOMINEES <AUSTRALIA>	8,195,992	1.83
ZERO NOMINEES PTY LTD	6,672,496	1.49
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	6,075,350	1.35
NATIONAL NOMINEES LIMITED <N A/C>	5,850,116	1.30
REEF INVESTMENTS PTY LTD <T D NAIRN SUPER FUND A/C>	4,674,845	1.04
JK STEWART INVESTMENTS PTY LTD <LEAKE STREET A/C>	4,232,884	0.94
BERNE NO 132 NOMINEES PTY LTD <492086 A/C>	3,996,554	0.89
BNP PARIBAS NOMS PTY LTD <DRP>	3,493,760	0.78
JK STEWART INVESTMENTS PTY LTD <LEAKE STREET A/C>	3,444,239	0.77
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,190,651	0.71
UBS NOMINEES PTY LTD	3,014,050	0.67
BAINPRO NOMINEES PTY LIMITED	2,914,056	0.65
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	2,794,278	0.62
MR JONATHAN KINGSLEY STEWART + MRS CAROLYN ANN STEWART <EPICURE SUPER FUND A/C>	2,425,000	0.54

## 8.10 Aurora's substantial holders

As at the date immediately before the date of this Scheme Booklet, there was no person who, to the knowledge of the Aurora Directors or officers, beneficially owned, directly or indirectly, or exercised control or direction, directly or indirectly, over Aurora Shares carrying more than 10% of the voting rights attached to all of the Aurora Shares.

The substantial holders of Aurora Shares as at the date immediately before the date of this Scheme Booklet are as follows:

Name	Number of Aurora Shares	Percentage of issued Aurora Shares
HARBOUR ADVISORS (A BUSINESS UNIT OF CI INVESTMENTS INC)	35,300,000	8.7
PUBLIC SECTOR PENSION INVESTMENT BOARD	27,477,815	6.12
STIRLING GLOBAL VALUE FUND INC.	27,469,900	6.12

Aurora has relied on substantial holder notices provided to it up to the date of this Scheme Booklet, which are available on the ASX website, to compile the above table (percentages have not been adjusted for any subsequent issue of Aurora Shares). Information in regard to substantial holdings arising, changing or ceasing after this time or in respect of which the relevant announcement is not available on the ASX website is not included above.

## 8.11 Suspension of trading of Aurora Shares

If the Court approves the Scheme, Aurora will immediately notify ASX and TSX. It is expected that suspension of trading on ASX and TSX in Aurora Shares will occur at the close of business on the Effective Date.

## 8.12 Warranty by Aurora Shareholders about their Aurora Shares

The effect of clause 8.2 of the Scheme is that all Scheme Participants, including those who vote against the Scheme and those who do not vote, will be deemed to have warranted to Baytex Australia that their Aurora Shares are fully paid and not subject to any of the encumbrances specified in that clause. Clause 8.2 of the Scheme is set out in Attachment C to this Scheme Booklet.

## 8.13 Status of regulatory Conditions

The regulatory approvals that are Conditions are set out in Section 1.2. As at the date of this Scheme Booklet, the only regulatory approval that is a Condition that is outstanding is the Court approval of the Scheme.

## 8.14 ASX waivers and ASIC relief

ASX Listing Rule 6.23.2 requires that a change which has the effect of cancelling an option for consideration can only be made if shareholders approve the change. ASX has granted a waiver from Listing Rule 6.23.3 so that the Aurora Options and Aurora Performance Rights may be cancelled for consideration without the approval of Aurora Shareholders. The waiver is conditional on the Scheme being approved by Aurora Shareholders and by the Court, and full details of the cancellation of the Aurora Options and Aurora Performance Rights being set out (to ASX's satisfaction) in this Scheme Booklet.

In connection with the Scheme, ASIC has granted in principle relief to the Company pursuant to section 250P of the Corporations Act to extend the time by which the Company must hold its 2014 annual general meeting. Without relief, the Company would have needed to hold its 2014 annual general meeting no later than 31 May 2014. The relief permits the Company to hold the meeting no later than 31 July 2014.

## 8.15 Consents

- (a) The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:
  - (i) Credit Suisse and Goldman Sachs as financial advisors to Aurora;
  - (ii) Computershare Investor Services Pty Limited and Computershare Investor Services Inc. as the manager of the Registry;
  - (iii) Gilbert + Tobin as Australian legal advisor to Aurora in relation to the Scheme. Gilbert + Tobin also consents to the inclusion of Sections 7.1 to 7.4 relating to the Australian tax consequences on the Scheme for Aurora Shareholders;
  - (iv) Davies Ward Phillips & Vineberg LLP as Canadian legal advisor to Aurora in relation to the Scheme. Davies Ward Phillips & Vineberg LLP also consents to the inclusion of Section 7.5 titled Canadian Federal Income Tax Considerations;
  - (v) BDO Audit as Aurora's auditors. BDO Audit also consents to the inclusion in Section 4.3 of the Company's audited financial statements for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013; and
  - (vi) Orient Capital as proxy solicitation agent and as operator of the Aurora information line.
- (b) The Independent Expert has given and has not withdrawn its consent to the inclusion of the Independent Expert's Report in Attachment E to this Scheme Booklet and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.
- (c) The Independent Technical Expert has given and has not withdrawn its consent to the inclusion of the Independent Technical Expert's Report contained in the Independent Expert's Report in Attachment E to this Scheme Booklet and to the references to the Independent Technical Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.
- (d) Baytex and Baytex Australia have given and have not withdrawn their consent to be named in this Scheme Booklet and to the inclusion of the Baytex Information in this Scheme Booklet in the form and context in which that information is included.
- (e) Each person named in this Section 8.15:
  - (i) has not authorised or caused the issue of this Scheme Booklet;
  - (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this Section 8.15; and
  - (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this Section 8.15.

## 8.16 Documents available

An electronic version of this Scheme Booklet including the Independent Expert's Report and the Scheme Implementation Deed are available for viewing and downloading online at Aurora's website at [www.auroraog.com.au](http://www.auroraog.com.au) and under Aurora's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## 8.17 Continuous disclosure

Aurora is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules and Canadian securities laws. Aurora has an obligation (subject to limited exceptions) to notify ASX immediately upon becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Aurora Shares. Copies of documents filed with ASX may be obtained from ASX's website [www.asx.com.au](http://www.asx.com.au) and under Aurora's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, Aurora is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to Aurora may be obtained from, or inspected at, an ASIC office.

Financial information is provided in the Company's annual report and comparative financial statements and related management's discussion and analysis (**MD&A**) for its most recently completed financial year.

In addition to copies of documents as otherwise contemplated herein, the Company will provide to any person, upon request to the Company Secretary, one copy of its 2013 Annual Report and one copy of the comparative financial statements and related MD&A of the Company filed with the applicable securities regulatory authorities for the Company's most recently completed period in respect of which such financial statements have been issued.

Copies of the above documents will be provided free of charge to Aurora Shareholders. Requests can be made by contacting the Aurora information line on 1800 095 654 (within Australia) or on +61 2 8767 1004 (outside Australia) between 6.30am and 5.30pm (Perth time) Monday to Friday, prior to the Effective Date. The Company may require the payment of a reasonable charge by any person or company who is not an Aurora Shareholder, and who requests a copy of such document. Additionally, copies of publicly filed information concerning the Company, including the above-referenced financial statements and related MD&A can be found under the Company's profile at the ASX website at [www.asx.com.au](http://www.asx.com.au) or under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## 8.18 Supplementary information

If Aurora becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration with ASIC and the Court Approval Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

Aurora will prepare a supplementary document to this Scheme Booklet.

Aurora intends to publish any supplementary material by:

- prominently placing an advertisement in a newspaper which is circulated generally throughout Australia and Canada; or
- posting the supplementary material on Aurora's website at [www.auroraog.com.au](http://www.auroraog.com.au) and under Aurora's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and lodging the material with ASX and TSX; and
- depending on the nature and the timing of the changed circumstances and the supplementary material, Aurora may also post the supplementary material to all Aurora Shareholders, subject to obtaining any necessary regulatory approvals.

## 8.19 Other

### (a) Lodgement of Scheme Booklet with ASIC

This Scheme Booklet was lodged with ASIC on 24 March 2014 in accordance with section 411(2)(b) of the Corporations Act.

### (b) Other material information

Otherwise than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Attachments to this Scheme Booklet, there is no other information that is material to the making of a decision by an Aurora Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any Aurora Director and which has not previously been disclosed to Aurora Shareholders.

## 9 Glossary

In this Scheme Booklet unless the context otherwise requires:

**\$** or **Australian Dollars** means Australian dollars unless otherwise stated.

**AMI** means area of mutual interest, a contractually defined area in which oil and gas companies hold oil and gas rights.

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

**ASX** means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.

**ASX Listing Rules** means the official listing rules, from time to time, of ASX.

**Aurora** or **Company** means Aurora Oil & Gas Limited ACN 008 787 988.

**Aurora Board** means the board of directors of Aurora.

**Aurora Director** means a director of Aurora as at the date of this Scheme Booklet.

**Aurora Group** means Aurora and its Related Bodies Corporate.

**Aurora Long Term Incentive Plan** means Aurora's long term incentive plan adopted by the Aurora Board on 23 December 2011, as amended from time to time.

**Aurora Options** means options to subscribe for Aurora Shares.

**Aurora Performance Rights** means performance rights to acquire Aurora Shares.

**Aurora Share** means a fully paid ordinary share issued in the capital of Aurora.

**Aurora Shareholders** means each person who is registered in the Register of Aurora as the holder of Aurora Shares.

**Baytex** means Baytex Energy Corp. of Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta.

**Baytex Australia** means Baytex Energy Australia Pty Ltd ACN 168 535 840.

**Baytex Information** means the information contained in Section 5, and under the heading "Who is Baytex" on page 13 of this Scheme Booklet.

**bbl/d** means barrels per day.

**BDO Audit** means BDO Audit (WA) Pty Ltd.

**Boe** means barrel of oil equivalent.

**Boe/d** means barrel of oil equivalent per day.

**Business Day** means any day that is each of the following:

- (a) a business day as defined in the ASX Listing Rules; and
- (b) a day that banks are open for business in Perth, Western Australia.

**Canadian Beneficial Holder** means a non-registered beneficial holder of Aurora Shares that are held on its behalf by an intermediary on the Register in Canada.

**CAD\$** or **Canadian Dollars** means Canadian dollars.

**CHES** means the Clearing House Electronic Subregister System, which provides for electronic share transfers in Australia.

**COGE Handbook** means the Canadian Oil and Gas Evaluation Handbook.

**Competing Proposal** means any proposed or potential transaction or arrangement (including any takeover bid, scheme of arrangement, share or asset sale, capital reduction or buy back, joint venture or dual listed company structure) under which a Third Party would, if completed:

- (a) directly or indirectly acquire Control of, or merge with, Aurora;
- (b) directly or indirectly acquire or obtain an economic interest in 50% or more of the fair market of the assets or business of Aurora and its Related Bodies Corporate as a whole;

- (c) directly or indirectly acquire a Relevant Interest in, become the holder of or obtain an economic interest in 50% or more of the Aurora Shares;
- (d) directly or indirectly acquire or obtain an economic interest in a material part of the business of Aurora and its Subsidiaries as a whole;
- (e) otherwise acquire or merge with Aurora through a takeover bid, scheme of arrangement, amalgamation, merger, capital reconstruction, consolidation, purchase of main undertaking or other business combination; or
- (f) be issued 50% of the shares or other securities in Aurora (on a fully diluted basis) as consideration for cash or the assets or securities of another person.

**Computershare** means Computershare Investor Services Pty Limited and/or Computershare Investor Services Inc., as the context may require.

**Condition** means a condition precedent to the Scheme, as set out in the Scheme Implementation Deed.

**Control** has the meaning given in section 50AA of the Corporations Act.

**Corporations Act** means the *Corporations Act 2001* (Cth), as amended from time to time.

**Court** means the Federal Court of Australia or such other court of competent jurisdiction as agreed by Aurora and Baytex .

**Court Approval Date** means the date when the Court grants its approval to the Scheme under section 411(4) of the Corporations Act.

**Credit Suisse** means Credit Suisse (Australia) Limited.

**Deed of Variation** means the deed of variation to the Scheme Implementation Deed dated 5 April 2014 between Aurora and Baytex in the form set out in Attachment B of this Scheme Booklet.

**Deed Poll** means the deed poll in the form of Attachment D to this Scheme Booklet, executed by Baytex and Baytex Australia in favour of Scheme Participants.

**Eagle Ford** means the Eagle Ford shale trend in South Texas, which produces oil, natural gas, natural gas liquids and condensate.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to the Scheme.

**Effective Date** means the date on which the Scheme becomes Effective.

**Excluded Baytex Shareholder** means Baytex and any associate of Baytex that is an Aurora Shareholder.

**Goldman Sachs** means Goldman Sachs Australia Pty Ltd.

**Governmental Agency** means a government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity whether foreign, federal, state, territorial or local, including ASIC, the Takeovers Panel, TSX and ASX (and any other relevant stock exchange) and any self-regulatory organisation established under statute, by ASX or by TSX.

**Grant Samuel** means Grant Samuel & Associates Pty Ltd.

**Gross** means before deduction of royalty interests.

**GST** means a goods and services tax or similar value added tax levied or imposed under the GST Law.

**GST Law** has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**Headcount Test** has the meaning given to it in Section 3.3.

**Implementation Date** means the fifth Business Day after the Record Date or such other date as Aurora and Baytex may agree in writing.

**Independent Expert** means Grant Samuel.

**Independent Expert's Report** means the report prepared by Grant Samuel, a copy of which is set out in Attachment E to this Scheme Booklet.

**Independent Technical Expert** means RISC Pty Ltd.

**Independent Technical Expert's Report** means the report prepared by RISC Pty Ltd, a copy of which is contained in the Independent Expert's Report.

**Marathon** means Marathon Oil EF LLC, a wholly owned subsidiary of Marathon Oil Corporation.

**Material Adverse Change** has the meaning given in Schedule 1 of the Scheme Implementation Deed.

**MMbbl** means one million oil barrels.

**MMboe** means one million barrels of oil equivalent.

**MMBtu** means one million British thermal units.

**Net** means after the deduction of royalty interests.

**NGLs** means natural gas liquids.

**NI 51-101** means the Ontario Securities Commission National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*.

**Orient Capital** means Orient Capital Pty Ltd ACN 010 142 453.

**Prescribed Occurrence** has the meaning given in Schedule 1 of the Scheme Implementation Deed.

**Record Date** means 7.00pm (Perth time) on the fifth Business Day following the date on which the Scheme becomes Effective, or such other date agreed by Aurora and Baytex to be the record date to determine entitlements to receive Scheme Consideration under the Scheme.

**Register** means the register of Aurora Shareholders kept by Aurora and **Registry** means the manager from time to time of the Register (currently Computershare).

**Related Body Corporate** has the meaning it has in the Corporations Act.

**Relevant Interest** has the same meaning as given by sections 608 and 609 of the Corporations Act.

**Requisite Majorities** means the threshold for approval of the Scheme Resolution set out in Section 3.3(b), being votes in favour of the resolution received from:

- (a) a majority in number (more than 50%) of Aurora Shareholders (other than Excluded Baytex Shareholders) present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Aurora Shareholders, by a corporate representative); and
- (b) at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting.

**Reserves Reports** means the independent engineering evaluation of Aurora's oil and gas natural gas reserves dated 30 January 2013 prepared by Ryder Scott effective 31 December 2012, and the independent engineering evaluation of Aurora's oil and gas natural gas reserves dated 30 January 2014 prepared by Ryder Scott effective 31 December 2013.

**Revolving Credit Facility** means the US\$300 million senior secured credit facility provided pursuant to a credit agreement dated 7 November 2011 between Aurora, Aurora USA Oil & Gas Inc., UBS AG, Stamford Brache and various other financial institutions.

**Ryder Scott** means Ryder Scott Company L.P.

**Scheme** means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between Aurora and Aurora Shareholders (other than Excluded Baytex Shareholders), on the terms described in Attachment C to this Scheme Booklet, together with any alterations or conditions made or required pursuant to section 411(6) of the Corporations Act and agreed or consented to in writing by Aurora and Baytex.

**Scheme Booklet** means this scheme booklet in relation to the Scheme.

**Scheme Consideration** means \$4.10 cash (or the Canadian dollar equivalent determined in accordance with the process set out in Section 3.4(c)) for each Aurora Share held by a Scheme Participant on the Record Date.

**Scheme Implementation Deed** means the Scheme Implementation Deed dated 6 February 2014 between Aurora and Baytex in the form set out in Attachment B of this Scheme Booklet (as amended by the Deed of Variation).

**Scheme Meeting** means the meeting of Aurora Shareholders (other than Excluded Baytex Shareholders) ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in relation to the Scheme, and includes any adjournment of that meeting.

**Scheme Participant** means a person who is an Aurora Shareholder as at the Record Date, other than an Excluded Baytex Shareholder.

**Scheme Resolution** means a resolution of Aurora Shareholders (other than Excluded Baytex Shareholders) to approve the Scheme, the form of which is set out in the Notice of Scheme Meeting in Attachment A to this Scheme Booklet.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, with such hearing being the **Second Court Hearing**.



**Section** means a section of this Scheme Booklet.

**SEDAR** means the System for Electronic Document Analysis and Retrieval established by the provincial securities regulatory authorities in Canada.

**Subsidiary** has the meaning given to that term in the Corporations Act.

**Sugarkane Field** means the Sugarkane natural gas and condensate field within the Eagle Ford and includes the two contiguous fields designated by the Railroad Commission of Texas as the Sugarkane and Eagleville Fields.

**Superior Proposal** means a bona fide Competing Proposal that the Aurora Board determines, acting in good faith and having obtained written advice from its legal and financial advisers:

- (a) is reasonably capable of being implemented taking into account all aspects of the Competing Proposal, including its proponent(s), conditionality, structure and financing; and
- (b) would, if completed in accordance with its terms, produce an outcome for Aurora Shareholders (other than Excluded Baytex Shareholders) that is superior to the outcome that would be produced by the Scheme.

**Takeovers Panel** means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

**Third Party** has the meaning given in Schedule 1 of the Scheme Implementation Deed.

**Transaction** means the proposed transaction pursuant to which Baytex Australia will acquire the Aurora Shares held by Aurora Shareholders (other than Excluded Baytex Shareholders) under the Scheme, in consideration for the provision of the Scheme Consideration and any action to be undertaken pursuant to, or in connection with, the Scheme Implementation Deed, the Scheme, the Deed Poll or the confidentiality deed between Aurora and Baytex dated 26 November 2013 (and any amendments to those documents).

**TSX** means the Toronto Stock Exchange.

**US\$** means United States dollars.

**VWAP** means volume weighted average price.

**WI** means working interest, an interest in an oil and gas lease that gives the owner the right to drill and produce oil and gas on the leased acreage.

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# Attachment A



## Notice of Scheme Meeting



(c) Voting by proxy

An Aurora Shareholder entitled to attend and vote at the Scheme Meeting is also entitled to vote by proxy. The proxy form is enclosed with the Scheme Booklet. You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. A proxy need not be a holder of Aurora Shares. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half your votes.

If the Aurora Shareholder specifies a choice with respect to any matter to be acted upon, the Aurora Shares will be voted accordingly. If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting, provided that if a choice is not specified, the Aurora Shares represented by a proxy given to the Chairman of the Scheme Meeting are intended to be voted in favour of the Scheme Resolution.

Please refer to the enclosed proxy form for instructions on completion and lodgement. Please note that proxy forms must be received at the registered office of Aurora or the Registry whose details are listed below no less than 48 hours prior to the commencement of the Scheme Meeting.

(d) Voting by attorney

Powers of attorney must be received by the Registry, or at the registered office, by no later than 9.30am on 19 May 2014 (or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting).

An attorney will be admitted to the Scheme Meeting and given a voting card upon providing at the point of entry to the Scheme Meeting written evidence of their appointment, of their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude an Aurora Shareholder from attending in person and voting at the Scheme Meeting if the Aurora Shareholder is entitled to attend and vote.

(e) Canadian Beneficial Holders

If you are a Canadian Beneficial Holder and wish to attend and/or vote at the Scheme Meeting, you should read the section titled "Voting by Canadian Beneficial Holders" for directions on how to vote.

If you are a Canadian Beneficial Holder, you must be appointed by the applicable intermediary as a proxyholder to attend and vote in person at the Scheme Meeting.

## Lodgement of proxies and queries

Proxy forms, powers of attorney and authorities should be sent to Aurora at the address specified on the enclosed reply paid envelope or to the address specified below:

**Address:** C/- Computershare Investor Services Pty Limited  
Level 2, 45 St Georges Terrace  
PERTH WA 6000

For shareholders on the Canadian Registry:

Computershare Investor Services Inc.  
Attention: Proxy Department  
100 University Avenue  
8<sup>th</sup> Floor, North Tower  
Toronto, Ontario M5J 2Y1 CANADA

**Facsimile:** 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) for shareholders on the Australian Registry. Shareholders on the Canadian Registry cannot vote by facsimile.

**Online:** [www.investorvote.com.au](http://www.investorvote.com.au)

Login to the website using the details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online proxy voting facility, Aurora Shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).

Holders of Aurora Shares should contact the Registry at the above address or on 1300 455 198 (within Australia) or +61 3 9415 4163 (outside Australia) Monday to Friday between 6.30am and 5.00pm (Perth time) with any queries regarding the number of Aurora Shares held, how to vote and lodgement of proxy forms.

## Court approval

If the Scheme Resolution is approved at the Scheme Meeting by the Requisite Majorities, the implementation of the Scheme (with or without modification) will be subject, among other things, to the subsequent approval of the Court.



# Attachment B

.....  
Scheme Implementation Deed (and Deed of Variation)



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Date: April 2014

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## Parties

- 1 **Baytex Energy Corp.** of Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta (**Bidder**)
  - 2 **Aurora Oil & Gas Limited ABN 90 008 787 988** of Level 1, 338 Barker Road, Subiaco, Western Australia 6008 (**Aurora**)
- 

## Background

- A The parties are parties to a Scheme Implementation Deed dated 6 February 2014 (**Scheme Implementation Deed**).
- B The parties agree to vary the Scheme Implementation Deed as set out in this deed.

### The parties agree

---

## 1 Defined terms and interpretation

This deed is to be interpreted in accordance with clause 1 and Schedule 1 of the Scheme Implementation Deed.

---

## 2 Variation of Scheme Implementation Deed

### 2.1 Variation

On the date of this deed, the Scheme Implementation Deed is varied by replacing:

- (a) clause 4.4(c) with:

Bidder agrees to provide, or procure the provision of, the amount referred to in clause 4.4(a) in cleared funds into the Trust Account prior to 5pm on the Business Day before the Implementation Date.
- (b) the definition of "Trust Account" in Schedule 1, and in Schedule 1 of Attachment B with:

**Trust Account** means a trust account operated by Aurora or its agent, details of which must be notified to Bidder no later than 5 Business Days before the Implementation Date.

- (c) clause 5.2(b) of Attachment B with:

Subject to Nominee having complied with clause 5.2(a), Target must, as soon as practicable and in any event within 5 Business Days of the Implementation Date, from the Trust Account, procure the payment to each Scheme Shareholder the proportion of the Aggregate Cash Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date, which obligation will be satisfied by Target:

- (i) where a Scheme Shareholder has, before the Scheme Record Date, made an election in accordance with the requirements of the Share Registry to receive dividend payments from Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in:

- (A) Australian currency; or
- (B) Canadian currency at the discretion of the Target where the Scheme Shareholder's registered address appears on the Share Register on the Record Date as in Canada,

by electronic means in accordance with that election. In respect of paragraph 5.2(i)(B), the Target is authorised to effect, or procure the effect of, any conversion of the relevant amount to Canadian currency in such manner as it deems appropriate (acting reasonably) and to deduct any costs, charges or expenses associated with such conversion from the amount paid to the relevant Scheme Shareholder; or

- (ii) whether or not a Scheme Shareholder has made an election referred to in clause 5.2(b)(i), dispatching, or procuring the dispatch of, a cheque in:

- (A) Australian currency; or
- (B) Canadian currency at the discretion of the Target where the Scheme Shareholder's registered address appears on the Share Register on the Record Date as in Canada,

for the relevant amount to the Scheme Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with clause 5.3). In respect of paragraph 5.2(ii)(B), the Target is authorised to effect, or procure the effect of, any conversion of the relevant amount to Canadian currency in such manner as it deems appropriate (acting reasonably) and to deduct any costs, charges or expenses associated with such conversion from the amount paid to the relevant Scheme Shareholder.

- (d) the definition of "Implementation Deed" in Schedule 1 of Attachment B with:

**Implementation Deed** means the scheme implementation deed dated 6 February 2014 between Bidder and Target relating to (among other things) the implementation of this Scheme (as amended by a deed of variation dated on or around 31 March 2014).

- (e) the definition of "Nominee" in Schedule 1 of Attachment B with:

**Nominee** means Baytex Energy Australia Pty Ltd ACN 168 535 840.

## 2.2 Ratification and confirmation

The parties ratify and confirm the Scheme Implementation Deed as varied by this deed.

## 2.3 Variations not to affect rights or obligations

Nothing in this deed affects any right or obligation arising under the Scheme Implementation Deed before the date of this deed.

---

### 3 General

#### 3.1 Counterparts

This deed may be executed in any number of counterparts, each of which, when executed, is an original. Those counterparts together make one instrument.

#### 3.2 Costs

Each party must pay its own costs and expenses of negotiating, preparing and executing this deed and any other instrument executed under this deed.

#### 3.3 Entire agreement

- (a) This deed, together with the Scheme Implementation Deed and Confidentiality Deed, is the entire agreement between the parties about its subject matter and replaces all previous agreements, understandings, representations and warranties about that subject matter.
- (b) Each party represents and warrants that it has not relied on any representations or warranties about the subject matter of this deed except as expressly provided in this deed.

#### 3.4 Further assurances

Except as expressly provided in this deed, each party must, at its own expense, do all things reasonably necessary to give full effect to this deed and the matters contemplated by it.

#### 3.5 Governing law

This deed is governed by the laws of Western Australia.

#### 3.6 Jurisdiction

Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Western Australia.

#### 3.7 Variation

No variation of this deed is effective unless made in writing and signed by each party.



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**Execution page**

**Executed as a deed.**

---

Signed, sealed and delivered by **Baytex Energy Corp.** by its authorized representatives:

  
\_\_\_\_\_  
W. Derek Aylesworth – Chief Financial Officer

  
\_\_\_\_\_  
Murray J. Desrosiers – Vice President, General Counsel and Corporate Secretary

---

Signed and delivered by **Aurora Oil & Gas Ltd** in accordance with section 127 of the *Corporations Act 2001* (Cth) and by:

\_\_\_\_\_  
Signature of director

\_\_\_\_\_  
Signature of director/secretary

\_\_\_\_\_  
Name of director (print)

\_\_\_\_\_  
Name of director/secretary (print)

---

**Execution page**

**Executed as a deed.**

---

Signed, sealed and delivered by **Baytex Energy Corp.** by its authorised representatives:

---

W. Derek Aylesworth – Chief Financial Officer

---

Murray J. Desrosiers – Vice President, General Counsel and Corporate Secretary

---

Signed and delivered by **Aurora Oil & Gas Ltd** in accordance with section 127 of the *Corporations Act 2001* (Cth) and by:

---



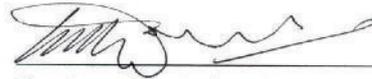
Signature of director

---

JK STEWART

Name of director (print)

---



Signature of director/secretary

---

GRAHAM DOWLAND

Name of director/secretary (print)



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## Scheme implementation deed

Baytex Energy Corp.  
Aurora Oil & Gas Limited

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Date: **6** February 2014

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## Parties

- 1 **Baytex Energy Corp.** of Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta (**Bidder**)
  - 2 **Aurora Oil & Gas Limited ABN 90 008 787 988** of Level 1 338 Barker Road, Subiaco, Western Australia 6008 (**Aurora**)
- 

## Background

- A The parties have agreed that Bidder will acquire Aurora by means of a scheme of arrangement under Part 5.1 of the Corporations Act between Aurora and Scheme Shareholders.
- B At the request of Bidder, Aurora intends to propose the Scheme and issue the Scheme Booklet.
- C The parties have agreed to implement the Scheme on and subject to the terms of this deed.

### The parties agree

---

## 1 Defined terms and interpretation

### 1.1 Defined terms

A term or expression starting with a capital letter which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

### 1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this deed.

---

## 2 Agreement to proceed with Transaction

- (a) Aurora agrees to propose the Scheme on and subject to the terms of this deed.
  - (b) Bidder agrees to assist Aurora to propose the Scheme on and subject to the terms of this deed.
  - (c) The parties agree to implement the Transaction on and subject to the terms of this deed.
- 

## 3 Conditions precedent

### 3.1 Conditions precedent

Subject to this clause 3, the Scheme will not become Effective, and the obligations of Bidder under clause 4.2(b) are not binding, until and unless each of the following conditions precedent is satisfied or waived in accordance with clause 3.3.

- (a) **(FIRB)** Before 5:00pm on the Business Day before the Second Court Date, one of the following occurs:
  - (i) the Treasurer of the Commonwealth of Australia (**Treasurer**) (or his delegate) gives Bidder notice in writing to the effect that there are no objections to the acquisition of Scheme Shares in terms of the Federal Government's foreign investment policy;
  - (ii) no order is made in relation to the acquisition of Scheme Shares under section 22 of the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) within a period of 40 days after Bidder has notified the Treasurer that it proposes to acquire Scheme Shares, and no notice is given by the Treasurer to Bidder during that period to the effect that there are any objections of a kind referred to in paragraph (i); or
  - (iii) where an order is made under section 22 of the FATA, a period of 90 days has expired after the order comes into operation and no notice is given by the Treasurer to Bidder during that period to the effect that there are any objections of a kind referred to in paragraph (i).
- (b) **(Hart-Scott-Rodino approval)** Before 5:00pm on the Business Day before the Second Court Date the waiting period under the HSR Act, shall have expired or been earlier terminated.
- (c) **(Court approval)** The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.
- (d) **(Shareholder approval)** Aurora Shareholders (other than Excluded Shareholders) agree to the Scheme at the Scheme Meeting by the requisite majorities under section 411(4)(a) of the Corporations Act.
- (e) **(Restraints)** No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Transaction is in effect at 8:00am on the Second Court Date.
- (f) **(Material Adverse Change)** No Material Adverse Change occurs, is announced or is otherwise discovered by Bidder (whether or not it becomes public) between the date of this deed and 8:00am on the Second Court Date.
- (g) **(Prescribed Occurrence)** No Prescribed Occurrence occurs between the date of this deed and 8:00am on the Second Court Date.

### 3.2 Reasonable endeavours

- (a) Aurora must use reasonable endeavours to procure that the conditions precedent in clauses 3.1(f) and 3.1(g) are satisfied.
- (b) Bidder must use reasonable endeavours to procure that the condition precedent in clause 3.1(a) is satisfied.
- (c) Each party must use reasonable endeavours to procure that:
  - (i) the conditions precedent in clauses 3.1(b), 3.1(c), 3.1(d) and 3.1(e) are satisfied; and

- (ii) there is no occurrence or non-occurrence within the control of such party that prevents, or would be reasonably likely to prevent, the satisfaction of any condition precedent.
- (d) Without limiting clause 3.2(b) or 3.2(c), in respect of the conditions precedent in clauses 3.1(a) and 3.1(b):
  - (i) before sending any submission or material correspondence to a Governmental Agency in connection with any regulatory matter, each party must consult with the other party in relation to, and provide the other party with a draft copy of, such submission or correspondence as soon as practicable and consider in good faith any reasonable comments received from the other party in relation to such submission or correspondence;
  - (ii) each party must act co-operatively with the other party and in a timely manner in connection with obtaining any regulatory approval contemplated by clauses 3.1(a) and 3.1(b), including responding to reasonable requests for information (whether made by the other party, a Government Agency or any other person) at the earliest practicable time;
  - (iii) within 15 Business Days after signing this deed, each party must file all materials required to be filed by it under the HSR Act and request early termination of the HSR Act waiting period, and will promptly file any supplemental materials required and will comply in all material respects with the requirements of the HSR Act; and
  - (iv) a regulatory approval for the purposes of the conditions precedent in clauses 3.1(a) and 3.1(b) will be deemed to have been granted or obtained notwithstanding that it is subject to conditions, provided that the conditions are acceptable to both parties (acting reasonably).

### **3.3 Waiver of conditions precedent**

- (a) The conditions precedent in clauses 3.1(c) and 3.1(d) cannot be waived.
- (b) The conditions precedent in clauses 3.1(a), 3.1(b) and 3.1(e) are for the benefit of Aurora and Bidder and any breach or non-fulfilment of either of these conditions precedent may only be waived with the written consent of both Aurora and Bidder (each in its absolute discretion).
- (c) The conditions precedent in clauses 3.1(f) and 3.1(g) are for the sole benefit of Bidder and any breach or non-fulfilment of either of these conditions precedent may only be waived by Bidder (in its absolute discretion) in writing.
- (d) If a party waives the breach or non-fulfilment of a condition precedent, that waiver does not prevent it from suing the other party for any breach of this deed that resulted in the breach or non-fulfilment of the condition precedent.
- (e) Waiver of a breach or non-fulfilment of a condition precedent does not constitute:
  - (i) a waiver of breach or non-fulfilment of any other condition precedent resulting from the same event; or
  - (ii) a waiver of breach or non-fulfilment of that condition precedent resulting from any other event.

### 3.4 Termination on failure of condition precedent

- (a) Subject to clause 5.8, if any conditions precedent contained in clause 3.1 are not satisfied or waived by the date specified in this deed for its satisfaction or if the Scheme has not become Effective by the End Date, then the parties will consult in good faith with a view to determining whether:
- (i) the Scheme or a transaction which results in the acquisition of Aurora by Bidder may proceed by way of an alternative approach and, if so, to agree on the terms of such an alternative approach;
  - (ii) to agree to extend the date for satisfaction of the relevant condition precedent to another date agreed by Aurora and Bidder;
  - (iii) to extend the End Date; or
  - (iv) to adjourn or change the date of an application to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme (as applicable).
- (b) If the condition precedent in clause 3.1(d) is not satisfied by reason only of the non-satisfaction of the Headcount Test and:
- (i) either Bidder or Aurora considers, acting reasonably, that Share Splitting or some abusive or improper conduct may have caused or materially contributed to the Headcount Test not having been satisfied; and
  - (ii) legal advisers to Aurora have opined that an application under clause 3.4(b)(A) would have not less than a 50% prospect of success,
- then Aurora must:
- (A) apply for an order of the Court contemplated by section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test and seek Court approval of the Scheme under section 411(4)(b) of the Corporations Act, notwithstanding that the Headcount Test has not been satisfied; and
  - (B) make such submissions to the Court and file such evidence as counsel engaged by Aurora to represent it in Court proceedings related to the Scheme, in consultation with Bidder, considers is reasonably required to persuade the Court to exercise its discretion under section 411(4)(a)(ii)(A) of the Corporations Act by making an order to disregard the Headcount Test.
- (c) If the Court agrees to exercise its discretion under section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test, it will not be necessary to meet the Headcount Test in order to satisfy the condition precedent in clause 3.1(d).
- (d) If the parties are unable to reach agreement under clause 3.4(a) within 5 Business Days of the earlier of becoming aware of the relevant occurrence or relevant date or by the End Date, then unless that condition is waived in accordance with clause 3.3, either party may (subject to clause 3.4(e)) terminate this deed without liability to the other party because of that termination. In this event, each party will retain any rights and remedies that accrued prior to termination, including any rights and remedies in respect of any past breach of this deed.

- (e) A party may not terminate this deed under clause 3.4(d) if the relevant condition in clause 3.1 has not been satisfied, or is incapable of being satisfied, or there is an occurrence that will prevent the relevant condition being satisfied by the date specified in this deed for its satisfaction, as a result of an act or omission by that party or any of its Related Bodies Corporate which results in a material breach of this deed.

### **3.5 Certain notices**

Each party must promptly notify the other parties in writing if:

- (a) a condition precedent has been satisfied, in which case that party must comply with any reasonable requests for evidence of such satisfaction made by the other party;
- (b) there is a breach or non-fulfilment of a condition precedent;
- (c) it becomes aware of any fact, matter or circumstance that has resulted, will result or is reasonably likely to result in:
  - (i) a condition precedent becoming incapable of satisfaction or otherwise not being satisfied in accordance with its terms;
  - (ii) a breach of a Representation and Warranty provided by that party under this deed or such a Representation and Warranty ceasing to be true and correct in all material respects; or
  - (iii) a material breach of this deed by that party.

---

## **4 Transaction steps**

### **4.1 Scheme**

- (a) Aurora agrees to propose the Scheme on and subject to the terms of this deed.
- (b) Aurora must not consent to any modification of, or amendment to, the Scheme, or to the making or imposition by a court of any condition in respect of the Scheme, without the prior written consent of Bidder, not to be unreasonably withheld.

### **4.2 Scheme Consideration**

- (a) Under the Scheme, each Scheme Shareholder will be entitled to receive the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder.
- (b) In consideration of the transfer to Bidder of all the Scheme Shares, Bidder covenants in favour of Aurora (in its own right and separately as trustee for each Scheme Shareholder) that it will:
  - (i) accept that transfer; and
  - (ii) provide the Scheme Consideration to each Scheme Shareholder by depositing, or procuring the deposit of, the Aggregate Scheme Consideration in cleared funds into the Trust Account prior to 5pm on the day before the Implementation Date,

in each case in accordance with the terms of the Scheme. To avoid doubt, nothing in this clause 4.2(b) shall derogate from the obligations of Bidder under the Deed Poll, which shall prevail to the extent of any inconsistency with this clause 4.2(b) such that full compliance by Bidder (or the Nominee, as the case requires) with the Deed Poll will be taken as compliance by it with this clause 4.2(b).

#### 4.3 Bidder Nominee

- (a) Bidder may by notice to Aurora, not later than three Business Days before the Second Court Date, nominate a directly or indirectly wholly-owned Subsidiary of Bidder (**Nominee**) to pay the Scheme Consideration and to be the entity to which Scheme Shares will be transferred in accordance with this deed and the Scheme if the Scheme becomes Effective.
- (b) From the date of receipt by Aurora of the notice referred to in clause 4.3(a) (**Notification Date**) Bidder must procure that the Nominee complies with this deed as if the Nominee were a party to it in place of Bidder and that the Nominee signs and delivers a deed poll of accession in favour of Aurora under which the Nominee agrees to comply with this deed as if the Nominee were a party.
- (c) Despite the above, Bidder will continue to be bound by all of the obligations of Bidder under this deed and will not be released from any obligations or liabilities under this deed following the Notification Date. However, Aurora agrees that Bidder will not be in breach of this deed for failing to discharge an obligation of Bidder under this deed if the Nominee fully discharges that obligation.

#### 4.4 Transfer or cancellation of Options and Performance Rights

The parties must use reasonable endeavours (acting co-operatively and in good faith) to procure that, as soon as practicable after the date of this deed, each holder of Options or Performance Rights (in this clause 4.4, **Unlisted Securities**) enters into a deed with Bidder and Aurora, in a form acceptable to both Bidder and Aurora (each acting reasonably), under which:

- (a) the holder agrees to the transfer or cancellation of all of their Unlisted Securities in exchange for an amount per Unlisted Security equal to:
  - (i) for the Options, the amounts set out in Attachment D; and
  - (ii) for each Performance Right A\$4.10,with such transfer or cancellation to be subject to the Scheme becoming Effective and to take effect on the Implementation Date;
- (b) within 20 Business Days of the date of this deed, Aurora must apply to the ASX for a waiver from Listing Rule 6.23.2 to allow the Options to be cancelled for consideration; and
- (c) Bidder agrees to provide, or procure the provision of, the amount referred to in clause 4.4(a) to the holder (or as the holder otherwise directs) on the Implementation Date.

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## 5 Implementation

### 5.1 Aurora obligations

Aurora must take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise on and subject to the terms of this deed. Without limiting the foregoing, Aurora must (to the fullest extent applicable):

- (a) **(Independent Expert)** as soon as reasonably practicable after the date of this deed, appoint the Independent Expert and provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report (and any update to that report);
- (b) **(preparation of Scheme Booklet)**
  - (i) prepare the Scheme Booklet (other than the Bidder Information and the Independent Expert's Report) in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, RG 60, the Listing Rules and Canadian securities laws; and
  - (ii) provide Bidder with drafts of the Scheme Booklet and, acting reasonably and in good faith, take into account any reasonable comments from Bidder and its Representatives on those drafts, where such comments are provided in a timely manner;
- (c) **(lodgement of Regulator's Draft)**
  - (i) provide an advanced draft of the Scheme Booklet (**Regulator's Draft**) to ASIC for its review for the purposes of section 411(2) of the Corporations Act; and
  - (ii) keep Bidder informed of any material issues raised by ASIC in relation to the Regulator's Draft and any steps taken to address any such issues (provided that, where such issues relate to Bidder Information, Aurora must not take any steps to address them without Bidder's prior written consent);
- (d) **(no objection statement)** apply to ASIC for a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (e) **(First Court Hearing)** apply to the Court for an order under section 411(1) of the Corporations Act directing Aurora to convene the Scheme Meeting;
- (f) **(approval and registration of Scheme Booklet)**
  - (i) procure that a meeting of the Aurora Board is convened to approve the Scheme Booklet for registration with ASIC and despatch to Aurora Shareholders; and
  - (ii) after receipt from Bidder of the written confirmation referred to in clause 5.2(d), request that, in accordance with section 412(6) of the Corporations Act, ASIC register the explanatory statement in relation to the Scheme, as included in the Scheme Booklet;
- (g) **(Scheme Meeting)** as soon as reasonably practicable following registration of the Scheme Booklet by ASIC, despatch the Scheme Booklet to Aurora Shareholders

and convene and hold the Scheme Meeting in accordance with the orders made by the Court at the First Court Hearing;

(h) **(supplementary disclosure)** if, after despatch of the Scheme Booklet, it becomes aware:

- (i) that information included in the Scheme Booklet is or has become misleading or deceptive in any material respect (whether by omission or otherwise); or
- (ii) of information that is required to be disclosed to Aurora Shareholders under any applicable law (including RG 60),

promptly consult with Bidder as to the need for, and form of, any supplementary disclosure to Aurora Shareholders, and make any such disclosure that it considers reasonably necessary as soon as reasonably practicable and having regard to applicable laws (including RG 60);

(i) **(conditions precedent certificate)** at the Second Court Hearing, provide to the Court (through its counsel):

(i) a certificate confirming (in respect of matters within its knowledge) whether or not the conditions precedent (other than the condition precedent in clause 3.1(c)) have been satisfied or waived in accordance with clause 3, a draft of which certificate must be provided to Bidder by 5:00pm on the Business Day prior to the Second Court Date; and

(ii) any certificate provided to it by Bidder pursuant to clause 5.2(f);

(j) **(Second Court Hearing)** subject to the conditions precedent (other than the condition precedent in clause 3.1(c)) being satisfied or waived in accordance with clause 3, apply (and to the extent necessary and reasonable, re-apply) to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme;

(k) **(Court Documents)** prepare the Court Documents, provide drafts of those documents to Bidder and, acting reasonably and in good faith, take into account any reasonable comments from Bidder and its Representatives on those drafts, where such comments are provided in a timely manner;

(l) **(Bidder representation at Court Hearings)** allow, and not oppose, any application by Bidder for leave of the Court to be represented by counsel at a Court Hearing;

(m) **(lodgement of Court order)** for the purposes of section 411(10) of the Corporations Act, lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act before 5:00pm on the Business Day following the day on which such office copy is received;

(n) **(quotation of Aurora Shares and ASX listing)** apply to ASX and TSX to have:

- (i) trading in Aurora Shares suspended from the close of trading on the Effective Date; and
- (ii) Aurora removed from the official lists of ASX and TSX, and quotation of Aurora Shares on the ASX terminated, by the close of trading on the trading day immediately following the Implementation Date,

and not do anything to cause any of these things to happen before the date specified in this clause 5.1(n);

- (o) **(compliance with laws)** do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws, regulations and policy;
- (p) **(implementation)** if the Scheme becomes Effective, do all things contemplated of it under the Scheme and all other things (if any) necessary to lawfully give effect to the Scheme;
- (q) **(Registry details)** subject to the Scheme:
  - (i) provide all necessary information about the Aurora Shareholders to Bidder which Bidder requires in order to assist Bidder to identify the Scheme Shareholders and which can be provided under Australian law;
  - (ii) direct Aurora's share registry to promptly provide any information that Bidder reasonably requests in relation to the register of members maintained by (or on behalf of) Aurora in accordance with the Corporations Act, including any sub-register and, where requested by Bidder, Aurora must procure such information to be provided to Bidder in such electronic form as is reasonably requested by Bidder;
- (r) **(payment of dividend)** after completion of the Court hearing on the Second Court Date and at least one Business Day before the Effective Date, to the extent permitted by law and regulation (which, for the avoidance of doubt, includes complying with fiduciary obligations), to cause Aurora US to return capital and declare a dividend to Aurora in a combined amount (**Amount**) equal to the aggregate of Aurora's tax basis in the stock of Aurora US and Aurora US's current and accumulated earnings and profits, both as measured for United States federal income tax purposes, which Amount shall be:
  - (i) determined by the Bidder and given to Aurora in writing at least 5 Business Days before the Effective Date;
  - (ii) if the return of capital and dividend are made on a date other than at the end of a tax year of Aurora US, determined based on a reasonable estimate of the amount of current earnings and profits for the year; and
  - (iii) absolutely payable by the issuance of a promissory note in a form acceptable to the Bidder, acting reasonably, which has a principal amount equal to the Amount, bears interest on the outstanding principal amount at the short term "applicable federal rate" as determined for United States federal income tax purposes for the month in which the return of capital and dividend are made and is repayable in three years less one day from the date of issue,provided that at least 5 Business Days before the date for the return of capital and declaration of the dividend any consents required under the Aurora RCF have been obtained, which Aurora will use all reasonable endeavours to obtain;
- (s) **(assist with Financing)**: use reasonable endeavours to provide any information reasonably requested or access to senior management reasonably requested by Bidder or its Representatives in connection with the Financing, subject to any legal, regulatory or contractual restrictions; and

- (t) **(Aurora Notes consent)**: use reasonable endeavours to (i) obtain the consent of the required lenders under the Aurora RCF and (ii) if Bidder reasonably requests, conduct a consent solicitation in respect of the Aurora Notes in each case, to obtain the waivers and amendments necessary to permit the payment of the dividend referred to in clause 5.1(r) of this deed and the corporate actions Bidder proposes will occur shortly after the Implementation Date,

and Bidder indemnifies each Aurora Indemnified Party against any Loss (and will promptly reimburse upon demand all costs and expenses (including any consent fees payable in respect of clause 5.1(t) and any legal fees and expenses)) arising from or in connection with Aurora or an Aurora Indemnified Party's action or inaction in relation to Aurora's performance of its obligations under clauses 5.1(r), 5.1(s) and 5.1(t), except where an Aurora Indemnified Party has engaged in wilful misconduct. Completion of the matters contemplated by clauses 5.1(r), 5.1(s) and 5.1(t) are not conditions precedent.

## 5.2 Bidder obligations

Bidder must take all steps reasonably necessary to implement the Scheme in accordance with the Timetable and otherwise on and subject to the terms of this deed. Without limiting the foregoing, Bidder must (to the fullest extent applicable):

- (a) **(prepare Bidder Information)**
- (i) as soon as reasonably practicable after the date of this deed, prepare the Bidder Information for inclusion in the Scheme Booklet in accordance with all applicable laws, including the Corporations Act, Corporations Regulations, RG 60, the Listing Rules and Canadian securities laws; and
  - (ii) provide Aurora with drafts of the Bidder Information and, acting reasonably and in good faith, take into account any reasonable comments from Aurora and its Representatives on those drafts, where such comments are provided in a timely manner;
- (b) **(assistance with Scheme Booklet and Court Documents)** provide any assistance or information reasonably requested by Aurora or its Representatives in connection with the preparation of the Scheme Booklet (including any supplementary disclosure to Aurora Shareholders) or any Court Documents;
- (c) **(Independent Expert's Report)** provide any assistance or information reasonably requested by Aurora or its Representatives, or by the Independent Expert directly, in connection with the preparation of the Independent Expert's Report (and any update to that report);
- (d) **(confirmation of Bidder Information)** as soon as reasonably practicable after Aurora requests that it do so and having regard to the Timetable, confirm in writing to Aurora that:
- (i) it consents to the inclusion of the Bidder Information in the Scheme Booklet, in the form and context in which it appears; and
  - (ii) the Bidder Information, in that form and context, is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (e) **(update Bidder Information)** promptly advise Aurora in writing if it becomes aware:

- (i) of information which should have been included in any Bidder Information previously provided to Aurora (including if known at the time); or
- (ii) that any Bidder Information previously provided to Aurora is misleading or deceptive in any material respect (whether by omission or otherwise),

and promptly provide Aurora with any information required to correct the misleading or deceptive statements;

- (f) **(conditions precedent certificate)** before 8:00am on the Second Court Date, provide to Aurora for provision to the Court at the Second Court Hearing a certificate confirming (in respect of matters within its knowledge) whether or not the conditions precedent (other than the condition precedent in clause 3.1(c)) have been satisfied or waived in accordance with clause 3, a draft of which certificate must be provided to Aurora by 5:00pm on the Business Day prior to the Second Court Date;
- (g) **(representation at Court)** ensure that it is represented by counsel at the First and Second Court Hearing and give such undertakings (if any) to the Court (through its counsel) as are reasonably necessary to ensure the Court makes an order under section 411(4)(b) of the Corporations Act approving the Scheme;
- (h) **(Deed Poll)** before 5:00pm on the Business Day prior to the First Court Date, enter into the Deed Poll and deliver it to Aurora, and, if the Scheme becomes Effective, fully comply with its obligations under the Deed Poll;
- (i) **(Financing)** obtain the proceeds of the Financing to the extent required to pay the Scheme Consideration on the Implementation Date; and
- (j) **(compliance with laws)** do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws, regulations and policy.

### 5.3 Scheme Booklet

- (a) If the parties are unable to agree on the form or content of a particular part of the Scheme Booklet, then:
  - (i) if the relevant part of the Scheme Booklet is Bidder Information, Aurora will make such amendments to that part of the Scheme Booklet as required by Bidder (acting reasonably and in good faith); and
  - (ii) if the relevant part of the Scheme Booklet is Aurora Information, Aurora (acting reasonably and in good faith) will decide the form and content of that part of the Scheme Booklet.
- (b) The parties agree that the Scheme Booklet will contain a responsibility statement to the effect that:
  - (i) Aurora is responsible for the Aurora Information contained in the Scheme Booklet;
  - (ii) Bidder is responsible for the Bidder Information contained in the Scheme Booklet; and
  - (iii) the Independent Expert has provided and is responsible for, the Independent Expert's Report,

and neither of Aurora, Bidder or their directors and officers assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

- (c) Each party must undertake appropriate verification processes for the information supplied by that party for the Scheme Booklet and must make such verification material available to the other party on request by it.

#### 5.4 Conduct of business

- (a) Subject to clause 5.4(b), from the date of this deed up to and including the Implementation Date, Aurora must, to the extent that it is within its control (and not, for example, within the discretion or control of an operator (or any Related Body Corporate of an operator), in respect of any assets or businesses owned by a member of the Aurora Group:
  - (i) ensure that the business of the Aurora Group is conducted in the ordinary course consistent with the manner in which such business has been conducted in the 12 months prior to the date of this deed;
  - (ii) in respect of oil and gas assets for which:
    - (A) Aurora is the operator, ensure the expenditure is undertaken in a manner materially consistent with the 2014 Budget; and
    - (B) Aurora is not the operator, ensure expenditure is undertaken in a manner consistent with past practice;
  - (iii) promptly notify Bidder of any material Claim which may be threatened, brought, asserted or commenced against any member of the Aurora Group, or their officers, and consult with Bidder in relation to such matter to the extent Bidder reasonably requires;
  - (iv) not enter into, or agree to enter into, any joint venture, partnership or similar arrangement;
  - (v) except for matters that are within the 2014 Budget, and other than participation in all authorisations for expenditure submitted by the operator of its oil and gas assets under joint operating agreements, not:
    - (A) enter into, vary or terminate any contract or commitment which is for more than \$2 million or is for a term of more than one year, other than entering into, varying or terminating commodity hedging contracts consistent with Aurora's hedging policy as disclosed to Bidder before execution of this deed and entered into in the ordinary course of business;
    - (B) incur any capital expenditure exceeding \$5 million; or
    - (C) purchase, lease or otherwise acquire or agree to acquire any individual asset, other than pursuant to oil and gas leases offers under joint operating agreements with a value of more than \$2 million;
  - (vi) not make or permit any change to the terms and conditions of the current employment contracts of the officers of the Aurora Group, although nothing in this clause 5.4 is intended to restrict the Aurora 2014 awards and bonuses disclosed to Bidder before execution of this deed;

- (vii) subject to the Listing Rules and applicable laws, advise the Bidder of developments which would be considered material from a continuous disclosure perspective relating to or affecting the Aurora Group, its financial position and its prospects (excluding developments connected with Competing Proposals) as soon as reasonably practicable after Aurora identifies the relevant information as material; and
  - (viii) make reasonable efforts to:
    - (A) keep available the services of the key management personnel of the Aurora Group;
    - (B) maintain and preserve the Aurora Group's relationships with operators, lessors, customers, suppliers, investors, Government Agencies, licensors, licensees and others with whom it has business dealings (including using reasonable endeavours to obtain any required consents or waivers from Third Parties under any change of control provisions in material contracts or arrangements to which a member of the Aurora Group is a party, where Bidder advises it in writing of such contracts or arrangements); and
    - (C) ensure that the Aurora Group does not enter into any lines of business or other activities in which the Aurora Group is not engaged as at the date of this deed.
- (b) Nothing in clause 5.4(a) restricts the ability of Aurora to:
- (i) take any action which:
    - (A) is required or expressly permitted by this deed or the Scheme;
    - (B) has been Fairly Disclosed in the Disclosure Materials or any announcement to or filing with ASX, TSX, SEDAR or ASIC prior to the date of this deed; or
    - (C) has been agreed to in writing by Bidder;
  - (ii) employ or engage additional directors, officers, employees, contractors or other persons where the demands of the business of the Aurora Group require such additions and the Aurora Board considers it reasonably necessary or desirable to do so;
  - (iii) pay the cash transaction and/or retention bonuses up to the amount specified in Schedule 2; or
  - (iv) terminate the employment or engagement of directors, officers, employees, contractors or other persons in accordance with the terms of any applicable agreement or document governing such arrangement, where Aurora considers it reasonably necessary or desirable to do so, provided Aurora shall use reasonable endeavours to obtain qualified personnel for vacant positions, to the extent the relevant position is considered necessary or desirable to the Aurora Group going forward.
- (c) In this deed, references to the business of the Aurora Group are to that business taken as a whole.

## 5.5 Integration

Between the date of this deed and the Implementation Date, Aurora must co-operate with the Bidder to seek material third party consents which will be necessary or reasonably required as a result of the implementation of the Scheme and provide the Bidder with reasonable access to information, premises and senior executives of any member of the Aurora Group, where Bidder requests such access for the purposes of:

- (a) implementation of the Scheme; or
- (b) Bidder obtaining an understanding, or furthering its understanding, of the Aurora Group's business, financial position, prospects and affairs in order to allow and facilitate the development and the implementation of Bidder's plans for the Aurora Group following implementation of the Scheme,

provided that compliance with any such request would not, in the reasonable opinion of Aurora (acting in good faith), result in undue disruption to the Aurora Group's business, and provided that nothing in this clause 5.5 shall require Aurora to provide Bidder with any information:

- (c) in breach of an obligation of confidentiality to any person; or
- (d) concerning the consideration of the Transaction or any actual or potential Competing Proposal by the Aurora Board (or a sub-committee of the board) or Aurora management.

## 5.6 Appointment and resignation of directors

Subject to the Scheme becoming Effective, Aurora must procure that, as soon as reasonably practicable after the Scheme becomes Effective (and, in any event, before the Scheme Record Date):

- (a) each Aurora Director, other than those appointed by Aurora in accordance with clause 5.6(b), resigns in writing to Aurora acknowledging that the director has no Claim against the Bidder Group; and
- (b) there are appointed as directors of Aurora such nominees as advised by Bidder in writing on or before the Effective Date which will form a majority of the Aurora Board,

in each case with effect on and from (and subject to) implementation of the Scheme.

## 5.7 Tax election

Bidder will cause Aurora to make an election, in prescribed form and within the prescribed time, under subsection 110(1.1) of the *Income Tax Act* (Canada) in respect of the disposition of employee Options by Canadian residents, so that such employees may claim the deduction described in paragraph 110(1)(d) of the *Income Tax Act* (Canada).

## 5.8 Appeal process

- (a) If the Court refuses to make orders convening the Scheme Meeting or approving the Scheme, Aurora must appeal the Court's decision except:
  - (i) to the extent that the parties agree otherwise; or

- (ii) Aurora's legal advisers in relation to the Scheme indicate that, in their opinion, an appeal would have less than a 50% prospect of success,

in which case either party may terminate this deed in accordance with clause 12.

- (b) All reasonable costs of Aurora in appealing the Court's decision in accordance clause 5.8(a) must be borne equally by the parties.

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## 6 Agreed announcements

Immediately after execution of this deed, Aurora and Bidder must issue the Agreed Announcements.

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## 7 Board support of Transaction

### 7.1 Confirmation

Aurora represents and warrants to Bidder that each Aurora Director has confirmed that:

- (a) their recommendation in respect of the Scheme is that Aurora Shareholders (other than Excluded Shareholders) vote in favour of the Scheme at the Scheme Meeting; and
- (b) they intend to vote, or cause to be voted, all Aurora Shares which they control in favour of the Scheme at the Scheme Meeting,

in each case in the absence of a Superior Proposal and subject to the Independent Expert concluding in the Independent Expert's Report that the Scheme is in the best interests of Aurora Shareholders (other than Excluded Shareholders).

### 7.2 Maintenance of Recommendation and Voting Intention

- (a) Aurora must use reasonable endeavours to procure that no Aurora Director withdraws, changes or modifies their recommendation, as set out in clause 7.1(a) (**Recommendation**), or their voting intention, as set out in clause 7.1(b) (**Voting Intention**), unless:
  - (i) a Superior Proposal is made;
  - (ii) the Independent Expert concludes in the Independent Expert's Report (or any update to that report) that the Scheme is not in the best interests of Aurora Shareholders (other than Excluded Shareholders); or
  - (iii) that Aurora Director or the Aurora Board considers (after having obtained legal advice) that the failure by that Aurora Director specifically, or by any Aurora Director generally, to withdraw, change or modify their Recommendation or Voting Intention is reasonably likely to involve a breach by that Aurora Director of their fiduciary or statutory duties.
- (b) Subject to an Aurora Director withdrawing, changing or modifying their Recommendation or Voting Intention following the occurrence of one of the events referred to in clause 7.2(a), Aurora must ensure that:
  - (i) the Scheme Booklet includes statements to the effect that that Aurora Director gives the Recommendation and has the Voting Intention; and

- (ii) no public announcement by Aurora includes a statement that is inconsistent with that Aurora Director giving the Recommendation and having the Voting Intention.

### 7.3 Bidder acknowledgement

Bidder acknowledges that without derogating from a party's rights or obligations under clause 9 or 12, if any of the events referred to in clause 7.2(a) occur, any Aurora Director may withdraw, change or modify their Recommendation or Voting Intention.

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## 8 Exclusivity

### 8.1 Commencement of Exclusivity Period

Before the start of the Exclusivity Period, Aurora must:

- (a) terminate any existing discussions or negotiations in relation to a Competing Proposal; and
- (b) cease providing or making available to any Third Party any non-public information.

### 8.2 No-shop

During the Exclusivity Period, Aurora must not, and must take reasonable steps to ensure that its Representatives do not:

- (a) directly or indirectly solicit or invite enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Competing Proposal; or
- (b) communicate to any person any intention to do any of the things referred to in clause 8.2(a).

Nothing in this clause 8.2 prevents Aurora from continuing to make normal presentations to, and to respond to enquiries from, brokers, portfolio investors and analysts in the ordinary course in relation to the Scheme or its business generally.

### 8.3 No-talk

Subject always to clause 8.4 but without limiting clause 8.1 or clause 8.2, during the Exclusivity Period, Aurora must not, and must take reasonable steps to ensure that its Representatives do not:

- (a) directly or indirectly participate in or continue any discussions or negotiations in relation to, or which may reasonably be expected to lead to, a Competing Proposal; or
- (b) disclose any non-public information about the business or affairs of Aurora to a third party with a view to obtaining or which may reasonably be expected to lead to receipt of a Competing Proposal, other than in the ordinary course of business or as required by law, and if Aurora's Representatives do disclose such information, to the extent it has not been included in the Disclosure Materials, Aurora must concurrently provide it to Bidder; or
- (c) communicate to any person any intention to do any of the things referred to in clauses 8.3(a) or 8.3(b).

#### 8.4 Fiduciary exception

In respect of a bona fide Competing Proposal that is or may be received by, or become known to, Aurora without any breach by Aurora of its obligations under clause 8.1 or clause 8.2, Aurora may undertake any action (**prohibited action**) that would otherwise be prohibited by clause 8.3, if (and only to the extent that) the Aurora Board determines, acting in good faith and after having obtained written advice from its legal, and if appropriate, financial advisers, that not undertaking the prohibited action may involve a breach by a Aurora Director of their fiduciary or statutory duties.

#### 8.5 Bidder's right to counter Other Proposal

- (a) During the Exclusivity Period, in the event Aurora intends to rely on the fiduciary exception in clause 8.4 as a result of a proposal from any person (whether in writing or otherwise and whether solicited or otherwise), Aurora must notify Bidder within 24 hours of that fact, but not the identity of the person making the proposal.
- (b) During the Exclusivity Period, Aurora must notify Bidder within 24 hours of it becoming aware of any Competing Proposal (whether in writing or otherwise and whether solicited or otherwise) that it intends to recommend (**Other Proposal**) and Aurora must provide Bidder with the fact and the key terms of the Other Proposal and the identity of the person making the Other Proposal (**Other Proposal Notice**).
- (c) Aurora must not enter into any agreement, arrangement or understanding in relation to an Other Proposal, announce an Other Proposal publicly (subject to applicable Laws) or rely on clause 12.3(a) as a result of an Other Proposal, unless:
  - (i) Aurora gives Bidder an Other Proposal Notice in relation to the Other Proposal; and
  - (ii) a period of three Business Days has elapsed from the date on which Bidder receives the Other Proposal Notice.
- (d) If Aurora gives an Other Proposal Notice, Bidder will have the right, but not the obligation, at any time until the expiration of three Business Days following receipt of the Other Proposal Notice to:
  - (i) offer to amend the terms of the Scheme; or
  - (ii) propose any other transaction,which offer or proposal must be submitted to Aurora in writing (each a **Bidder Counterproposal**), and if Bidder does so, the Aurora Directors must review the Bidder Counterproposal in good faith to determine whether the Bidder Counterproposal is more favourable to Aurora Shareholders than the Other Proposal taking into account all terms and conditions of both proposals.
- (e) If the Aurora Directors determine, in good faith and after having obtained financial advice and written advice from its legal advisers, that the Bidder Counterproposal is more favourable to Aurora Shareholders than the Other Proposal, then:
  - (i) if the Bidder Counterproposal contemplates an amendment to the Scheme, the parties must enter into a deed amending this deed and all other necessary documents to reflect the Bidder Counterproposal;
  - (ii) if the Bidder Counterproposal contemplates any other transaction, Aurora must make an announcement as soon as reasonably practicable

recommending the Bidder Counterproposal, in the absence of a Superior Proposal, and the parties must pursue implementation of the Bidder Counterproposal in good faith; and

(iii) Aurora must not take any of the steps referred to in clause 8.5(c).

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## 9 Break Fee

### 9.1 Background

This clause 9 has been agreed to in circumstances where:

- (a) each party believes it and its shareholders will derive significant benefits from the implementation of the Scheme;
- (b) Bidder has incurred and will further incur, significant costs in connection with the Scheme, which will include significant opportunity costs if the Scheme is not implemented;
- (c) Bidder requested that provision be made for the payment of a Break Fee, and would not have entered into this deed had such provision not been made;
- (d) Aurora believes that it is appropriate to agree to pay a Break Fee to secure Bidder's entry into this deed; and
- (e) each party has received separate legal advice in relation to this deed and the operation of this clause 9.

The parties acknowledge and agree that the costs referred to in clause 9.1(b) are of such a nature that they cannot be precisely quantified, but that the Break Fee is a genuine and reasonable pre-estimate of those costs.

### 9.2 Payment of Break Fee

Subject to clauses 9.3, 9.5 and 9.6, Aurora must pay Bidder the Break Fee, without set-off or withholding and within 5 Business Days after any of the following occurs:

- (a) a Competing Proposal is announced by a Third Party before the date of the Scheme Meeting and, within 12 months after such announcement, the Third Party or an associate of the Third Party does any of the matters referred to in clauses (a) to (f) of the definition of Competing Proposal; or
- (b) two or more Aurora Directors, prior to termination of this deed:
  - (i) make or authorise a public statement that they no longer recommend Aurora Shareholders vote in favour of the Scheme or otherwise withdraw or adversely change their Recommendation or Voting Intention; or
  - (ii) publicly recommends that Aurora Shareholders vote in favour of, or accept, a Competing Proposal or otherwise promotes or endorses a Competing Proposal,

other than:

- (A) in circumstances where a condition precedent in clauses 3.1(a), 3.1(b), 3.1(c), 3.1(d) or 3.1(e) has not been, and cannot be, met (in the

case of clause 3.1(d) being where the shareholders have not approved the scheme or a sufficient number of shareholders have publicly stated that they will not vote in favour of the Scheme without any relevant qualification);

(B) following the termination of this deed in accordance with clause 12; or

(C) where the Independent Expert concludes in the Independent Expert's Report (including any updates to such report) that the Scheme is not in the best interests of the Aurora Shareholders (except because of a proposed Competing Proposal).

(c) Bidder terminates this deed in reliance on Aurora being in material breach of any provision of this deed (other than a breach of the Aurora Representations and Warranties in clauses 10.2(b)-(h), (k), (m), (o), (q)-(z) and (cc)-(jj) (inclusive)).

### 9.3 Payment conditions

(a) Notwithstanding the occurrence of any event referred to in clause 9.2, a Break Fee will not be payable under the relevant clause if the Scheme becomes Effective.

(b) Aurora can only ever be liable to pay a Break Fee once.

### 9.4 Nature of payment

The Break Fee payable under clause 9.2 is an amount to compensate Bidder for the following costs and expenses:

(a) external advisory costs (excluding success fees);

(b) internal costs such as costs of management and directors' time, risk management costs and capital costs;

(c) out-of-pocket expenses; and

(d) opportunity costs incurred in pursuing the Transaction or in not pursuing other alternative acquisitions or strategic initiatives which otherwise could have been developed.

### 9.5 Compliance with law

This clause 9 imposes obligations on Aurora only to the extent that the performance of those obligations:

(a) does not constitute unacceptable circumstances as declared by the Australian Takeovers Panel;

(b) does not breach the fiduciary or statutory duties of any Aurora Director; and

(c) is not otherwise unlawful or held to be unenforceable by a court,

(**Impugned Obligations**), but Aurora will remain obliged to comply with its obligations under clause 9 to the extent they are not Impugned Obligations.

If, and to the extent that, any of clause 9.5(a), 9.5(b) or 9.5(c) applies, Bidder must reimburse the relevant part of the Break Fee within 10 Business Days after receipt of a written demand for reimbursement from Aurora.

## 9.6 Other claims

- (a) The parties acknowledge and agree that, despite any other provision of this deed but subject to clause 9.6(b):
  - (i) if Aurora becomes liable to pay a Break Fee and does so in accordance with this clause 9, it will have no further liability to Bidder for any breach of this deed;
  - (ii) if Aurora becomes liable to pay a Break Fee, that fee shall be reduced by any amount previously paid by Aurora to Bidder in connection with a breach by Aurora of this deed; and
  - (iii) in any event, the liability of Aurora under or in connection with this deed shall be limited to an amount equal to the Break Fee payable under this clause 9, provided that this limitation shall not apply to breaches of clause 15.
- (b) Nothing in clause 9.6(a) in any way:
  - (i) prevents Bidder (in its own right or as trustee for another person, as the case may be under this deed) from seeking orders from a court of competent jurisdiction for the specific performance by Aurora of any obligations under this deed; or
  - (ii) extinguishes or limits the liability of Aurora for any:
    - (A) interest payable on any amount payable by that party under or in connection with this deed; or
    - (B) breach of this deed arising from criminal acts or fraud.

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## 10 Representations and Warranties

### 10.1 Bidder Representations and Warranties

Bidder represents and warrants to Aurora that:

- (a) **(validly existing)** it is a validly existing corporation registered under the laws of its place of incorporation;
- (b) **(power)** it has full corporate power and lawful authority to execute, deliver and perform this deed and the Deed Poll;
- (c) **(corporate action)** it has taken all necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and the Deed Poll;
- (d) **(binding)** this deed constitutes legal, valid and binding obligations on it, enforceable in accordance with its terms;
- (e) **(performance)** the execution and performance by it of this deed and each transaction contemplated by this deed did not and will not violate or breach any provision of:
  - (i) an agreement, law or treaty or a judgment, ruling, order or decree binding on it; or

- (ii) its constitution;
- (f) **(Bidder Information)** the Bidder Information included in the Scheme Booklet, as consented to by it pursuant to clause 5.2(d)(i), and any other information pursuant to clause 5.2(e), will be provided and will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will comply in all material respects with applicable laws, including the Corporations Act, Corporations Regulations, RG 60, the Listing Rules and Canadian securities laws and all information provided by or on behalf of the Bidder to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information;
- (g) **(regulatory approvals)** other than the approvals specified in clauses 3.1(a) or 3.1(b), no regulatory approvals are required to be obtained by it in order for it to execute and perform this deed and the Deed Poll;
- (h) **(Bidder Insolvency Event)** a Bidder Insolvency Event will not occur; and
- (i) **(funding)**
  - (i) Bidder has delivered to Aurora true, correct and complete copies of the Underwriting Agreement and the Finance Document (other than pricing, interest margin and fee arrangements redacted);
  - (ii) at all times following the execution of this deed, it will have available to it to receive on release from escrow or to drawdown, subject to the conditions contained in the Underwriting Agreement and the Finance Document (as they may be supplemented by conditions Bidder reasonably expects to be able to satisfy in the formal secured credit facility agreements), sufficient cash amounts to pay the Scheme Consideration in accordance with its obligations under this deed and the Deed Poll;
  - (iii) on the Implementation Date, it will pay the Scheme Consideration in accordance with its obligations under this deed and the Deed Poll; and
  - (iv) in no event shall the receipt or availability of any funds or financing (including, for the avoidance of doubt, the Financing) by Bidder or Bidder Group or any other financing or other transactions be a condition to any of Bidder's obligations hereunder.

## 10.2 Aurora Representations and Warranties

Aurora represents and warrants to Bidder that:

- (a) Aurora and each of its Material Subsidiaries has been duly created, organised, continued, incorporated or amalgamated (as the case may be) and is valid and subsisting under the laws of the jurisdiction of its creation, organisation, continuation, incorporation or amalgamation (as the case may be);
- (b) Aurora and each of its Material Subsidiaries has conducted and is conducting and will conduct business in compliance in all material respects with all applicable laws, including applicable securities laws, licensing and environmental legislation, regulations or by-laws or other lawful requirements of any governmental or regulatory bodies applicable to it of each jurisdiction in which it carries on business and holds all licenses, permits, registrations and qualifications in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of Aurora as now conducted and as contemplated to be conducted

(except where the failure to so conduct its business or to hold such licenses, permits, registrations or qualifications would not, individually or in the aggregate, have a Material Adverse Effect), all such licenses, permits, registrations or qualifications are valid and existing and in good standing (except where the lack of such valid or existing license, permit, registration or qualification would not have any Material Adverse Effect) and none of such licenses, permits, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any Material Adverse Effect;

- (c) the minute books and record books of Aurora and each of its Material Subsidiaries since February 2011 are true and correct in all material respects;
- (d) the books of account and other records of Aurora (as a whole), whether of a financial or of an accounting nature or otherwise, have been maintained in accordance with prudent business practices since February 2011;
- (e) except to the extent that any violation or other matter referred to in this subparagraph does not have a Material Adverse Effect on Aurora or is disclosed in Public Record:
  - i. Aurora and each of its Material Subsidiaries, respectively, is not in violation of any applicable federal, provincial, state, municipal, local or other laws, regulations, orders, government decrees or ordinances with respect to environmental, health or safety matters (collectively, **Environmental Laws**);
  - ii. Aurora and each of its Material Subsidiaries, respectively, has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;
  - iii. there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by Aurora or any of its Material Subsidiaries or their respective properties that have not been remedied or that are not presently being remedied;
  - iv. Aurora has not received, and has no knowledge of the issuance of, any orders, directions or notices which remain outstanding pursuant to any Environmental Laws relating to the business or assets of Aurora or its Material Subsidiaries;
  - v. Aurora and each of its Material Subsidiaries, respectively, has not failed to report to the proper federal, provincial, municipal or other political subdivision, government, department, commission, board, bureau, agency or instrumentality, domestic or foreign (**Government Authority**) the occurrence of any event which is required to be so reported by any Environmental Law; and
  - vi. Aurora and each of its Material Subsidiaries, respectively, holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for (A) notifications and conditions of general application to assets of the type owned by Aurora, and (B) notifications relating to reclamation obligations under the Environmental Laws applicable in the jurisdictions in which Aurora carries on business, Aurora has not received any notification pursuant to any Environmental Laws that any work, repairs, constructions or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws, or any licence, permit or approval



issued pursuant thereto, or that any licence, permit or approval referred to above is about to be reviewed, made subject to limitation or conditions, revoked, withdrawn or terminated;

- (f) Since 1 January 2010, other than as Fairly Disclosed in the Disclosure Materials, Aurora and each of its Material Subsidiaries has filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all material assessments, reassessments and all other material taxes, governmental charges, penalties, interest and other fines due and payable by it and which were claimed by any Government Agency to be due and owing, and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required and there are no agreements, waivers, or other arrangements providing for an extension of time respect to the filing of any tax return or payment of any tax, governmental charge or deficiency by Aurora or any of its Material Subsidiaries and to the best of the knowledge of Aurora, there are no actions, suits, proceedings, investigations or claims threatened or pending against Aurora or any of its Material Subsidiaries in respect of taxes, governmental charges or assessments or any matters under discussion with any Government Agency relating to taxes, governmental charges or assessments asserted by any such authority;
- (g) any and all operations of Aurora and each of its Material Subsidiaries, and, to the knowledge of Aurora, any and all operations of third parties on or in respect of the assets and properties of Aurora, have been conducted in accordance with good oil and gas industry practices except where the lack of or lesser standard of such conduct would not have a Material Adverse Effect;
- (h) since 30 September 2013 there has been no Material Adverse Change, other than anything disclosed in the Public Record;
- (i) the Aurora Information included in the Scheme Booklet despatched to Aurora Shareholders, and any supplementary disclosure made to Aurora Shareholders pursuant to clause 5.1(h), will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will comply in all material respects with applicable laws, including the Corporations Act, Corporations Regulations, RG 60, the Listing Rules and Canadian securities laws;
- (j) the information and statements of Aurora contained in the Public Record are true, correct and complete in all material respects at the time such documents were made a part of the Public Record or otherwise complied with applicable Laws and contained no misrepresentation (as defined in applicable securities laws) and no untrue statement of a material fact and did not omit to state a material fact that was necessary to be stated in order for the statement not to be misleading or that was necessary to prevent a statement that was made from being false or misleading in the circumstances in which it was made, the whole as of the respective dates of such information and statements and Aurora has not filed any reports with the ASX or Securities Commissions that are still maintained on a confidential basis;
- (k) To the knowledge of Aurora, Aurora has not withheld from Bidder any material information or documents concerning Aurora, its assets or liabilities during the course of Bidder's review of the Disclosure Materials, other than information or documents (i) referred to in any announcement to or filing with ASX, TSX, SEDAR or ASIC or (ii) relating to a Competing Proposal. No other warranty is express or implied as to the accuracy, content, relevance, legality or completeness of the Disclosure Materials;
- (l) Aurora has full corporate capacity, power and authority to enter into this deed and to perform its obligations set out herein, and this deed has been duly authorised, executed and delivered by Aurora and this deed has been, and will, on the

Effective Date be, a legal, valid and binding obligation of Aurora enforceable against Aurora in accordance with its terms except that the validity, binding effect and enforceability of the terms of agreements and documents are subject to the qualification that such validity, binding effect and enforceability may be limited by: (i) applicable bankruptcy, insolvency, moratorium, reorganisation or other laws affecting creditors' rights generally; (ii) equitable remedies, including the remedies of specific performance and injunctive relief, being available only in the discretion of the applicable court; (iii) the statutory and inherent powers of a court to grant relief from forfeiture, to stay execution of proceedings before it and to stay executions on judgements; (iv) the applicable laws regarding limitations of actions; (v) enforceability of provisions which purport to sever any provision which is prohibited or unenforceable under applicable law without affecting the enforceability or validity of the remainder of such document would be determined only in the discretion of the court; (vi) enforceability of the provisions exculpating a party from liability or duty otherwise owned by it may be limited under applicable law; and (vii) that rights to indemnity, contribution and waiver under the documents may be limited or unavailable under applicable law;

- (m) Aurora is not in material default or breach of any agreements which are required by Aurora to carry on its business as now conducted by it or as presently proposed to be conducted by it, other than as disclosed in Public Records or the Disclosure Materials;
- (n) Aurora is not in default or breach of, and the execution and delivery of, and the performance of and compliance with the terms of this deed by Aurora or any of the transactions contemplated hereby does not and will not result in any breach of, or constitute a default under, and does not and will not create a state of facts which, after notice or lapse of time or both, would result in a breach of or constitute a default under: (i) any term or provision of its constituent documents; (ii) any material indenture, mortgage, note, contract, agreement (written or oral), instrument, or lease to which Aurora is bound other than the Aurora RCF; or (iii) any judgment, decree, order, statute, rule or regulation applicable to Aurora, in force or, to the knowledge of Aurora, proposed to be in force, and Aurora is not in default or breach of any of the terms, documents, agreements or other items referred to in paragraph (i), (ii) or (iii) above which default or breach might reasonably be expected to have a Material Adverse Effect;
- (o) neither Aurora nor any of its Material Subsidiaries have any liabilities, obligations, indebtedness or commitments, whether accrued, absolute, contingent or otherwise, which are not disclosed or referred to in the Financial Statements, Public Record or referred to or disclosed herein, other than liabilities, obligations, indebtedness or commitments: (i) incurred in the normal course of business; and (ii) which would not have a Material Adverse Effect;
- (p) the Financial Statements and the respective notes thereto:
  - i. present fairly, in all material respects, the financial position of Aurora on a consolidated basis (if applicable) and the statements of operations, retained earnings, cash flow from operations and changes in financial information of Aurora, on a consolidated basis (if applicable) for the periods specified in such Financial Statements;
  - ii. have been prepared in conformity with IFRS applied on a consistent basis throughout the periods involved; and
  - iii. do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Financial Statements;

- (q) other than as disclosed in the Financial Statements or Public Record, Aurora is not party to any related party transactions required to be disclosed under IFRS or applicable securities laws, other than remuneration arrangements with officers and employees disclosed to Bidder;
- (r) Aurora had made available to Aurora's independent reserves evaluator, Ryder Scott Company, L.P. (**Ryder Scott**), prior to the issuance of the Aurora Reserves Report, for the purpose of preparing the Aurora Reserves Report, all information requested by Ryder Scott, which information did not contain any material misrepresentation at the time such information was provided. Except with respect to changes in commodity prices and royalties. Aurora believes that the Aurora Reserves Report reasonably presents the quantity and pre-tax present worth values on an aggregate basis of the oil and gas reserves attributable to the crude oil, natural gas liquids and natural gas properties evaluated in such report as at 30 December 2013 based upon information available at the time the Aurora Reserves Report was prepared, and Aurora believes that at the date of such report it did not (and as of the date hereof, except as may be attributable to changes in commodity prices and production, since the date of such report does not) overstate the aggregate quantity or pre-tax present worth values of such reserves or the estimated monthly production volumes therefrom;
- (s) all material bonuses, commissions, salaries and other amounts owing to employees are reflected and have been accrued in the books of account of Aurora or have been provided in the Disclosure Materials or have otherwise been disclosed to Bidder;
- (t) there are no actions, suits, proceedings or inquiries pending or to the knowledge of Aurora, threatened against or affecting Aurora or any of its Material Subsidiaries, at law or in equity or before or by any Government Agency which in any way has a Material Adverse Effect and Aurora is not aware of any existing ground on which such action, suit, proceeding or inquiry might be commenced with any reasonable likelihood of success;
- (u) neither Aurora nor any of its Material Subsidiaries has any loans or other indebtedness outstanding which have been made to or from any of their respective shareholders, officers, directors or employees or any other person not dealing at arm's length with Aurora that are currently outstanding;
- (v) no officer, director, employee or any other person not dealing at arm's length with Aurora or, to the knowledge of Aurora, any associate or affiliate of any such person, owns, has or is entitled to any encumbrances on, or claims of any nature whatsoever to, the assets of Aurora;
- (w) although it does not warrant title, Aurora does not have reason to believe that Aurora and its Related Bodies Corporate do not have title to or the right to produce and sell their petroleum, natural gas and related hydrocarbons (for the purpose of this subsection, the foregoing are referred to as the **Interest**) and does represent and warrant that the Interest is free and clear of adverse claims created by, through or under Aurora, except as disclosed in the Public Record or those arising in the ordinary course of business, and that, to its knowledge, Aurora holds the Interest under valid and subsisting leases, licenses, permits, concessions, concession agreements, contracts, subleases, reservations or other agreements except where the failure to so hold its Interest would not have a Material Adverse Effect on Aurora or its material properties or assets;
- (x) except with respect to Permitted Liens, Aurora is not aware of any defects, failures or impairments in the title of Aurora to its crude oil, natural gas liquids and natural gas properties, whether or not an action, suit, proceeding or inquiry is pending or

threatened or whether or not discovered by any third party, which in aggregate could have a material adverse effect on:

- i. the quantity and net present values of crude oil, natural gas liquids and natural gas reserves of Aurora;
  - ii. the current production volumes of Aurora; or
  - iii. the current cash flow of Aurora;
- (y) except for agreements relating to financial advisory roles by Goldman Sachs Australia Pty Ltd and Credit Suisse (Australia) Limited or the appointment and retention of legal advisers, Aurora has not incurred any material obligation or liability, contingent or otherwise, for brokerage fees, finder's fees, agents' commission or other forms of compensation with respect to the transactions contemplated herein for which Aurora will have any material liability or obligation other than with respect to this deed;
- (z) no Securities Commission, other commission (including ASIC) or similar regulatory authority, the ASX, the TSX or other exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any Aurora Shares, no such proceeding is, to the knowledge of Aurora, pending, contemplated or threatened (other than as a result of the Scheme) and Aurora is not in default of any material requirement of applicable securities laws of the provinces of Canada, or Australia;
- (aa) there are as at the date of this deed 448,785,778 issued Aurora Shares, which shares are validly issued and fully paid. Aurora has also agreed to issue Aurora Shares pursuant to existing awards and 2014 Awards under the Aurora 2011 Long Term Incentive Plan, and on exercise of the Options and Performance Rights;
- (bb) other than pursuant to the awards under the Aurora 2011 Long Term Incentive Plan and Options, no person holds any securities convertible into or exchangeable for Aurora Shares or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right (whether or not on condition(s)) for the purchase or other acquisition of any unissued Aurora Shares or other securities of Aurora, except in respect of an aggregate of 7,150,000 Aurora Shares issuable upon exercise of currently outstanding Options to acquire Aurora Shares and a maximum of 2,348,808 Aurora Shares issuable upon vesting of Performance Rights (a minimum of 246,235 Performance Rights will lapse if the Scheme proceeds, as set out in Schedule 2);
- (cc) Aurora does not have in place a shareholder rights protection plan;
- (dd) Aurora is not a party to any unanimous shareholders agreement, pooling agreement, voting trust or other similar type of arrangements in respect of outstanding securities of Aurora;
- (ee) neither Aurora, nor any of its Subsidiaries have, directly or indirectly, in breach of any Laws:
- i. made or authorised any contribution, payment or gift of funds or property to any official, employee or agent of any governmental agency, authority or instrumentality of any jurisdiction; or
  - ii. made any contribution to any candidate for public office, in either case, where either the payment or the purpose of such contribution, payment or gift was, is, or would be prohibited under the *Canada Corruption of Foreign Public Officials Act* (Canada) or the *Proceeds of Crime (Money Laundering) and*

*Terrorist Financing Act* (Canada) or the rules and regulations promulgated thereunder or under any other legislation of any relevant jurisdiction covering a similar subject matter applicable to Aurora and its operations and have instituted and maintained policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance with such legislation;

- (ff) Aurora has not been, nor to the best knowledge of Aurora, has any director, officer, agent, employee, affiliate or person acting on behalf of Aurora been or is currently subject to any United States sanctions administered by the Office of Foreign Assets Control of the United States Treasury Department ("OFAC"); and neither Aurora nor any of its Subsidiaries nor any director, officer agent, employee affiliate or person acting on behalf of Aurora or any of its Subsidiaries, is an individual or entity that is, or is owned or controlled by a person that is (i) the subject of any sanctions, nor (ii) located, organized or resident in a country or territory that is the subject of sanctions (including, without limitation, Burma/Myanmar, Cuba, Iran, North Korea, Sudan and Syria);
- (gg) other than as disclosed in the Public Record or in the Disclosure Materials, neither Aurora nor any of its Material Subsidiaries currently has any outstanding material Swaps other than commodity hedging compliant with Aurora's hedging policy as disclosed to Bidder before the date of this deed and entered into in the ordinary course of business;
- (hh) Aurora maintains such policies of insurance as are appropriate to its operations, property and assets, in such amounts and against such risks as are customarily carried and insured against by owners of comparable businesses and assets. All such policies of insurance will at or prior to the Effective Date be in full force and effect and Aurora is not in material default, as to the payment of premiums or otherwise, under the terms of any such policy;
- (ii) Aurora has not received notice from any Government Agency of any material restriction on its ability to conduct its business as it is currently conducted or proposed to be conducted, or to own, lease or operate its material properties and assets;
- (jj) to the knowledge of Aurora, the properties and assets of Aurora and its Subsidiaries are free and clear of all mortgages, pledges, liens, charges and encumbrances other than Permitted Liens and, other than Permitted Liens, Aurora and its Subsidiaries have not done any act or suffered or permitted any action to be done whereby any person has acquired or may acquire an interest in or to the material properties and assets of Aurora or its Subsidiaries, nor has it done any act, omitted to do any act or permitted any act to be done that may adversely affect or defeat its title to any of its material properties or assets, other than as contemplated by this Transaction or expressly permitted by this deed; and
- (kk) Aurora is the legal and beneficial owner of all of the outstanding shares of its Subsidiaries. Aurora has good title to all of the shares in the Subsidiaries of Aurora free from all mortgages, pledges, liens, charges and encumbrances, other than as contemplated by the Aurora RCF. There are no options, warrants or other rights, shareholder or unitholder rights plans, agreements or commitments requiring the issuance, sale or transfer by any of Aurora's Subsidiaries of any securities of Aurora's Subsidiaries or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any securities of any of Aurora's Subsidiaries. All outstanding securities of Aurora's Subsidiaries have been duly authorised and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights.

### 10.3 Qualifications to Aurora Representations and Warranties

The Aurora Representations and Warranties are subject to matters which have been Fairly Disclosed in the Disclosure Materials or in any announcement to or filing with ASX, TSX, SEDAR or ASIC prior to the date of this deed. In respect of those matters and without limiting the obligations of Aurora under clause 3.5(c)(ii), Bidder agrees that there will be no breach of an Aurora Representation and Warranty, and it will not have any claim against Aurora or any Aurora Indemnified Party, if such a matter would make an Aurora Representation and Warranty untrue or incorrect or misleading or deceptive in any respect.

### 10.4 Survival of Representations and Warranties

Each Representation and Warranty:

- (a) is severable;
- (b) survives termination of this deed; and
- (c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this deed.

### 10.5 Timing of Representations and Warranties

- (a) Subject to clause 10.5(d), each Representation and Warranty (other than the Representations and Warranties referred to in clause 10.5(b)) is given at the date of this deed, the date of Equity Closing and at 8:00am on the Second Court Date (except where any statement is expressed to be made only at a particular date).
- (b) Subject to clause 10.5(d), each Aurora Representation and Warranty in clauses 10.2(b)-(h), (k), (m), (o), (q)-(z) and (cc)-(jj) (inclusive) is given at the date of this deed and the date of Equity Closing (except where any statement is expressed to be made only at a particular date).
- (c) For the purposes of clauses 10.5(a) and 10.5(b), a Representation and Warranty shall be read with any necessary adjustments to the tense used in the Representation and Warranty.
- (d) The Representations and Warranties will not be given on the date of the Equity Closing if the relevant date does not occur prior to 31 March 2014.

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## 11 Releases

### 11.1 Release of Aurora Indemnified Parties

- (a) Subject to clause 11.1(b), Bidder releases any and all rights that it may have, and agrees with Aurora that it will not make any claim, against any Aurora Indemnified Party as at the date of this deed in connection with:
  - (i) any breach of any covenant, representation or warranty given by Aurora under this deed;
  - (ii) any disclosures containing any statement which is false or misleading (whether by omission or otherwise); or
  - (iii) any failure to provide information,

except where an Aurora Indemnified Party has not acted in good faith or has engaged in wilful misconduct. To avoid doubt, nothing in this clause 11.1(a) limits the rights of Bidder to terminate this deed under clause 12.

- (b) The release in clause 11.1(a) is subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.
- (c) To the extent that clause 11.1(a) relates to an Aurora Indemnified Party, Aurora receives and holds the benefit of the clause as trustee for that Aurora Indemnified Party.

#### **11.2 Release of Bidder Indemnified Parties**

- (a) Subject to clause 11.2(b), Aurora releases any and all rights that it may have, and agrees with Bidder that it will not make any claim, against any Bidder Indemnified Party as at the date of this deed in connection with:
  - (i) any breach of any covenant, representation or warranty given by Bidder under this deed;
  - (ii) any disclosures containing any statement which is false or misleading (whether by omission or otherwise); or
  - (iii) any failure to provide information,

except where a Bidder Indemnified Party has not acted in good faith or has engaged in wilful misconduct. To avoid doubt, nothing in this clause 11.2 limits the rights of Aurora to terminate this deed under clause 12.

- (b) The release in clause 11.2(a) is subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.
- (c) To the extent that clause 11.2(a) relates to a Bidder Indemnified Party, Bidder receives and holds the benefit of the clause as trustee for that Bidder Indemnified Party.

#### **11.3 Deeds of indemnity and insurance**

- (a) Subject to implementation of the Scheme and to clause 11.3(b), Bidder:
  - (i) must for a period of 7 years from the Implementation Date, ensure that the constitutions of Aurora and the other members of the Aurora Group, while those entities exist, continue to contain such rules as are contained in those constitutions at the date of this deed in respect of the indemnification of directors and officers; and
  - (ii) must procure that Aurora and each member of the Aurora Group, while those entities exist, complies with and preserves the rights under any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time; and
  - (iii) acknowledges that nothing in this deed restricts Aurora obtaining a directors' and officers' run-off insurance policy for a period of 7 years from the resignation or retirement date of each Aurora Director resigning under clause 5.6(a).

- (b) The undertaking in clause 11.3(a) is subject to any restriction imposed by law and will be read down to the extent that any such restriction applies.
- (c) To the extent that this clause 11.3 relates to an Aurora Indemnified Party, Aurora receives and holds the benefit of the clause as trustee for that Aurora Indemnified Party.

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## 12 Termination

### 12.1 Termination by either party

At any time before 8:00am on the Second Court Date, either party may terminate this deed:

- (a) in accordance with clause 3.4;
- (b) if the other party commits a material breach of this deed, provided that:
  - (i) it has given written notice to the other party setting out the relevant circumstances and stating an intention to terminate this deed; and
  - (ii) the relevant circumstances have not been remedied or rectified for 20 Business Days from the time such notice is given (or any shorter period ending at 5:00pm on the Business Day before the Second Court Date).
- (c) Termination under clause 12.1(b) will be deemed to take effect at the expiry of the period referred to in clause 12.1(b)(ii).
- (d) For the avoidance of doubt, a party may not terminate this deed under this clause 12.1 for breach of a Representation and Warranty. Such matters are dealt with in clauses 12.2 and 12.3.

### 12.2 Termination by Bidder

Bidder may terminate this deed, with immediate effect, at any time before 8:00am on the Second Court Date by notice in writing to Aurora if:

- (a) two or more Aurora Directors publicly:
  - (i) withdraw or adversely change their Recommendation or Voting Intention; or
  - (ii) recommend, promote or otherwise endorse a Competing Proposal,in each case in any circumstances (including following the occurrence of one of the events referred to in clause 7.2(a));
- (b) at the time they were made the Aurora Representations and Warranties were not true and correct in all material respects, provided that:
  - (i) Bidder has given written notice to Aurora setting out the relevant circumstances and stating an intention to terminate this deed; and
  - (ii) the relevant circumstances have not been remedied or rectified for 20 Business Days from the time such notice is given (or any shorter period ending at 5:00pm on the Business Day before the Second Court Date).

- (c) Termination under clause 12.2(b) will be deemed to take effect at the expiry of the period referred to in clause 12.2(b)(ii).

### 12.3 Termination by Aurora

Aurora may terminate this deed, with immediate effect, by notice in writing to Bidder if

- (a) at any time before 8:00am on the Second Court Date, two or more of the Aurora Directors publicly:
  - (i) withdraw or adversely change their Recommendation or Voting Intention; or
  - (ii) recommend a Competing Proposal,in each case provided that this happens following the occurrence of one of the events referred to in clause 7.2(a) and Aurora has paid the Break Fee if expressly required to do so under this deed; or
- (b) at the time they were made the Bidder Representations and Warranties were not true and correct in all material respects, provided that:
  - (i) Aurora has given written notice to Bidder setting out the relevant circumstances and stating an intention to terminate this deed; and
  - (ii) the relevant circumstances have not been remedied or rectified for 20 Business Days from the time such notice is given (or any shorter period ending at 5:00pm on the Business Day before the Second Court Date).
- (c) Termination under clause 12.3(b) will be deemed to take effect at the expiry of the period referred to in clause 12.1(b)(ii).

### 12.4 Termination by written agreement

This deed may be terminated by the written agreement of the parties, on such terms as the parties agree.

### 12.5 Effect of termination

If this deed is terminated by either party in accordance with this clause 12, this deed will cease to have force and effect without any liability or obligation on the part of either party, except that:

- (a) this clause 12 and clauses 9, 10, 11, 13, 15, 16.1, 16.2, 16.3 and 16.4, and Schedule 1, shall survive termination; and
- (b) each party shall retain any rights and remedies that accrued prior to termination, including any rights and remedies in respect of any past breach of this deed or (if applicable) in respect of the breach giving rise to termination.

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## 13 Confidentiality

Each party acknowledges and agrees that:

- (a) nothing in this deed derogates from its rights and obligations, or the rights and obligations of Bidder and Aurora under the Confidentiality Deed;

- (b) the Confidentiality Deed continues to apply with full force and effect; and
- (c) any information provided under this deed is subject to the terms of the Confidentiality Deed.

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## 14 Duty, costs and expenses

### 14.1 Duty

Bidder:

- (a) must pay all duties and any related fines and penalties in respect of this deed, the performance of this deed and each transaction contemplated by this deed; and
- (b) indemnifies Aurora against any liability arising from or in connection with any failure by it to comply with clause 14.1(a).

### 14.2 Costs and expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with the negotiation, preparation, execution and performance of this deed and the proposed, attempted or actual implementation of the Transaction. The parties will equally share the costs of any filing fee required under the HSR Act.

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## 15 GST

### 15.1 Interpretation

In this clause 15, a word or expression defined in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) has the meaning given to it in that legislation.

### 15.2 GST gross up

- (a) Subject to clause 15.2(b), if a party makes a supply under or in connection with this deed in respect of which GST is payable, the consideration for the supply but for the application of this clause 15.2 (GST exclusive consideration) is increased by an amount equal to the GST exclusive consideration multiplied by the rate of GST prevailing at the time the supply is made.
- (b) Clause 15.2(a) does not apply to any consideration that is expressed in this deed to be inclusive of GST.

### 15.3 Reimbursements and indemnifications

If a party must reimburse or indemnify another party for a Loss, the amount to be reimbursed or indemnified is first reduced by any input tax credit the other party is entitled to for the Loss, and then increased in accordance with clause 15.2.

### 15.4 Tax invoice

A party need not make a payment for a taxable supply made under or in connection with this deed until it receives a tax invoice for the supply to which the payment relates.

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## 16 General

### 16.1 Notices

- (a) A notice, consent, approval, waiver or other communication sent by a party under this deed (**Notice**) must be:
- (i) in writing;
  - (ii) signed by an authorised representative of the sender; and
  - (iii) marked for the attention of the person named below,
- and must be:
- (iv) left at, or sent by prepaid ordinary post (or by airmail if posted to or from a place outside Australia) to, the party or Agent's address set out below; or
  - (v) sent by email to the address set out below.

#### **Aurora**

Attention: Graham Dowland  
Address: Level 1, 338 Barker Rd, Subiaco, WA, 6008  
Email: GDowland@auroraog.com.au

with a copy (for information purposes only) to:

npathak@gtlaw.com.au, sturner@gtlaw.com.au and  
DWasylycha@auroraog.com.au (by email)

#### **Bidder**

Attention: Murray Desrosiers  
Address: Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W.,  
Calgary, Alberta  
Email: murray.desrosiers@baytex.ab.ca

with a copy (for information purposes only) to:

jeremy.wickens@nortonrosefulbright.com (by email)

Bidder irrevocably appoints Norose Notices Australia Pty Ltd ACN 158029586 of Level 16, 'Grosvenor Place', 225 George Street, Sydney, NSW 2000 (**Agent**) as its agent for the service of process in Australia in relation to any matter arising out of this deed. Prior to Bidder or Nominee depositing the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account, if Agent ceases to be able to act as such or have an address in Australia, Bidder agrees to appoint a new process agent in Australia and to provide Aurora a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this deed and Bidder must inform Aurora in writing of any change in the address of its process agent within 20 Business Days of the change.

- (b) Subject to clause 16.1(c), a Notice is taken to be received:
    - (i) if sent by delivery, when it is delivered;
    - (ii) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or
    - (iii) if sent by email:
      - (A) when the sender receives an automated message confirming delivery; or
      - (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,
- whichever happens first.
- (c) If a Notice is received or taken to be received under clause 16.1(b):
    - (i) before 9:00am on a Business Day, it will be taken to be received at 9:00am on that Business Day; or
    - (ii) after 5:00pm on any day or on a day other than a Business Day, it will be taken to be received at 9:00am on the next Business Day.

#### **16.2 Governing law and jurisdiction**

- (a) This deed is governed by the laws of Western Australia.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and courts competent to hear appeals from those courts.

#### **16.3 No representation or reliance**

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this deed, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other person, except for any representation or inducement expressly set out in this deed.

#### **16.4 No merger**

The rights and obligations of the parties do not merge on completion of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

#### **16.5 Waivers and consents**

- (a) Failure to exercise or enforce, a delay in exercising or enforcing, or the partial exercise or enforcement of any right, power or remedy provided by law or under

this deed by any party does not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.

- (b) Any waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.
- (d) Except where this deed expressly provides otherwise, where the consent of a party is required under this deed, such consent may be given or withheld in that party's absolute discretion.

#### **16.6 Variation**

This deed may only be varied by a document signed by or on behalf of each of the parties.

#### **16.7 Assignment**

A party may not assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior written consent of the other party.

#### **16.8 Further action**

Each party will do all things and execute all further documents necessary to give full effect to this deed, at their own expense.

#### **16.9 Entire agreement**

This deed supersedes all previous agreements, understandings, negotiations or deeds (other than the Confidentiality Deed) in respect of its subject matter and embodies the entire agreement between the parties.

#### **16.10 Severability**

If the whole or any part of a provision of this deed is void, unenforceable or illegal in a jurisdiction, it is severed for that jurisdiction but only to the extent that it is void, unenforceable or illegal and provided that it will have full force and effect in any other jurisdiction. Where a provision (or any part thereof) is severed in a jurisdiction, the remainder of this deed shall have full force and effect in that (and any other) jurisdiction.

This clause 16.10 does not apply to any severance that alters the basic nature of this deed or is contrary to public policy.

#### **16.11 Counterparts**

This deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

#### **16.12 Remedies and indemnities**

The rights and remedies in this deed are in addition to other rights and remedies given by law independently of this deed. The indemnities in this deed are continuing obligations, independent from the other obligations of the parties under this deed and continue after

this deed ends. It is not necessary for a party to incur an expense or make payment before enforcing a right to an indemnity under this deed.

For the purpose of this deed Aurora is taken to be acting as agent and trustee on behalf of and for the benefit of all Aurora Indemnified Parties, and all those persons are to this extent taken to be parties to this deed.



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## Schedule 1 Dictionary

**2014 Budget** means Aurora board-approved budget for the 2014 financial year.

**Aggregate Scheme Consideration** means the amount calculated by multiplying the number of Scheme Shares by the Scheme Consideration.

**Agreed Announcements** means the announcements in relation to the Transaction (and any Financing) to be made by Aurora and Bidder following execution of this deed in accordance with clause 6, the form of which has been agreed between the parties prior to execution of this deed.

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

**associate** has the meaning given in section 12 of the Corporations Act.

**ASX** means ASX Limited (ABN 98 008 624 691) or, where the context requires, the financial market operated by it known as the "Australian Securities Exchange".

**Aurora Board** means the board of directors of Aurora.

**Aurora Director** means a director of Aurora.

**Aurora Group** means Aurora and each of its Related Bodies Corporate.

**Aurora Indemnified Party** means Aurora, a Related Body Corporate of Aurora or a director, officer, employee or adviser of a member of the Aurora Group.

**Aurora Information** means all the information in the Scheme Booklet other than the Bidder Information and Independent Expert's Report.

**Aurora Notes** means Aurora's US\$365,000,000 aggregate principal amount 9.875% senior notes due 2017 and the US\$300,000,000 aggregate principal amount 7.50% senior notes due 2020.

**Aurora RCF** means the US\$300,000,000 revolving credit facility established under the Credit Agreement among Aurora US as borrower, Aurora, UBS AG, Stamford Branch, as administrative agent and others.

**Aurora Representations and Warranties** means the representations and warranties set out in clause 10.2.

**Aurora Reserves Report** means the independent engineering report dated 31 January 2014 and effective 31 December 2013 prepared by Ryder Scott Company, L.P. evaluating the oil, NGL and natural gas reserves attributable to the properties of Aurora.

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

**Aurora Shareholder** means a holder of one or more Aurora Shares, as shown in the register of members maintained by (or on behalf of) Aurora in accordance with the Corporations Act.

**Aurora US** means Aurora USA Oil & Gas, Inc.

**Bidder Group** means Bidder and each of its Related Bodies Corporate.

**Bidder Indemnified Party** means a Related Body Corporate of Bidder or a director, officer, employee or adviser of a member of the Bidder Group.

**Bidder Information** means information regarding the Bidder Group provided by Bidder to Aurora in writing for inclusion in the Scheme Booklet, which must include information in relation to Bidder, the funding of the Scheme Consideration and Bidder's intentions in relation to the Aurora Group and its business (including the Aurora Group's employees and assets), and includes any information contained in the Scheme Booklet that is solely based on any information so provided by Bidder.

**Bidder Insolvency Event** means:

- (a) Bidder resolving that it be wound up or the making of an application or order for the winding up or dissolution of Bidder other than where the application or order (as the case may be) is set aside within 14 days;
- (b) a liquidator or provisional liquidator of Bidder being appointed;
- (c) a court making an order for the winding up of Bidder;
- (d) an administrator of Bidder being appointed under the Corporations Act;
- (e) Bidder is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act unless that company has, or has access to, committed financial support from its parent entity such that it is able to pay its debts;
- (f) Bidder executing a deed of company arrangement;
- (g) a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of Bidder;
- (h) Bidder being deregistered as a company or otherwise dissolved; or
- (i) anything having a substantially similar effect to any event or circumstance referred to in subparagraphs (a) to (h) above happens in respect of Bidder under the law of any jurisdiction.

**Bidder Representations and Warranties** means the representations and warranties set out in clause 10.1.

**Break Fee** means \$18.8 million.

**Business Day** has the meaning given in the Listing Rules.

**Claim** means a demand, claim, action or proceeding, however arising and whether present, unascertained, immediate, future or contingent, including any claim for specific performance.

**Competing Proposal** means any proposed or potential transaction or arrangement (including any takeover bid, scheme of arrangement, share or asset sale, capital reduction or buy back, joint venture or dual listed company structure) under which a Third Party would, if completed:

- (a) directly or indirectly acquire Control of, or merge with, Aurora;

- (b) directly or indirectly acquire or obtain an economic interest in 50% or more of the fair market of the assets or business of Aurora and its Related Bodies Corporate as a whole;
- (c) directly or indirectly acquire a Relevant Interest in, become the holder of or obtain an economic interest in 50% or more of the Aurora Shares;
- (d) directly or indirectly acquire or obtain an economic interest in a material part of the business of Aurora and its Subsidiaries as a whole;
- (e) otherwise acquire or merge with Aurora through a takeover bid, scheme of arrangement, amalgamation, merger, capital reconstruction, consolidation, purchase of main undertaking or other business combination; or
- (f) be issued 50% of the shares or other securities in Aurora (on a fully diluted basis) as consideration for cash or the assets or securities of another person.

**condition precedent** means a condition set out in clause 3.1.

**Confidentiality Deed** means the confidentiality agreement between Bidder and Aurora dated 26 November 2013.

**Control** has the meaning given in section 50AA of the Corporations Act.

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

**Corporations Regulations** means the *Corporations Regulations 2001* (Cth).

**Court** means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Aurora and Bidder.

**Court Documents** means the documents which Aurora determines (acting reasonably) are required for the purposes of a Court Hearing, which may include originating process, affidavits, submissions and draft minutes of Court orders.

**Court Hearing** means the First Court Hearing or Second Court Hearing (as applicable), and **Court Hearings** means both of them.

**Deed Poll** means the deed poll to be entered into by Bidder and Nominee pursuant to clauses 4.3(b) and 5.2(h), under which Bidder and Nominee covenant in favour of Scheme Shareholders to provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme, in the form of Attachment C.

**Disclosure Materials** means:

- (a) the documents and information contained in the Aurora Firmex online data room and Scotia online data rooms and made available to Bidder, its shareholders and their respective Representatives in physical or electronic form; and
- (b) the written answers to requests for further information made by Bidder, its shareholders and their respective Representatives including via electronic mail.

**Effective** means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means 30 June 2014 or such later date as agreed by Aurora and Bidder.

**Equity Closing** means the closing of the equity raising under the Underwriting Agreement dated on or about the date of this deed.

**Excluded Shareholder** means the Bidder and any Aurora Shareholder who is an associate of Bidder.

**Exclusivity Period** means the period from 9:00am on the date of execution of this deed to the earlier of:

- (a) the valid termination of this deed under clause 12; and
- (b) the End Date.

**Fairly Disclosed** means any information disclosed by Aurora to Bidder which made, or which could reasonably be expected to have made Bidder (acting reasonably) aware of the nature of the matter concerned and the fact it may have financial, operational or other consequences to Aurora.

**Finance Document** means the commitment letter from Bank of Nova Scotia to Bidder dated on or about the date of this deed.

**Financial Statements** means:

- (a) the audited annual consolidated financial statements of Aurora for the financial year ended 31 December 2012, together with the notes thereto and auditor's report thereon; and
- (b) the unaudited interim consolidated financial statements of Aurora for the interim period ended 30 September 2013 together with the notes thereto.

**Financing** means the secured credit facility to be arranged by the Bank of Nova Scotia pursuant to the Finance Document (or the formal secured credit facility agreements) and Bidder's underwritten equity raising pursuant to the Underwriting Agreement.

**First Court Date** means the first day on which an application made to the Court for an order under section 411(1) of the Corporations Act directing Aurora to convene the Scheme Meeting is heard, with such hearing being the **First Court Hearing**.

**Government Agency** means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian.

**GST exclusive consideration** has the meaning given in clause 15.2(a).

**Headcount Test** means the requirement under section 411(4)(a)(ii)(A) of the Corporations Act that the resolution is passed at the Scheme Meeting by a majority in number of Aurora Shareholders present and voting, either in person or by proxy.

**HSR Act** means Hart-Scott-Rodino Antitrust Improvements Act of 1976 (U.S.), as amended.

**IFRS** means International Financial Reporting Standards.

**Implementation Date** means the fifth Business Day after the Scheme Record Date or such other day as the parties agree in writing.

**Independent Expert** means the independent expert to be appointed by Aurora to prepare the Independent Expert's Report in accordance with clause 5.1(a).

**Independent Expert's Report** means the report to be prepared and issued by the Independent Expert in connection with the Scheme for inclusion in the Scheme Booklet.

**Laws** means all laws, statutes, regulations, by-laws, statutory rules, orders, ordinances, protocols, codes, guidelines, notices, directions (including all applicable Australian, Canadian and US securities laws), and terms and conditions of any grant of approval, permission, authority or license of any court, Governmental Agency, statutory body or self-regulatory authority (including the ASX, TSX and the NYSE, as applicable).

**Listing Rules** means the official listing rules of ASX.

**Loss** means all claims, demands, damages, losses, costs, expenses and liabilities.

**Material Adverse Change** means one or more changes, events, occurrences or matters which (whether individually or when aggregated with all such changes, events, occurrences or matters of a like kind) has had or is reasonably likely to have a material adverse effect on the business, liabilities, assets, financial or trading position of the Aurora Group, taken as a whole, other than changes, events, occurrences or matters:

- (a) required or expressly permitted by this deed or the Scheme;
- (b) Fairly Disclosed in the Disclosure Materials or in any announcement to or filing with ASX, TSX, SEDAR or ASIC prior to the date of this deed;
- (c) consented to in writing by Bidder; or
- (d) arising from:
  - (i) changes in commodity prices, exchange rates or interest rates;
  - (ii) general economic, political or business conditions in Australia, Canada, the United States or elsewhere, including material adverse changes or major disruptions to, or fluctuations in, domestic or international financial markets, and acts of terrorism, war (whether or not declared), natural disaster or the like; or
  - (iii) changes to accounting standards, laws or policies of a Government Agency in Australia, Canada, the United States or elsewhere; or
- (e) which comprise a change in the market trading price of Aurora Shares, either: (i) related to this deed and the Scheme or the announcement thereof; or (ii) related to such a change in the market trading price primarily resulting from a change, effect, event or occurrence excluded from this definition of Material Adverse Change.

**Material Adverse Effect** means any effect on or change in either the Aurora Group, or the business of the Aurora Group taken as a whole, that is or is reasonably likely to be materially adverse to the results of operations or the business, financial condition, assets or liabilities of the Aurora Group taken as a whole.

**Material Subsidiaries** means the Subsidiaries of Aurora the assets of which constitute more than 10% of the consolidated assets of Aurora as at 30 September 2013 or the total

revenues of which constitute more than 10% of the consolidated revenues of Aurora for the year ended 30 September 2013.

**Nominee** has the meaning given to it in clause 4.3.

**Notice** has the meaning given in clause 16.1(a).

**Options** means the options set out in Schedule 3.

**Performance Rights** means the performance rights set out in Schedule 3.

**Permitted Lien** means those liens permitted by section 9.03 of the credit agreement governing the Aurora RCF, as in effect on the date hereof, and:

- (a) liens for taxes, assessments or other governmental charges or levies;
- (b) liens in connection with workers' compensation, unemployment insurance or other social security, old age pension or public liability obligations;
- (c) statutory landlord's liens, operators', vendors', carriers', warehousemen's, repairmen's, mechanics', suppliers', workers', materialmen's, construction or other like liens arising by operation of law in the ordinary course of business or incident to the exploration, development, operation and maintenance of oil and gas properties; or
- (d) contractual liens which arise in the ordinary course of business under real property leases, operating agreements, joint venture agreements, oil and gas partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale, transportation or exchange of oil and natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements, overriding royalty agreements, marketing agreements, processing agreements, net profit agreements, development agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or other geophysical permits or agreements, and other agreements which are usual and customary in the oil and gas business and are for claims,

which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained, provided that any such lien referred to in this clause does not materially impair the use of the property covered by such lien for the purposes for which such property is held by a member of the Aurora Group or materially impair the value of such property subject thereto;

- (e) liens relating to banker's liens, rights of set-off or similar rights and remedies and burdening only deposit accounts or other funds maintained with a creditor depository institution, provided that no such deposit account is a dedicated cash collateral account or is subject to restrictions against access by the depositor in excess of those set forth by regulations promulgated by Aurora and no such deposit account is intended by a member of the Aurora Group to provide collateral to the depository institution;
- (f) easements, restrictions, servitudes, permits, conditions, covenants, exceptions or reservations in any property of Aurora Group that do not secure any monetary obligations;
- (g) liens on cash or securities pledged to secure performance of tenders, surety and appeal bonds, government contracts, performance and return of money bonds,

bids, trade contracts, leases, statutory obligations, regulatory obligations and other obligations of a like nature incurred in the ordinary course of business;

- (h) liens arising from precautionary financing statement filings; and
- (i) judgment and attachment liens provided that any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired and no action to enforce such Lien has been commenced; provided, further that liens described in clauses (a) through (e) shall remain "Permitted Liens" only for so long as no action to enforce such lien has been commenced (and not stayed).

**Prescribed Occurrence** means the occurrence of any of the following:

- (a) Aurora converting all or any of its shares into a larger or smaller number of shares;
- (b) Aurora resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;
- (c) Aurora:
  - (i) entering into a buy-back agreement; or
  - (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;
- (d) a member of the Aurora Group issuing awards, shares, securities convertible into shares (including performance rights) or debt securities or granting an option over its shares, or agreeing to make such an award, issue or grant such an option other than:
  - (i) pursuant to allocations under the Aurora Long Term Incentive Plan reflected in the Schedules and the Aurora 2014 awards and bonuses disclosed to Bidder before execution of this deed; or
  - (ii) the issue of shares upon exercise of an Option or Performance Right;
- (e) Aurora paying any distribution to holders of Aurora Shares;
- (f) one or more members of the Aurora Group disposing, or agreeing to dispose, of any asset of the Aurora Group other than disposals of petroleum in the ordinary course or for less than \$2 million;
- (g) one or more members of the Aurora Group creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over any asset of the Aurora Group with a value of more than \$2 million, other than a Permitted Lien or a lien which arises by operation of law or legislation;
- (h) one or more members of the Aurora Group raising or borrowing any new financial indebtedness (for the avoidance of doubt, new financial indebtedness does not include Aurora drawing down under the Aurora RCF, any increase of borrowing base as a result of the annual borrowing base redetermination process under the Aurora RCF or credit extended by trade creditors in the ordinary course of business) or establishing any new debt facilities;

- (i) a member of the Aurora Group (other than Aurora Oil & Gas (Ontario) Limited) altering its constitution or constituent documents;
- (j) a member of the Aurora Group (other than Aurora Oil & Gas (Ontario) Limited) resolving that it be wound up or the making of an application or order for the winding up or dissolution of that company other than where the application or order (as the case may be) is set aside within 14 days;
- (k) a liquidator or provisional liquidator of a member of the Aurora Group being appointed;
- (l) a court making an order for the winding up of a member of the Aurora Group;
- (m) an administrator of a member of the Aurora Group being appointed under the Corporations Act;
- (n) a member of the Aurora Group is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act unless that company has, or has access to, committed financial support from its parent entity such that it is able to pay its debts;
- (o) a member of the Aurora Group executing a deed of company arrangement;
- (p) a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of a member of the Aurora Group; or
- (q) Aurora or any of its operating subsidiaries being deregistered as a company or otherwise dissolved except in the case of a company with less than \$10,000 in net assets as at the date of this deed,

but does not include any matter:

- (r) relating to vesting or exercise of Options or Performance Rights;
- (s) required or expressly permitted by this deed or the Scheme;
- (t) agreed to in writing by Bidder; or
- (u) Fairly Disclosed in the Disclosure Materials or in an announcement to or filing with ASX, TSX, SEDAR or ASIC before the date of this deed.

**prohibited action** has the meaning given in clause 8.4.

**Public Record** means all information filed by Aurora with ASX and the Securities Commissions in compliance, or intended compliance, with any applicable securities laws.

**Recommendation** has the meaning given in clause 7.2(a).

**Regulator's Draft** has the meaning given in clause 5.1(c)(i).

**Related Body Corporate** has the meaning given in section 50 of the Corporations Act.

**Relevant Interest** has the meaning given in sections 608 and 609 of the Corporations Act.



**Representation and Warranty** means a Bidder Representation and Warranty or an Aurora Representation and Warranty (as applicable).

**Representative** means, in respect of a party, an employee, agent, officer, director, adviser or financier of that party (or a Related Body Corporate of that party), and, in the case of advisers and financiers, includes employees, officers and agents of the adviser or financier (as applicable).

**RG 60** means Regulatory Guide 60 issued by ASIC and dated September 2011.

**Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between Aurora and the Scheme Shareholders, in the form of Attachment B, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.

**Scheme Booklet** means the explanatory statement in respect of the Scheme to be prepared by Aurora pursuant to section 412 of the Corporations Act and in accordance with clause 5.1(b), and to be despatch to Aurora Shareholders in accordance with clause 5.1(g), which shall contain the Independent Expert's Report (or a concise version of that report), a notice of meeting in respect of the Scheme Meeting and a proxy form.

**Scheme Consideration** means, in respect of each Scheme Share, \$4.10.

**Scheme Meeting** means the meeting of Aurora Shareholders (other than Excluded Shareholders) ordered by the Court to be convened at the First Court Hearing.

**Scheme Record Date** means 7:00pm on the fifth Business Day after the Effective Date.

**Scheme Share** means an Aurora Share held by a Scheme Shareholder as at the Scheme Record Date.

**Scheme Shareholder** means an Aurora Shareholder (other than an Excluded Shareholder) as at the Scheme Record Date.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, with such hearing being the **Second Court Hearing**.

**Securities Commissions** means ASIC and the Canadian securities regulatory authorities.

**SEDAR** means the system for electronic document analysis and retrieval in use in Canada.

**Share Splitting** means an Aurora Shareholder splitting its holding of Aurora Shares into two or more parcels, or a number of affiliated persons acquiring a number of parcels in different names or other manipulative conduct with the purpose of artificially increasing the number of shareholders in Aurora.

**Subsidiary** has the meaning given to that term in the Corporations Act.

**Superior Proposal** means a bona fide Competing Proposal that the Aurora Board determines, acting in good faith and having obtained written advice from its legal and financial advisers:

- (a) is reasonably capable of being implemented taking into account all aspects of the Competing Proposal, including its proponent(s), conditionality, structure and financing; and
- (b) would, if completed in accordance with its terms, produce an outcome for Aurora Shareholders (other than Excluded Shareholders) that is superior to the outcome that would be produced by the Scheme.

**Swaps** means any transaction which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, forward sale, exchange traded futures contract, hedging agreement or any other similar transaction (including any option with respect to any of these transactions or any combination of these transactions).

**Third Party** means a person other than Bidder and its associates.

**Timetable** means the indicative timetable for the implementation of the Transaction set out in Attachment A.

**Transaction** means the acquisition of Aurora by Bidder by means of the Scheme.

**Trust Account** means an Australian dollar denominated trust account operated by Aurora, details of which must be notified to Bidder no later than 5 Business Days before the Implementation Date.

**TSX** means Toronto Stock Exchange or, where the context requires, the financial market operated by it.

**Underwriting Agreement** means the agreement between Bidder and Scotia Capital Inc. dated on or about the date of this deed, in the form disclosed to Aurora before the date of this deed, to be superseded by an underwriting agreement between Bidder, Scotia Capital Inc. and a syndicate of underwriters proposed to be entered into on or about the day after the date of this deed and identical in all material respects to the form disclosed to Aurora before the date of this deed.

**Unlisted Securities** has the meaning given in clause 4.4.

**Voting Intention** has the meaning given in clause 7.2(a).

---

## 2 Interpretation

In this deed, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this deed.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.

- (e) The words "include", "including", "such as", "to avoid doubt" and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
  - (i) a person includes a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
  - (ii) a thing (including a chose in action or other right) includes a part of that thing;
  - (iii) a party includes its successors and permitted assigns;
  - (iv) a document includes all amendments or supplements to that document;
  - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this deed (as applicable);
  - (vi) this deed includes all schedules and attachments to it;
  - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
  - (viii) an agreement (other than this deed) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
  - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends;
  - (x) a monetary amount is in Australian dollars; and
  - (xi) time is a reference to Perth, Australia time.
- (g) An agreement on the part of two or more persons binds them jointly and severally.
- (h) When the day on which something must be done is not a Business Day, that thing must be done on the following Business Day.
- (i) In determining the time of day, where relevant to this deed, the time of day is:
  - (i) for the purposes of giving or receiving Notice, the time of day where the party receiving Notice is located; or
  - (ii) for any other purpose under this deed, the time of day in the place where the party required to perform an obligation is located.
- (j) No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of this deed or any part of it.

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## Schedule 2 Capital structure

Security/award	Total number on issue/amount
Aurora Shares	448,785,778
Options	7,150,000
Maximum Performance Rights that will vest	2,348,808
Minimum Performance Rights awards to lapse if Scheme proceeds	246,235
Awards, transaction and retention bonuses	Up to AUD 1,800,000, CAD 175,000 and USD 1,200,000



### Schedule 3 Options and Performance Rights

Performance Rights		
2,348,808		
Options		
Expiry	Number	Exercise price
9/11/2015	150,000	\$1.60
9/11/2015	150,000	\$1.85
9/11/2015	150,000	\$2.10
9/11/2015	350,000	\$1.60
9/11/2015	350,000	\$1.85
9/11/2015	350,000	\$2.10
9/11/2015	250,000	\$1.60
9/11/2015	250,000	\$1.85
9/11/2015	250,000	\$2.10
30/05/2016	250,000	\$3.28
30/05/2016	250,000	\$3.58
30/05/2016	250,000	\$3.28
30/05/2016	250,000	\$3.58
30/05/2016	250,000	\$3.28
30/05/2016	250,000	\$3.58
30/09/2017	350,000	\$4.45
30/09/2016	350,000	\$4.10
30/09/2015	300,000	\$3.76
30/04/2015	250,000	\$3.00
30/04/2016	250,000	\$3.50
30/04/2017	250,000	\$4.00
19/10/2016	250,000	\$4.00
19/10/2017	250,000	\$4.50
19/10/2018	250,000	\$5.00
15/05/2017	100,000	\$3.24
15/05/2018	100,000	\$3.47
15/05/2019	100,000	\$3.85
15/05/2020	100,000	\$4.24
16/10/2018	250,000	\$3.64
16/10/2018	250,000	\$3.97

---

**Execution page**

Executed as a deed:

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Signed, sealed and delivered by **Baytex Energy Corp.** by its authorised representatives:

  
James L. Bowzer – President and Chief Executive Officer

  
Murray J. Desrosiers – Vice President, General Counsel and Corporate Secretary

---

Signed, sealed and delivered by **Aurora Oil & Gas Limited** by:

---

Signature of director

---

Signature of director/secretary

---

Name of director (print)

---

Name of director/secretary (print)



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**Execution page**

Executed as a deed:

---

Signed, sealed and delivered by **Baytex Energy Corp.** by its authorised representatives:

---

James L. Bowzer – President and Chief Executive Officer

---

Murray J. Desrosiers – Vice President, General Counsel and Corporate Secretary

---

Signed, sealed and delivered by **Aurora Oil & Gas Limited** by:

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Signature of director

JONATHAN K. STEWART

Name of director (print)

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Signature of director/secretary

GRAHAM R. DOWLAND

Name of director/secretary (print)

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## Attachment A - Timetable

Event	Target date
Release of Agreed Announcements	6 February 2014
Regulator's Draft provided to ASIC	March 2014
First Court Hearing	End March/early April 2014
Scheme Meeting	End April/early May 2014
Second Court Hearing	Early May 2014
Effective Date	Early May 2014
Scheme Record Date	Mid May 2014
Implementation Date	Mid/late May 2014



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**Attachment B - Scheme**



LAWYERS

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## Scheme of arrangement

Aurora Oil & Gas Limited

Each person registered as a holder of fully paid ordinary shares in Target as at the Scheme Record Date (other than Excluded Shareholders)

+ SYDNEY + MELBOURNE + PERTH

[www.gtlaw.com.au](http://www.gtlaw.com.au)



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Date:

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## Parties

- 1 **Aurora Oil & Gas Limited ABN 90 008 787 988** of Level 1 338 Barker Road, Subiaco, Western Australia 6008 (**Target**)
- 2 Each person registered as a holder of fully paid ordinary shares in Target as at the Scheme Record Date (other than Excluded Shareholders) (**Scheme Shareholders**)

### The parties agree

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## 1 Defined terms and interpretation

### 1.1 Defined terms

A term or expression starting with a capital letter which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

### 1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this deed.

---

## 2 Preliminary matters

- (a) Target is an Australian public company limited by shares, and has been admitted to the official list of ASX and TSX. Target Shares are quoted for trading on the ASX and TSX.
- (b) As at [●], there were [●] Target Shares, [●] Target options and [●] Target performance rights on issue.
- (c) Bidder is a listed Canadian company. Pursuant to clause 4.3 of the Implementation Deed, Bidder has nominated Nominee to pay the Scheme Consideration and to be the entity to which Scheme Shares will be transferred in accordance with the Implementation Deed and this Scheme if this Scheme becomes Effective.
- (d) Nominee is an unlisted Australian proprietary company.
- (e) If this Scheme becomes Effective:
  - (i) Nominee will provide, and Bidder will procure that Nominee provides, the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and the Deed Poll; and
  - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to Nominee and Target will enter the name of Nominee in the Share Register in respect of all the Scheme Shares.
- (f) Bidder and Target have entered into the Implementation Deed in respect of (among other things) the implementation of this Scheme.

- (g) This Scheme attributes actions to Nominee and Bidder but does not itself impose any obligations on either of them to perform those actions. By executing the Deed Poll, Bidder and Nominee have agreed to perform the actions attributed to them under this Scheme. By executing the Deed Poll, Bidder agrees to procure that Nominee performs its obligations under the Deed Poll, including payment of the Scheme Consideration in accordance with the terms of this Scheme.

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## 3 Conditions

### 3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until and unless the following conditions precedent are satisfied:

- (a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in clause 3.1(c) of the Implementation Deed relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Deed by 8:00am on the Second Court Date;
- (b) neither the Implementation Deed nor the Deed Poll is terminated in accordance with their terms before 8.00am on the Second Court Date;
- (c) this Scheme is approved by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to Target and Bidder;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme as are acceptable to Target and Bidder are satisfied; and
- (e) the order of the Court made under section 411(4)(b) of the Corporations Act approving this Scheme comes into effect pursuant to section 411(10) of the Corporations Act.

### 3.2 Certificates

- (a) Each of Target and Bidder will provide a certificate to the Court at the Second Court Hearing confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.
- (b) The certificates given by the Target and Bidder constitute conclusive evidence that the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

---

## 4 Implementation of this Scheme

### 4.1 Lodgement of Court orders with ASIC

For the purposes of section 411(10) of the Corporations Act, Target will lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme before 5:00pm on the Business Day following the day on which such office copy is received by Target or such later date as Target and Bidder agree in writing.

## 4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5.2, the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date, will be transferred to Nominee, without the need for any further act by any Scheme Shareholder (other than acts performed by Target as attorney and agent for Scheme Shareholders under clause 8.5), by:
  - (i) Target duly completing and executing the Scheme Transfer (as transferor) and delivering it to Nominee; and
  - (ii) Nominee duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to Target for registration; and
- (b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a), Target must enter, or procure the entry of, the name of Nominee in the Share Register in respect of all the Scheme Shares.

---

## 5 Scheme Consideration

### 5.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, each Scheme Shareholder will be entitled to \$4.10 for each Scheme Share.

### 5.2 Provision of Scheme Consideration

- (a) Nominee will provide the Scheme Consideration by depositing in cleared funds an amount equal to the Aggregate Cash Consideration into the Trust Account before 5pm on the day before the Implementation Date (provided that any interest on the amount so deposited (less bank fees and other charges) (**Accrued Interest**) will accrue for the benefit of Bidder).
- (b) Subject to Nominee having complied with clause 5.2(a), Target must, on the Implementation Date and from the Trust Account, pay to each Scheme Shareholder the proportion of the Aggregate Cash Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date, which obligation will be satisfied by Target:
  - (i) where a Scheme Shareholder has, before the Scheme Record Date, made an election in accordance with the requirements of the Share Registry to receive dividend payments from Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
  - (ii) whether or not a Scheme Shareholder has made an election referred to in clause 5.2(b)(i), dispatching, or procuring the dispatch of, a cheque in Australian currency for the relevant amount to the Scheme Shareholder by prepaid post to their Registered Address, such cheque being drawn in the

name of the Scheme Shareholder (or in the case of joint holders, in accordance with clause 5.3).

- (c) In the event that:
- (i) a Scheme Shareholder does not have a Registered Address; or
  - (ii) Target as the trustee for the Scheme Shareholders believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,

and no account has been notified in accordance with clause 5.2(b)(i) or a deposit into such an account is rejected or refunded, Target as the trustee for the Scheme Shareholders may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of Target to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with the Corporations Act.

Target must hold the amount on trust for the relevant Scheme Shareholder, but any benefit accruing from the amount will be to the benefit of Bidder. An amount credited to the account is to be treated as having been paid to the Scheme Shareholder when credited to the account. Target must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (d) To the extent that there is a surplus in the amount held by Target as the trustee for the Scheme Shareholders in the Trust Account, that surplus may be paid by Target as the trustee for the Scheme Shareholders to Bidder following the satisfaction of Target as the trustee for the Scheme Shareholders' obligations under this clause 5.2.
- (e) Target must pay any Accrued Interest to any account nominated by Bidder following satisfaction of Target's obligations under clause 5.2(b) (and, in any event, on the Implementation Date).

### 5.3 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Share Register as at the Scheme Record Date; and
- (b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the Share Register as at the Scheme Record Date.

### 5.4 Unclaimed monies

- (a) Target and Bidder may cancel a cheque issued under this clause 5 if the cheque:
  - (i) is returned to them; or
  - (ii) has not been presented for payment within six months after the date on which the cheque was sent.

- (b) During the period of one year commencing on the Implementation Date, on request from a Scheme Shareholder, a cheque that was previously cancelled under clause 5.4(a) must be reissued.

#### **5.5 Orders of a court**

If written notice is given to Target (or the Share Registry) of an order made by a court of competent jurisdiction that:

- (a) requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which sum would otherwise be payable to that Scheme Shareholder by Target in accordance with this clause 5, then Target will be entitled to make that payment (or procure that it is made) in accordance with that order; or
- (b) prevents Target from making a payment to a particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, Target will be entitled to retain an amount, in Australian dollars, equal to the amount of the relevant payment until such time as payment in accordance with this clause 5 is permitted by that order or otherwise by law.

---

## **6 Dealings in Target Shares**

### **6.1 Determination of Scheme Shareholders**

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Target Shares at or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the Share Register is kept,

and Target will not accept for registration, nor recognise for any purpose (except a transfer to Nominee pursuant to this Scheme and any subsequent transfer by Nominee or its successors in title), any transfer or transmission application or other request received after the Scheme Record Date or received prior to the Scheme Record Date but not in registrable or actionable form.

### **6.2 Share Register**

- (a) Target must register registrable transmission applications or transfers of Target Shares in accordance with clause 6.1(b) at or before the Scheme Record Date, provided that nothing in this clause 6.2(a) requires Target to register a transfer that would result in a Target Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (as defined in the operating rules of ASX or TSX, as relevant).
- (b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no

effect and Target will be entitled to disregard any such disposal, purported disposal or agreement.

- (c) For the purpose of determining entitlements to the Scheme Consideration, Target must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been provided to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) All statements of holding for Target Shares (other than statements of holding in favour of Bidder or any Excluded Shareholder) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Share Register (other than entries in respect of Nominee or any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Target Shares relating to that entry.
- (e) As soon as possible after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Target Shares for each Scheme Shareholder as shown in the Share Register as at the Scheme Record Date are available to Nominee in the form Nominee reasonably requires.

---

## 7 Quotation of Target Shares

- (a) Target will apply to ASX and TSX to suspend trading in Target Shares with effect from the close of trading on the Effective Date.
- (b) Target will apply:
  - (i) for termination of the official quotation of Target Shares on the ASX;
  - (ii) to have itself removed from the official list of ASX; and
  - (iii) to delist the Target Shares from the TSX;in the case of (i) and (ii) with effect on and from the close of trading on the trading day immediately following the Implementation Date, and in the case of (iii) as promptly as practicable following the Effective Date.

---

## 8 General Scheme provisions

### 8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Target may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions which counsel for Target has consented to.

### 8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:

- (i) agrees to the transfer of their Target Shares together with all rights and entitlements attaching to those shares in accordance with this Scheme;
  - (ii) agrees to the variation, cancellation or modification of the rights attached to their Target Shares constituted by or resulting from this Scheme; and
  - (iii) acknowledges that this Scheme binds Target and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting).
- (b) Each Scheme Shareholder is taken to have warranted to Nominee, and appointed and authorised Target as its attorney and agent to warrant to Nominee, that:
- (i) all their Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all:
    - (A) mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise; and
    - (B) restrictions on transfer of any kind; and
  - (ii) they have full power and capacity to transfer their Scheme Shares to Nominee together with any rights attaching to those shares.

### 8.3 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) Upon the Scheme becoming Effective, Nominee will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by Target of Nominee in the Share Register as the holder of the Scheme Shares.

### 8.4 Appointment of sole proxy

Upon the Scheme becoming Effective and until Target registers Nominee as the holder of all Scheme Shares in the Share Register:

- (a) each Scheme Shareholder is deemed to have appointed Nominee as attorney and agent (and directed Nominee in each such capacity) to appoint any director, officer, secretary or agent nominated by Nominee as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) no Scheme Shareholder may itself attend or vote at any shareholders' meetings or sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));
- (c) each Scheme Shareholder must take all other actions in the capacity of a registered holder of Scheme Shares as Nominee reasonably directs; and

- (d) each Scheme Shareholder acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), Bidder and any director, officer, secretary or agent nominated by Nominee under that clause may act in the best interests of Nominee as the intended registered holder of the Scheme Shares.

#### **8.5 Authority given to Target**

On the Effective Date, each Scheme Shareholder, without the need for any further act, irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- (a) enforcing the Deed Poll against Nominee and Bidder; and
- (b) executing any document, or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including executing the Scheme Transfer,

and Target accepts such appointment. Target, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

#### **8.6 Binding effect of this Scheme**

This Scheme binds Target and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target.

---

## **9 General**

### **9.1 Stamp duty**

Nominee will, and Bidder will procure that Nominee does:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nominee pursuant to this Scheme, this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

### **9.2 Consent**

Each Scheme Shareholder consents to Target doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it.

### **9.3 Notices**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the Share Registry.

- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

#### **9.4 Governing law and jurisdiction**

- (a) This Scheme is governed by the laws in force in Western Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts competent to determine appeals from those courts in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

#### **9.5 Further action**

Target must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

#### **9.6 No liability when acting in good faith**

None of Nominee, Target, Bidder, or any of their respective directors, officers or secretaries, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

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## Schedule 1 — Dictionary

---

### 1 Dictionary

**Accrued Interest** has the meaning given in clause 5.2(a).

**Aggregate Cash Consideration** means the amount calculated by multiplying the number of Scheme Shares by the Scheme Consideration.

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

**ASX** means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by it known as the "Australian Securities Exchange".

**Bidder** means Baytex Energy Corp..

**Business Day** has the meaning given in the Listing Rules.

**CHESS** means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited and ASX Clear Pty Limited.

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

**Court** means the Federal Court of Australia.

**Deed Poll** means the deed poll dated [●] under which:

- (a) Nominee covenants in favour of each Scheme Shareholder to perform its obligations under the Scheme; and
- (b) Bidder agrees to procure that Nominee performs its obligations under the Deed Poll, including payment of the Scheme Consideration in accordance with the Scheme.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

**Effective Date** means the date on which this Scheme becomes Effective.

**End Date** means 30 June 2014 or such later date as Bidder and Target agree in writing.

**Excluded Shareholders** means, collectively, Bidder and its associates, each of them being an **Excluded Shareholder**.

**Government Agency** means any government or any governmental, statutory or judicial entity or authority, or any minister, department, office or delegate of any government, whether in Australia or elsewhere. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC), and any stock exchange (including the ASX and TSX).

**Implementation Deed** means the scheme implementation deed dated [●] February 2014 between Bidder and Target relating to (among other things) the implementation of this Scheme.

**Implementation Date** means the fifth Business Day after the Scheme Record Date or such other date as the parties to the Implementation Deed agree in writing.

**Listing Rules** means the official listing rules of ASX.

**Nominee** means **[insert]**.

**Registered Address** means, in relation to a Target Shareholder, the address shown in the Share Register as at the Scheme Record Date.

**Scheme** means this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Bidder and Target.

**Scheme Consideration** means, in respect of each Scheme Share \$4.10.

**Scheme Meeting** means the meeting of Target Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act.

**Scheme Record Date** means 7:00pm on the fifth Business Day after the Effective Date.

**Scheme Share** means a Target Share held by a Scheme Shareholder as at the Scheme Record Date.

**Scheme Shareholder** means a Target Shareholder (other than an Excluded Shareholder) as at the Scheme Record Date.

**Scheme Transfer** means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be or include a master transfer of all or part of the Scheme Shares.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard, with such hearing being the **Second Court Hearing**.

**Share Register** means the register of Target Shareholders maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited ABN 48 078 279 277.

**Target Share** means fully paid ordinary shares in the capital of Target.

**Target Shareholder** means a holder of one or more Target Shares, as shown in the Share Register.

**Trust Account** means an Australian dollar denominated trust account which attracts interest at a commercial rate and is operated by Target as trustee for the Scheme Shareholders, details of which Target must notify to Bidder no later than 5 Business Days before the Implementation Date. To avoid doubt, any Accrued Interest on funds in the Trust Account will not be held by Target on trust for the Scheme Shareholders but rather will be held by Target on trust for Bidder.

**TSX** means the Toronto Stock Exchange.

---

## 2 Interpretation

In this Scheme, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this Scheme.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words "include", "including" and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
  - (i) a person includes a natural person, estate of a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
  - (ii) a thing (including a chose in action or other right) includes a part of that thing;
  - (iii) a party includes its successors and permitted assigns;
  - (iv) a document includes all amendments or supplements to that document;
  - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this Scheme (as applicable);
  - (vi) this Scheme includes all schedules to it;
  - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
  - (viii) an agreement (other than this Scheme) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
  - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and
  - (x) a monetary amount is in Australian dollars.

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**Attachment C - Deed Poll**



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Date: \_\_\_\_\_

## Parties

- 1 [insert Nominee's full name, company number and address] (**Nominee**)
- 2 **Baytex Energy Corp.** of Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta (**Bidder**)
- 3 In favour of each person registered as a holder of fully paid ordinary shares in Target as at the Scheme Record Date (other than Excluded Shareholders) (**Scheme Shareholders**)

## Background

- A Bidder and Target have entered into the Implementation Deed, under which Bidder nominated Nominee to pay the Scheme Consideration and acquire all Scheme Shares held by Scheme Participants under the Scheme, and agreed to procure that Nominee entered into this deed poll.
- B Bidder and Nominee are entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to procure and undertake the actions attributed to Bidder under the Scheme.

### The parties agree

## 1 Defined terms and interpretation

### 1.1 Defined terms

Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

### 1.2 Interpretation

Clause 2 of Schedule 1 of the Scheme applies to the interpretation of this deed poll, except that references to 'Scheme' are to be read as references to 'deed poll'.

### 1.3 Nature of deed poll

Bidder and Nominee acknowledge and agree that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Bidder and Nominee.

---

## 2 Conditions

### 2.1 Conditions

The obligations of Bidder and Nominee under this deed poll are subject to the Scheme becoming Effective.

### 2.2 Termination

The obligations of Bidder and Nominee under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective by the End Date.

### 2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other available rights, powers or remedies:

- (a) Bidder and Nominee are released from their obligations to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against Bidder and Nominee in respect of any breach of this deed poll which occurs before it was terminated.

---

## 3 Scheme obligations

Subject to clause 2, Nominee undertakes in favour of each Scheme Shareholder to, and Bidder undertakes in favour of each Shareholder that it will procure that Nominee:

- (a) deposits the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account; and
- (b) undertakes all other actions attributed to it under the Scheme,

in each case subject to and in accordance with the terms of the Scheme.

---

## 4 Warranties

Each of the Bidder and Nominee represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance by it of this deed poll; and

- (d) this deed poll is valid and binding on it and is enforceable against it in accordance with its terms.

Bidder also represents and warrants that each of the Nominee's representations and warranties in this deed poll are true and accurate.

---

## 5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Bidder and Nominee have fully performed their obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

---

## 6 Further assurances

Bidder and Nominee will do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

---

## 7 General

### 7.1 Stamp duty

Nominee must and Bidder must procure that Nominee does:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nominee pursuant to the Scheme, the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

### 7.2 Notices

- (a) Any notice or other communication to Bidder or Nominee in connection with this deed poll must be:
- (i) in legible writing in English;
- (ii) signed by the person making the communication or that person's duly authorised agent; and
- (iii) given by hand delivery, pre-paid post or email or to the Agent in accordance with the details set out below:

#### **Bidder**

Attention: Murray Desrosiers

Address: Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W.,  
Calgary, Alberta

Email: murray.desrosiers@baytex.ab.ca

with a copy (for information purposes only) to:

Jeremy Wickens, Norton Rose Fulbright Australia  
Level 39, 108 St Georges Terrace,  
Perth WA 6000  
jeremy.wickens@nortonrosefulbright.com

Bidder irrevocably appoints Norose Notices Australia Pty Ltd ACN 158029586 of Level 16, 'Grosvenor Place', 225 George Street, Sydney, NSW 2000 (**Agent**) as its agent for the service of process in Australia in relation to any matter arising out of this deed. Prior to Nominee depositing the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account, if Agent ceases to be able to act as such or have an address in Australia, Bidder agrees to appoint a new process agent in Australia and to provide Target a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this deed and Bidder must inform Target in writing of any change in the address of its process agent within 20 Business Days of the change.

**Nominee**

Attention: Murray Desrosiers  
Address: Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W.,  
Calgary, Alberta  
Email: murray.desrosiers@baytex.ab.ca

with a copy (for information purposes only) to:

Jeremy Wickens, Norton Rose Fulbright Australia  
Level 39, 108 St Georges Terrace,  
Perth WA 6000  
jeremy.wickens@nortonrosefulbright.com

Nominee irrevocably appoints Agent as its agent for the service of process in Australia in relation to any matter arising out of this deed. Prior to Nominee depositing the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account, if Agent ceases to be able to act as such or have an address in Australia, Nominee agrees to appoint a new process agent in Australia and to provide Target a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this deed and Nominee must inform Target in writing of any change in the address of its process agent within 20 Business Days of the change.

- (b) Any notice or other communication given in accordance with clause 7.2(a) will be deemed to have been duly given as follows:
- (i) if delivered by hand, on delivery;
  - (ii) if sent by pre-paid post, on receipt; and
  - (iii) if sent by email:
    - (A) when the sender receives an automated message confirming delivery;  
or

- (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,

whichever happens first.

- (c) Any notice that, pursuant to clause 7.2(b), would be deemed to be given:
  - (i) other than on a Business Day or after 5:00pm on a Business Day is regarded as given at 9:00am on the following Business Day; and
  - (ii) before 9:00am on a Business Day is regarded as given at 9:00am on that Business Day,

where references to time are to time in the place the recipient is located.

### **7.3 Cumulative rights**

The rights, powers and remedies of Nominee, Bidder and the Scheme Shareholders under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

### **7.4 Waiver and variation**

- (a) A party waives a right under this deed poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.
- (b) Failure to exercise or enforce, a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed poll by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed poll.
- (c) A provision of this deed poll may not be varied unless the variation is agreed to by Target in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme, in which event Nominee and Bidder must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

### **7.5 Governing law and jurisdiction**

- (a) This deed poll is governed by the laws in force in Western Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts competent to determine appeals from those courts in respect of any proceedings arising out of or in connection with this deed poll. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

### **7.6 Assignment**

- (a) The rights created by this deed poll are personal to Nominee, Bidder and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Nominee and Bidder.

(b) Any purported dealing in contravention of clause 7.6(a) is invalid.

---

**Execution page**

Executed as a deed

---

Signed, sealed and delivered by **[insert  
Nominee's name]** by:

---

Signature of director

---

Signature of director/secretary

---

Name of director (print)

---

Name of director/secretary (print)

---

Signed, sealed and delivered by **Baytex  
Energy Corp.** by its authorised representatives:

---

James L. Bowzer – President and Chief  
Executive Officer

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Murray J. Desrosiers – Vice President, General  
Counsel and Corporate Secretary



## Attachment D - Option consideration

Options			Consideration per Option
Expiry	Number	Exercise price	
9/11/2015	150,000	\$1.60	\$2.50
9/11/2015	150,000	\$1.85	\$2.25
9/11/2015	150,000	\$2.10	\$2
9/11/2015	350,000	\$1.60	\$2.50
9/11/2015	350,000	\$1.85	\$2.25
9/11/2015	350,000	\$2.10	\$2
9/11/2015	250,000	\$1.60	\$2.50
9/11/2015	250,000	\$1.85	\$2.25
9/11/2015	250,000	\$2.10	\$2
30/05/2016	250,000	\$3.28	\$0.82
30/05/2016	250,000	\$3.58	\$0.52
30/05/2016	250,000	\$3.28	\$0.82
30/05/2016	250,000	\$3.58	\$0.52
30/05/2016	250,000	\$3.28	\$0.82
30/05/2016	250,000	\$3.58	\$0.52
30/09/2017	350,000	\$4.45	\$0.39
30/09/2016	350,000	\$4.10	\$0.32
30/09/2015	300,000	\$3.76	\$0.34
30/04/2015	250,000	\$3.00	\$1.10
30/04/2016	250,000	\$3.50	\$0.60
30/04/2017	250,000	\$4.00	\$0.42
19/10/2016	250,000	\$4.00	\$0.35
19/10/2017	250,000	\$4.50	\$0.40
19/10/2018	250,000	\$5.00	\$0.45
15/05/2017	100,000	\$3.24	\$0.86
15/05/2018	100,000	\$3.47	\$0.69
15/05/2019	100,000	\$3.85	\$0.72
15/05/2020	100,000	\$4.24	\$0.76
16/10/2018	250,000	\$3.64	\$0.69
16/10/2018	250,000	\$3.97	\$0.62



# Attachment C

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Scheme of arrangement made under section 411  
of the Corporations Act 2001 (Cth)



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Date:

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## Parties

- 1 **Aurora Oil & Gas Limited ABN 90 008 787 988** of Level 1 338 Barker Road, Subiaco, Western Australia 6008 (**Target**)
- 2 Each person registered as a holder of fully paid ordinary shares in Target as at the Scheme Record Date (other than Excluded Shareholders) (**Scheme Shareholders**)

**The parties agree**

---

## 1 Defined terms and interpretation

### 1.1 Defined terms

A term or expression starting with a capital letter which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

### 1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this deed.

---

## 2 Preliminary matters

- (a) Target is an Australian public company limited by shares, and has been admitted to the official list of ASX and TSX. Target Shares are quoted for trading on the ASX and TSX.
- (b) As at 14 April 2014, there were 448,785,778 Target Shares, 7,050,000 Target options and 2,404,823 Target performance rights on issue.
- (c) Bidder is a listed Canadian company. Pursuant to clause 4.3 of the Implementation Deed, Bidder has nominated Nominee to pay the Scheme Consideration and to be the entity to which Scheme Shares will be transferred in accordance with the Implementation Deed and this Scheme if this Scheme becomes Effective.
- (d) Nominee is an unlisted Australian proprietary company.
- (e) If this Scheme becomes Effective:
  - (i) Nominee will provide, and Bidder will procure that Nominee provides, the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and the Deed Poll; and
  - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to Nominee and Target will enter the name of Nominee in the Share Register in respect of all the Scheme Shares.
- (f) Bidder and Target have entered into the Implementation Deed in respect of (among other things) the implementation of this Scheme.

- (g) This Scheme attributes actions to Nominee and Bidder but does not itself impose any obligations on either of them to perform those actions. By executing the Deed Poll, Bidder and Nominee have agreed to perform the actions attributed to them under this Scheme. By executing the Deed Poll, Bidder agrees to procure that Nominee performs its obligations under the Deed Poll, including payment of the Scheme Consideration in accordance with the terms of this Scheme.

---

### 3 Conditions

#### 3.1 Conditions precedent

This Scheme is conditional on and will not become Effective until and unless the following conditions precedent are satisfied:

- (a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in clause 3.1(c) of the Implementation Deed relating to Court approval of this Scheme) are satisfied or waived in accordance with the terms of the Implementation Deed by 8:00am on the Second Court Date;
- (b) neither the Implementation Deed nor the Deed Poll is terminated in accordance with their terms before 8.00am on the Second Court Date;
- (c) this Scheme is approved by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to Target and Bidder;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme as are acceptable to Target and Bidder are satisfied; and
- (e) the order of the Court made under section 411(4)(b) of the Corporations Act approving this Scheme comes into effect pursuant to section 411(10) of the Corporations Act.

#### 3.2 Certificates

- (a) Each of Target and Bidder will provide a certificate to the Court at the Second Court Hearing confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.
- (b) The certificates given by the Target and Bidder constitute conclusive evidence that the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

---

### 4 Implementation of this Scheme

#### 4.1 Lodgement of Court orders with ASIC

For the purposes of section 411(10) of the Corporations Act, Target will lodge with ASIC an office copy of the order made by the Court under section 411(4)(b) of the Corporations Act approving this Scheme before 5:00pm on the Business Day following the day on which such office copy is received by Target or such later date as Target and Bidder agree in writing.

#### 4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5.2, the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date, will be transferred to Nominee, without the need for any further act by any Scheme Shareholder (other than acts performed by Target as attorney and agent for Scheme Shareholders under clause 8.5), by:
  - (i) Target duly completing and executing the Scheme Transfer (as transferor) and delivering it to Nominee; and
  - (ii) Nominee duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to Target for registration; and
- (b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a), Target must enter, or procure the entry of, the name of Nominee in the Share Register in respect of all the Scheme Shares.

---

## 5 Scheme Consideration

### 5.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, each Scheme Shareholder will be entitled to \$4.10 for each Scheme Share.

### 5.2 Provision of Scheme Consideration

- (a) Nominee will provide the Scheme Consideration by depositing in cleared funds an amount equal to the Aggregate Cash Consideration into the Trust Account before 5pm on the day before the Implementation Date (provided that any interest on the amount so deposited (less bank fees and other charges) (**Accrued Interest**) will accrue for the benefit of Bidder).
- (b) Subject to Nominee having complied with clause 5.2(a), Target must, as soon as practicable and in any event within 5 Business Days of the Implementation Date, from the Trust Account, procure the payment to each Scheme Shareholder the proportion of the Aggregate Cash Consideration attributable to that Scheme Shareholder based on the number of Scheme Shares held by that Scheme Shareholder as at the Scheme Record Date, which obligation will be satisfied by Target:
  - (i) where a Scheme Shareholder has, before the Scheme Record Date, made an election in accordance with the requirements of the Share Registry to receive dividend payments from Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in:
    - (A) Australian currency; or
    - (B) Canadian currency at the discretion of the Target where the Scheme Shareholder's registered address appears on the Share Register on the Record Date as in Canada,

by electronic means in accordance with that election. In respect of paragraph 5.2(i)(B), the Target is authorised to effect, or procure the effect of, any conversion of the relevant amount to Canadian currency in such manner as it deems appropriate (acting reasonably) and to deduct any costs, charges or expenses associated with such conversion from the amount paid to the relevant Scheme Shareholder; or

- (ii) whether or not a Scheme Shareholder has made an Election referred to in clause 5.2(b)(i), dispatching, or procuring the dispatch of, a cheque in:
  - (A) Australian currency; or
  - (B) in Canadian currency at the discretion of the Target where the Scheme Shareholder's registered address appears on the Share Register on the Record Date as in Canada,

for the relevant amount to the Scheme Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with clause 5.3). In respect of paragraph 5.2(ii)(B), the Target is authorised to effect, or procure the effect of, any conversion of the relevant amount to Canadian currency in such manner as it deems appropriate (acting reasonably) and to deduct any costs, charges or expenses associated with such conversion from the amount paid to the relevant Scheme Shareholder.

### **5.3 Joint holders**

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Share Register as at the Scheme Record Date; and
- (b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the Share Register as at the Scheme Record Date.

### **5.4 Unclaimed monies**

- (a) Target and Bidder may cancel a cheque issued under this clause 5 if the cheque:
  - (i) is returned to them; or
  - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request from a Scheme Shareholder, a cheque that was previously cancelled under clause 5.4(a) must be reissued.

### **5.5 Orders of a court**

If written notice is given to Target (or the Share Registry) of an order made by a court of competent jurisdiction that:

- (a) requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which sum would otherwise be payable to that

Scheme Shareholder by Target in accordance with this clause 5, then Target will be entitled to make that payment (or procure that it is made) in accordance with that order; or

- (b) prevents Target from making a payment to a particular Scheme Shareholder in accordance with clause 5.2(b), or such payment is otherwise prohibited by applicable law, Target will be entitled to retain an amount, in Australian dollars, equal to the amount of the relevant payment until such time as payment in accordance with this clause 5 is permitted by that order or otherwise by law.

---

## 6 Dealings in Target Shares

### 6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Target Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Target Shares at or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the Share Register is kept,

and Target will not accept for registration, nor recognise for any purpose (except a transfer to Nominee pursuant to this Scheme and any subsequent transfer by Nominee or its successors in title), any transfer or transmission application or other request received after the Scheme Record Date or received prior to the Scheme Record Date but not in registrable or actionable form.

### 6.2 Share Register

- (a) Target must register registrable transmission applications or transfers of Target Shares in accordance with clause 6.1(b) at or before the Scheme Record Date, provided that nothing in this clause 6.2(a) requires Target to register a transfer that would result in a Target Shareholder holding a parcel of Target Shares that is less than a 'marketable parcel' (as defined in the operating rules of ASX or TSX, as relevant).
- (b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and Target will be entitled to disregard any such disposal, purported disposal or agreement.
- (c) For the purpose of determining entitlements to the Scheme Consideration, Target must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been provided to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) All statements of holding for Target Shares (other than statements of holding in favour of Bidder or any Excluded Shareholder) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from

that date, each entry current at that date on the Share Register (other than entries in respect of Nominee or any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Target Shares relating to that entry.

- (e) As soon as possible after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, Target will ensure that details of the names, Registered Addresses and holdings of Target Shares for each Scheme Shareholder as shown in the Share Register as at the Scheme Record Date are available to Nominee in the form Nominee reasonably requires.

---

## 7 Quotation of Target Shares

- (a) Target will apply to ASX and TSX to suspend trading in Target Shares with effect from the close of trading on the Effective Date.
- (b) Target will apply:
  - (i) for termination of the official quotation of Target Shares on the ASX;
  - (ii) to have itself removed from the official list of ASX; and
  - (iii) to delist the Target Shares from the TSX;

in the case of (i) and (ii) with effect on and from the close of trading on the trading day immediately following the Implementation Date, and in the case of (iii) as promptly as practicable following the Effective Date.

---

## 8 General Scheme provisions

### 8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Target may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions which counsel for Target has consented to.

### 8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:
  - (i) agrees to the transfer of their Target Shares together with all rights and entitlements attaching to those shares in accordance with this Scheme;
  - (ii) agrees to the variation, cancellation or modification of the rights attached to their Target Shares constituted by or resulting from this Scheme; and
  - (iii) acknowledges that this Scheme binds Target and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting).

- (b) Each Scheme Shareholder is taken to have warranted to Nominee, and appointed and authorised Target as its attorney and agent to warrant to Nominee, that:
  - (i) all their Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all:
    - (A) mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise; and
    - (B) restrictions on transfer of any kind; and
  - (ii) they have full power and capacity to transfer their Scheme Shares to Nominee together with any rights attaching to those shares.

### **8.3 Title to and rights in Scheme Shares**

- (a) To the extent permitted by law, the Scheme Shares transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) Upon the Scheme becoming Effective, Nominee will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by Target of Nominee in the Share Register as the holder of the Scheme Shares.

### **8.4 Appointment of sole proxy**

Upon the Scheme becoming Effective and until Target registers Nominee as the holder of all Scheme Shares in the Share Register:

- (a) each Scheme Shareholder is deemed to have appointed Nominee as attorney and agent (and directed Nominee in each such capacity) to appoint any director, officer, secretary or agent nominated by Nominee as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) no Scheme Shareholder may itself attend or vote at any shareholders' meetings or sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));
- (c) each Scheme Shareholder must take all other actions in the capacity of a registered holder of Scheme Shares as Nominee reasonably directs; and
- (d) each Scheme Shareholder acknowledges and agrees that in exercising the powers conferred by clause 8.4(a), Bidder and any director, officer, secretary or agent nominated by Nominee under that clause may act in the best interests of Nominee as the intended registered holder of the Scheme Shares.

### **8.5 Authority given to Target**

On the Effective Date, each Scheme Shareholder, without the need for any further act, irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- (a) enforcing the Deed Poll against Nominee and Bidder; and
- (b) executing any document, or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including executing the Scheme Transfer,

and Target accepts such appointment. Target, as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

#### **8.6 Binding effect of this Scheme**

This Scheme binds Target and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Target.

---

## **9 General**

### **9.1 Stamp duty**

Nominee will, and Bidder will procure that Nominee does:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nominee pursuant to this Scheme, this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

### **9.2 Consent**

Each Scheme Shareholder consents to Target doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it.

### **9.3 Notices**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the Share Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Target Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

### **9.4 Governing law and jurisdiction**

- (a) This Scheme is governed by the laws in force in Western Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts competent to determine appeals from those courts in respect of any proceedings arising out of or in connection with this

Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

**9.5 Further action**

Target must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

**9.6 No liability when acting in good faith**

None of Nominee, Target, Bidder, or any of their respective directors, officers or secretaries, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

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## Schedule 1 — Dictionary

---

### 1 Dictionary

**Accrued Interest** has the meaning given in clause 5.2(a).

**Aggregate Cash Consideration** means the amount calculated by multiplying the number of Scheme Shares by the Scheme Consideration.

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

**ASX** means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by it known as the “Australian Securities Exchange”.

**Bidder** means Baytex Energy Corp..

**Business Day** has the meaning given in the Listing Rules.

**CHES** means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited and ASX Clear Pty Limited.

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

**Court** means the Federal Court of Australia.

**Deed Poll** means the deed poll dated 4 April 2014 under which:

- (a) Nominee covenants in favour of each Scheme Shareholder to perform its obligations under the Scheme; and
- (b) Bidder agrees to procure that Nominee performs its obligations under the Deed Poll, including payment of the Scheme Consideration in accordance with the Scheme.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

**Effective Date** means the date on which this Scheme becomes Effective.

**End Date** means 30 June 2014 or such later date as Bidder and Target agree in writing.

**Excluded Shareholders** means, collectively, Bidder and its associates, each of them being an **Excluded Shareholder**.

**Government Agency** means any government or any governmental, statutory or judicial entity or authority, or any minister, department, office or delegate of any government, whether in Australia or elsewhere. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC), and any stock exchange (including the ASX and TSX).

**Implementation Deed** means the scheme implementation deed dated 6 February 2014 between Bidder and Target relating to (among other things) the implementation of this Scheme (as amended by a deed of variation dated on or around 31 March 2014).

**Implementation Date** means the fifth Business Day after the Scheme Record Date or such other date as the parties to the Implementation Deed agree in writing.

**Listing Rules** means the official listing rules of ASX.

**Nominee** means Baytex Energy Australia Pty Ltd ACN 168 535 840.

**Registered Address** means, in relation to a Target Shareholder, the address shown in the Share Register as at the Scheme Record Date.

**Scheme** means this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Bidder and Target.

**Scheme Consideration** means, in respect of each Scheme Share \$4.10.

**Scheme Meeting** means the meeting of Target Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act.

**Scheme Record Date** means 7:00pm on the fifth Business Day after the Effective Date.

**Scheme Share** means a Target Share held by a Scheme Shareholder as at the Scheme Record Date.

**Scheme Shareholder** means a Target Shareholder (other than an Excluded Shareholder) as at the Scheme Record Date.

**Scheme Transfer** means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be or include a master transfer of all or part of the Scheme Shares.

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard, with such hearing being the **Second Court Hearing**.

**Share Register** means the register of Target Shareholders maintained in accordance with the Corporations Act.

**Share Registry** means Computershare Investor Services Pty Limited ABN 48 078 279 277.

**Target Share** means fully paid ordinary shares in the capital of Target.

**Target Shareholder** means a holder of one or more Target Shares, as shown in the Share Register.

**Trust Account** means a trust account operated by Aurora or its agent, details of which must be notified to Bidder no later than 5 Business Days before the Implementation Date.

**TSX** means the Toronto Stock Exchange.

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## 2 Interpretation

In this Scheme, the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this Scheme.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words “include”, “including” and similar expressions are not words of limitation and do not limit what else might be included.
- (f) A reference to:
  - (i) a person includes a natural person, estate of a natural person, partnership, joint venture, government agency, association, corporation or other body corporate or entity (as that term is defined in section 64A of the Corporations Act);
  - (ii) a thing (including a chose in action or other right) includes a part of that thing;
  - (iii) a party includes its successors and permitted assigns;
  - (iv) a document includes all amendments or supplements to that document;
  - (v) a clause, term, party, schedule or attachment is a reference to a clause or term of, or a party, schedule or attachment to, this Scheme (as applicable);
  - (vi) this Scheme includes all schedules to it;
  - (vii) a law includes a constitutional provision, treaty, decree, convention, statute, regulation, ordinance, by-law, judgment, rule of common law or equity or a Listing Rule and is a reference to that law as amended, consolidated or replaced;
  - (viii) an agreement (other than this Scheme) includes an undertaking or legally enforceable arrangement or understanding (whether or not in writing);
  - (ix) a time period includes the date referred to as that on which the period begins and the date referred to as that on which the period ends; and
  - (x) a monetary amount is in Australian dollars.



# Attachment D



Deed Poll



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Date: 4 April 2014

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## Parties

- 1 **Baytex Energy Australia Pty Ltd** ACN 168 535 840 of C/o – Norton Rose Fulbright Australia, Level 39, 108 St Georges Terrace, Perth, WA 6000 (**Nominee**)
  - 2 **Baytex Energy Corp.** of Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta (**Bidder**)
  - 3 In favour of each person registered as a holder of fully paid ordinary shares in Target as at the Scheme Record Date (other than Excluded Shareholders) (**Scheme Shareholders**)
- 

## Background

- A Bidder and Target have entered into the Implementation Deed, under which Bidder nominated Nominee to pay the Scheme Consideration and acquire all Scheme Shares held by Scheme Participants under the Scheme, and agreed to procure that Nominee entered into this deed poll.
- B Bidder and Nominee are entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to procure and undertake the actions attributed to Bidder under the Scheme.

### The parties agree

---

## 1 Defined terms and interpretation

### 1.1 Defined terms

Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

### 1.2 Interpretation

Clause 2 of Schedule 1 of the Scheme applies to the interpretation of this deed poll, except that references to 'Scheme' are to be read as references to 'deed poll'.

### 1.3 Nature of deed poll

Bidder and Nominee acknowledge and agree that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints Target and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Bidder and Nominee.

---

## 2 Conditions

### 2.1 Conditions

The obligations of Bidder and Nominee under this deed poll are subject to the Scheme becoming Effective.

### 2.2 Termination

The obligations of Bidder and Nominee under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective by the End Date.

### 2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other available rights, powers or remedies:

- (a) Bidder and Nominee are released from their obligations to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against Bidder and Nominee in respect of any breach of this deed poll which occurs before it was terminated.

---

## 3 Scheme obligations

Subject to clause 2, Nominee undertakes in favour of each Scheme Shareholder to, and Bidder undertakes in favour of each Shareholder that it will procure that Nominee:

- (a) deposits the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account; and
- (b) undertakes all other actions attributed to it under the Scheme,

in each case subject to and in accordance with the terms of the Scheme.

---

## 4 Warranties

Each of the Bidder and Nominee represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance by it of this deed poll; and

- (d) this deed poll is valid and binding on it and is enforceable against it in accordance with its terms.

Bidder also represents and warrants that each of the Nominee's representations and warranties in this deed poll are true and accurate.

---

## 5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Bidder and Nominee have fully performed their obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

---

## 6 Further assurances

Bidder and Nominee will do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

---

## 7 General

### 7.1 Stamp duty

Nominee must and Bidder must procure that Nominee does:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to Nominee pursuant to the Scheme, the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

### 7.2 Notices

- (a) Any notice or other communication to Bidder or Nominee in connection with this deed poll must be:
  - (i) in legible writing in English;
  - (ii) signed by the person making the communication or that person's duly authorised agent; and
  - (iii) given by hand delivery, pre-paid post or email or to the Agent in accordance with the details set out below:

#### **Bidder**

Attention: Murray Desrosiers

Address: Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W.,  
Calgary, Alberta

Email: murray.desrosiers@baytex.ab.ca

with a copy (for information purposes only) to:

Jeremy Wickens, Norton Rose Fulbright Australia  
Level 39, 108 St Georges Terrace,  
Perth WA 6000  
jeremy.wickens@nortonrosefulbright.com

Bidder irrevocably appoints Norose Notices Australia Pty Ltd ACN 158029586 of Level 16, 'Grosvenor Place', 225 George Street, Sydney, NSW 2000 (**Agent**) as its agent for the service of process in Australia in relation to any matter arising out of this deed. Prior to Nominee depositing the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account, if Agent ceases to be able to act as such or have an address in Australia, Bidder agrees to appoint a new process agent in Australia and to provide Target a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this deed and Bidder must inform Target in writing of any change in the address of its process agent within 20 Business Days of the change.

**Nominee**

Attention: Murray Desrosiers  
Address: Centennial Place, East Tower, 2800, 520 – 3<sup>rd</sup> Avenue S.W.,  
Calgary, Alberta  
Email: murray.desrosiers@baytex.ab.ca

with a copy (for information purposes only) to:

Jeremy Wickens, Norton Rose Fulbright Australia  
Level 39, 108 St Georges Terrace,  
Perth WA 6000  
jeremy.wickens@nortonrosefulbright.com

Nominee irrevocably appoints Agent as its agent for the service of process in Australia in relation to any matter arising out of this deed. Prior to Nominee depositing the aggregate amount of the Scheme Consideration payable to all of the Scheme Shareholders in cleared funds into the Trust Account, if Agent ceases to be able to act as such or have an address in Australia, Nominee agrees to appoint a new process agent in Australia and to provide Target a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this deed and Nominee must inform Target in writing of any change in the address of its process agent within 20 Business Days of the change.

- (b) Any notice or other communication given in accordance with clause 7.2(a) will be deemed to have been duly given as follows:
- (i) if delivered by hand, on delivery;
  - (ii) if sent by pre-paid post, on receipt; and
  - (iii) if sent by email:
    - (A) when the sender receives an automated message confirming delivery;  
or

- (B) four hours after the time sent (as recorded on the device from which the email was sent), provided that the sender does not receive an automated message that the email has not been delivered,

whichever happens first.

- (c) Any notice that, pursuant to clause 7.2(b), would be deemed to be given:
  - (i) other than on a Business Day or after 5:00pm on a Business Day is regarded as given at 9:00am on the following Business Day; and
  - (ii) before 9:00am on a Business Day is regarded as given at 9:00am on that Business Day,

where references to time are to time in the place the recipient is located.

### **7.3 Cumulative rights**

The rights, powers and remedies of Nominee, Bidder and the Scheme Shareholders under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

### **7.4 Waiver and variation**

- (a) A party waives a right under this deed poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.
- (b) Failure to exercise or enforce, a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed poll by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed poll.
- (c) A provision of this deed poll may not be varied unless the variation is agreed to by Target in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme, in which event Nominee and Bidder must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

### **7.5 Governing law and jurisdiction**

- (a) This deed poll is governed by the laws in force in Western Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts competent to determine appeals from those courts in respect of any proceedings arising out of or in connection with this deed poll. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

### **7.6 Assignment**

- (a) The rights created by this deed poll are personal to Nominee, Bidder and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Nominee and Bidder.

(b) Any purported dealing in contravention of clause 7.6(a) is invalid.

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**Execution page**

**Executed as a deed**

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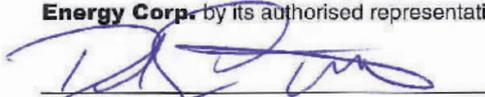
Signed, sealed and delivered **Baytex Energy  
Australia Pty Ltd** CAN 168 535 840 by:

  
Richard Homsany – Director

  
Murray J. Desrosiers – Director

---

Signed, sealed and delivered by **Baytex  
Energy Corp.** by its authorised representatives:

  
W. Derek Aylesworth – Chief Financial Officer

  
Murray J. Desrosiers – Vice President, General  
Counsel and Corporate Secretary

# Attachment E

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## Independent Expert's Report

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

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1 COLLINS STREET MELBOURNE VIC 3000

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14 April 2014

The Directors  
Aurora Oil & Gas Limited  
Level 1, 338 Barker Road  
SUBIACO WA 6008

Dear Directors

**Proposed Acquisition by Baytex**

**1 Introduction**

Aurora Oil & Gas Limited (“Aurora”) is an Australian oil and gas company. Aurora’s major asset is a portfolio of producing oil and gas interests in the Sugarkane Field within the Eagle Ford shale in Texas, in the United States. Listed on the Australian Securities Exchange (“ASX”) and the Toronto Stock Exchange (“TSX”), as of 6 February 2014 Aurora had a market capitalisation of approximately A\$1.2 billion.

On 7 February 2014 (Australian time), Aurora announced that it had reached agreement with Baytex Energy Corp. (“Baytex”) for Baytex to acquire all the shares in Aurora by way of a Scheme of Arrangement under Australian law (the “Proposal”), at a price of A\$4.10 cash per share (“Proposal Consideration”). The proposal values Aurora at A\$1.8 billion.

Baytex is an oil and gas company with assets in the Western Canadian Sedimentary Basin and in the Williston Basin in the United States. Baytex is headquartered in Calgary, Canada, is listed on the Toronto Stock Exchange and the New York Stock Exchange, and had a market capitalisation as at 4 April 2014 of approximately C\$5.7 billion (A\$5.6 billion).

The Proposal will require the approval of Aurora shareholders in general meeting.

The directors of Aurora have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Proposal is in the best interests of Aurora shareholders and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Memorandum (“the Scheme Booklet”) to be sent to Aurora’s shareholders. This letter contains a summary of Grant Samuel’s opinion and main conclusions.

**2 Summary of Opinion**

**Grant Samuel has valued Aurora in the range A\$3.76-4.29 per share. The Proposal Consideration of A\$4.10 falls within this valuation range. Accordingly, in Grant Samuel’s opinion, the Proposal is fair and is therefore also reasonable.**

**Valuation of Aurora requires assumptions regarding a range of uncertain future factors. In particular, the valuation of Aurora is highly sensitive to assumptions as to the future oil price. In this context, valuation conclusions are inherently uncertain. However, the Proposal Consideration represents a premium of more than 50% relative to the price at which Aurora shares were trading immediately before the announcement of the Proposal. By the time Aurora shareholders meet to vote on the Proposal, more than three months will have passed since the announcement of the Proposal. In the absence of any higher offer from a third party, Aurora shareholders can be confident that the Proposal represents full value for their Aurora shares.**

**Grant Samuel has therefore concluded that the Proposal is in the best interests of Aurora shareholders.**





### 3 Key Conclusions

■ **Grant Samuel has valued Aurora in the range A\$3.76-4.29 per share.**

Grant Samuel has valued Aurora in the range A\$1,689-1,928 million, which corresponds to a value of A\$3.76-4.29 per share. The valuation represents the estimated full underlying value of Aurora and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Aurora shares to trade on the ASX in the absence of a takeover offer.

The valuation is summarised below:

<b>Aurora - Valuation Summary</b>					
	Report Section Reference	Value Range			
		US\$ million		A\$ million	
		Low	High	Low	High
Sugarkane	5.4	2,200	2,400	2,444	2,667
Eaglebine	5.5	11	15	12	17
Other assets and liabilities	5.6	(7)	(7)	(7)	(7)
Head office costs (net of savings)	5.7	(65)	(55)	(72)	(61)
<b>Enterprise value</b>		<b>2,139</b>	<b>2,353</b>	<b>2,377</b>	<b>2,616</b>
Net borrowings at 31 December 2013	5.8	(619)	(619)	(688)	(688)
<b>Value of equity</b>		<b>1,520</b>	<b>1,734</b>	<b>1,689</b>	<b>1,928</b>
Fully diluted shares on issue (millions)		449	449	449	449
<b>Value per share (\$)</b>		<b>3.39</b>	<b>3.86</b>	<b>3.76</b>	<b>4.29</b>

The valuation is principally based on discounted cash flow (“DCF”) analysis.

Grant Samuel appointed RISC Operations Pty Ltd (“RISC”) as technical specialist to review Aurora’s interests in the Sugarkane Field. RISC’s role included a review of reserves, development plans, production profiles and capital and operating costs. RISC also prepared a valuation of Aurora’s exploration interests. RISC’s report is attached to Grant Samuel’s report.

Grant Samuel’s financial analysis was based on valuation scenarios prepared in conjunction with RISC, reflecting RISC’s judgements regarding the range of assumptions as to ultimate hydrocarbon recoveries, capital costs and operating costs that could reasonably be adopted for valuation purposes. The valuation adopted an oil price assumption in the range US\$80-90/bbl and a spot Australian dollar/United States dollar exchange rate of A\$1.00 = US\$0.90. Present values were estimated in US\$ terms using nominal discount rates of 9.5-10.5%, and converted to Australian dollar equivalents at the spot rate.

The valuation is based on a number of important assumptions, including assumptions regarding oil prices, exchange rates and future operating performance. Oil prices, exchange rates and expectations regarding future operating performance can change significantly over short periods of time. Such changes can have significant impacts on underlying value.



- **The valuation is broadly consistent with value benchmarks based on transaction and share prices for comparable companies.**

Values for companies with unconventional oil and gas interests are commonly expressed in terms of reserve<sup>1</sup> and acreage<sup>2</sup> multiples. These are relatively crude value benchmarks, but do provide a useful cross-check of values estimated using DCF analysis. The valuation of Aurora’s Sugarkane Field interests implies the following:

Aurora – Implied Valuation Parameters			
	Variable	Implied Multiples	
		Low	High
<b>Acreage (working interest)</b>	<b>Acres</b>	<b>US\$000’s/acre</b>	<b>US\$000’s/acre</b>
- Sugarkane	22,200	99.1	108.1
<b>Oil and gas reserves ( working interest net of royalties)</b>	<b>mmboe<sup>3</sup></b>	<b>US\$/boe</b>	<b>US\$/boe</b>
- 1P	121.5	18.1	19.8
- 2P	165.3	13.3	14.5
- 3P	200.8	11.0	12.0

The valuation implies relatively high multiples on a \$/acre basis, and \$/boe multiples that are broadly consistent with transaction and trading multiples for other companies. Overall, while this benchmarking of values is no more than indicative, it does provide broad support for the valuation of Aurora’s Sugarkane Field interests in the range US\$2,200-2,400 million.

- **The key valuation judgements relate to ultimate hydrocarbon recoveries and future oil prices.**

While Aurora’s interests in the Sugarkane Field have been producing for nearly four years, there is still significant field development to be completed and accordingly there remains some uncertainty as to the ultimate hydrocarbon recoveries that will be achieved. Grant Samuel’s valuation reflects three valuation scenarios, recommended by RISC. The medium case scenario contemplates the ultimate recovery of 178.3 mmboe (Aurora share net of royalty interests), representing approximately 8% more than Aurora’s current Proved and Probable hydrocarbon reserves.

The valuation of Aurora’s Sugarkane Field interests is highly sensitive to assumptions regarding the future oil price. Grant Samuel has assumed that current oil prices of around US\$100/bbl will decline to a range of US\$80-90/bbl (real terms), which is consistent with the views of a range of market commentators. Each US\$5 change in the oil price assumption used in Grant Samuel’s DCF analysis changes calculated net present values by approximately A\$0.47 per Aurora share.

- **The Proposal is in the best interests of Aurora shareholders.**

The extreme sensitivity of the valuation of Aurora to assumptions regarding future oil prices means that a very wide range of valuation conclusions could be credible. In this context, market based information provides useful supplementary evidence as to whether the Proposal provides fair value to Aurora shareholders.

<sup>1</sup> Reserves multiples are calculated as enterprise value/reserves, on a barrels of oil equivalent (“boe”) basis.

<sup>2</sup> Acreage multiples are calculated as enterprise value/acreage of hydrocarbon field interests.

<sup>3</sup> mmboe refers to millions of barrels of oil equivalent.



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The Proposal Consideration represents a significant premium to Aurora's pre-announcement share price:

<b>Aurora – Implied Premiums over Pre-announcement Share Prices</b>		
Date/Period	Share Price	Premium
Closing pre-announcement price	A\$2.62	56%
1 week prior to 6 February - VWAP <sup>4</sup>	A\$2.69	52%
1 month prior to 6 February - VWAP	A\$2.80	46%
3 month prior to 6 February - VWAP	A\$2.89	42%
12 month prior to 6 February - VWAP	A\$3.18	29%

Source: Bloomberg and Grant Samuel analysis

The Proposal Consideration represents a premium of more than 50% relative to Aurora's share price in the week before the announcement of the Proposal. The premium being paid by Baytex is materially higher than premiums in the range of 20-35% typically paid in change of control transactions involving ASX listed companies. Given the quantum of the premium, in the absence of the Proposal shareholders would be unlikely in the short term to realise value comparable to the Proposal Consideration through selling their Aurora shares on market (assuming the continuation of current market conditions).

By the time of the Scheme Meeting at which Aurora shareholders will vote on the Proposal, more than three months will have passed since the announcement of the Proposal. Until the Proposal is approved, there is nothing to prevent a counter-bidder from making a superior proposal (although a break fee would be payable to Baytex if Aurora chose to pursue a counter-proposal). In the absence of a higher offer from a third party before the Scheme Meeting, it will be reasonable to conclude that the Proposal represents the highest value currently realisable for Aurora. On one view this would by definition mean that the Proposal represents full underlying value.

The Proposal Consideration of A\$4.10 falls within Grant Samuel's valuation range for Aurora of A\$3.76-4.29 per share. On this basis, the Proposal is fair and reasonable. Accordingly, it is in the best interests of Aurora shareholders.

#### 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Aurora shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Aurora in relation to the Proposal.

Voting for or against the Proposal is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Baytex Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Aurora or Baytex. This is an investment decision upon which Grant Samuel does not offer an opinion and is independent of a decision as to whether to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

<sup>4</sup> VWAP refers to volume weighted average prices.





**Financial Services Guide  
and  
Independent Expert's Report  
in relation to the Proposal by  
Baytex**

**Grant Samuel & Associates Pty Limited**  
(ABN 28 050 036 372)

**14 April 2014**

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### Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Aurora Oil & Gas Limited ("Aurora") in relation to the proposed acquisition of Aurora by Baytex Energy Corp. (the "Aurora Report"), Grant Samuel will receive a fixed fee of A\$475,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Aurora Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Aurora Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Aurora Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Aurora or Baytex or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.*

*Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*

*Grant Samuel will receive a fixed fee of A\$475,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Aurora Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Aurora Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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## 1 Terms of the Proposal

On 7 February 2014 (Australian time), Aurora Oil & Gas Limited (“Aurora”) announced that it had entered into a Scheme Implementation Deed with Baytex Energy Corp. (“Baytex”) under which it is proposed that Baytex will acquire all the shares in Aurora by way of a Scheme of Arrangement (“Scheme”) under Australian law (the “Proposal”). Under the Proposal, Baytex will acquire all the shares in Aurora at a price of A\$4.10 cash per share (“Proposal Consideration”).

Each holder of options or performance rights in Aurora has entered into a deed with Aurora and Baytex under which the holder agrees to the lapse or cancellation of its options or rights in exchange for payment of a cash consideration set out in the Scheme Implementation Deed and to be provided for by Baytex, subject to the scheme becoming effective.

Baytex is an oil and gas company with assets in the Western Canadian Sedimentary Basin and in the Williston Basin in the United States. Baytex is headquartered in Calgary, Canada, is listed on the Toronto Stock Exchange and the New York Stock Exchange, and had a market capitalisation of approximately C\$5.7 billion (A\$5.6 billion) on 4 April 2014.

The Proposal is subject to the satisfaction of a number of conditions which are set out in full in the Scheme Implementation Deed and Scheme Booklet (“Booklet”). In summary, the key conditions include:

- approval of the Scheme by Aurora shareholders under section 411 of the Australian Corporations Act;
- approval of the Scheme by the Federal Court of Australia at a hearing following the shareholder approval referred to above;
- the satisfaction before the second court hearing of regulatory requirements in relation to the Australian Foreign Investment Review Board (“FIRB”) and US antitrust regulatory requirements. Aurora announced on 10 March 2014 that the condition relating to US antitrust regulatory requirements had been satisfied effective 4 March 2014 and it was announced on 11 April 2014 that Baytex had received FIRB approval;
- no prescribed occurrences for Aurora (which are defined in the Scheme Implementation Deed to cover standard prescribed events, such as changes to capital structure, share issues and insolvency events); and
- no “material adverse change” (as defined in the Scheme Implementation Deed).

The Scheme Implementation Deed includes no shop and no talk provisions. Under these provisions, Aurora may not solicit or encourage any counter-proposal and may not enter into or permit any negotiations or discussions in relation to any competing proposal for Aurora or provide any information to a third party that may lead to a competing proposal, subject to an exception for a bona fide competing proposal in respect of which the directors of Aurora determine that failure to respond may constitute a breach of their fiduciary or statutory duties. Aurora is also required to notify Baytex if it becomes aware of a competing proposal that it intends to recommend and Baytex has a right (within a period of three business days) to submit a counter-proposal.

A break fee of A\$18.8 million (being approximately 1% of the Proposal Consideration) is payable by Aurora to Baytex in certain circumstances, including where a competing proposal is announced before the Scheme meeting and completed within twelve months or where two or more Aurora directors either recommend a competing proposal or change their recommendation of the Scheme, or if the Scheme Implementation Deed is terminated because of a material breach by Aurora.



## 2 Scope of the Report

### 2.1 Purpose of the Report

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act, 2001 (“Corporations Act”) between Aurora and its shareholders. Under Section 411 the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast by number of shares on the resolution. If approved by Aurora shareholders, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert’s report pursuant to the Corporations Act or the Australian Securities Exchange (“ASX”) Listing Rules, the directors of Aurora have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Proposal is in the best interests of Aurora shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Aurora.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Aurora shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Aurora in relation to the Proposal.

Voting for or against the Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Aurora, Baytex or the merged entity. This is an investment decision upon which Grant Samuel does not offer an opinion and is independent of a decision to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

### 2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. However, the Australian Securities & Investments Commission (“ASIC”) has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert’s reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.



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The Proposal is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Proposal as a control transaction and formed a judgement as to whether the proposal is “fair and reasonable”.

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror’s existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company’s shares.

An offer could be considered “reasonable” if there were valid reasons to accept the offer notwithstanding that it was not “fair”.

Fairness is a more demanding criteria. A “fair” offer will always be “reasonable” but a “reasonable” offer will not necessarily be “fair”. A fair offer is one that reflects the full market value of a company’s businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Proposal is fair by comparing the estimated value of Aurora with the offer price. The Proposal will be fair if the Proposal Consideration falls within the range of underlying values estimated for Aurora. In considering whether the Proposal is reasonable, the factors that have been considered include:

- the estimated value of Aurora compared to the offer price;
- the existing shareholding structure of Aurora;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Aurora shares in the absence of the Proposal; and
- other advantages and disadvantages for Aurora shareholders of approving the Proposal.

### 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

#### *Publicly Available Information*

- the Scheme Booklet;
- annual reports of Aurora for the three years ended 31 December 2013;
- annual report for the six months ended 31 December 2010;
- press releases, public announcements, media and analyst presentation material and other public filings by Aurora including information available on its website;
- brokers’ reports and recent press articles on Aurora and the US shale oil and gas industry;

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- sharemarket data and related information on international listed companies engaged in the unconventional oil and gas industry and on acquisitions of companies and businesses in this industry; and
- information relating to the international energy sector including supply/demand forecasts and oil and natural gas prices.

### *Non Public Information provided by Aurora*

- earlier drafts of the Scheme Booklet;
- studies and other technical information relating to Aurora's assets;
- copy of the company's database and forecasting tool which underpins the development plans; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of Aurora and its advisers. Grant Samuel appointed a technical adviser, RISC Operations Pty Ltd ("RISC") to provide certain technical advice to Grant Samuel in relation to the preparation of this report. Representatives of RISC have previously visited the US operations of Aurora.

### **2.4 Limitations and Reliance on Information**

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Aurora and its advisers. Grant Samuel has considered and relied upon this information. Aurora has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is in the best interests of Aurora shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.



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Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Aurora. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

RISC was appointed as technical specialist to review the assets of Aurora for Grant Samuel. RISC's review included a review of the reserves, development plans, production schedules, operating costs, capital costs, potential reserve extensions and exploration activities. RISC also prepared valuations of Aurora's exploration interests. The report prepared by RISC is attached to and forms part of this report (see Appendix 4).

The information provided to Grant Samuel and RISC included development plans and forecasts for Aurora's key assets. Aurora is responsible for the information contained in the development plans and forecasts ("the forward looking information"). Grant Samuel and RISC have considered and, to the extent deemed appropriate, relied on this information for the purpose of their analysis.

On the basis of the information provided to Grant Samuel and RISC, and the review conducted by Grant Samuel and RISC of such information, Grant Samuel and RISC have concluded that the forward looking information was prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such forward looking information. Grant Samuel and RISC have concluded that the forward looking information does not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are not necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable. Moreover, the forward looking information provided by Aurora was not originally generated for, and may not be appropriate in the context of, a valuation of the oil and gas assets of Aurora.

Accordingly, RISC conducted a detailed review of the significant assumptions and technical factors underlying the forward looking information provided by Aurora to RISC and Grant Samuel. This review included a review of the basis on which reserves have been estimated, a review of likely future operating and capital costs, a review of likely future hydrocarbon recovery rates, a review of the potential for extensions to reserves, a review of environmental factors and such other reviews as RISC deemed appropriate. Having regard to these reviews, RISC made independent judgements regarding the technical assumptions that can reasonably be adopted for the purposes of the valuation of the assets of Aurora ("technical valuation assumptions").

As part of its analysis, Grant Samuel has developed cash flow models on the basis of the technical valuation assumptions deemed appropriate by RISC. Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of the expressed variations to those assumptions. No opinion is expressed as to the probability or otherwise of those expressed variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst case outcomes, the sensitivity analysis does not, and does not purport to, show all the possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different assumptions that may produce outcomes different to those modelled.

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In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Aurora and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet sent by Aurora to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

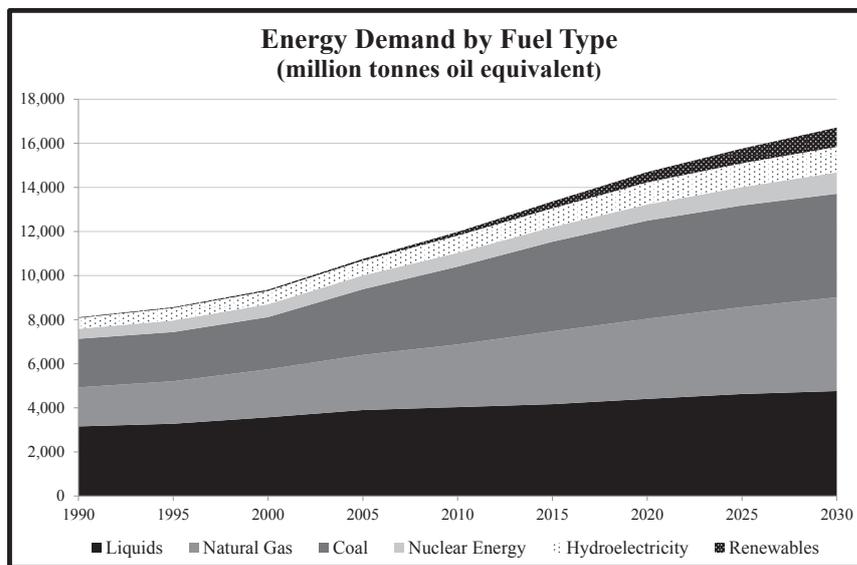




**3 Overview of the Oil and Gas Industry**

**3.1 Global Energy Market**

World energy demand totalled approximately 12,000 million tonnes of oil equivalent in 2010, with liquids accounting for one third, coal 30% and natural gas one quarter, and is expected to increase by 1.2-2.1% per annum between 2010 and 2030. Demand for natural gas is expected to increase at slightly above the overall market's growth rate (1.7-2.3%) while demand for oil is expected to grow at lower than average rates (0.5-1.1%), resulting in the combined share of energy demand satisfied by oil and natural gas dropping slightly to 54% in 2030<sup>1</sup>:

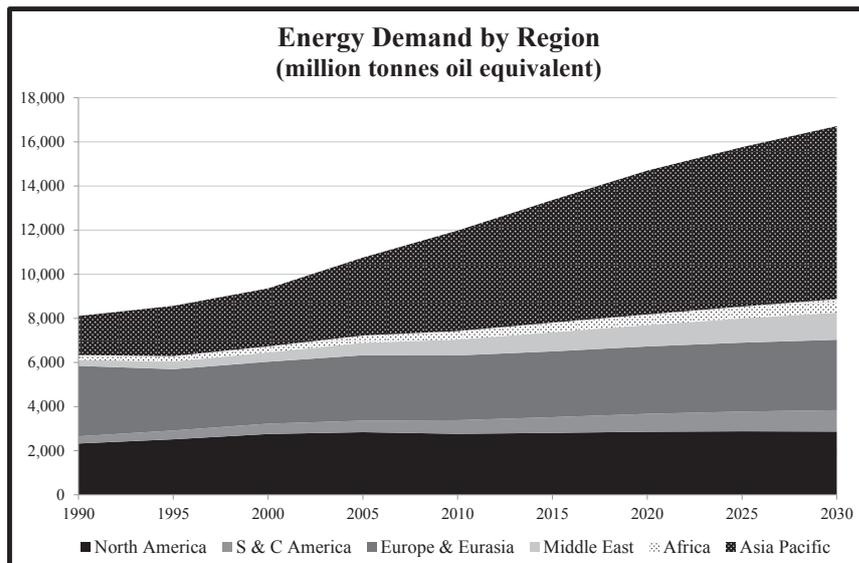


Source: BP Energy Outlook 2030

<sup>1</sup> BP Energy Outlook 2030



Asia Pacific accounted for 38% of global demand in 2010, of which more than half related to China, while North America and Europe & Eurasia each contributed one quarter. The Asia Pacific region is forecast to make up two thirds of the growth in demand to 2030, while the Middle East, South & Central America and Africa are expected to contribute most of the balance. This would drive North America's and Europe & Eurasia's share of global energy demand down from 48% in 2010 to 36% in 2030:



Source: BP Energy Outlook 2030

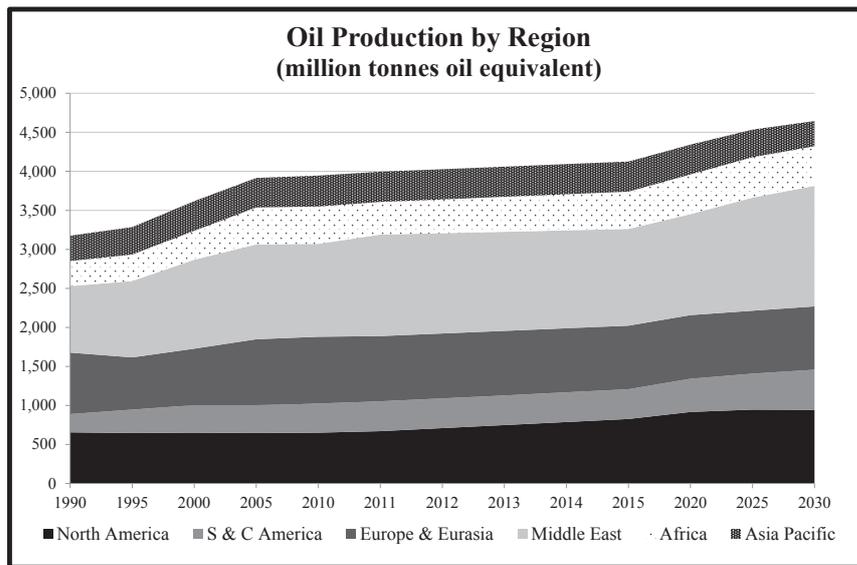




### 3.2 Global Oil Market

Oil’s primary use is as transport fuel, mostly for road motor vehicles. The production of oil is heavily influenced by the Organisation of Petroleum Exporting Countries (“OPEC”), an intergovernmental organisation of 12 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries<sup>2</sup>.

Global oil production since 1990 and projected oil production to 2030 is illustrated below:



Source: BP Energy Outlook 2030

Between 1990 and 2011, oil production increased by 1.1% per annum. This growth was largely the result of increased production from the Middle East and Central and South America. Global oil production growth between 2011 and 2030 is expected to be lower at an average of around 0.8% per annum: higher growth rates from North America (1.8% per annum) and South and Central America (1.6% per annum) are expected to be offset by production declines in Europe and Asia. The expected increase in North American supply reflects technological advances that have improved the economic viability of unconventional oil sources such as shale oil and tight oil. Growth in South and Central America is expected to result from new discoveries and developments, particularly in Brazil. Production from OPEC is expected to be relatively flat over this period.

In 2005, the Asia Pacific region became the largest consumer of oil, followed by North America. By 2030, oil consumption in the Asia Pacific region is expected to be double the consumption in North America, reflecting increased demand in China and India, particularly for use in transport. Over the same period, oil consumption in North America and Europe & Eurasia is expected to decline.

<sup>2</sup> OPEC members are Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.



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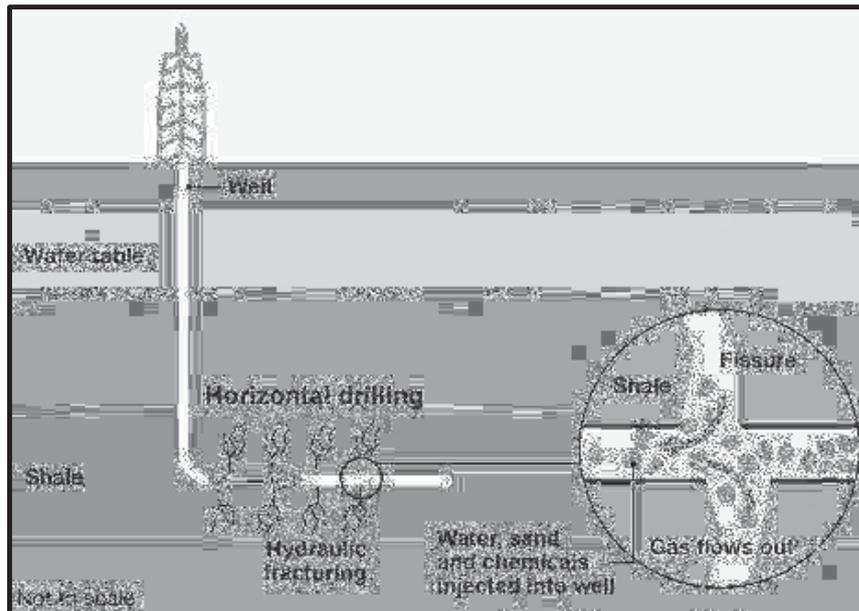


Oil and gas bearing shale formations consist of organic-rich, fine-grained sedimentary rock. They are usually laterally extensive and exhibit low porosity, which prevents the oil or gas from flowing freely through the shale. Variations in pressures and temperatures within the formation can result in variations in the makeup of the contained hydrocarbons, from dry gas with no or little associated liquids, to condensate or light oil rich zones with associated gas and natural gas liquids, and, at the other end of the spectrum, heavy oil with no associated gas.

Commercial and economic production of hydrocarbons contained in shale formations was only made possible in the late 1990s when Mitchell Energy & Development Corp. ("Mitchell Energy") made a number of technological breakthroughs in hydraulic fracturing and horizontal drilling at the company's Barnett shale gas acreage in Texas.

### *Extraction*

Hydrocarbons contained in shale reservoirs are extracted through long-reach horizontal wells, each of which drains a fairly limited area around the well. The use of wells drilled along the horizontal extent of the formation increases the surface contact area with the formation. Hydraulic fracturing, which is achieved by injecting water, chemicals and sand into the formation under pressure, is used at regular intervals along the horizontal extent of the well to create small fractures in the host rock. This increases the rock's porosity and allows the gas or oil to flow more freely to the well thereby increasing the production rate and ultimate recoveries of each well.



Source: BBC

Because each well only drains a fairly limited area around the wellbore, a large number of wells is required to drain a field efficiently. Wells are typically organised around grids or spacing patterns, with each well targeting a specific drainage area. Reducing the horizontal separation between wells (downspacing) results in higher whole field production rates and ultimate recoveries, although it can impact the medium to long term production rate and ultimate recoveries of single wells, and the economics of the whole project, if wells are too close and their drainage zones overlap too much. Depending on the characteristics of the host shale and mix of hydrocarbons contained within the reservoir, wells can be organised in spacing patterns ranging from 30 to 160 acres. A 40 acre spacing pattern corresponds to a 5,000 feet lateral length well located 330 feet horizontally from an offset well.



Wells can be developed independently of each other which provides flexibility in terms of the development schedule, allowing operators to prioritise the development of specific wells or to accelerate or slow down the development of a field in response to capital constraints or economic factors. Efficiencies can be achieved by drilling several wells targeting the same reservoir or targeting reservoirs found at different depths, from the same drilling location (“drill pad”). The required horizontal and vertical separation is achieved below ground. The resultant reduction in surface well infrastructure and minimisation of drill rig downtime (which otherwise occurs as drilling rigs are moved between drill locations) can result in capital and operating cost savings.

The performance and profitability of the wells are also impacted by the mix of hydrocarbons contained in the shale. Heavy oil with no associated gas is viscous, which results in poor well performance. Dry gas with no associated liquids flows freely, resulting in good well performance, but does not attract a price premium. A mix of oil/condensate and gas would typically be quite mobile within the reservoir, resulting in good well performance, and this product mix attracts a price premium. Wells typically have high initial production rates, steep declines in production and production tails lasting several decades.

As is the case for conventional oil and gas projects, the products extracted from the wells (oil, condensate, dry gas, natural gas liquids) are separated and processed in processing facilities and sold in various domestic or export markets with prices linked to oil and/or gas price benchmarks.

#### ***Environmental Issues***

The exploitation of shale resources has encountered opposition from environmental groups and local populations, largely because of issues (whether real or perceived) relating to the hydraulic fracturing (“fracking”) process. The process uses large amounts of water, there is a risk that the chemicals used in fracking could seep into water sources, treatment and disposal of the wastewater from the hydraulic fracturing process can be problematic and there are concerns that hydraulic fracturing can cause seismic events.

#### ***Production and Resources***

Over the 2005-2010 period, a number of shale gas plays came into production in the US. This resulted in strong growth in US natural gas production after a long period of relative production stability. The US Energy Information Association estimated in June 2013 that shale gas accounted for approximately 40% of US natural gas production in 2012 and that technically recoverable dry gas shale resources accounted for approximately a quarter of total domestic natural gas resources.

The first major shale oil play to be developed in the US was the extensive Bakken formation located across the US states of Montana and North Dakota and the Canadian states of Saskatchewan and Manitoba. The Eagle Ford trend in Texas was the second major oil shale play to come on line. Shale oil production has grown strongly from a very small base in 2006-2007. The US Energy Information Association estimated in its June 2013 report that shale oil production accounted for approximately 30% of total US oil production in 2012 and accounted for a large part of the growth in total oil production since 2007. The association also estimated that shale oil accounted for approximately one quarter of total crude oil technically recoverable resources.

Although there are very large technically recoverable shale oil and gas resources outside the US (in particular in Argentina, China, Russia, South Africa and various other countries), there is continuing uncertainty as to the potential to extract these resources economically. These countries are not expected to meaningfully contribute to global shale oil and gas production before the end of the decade, given limited access to the required technology, equipment and skills, the lack of transport infrastructure (e.g. pipelines) in the relevant regions, and regulatory and environmental hurdles.





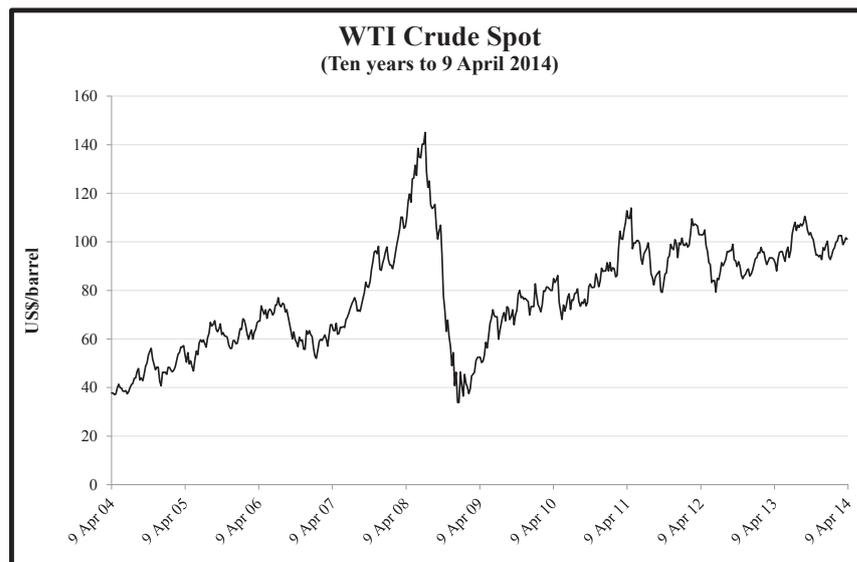
### 3.4 Oil Prices

Oil is one of the most heavily traded commodities in the world. Prices are typically set against one of the following two international benchmarks and are adjusted to reflect the specific characteristics of the products and the location of the ports of origin and destination:

- West Texas Intermediate (“WTI”), a light, sweet crude oil, is the primary benchmark for oil produced in the United States. Cushing, Oklahoma, is a major hub and delivery location for WTI and represents the settlement point for WTI. Futures contracts on WTI are traded on NYMEX; and
- Dated Brent (“Brent”), which is also a light crude oil, although not as light as WTI, is a composite blend of oils from 15 different oilfields in the North Sea. It has historically been used as a European crude oil benchmark but due to US market specific impacts on the WTI, Brent is now more widely used as a benchmark price.

The WTI and Brent benchmarks have historically traded in line with each other, but an increase in US production combined with a shortage of pipeline capacity to transport the oil to refiners has led to a buildup of WTI inventories and to WTI trading at a discount to Brent over the past three years.

The WTI oil price over the past ten years is illustrated below:



Source: Bloomberg

Overall, the oil price has increased significantly over the past decade despite the global financial crisis. It trended up for the five years to July 2008, despite the impact of the global financial crisis in late 2007 and during the first half of 2008. The weaker economic conditions eventually affected the oil markets and the WTI price fell from a high of US\$145/bbl in early July 2008 to US\$31/bbl in late December 2008. Since then, the oil price has slowly recovered and oil has broadly traded in the US\$80-110/bbl range in the last three years. Key to this recovery has been OPEC’s decision to restrain production, as well as increasing demand from developing countries in Asia. Political instability across North Africa and the Middle East has caused some price volatility but has also provided general support for a higher oil price.



## 4 Profile of Aurora

### 4.1 Background

Aurora is an Australian company focused on oil and gas exploration and production in the Eagle Ford shale in South Texas in the United States. Aurora's principal interests are located in the liquids-rich Sugarkane oil and condensate field ("Sugarkane Field"). These consist of working interests in four contiguous Areas of Mutual Interest ("AMIs") operated by Marathon Oil Corporation ("Marathon") (Longhorn, Sugarloaf, Ipanema and Excelsior) and a 100% working interest in two other areas (Heard Ranch and Axle Tree). Aurora also owns a 91.1% operated working interest in the Eaglebine prospect in East Texas. Aurora is listed on the Australian Securities Exchange ("ASX") and Toronto Stock Exchange ("TSX") and had a market capitalisation of approximately A\$1.2 billion immediately prior to the announcement of the Proposal.

Aurora listed on the ASX in September 1986 as "Tony Barlow Australia Limited". On 4 April 2005, shareholders approved a reorganisation of capital, a change in the nature of activities to oil and gas exploration and development and a change in name to "Aurora Oil & Gas Limited". Following a placement of ordinary shares, Aurora shares resumed trading on 28 April 2005. On 25 February 2011 (Canadian time), Aurora's shares commenced trading on the TSX.

The Sugarkane Field was discovered in 2006 by two vertical wells drilled nine kilometres apart, one of which was drilled by Aurora's joint operating partner at the time. The discovery led Aurora to enter into joint operating arrangements relating to the Longhorn, Ipanema and Sugarloaf AMIs and to acquire nearby leasehold acreage. In September 2009, Aurora and its partners completed a farm-in transaction that resulted in Hilcorp Energy Corporation ("Hilcorp") farming-in to the acreage at Sugarkane. Hilcorp completed its obligations under its farm-in agreements in late 2010. In November 2011, Marathon acquired Hilcorp's acreage within the Eagle Ford, including its interests in the Sugarkane Field, and assumed operatorship of the AMIs.

From late 2010 to March 2013, Aurora built up its interest in the Sugarkane Field through a series of transactions:

- in December 2010, Aurora acquired a 9.1% working interest in the Excelsior AMI and increased its working interests in the Longhorn, Ipanema and Sugarloaf AMIs to 31.9%, 36.4% and 15.8% respectively. The total consideration for these acquisitions was approximately US\$120 million;
- on 15 May 2012, Aurora announced the acquisition of an additional 6% interest in the Sugarloaf AMI for US\$95 million, providing an additional 1,440 net acres of Sugarkane interest;
- on 13 August 2012, Aurora acquired Eureka Energy Limited ("Eureka"), an ASX-listed oil and gas company focused on Eagle Ford. Aurora thereby increased its interest in the Sugarloaf AMI by a further 6.25% and acquired interests in undeveloped acreage in non-core areas of the Eagle Ford. Many of these non-core leases have subsequently been allowed to lapse; and
- on 29 March 2013, Aurora acquired a 100% working interest in and assumed operatorship of the Heard Ranch and Axle Tree AMIs for US\$117.5 million. The Axle Tree and Heard Ranch AMIs are adjacent or close to Aurora's other Sugarkane AMIs and are in production.

In 2013, Aurora acquired interests representing a 91.1% interest (operated) in leasehold acreage in the Eaglebine area in East Texas. The acreage is on trend with the Eagle Ford and considered prospective for hydrocarbons. No reserves have been delineated at this exploration prospect to date.



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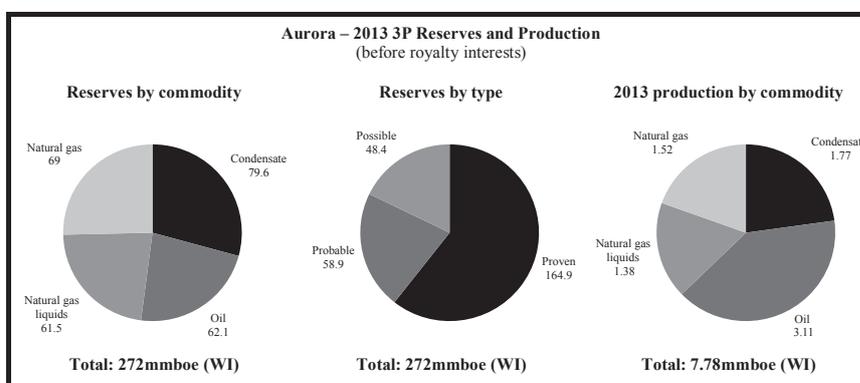
Aurora's portfolio of hydrocarbon interests as at 4 April 2014 can be summarised as follows:

<b>Aurora's Mineral Assets</b>			
AMI	Working interest	Gross acres	Net acres
<b>Sugarkane</b>		<b>80,200</b>	<b>22,200</b>
<i>Non-operated</i>		<i>77,400</i>	<i>19,400</i>
- Sugarloaf	28.1%	24,000	6,750
- Longhorn	31.9%	28,500	9,100
- Ipanema	36.4%	4,800	1,750
- Excelsior	9.1%	20,100	1,800
<i>Operated</i>		<i>2,800</i>	<i>2,800</i>
- Heard Ranch	100%	1,700	1,700
- Axle Tree	100%	1,100	1,100
<b>Eaglebine</b>		<b>15,000</b>	<b>14,000</b>
Operated	91.1%	15,000	14,000
<b>Total</b>		<b>95,200</b>	<b>36,200</b>

Source: Aurora

Marathon has a majority interest in and is the operator of the Sugarloaf, Longhorn, Ipanema and Excelsior AMIs.

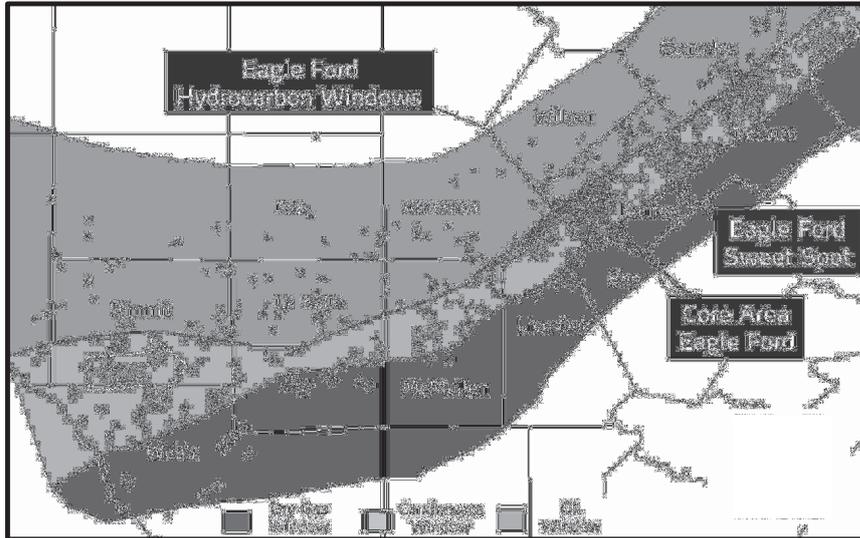
Aurora's share of 3P reserves as at 31 December 2013 was 272mmboe before royalties (201mmboe net of royalties) with oil and condensate accounting for approximately half of the reserve volumes and 85-90% of the value based on current commodity prices. Its share of production for the year ended 31 December 2013 was 7.78mmboe before royalties (5.74mmboe net of royalties). Aurora's production is expected to increase substantially as development of the Sugarkane Field progresses.



Source: Aurora

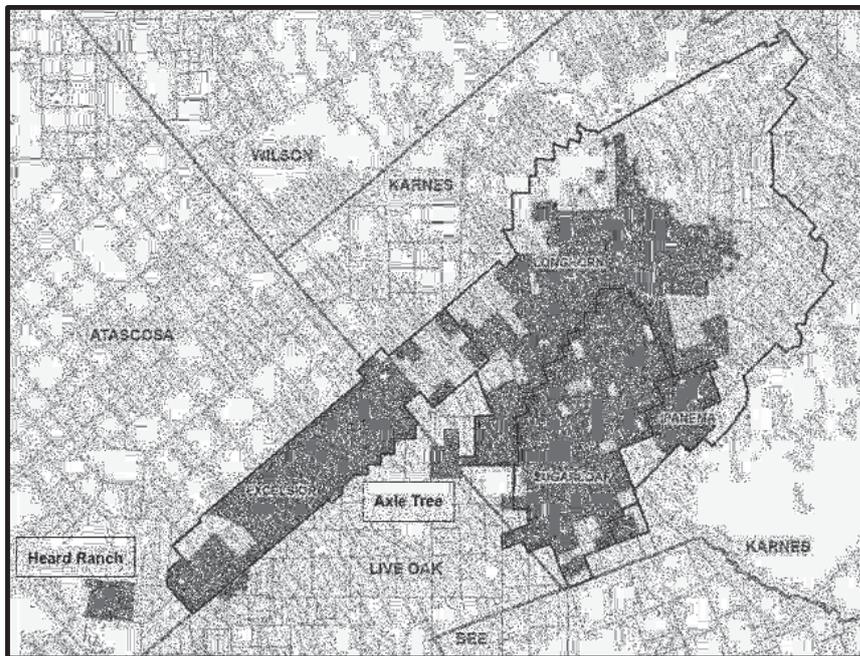


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Source: Aurora

With most of its acreage located within Karnes county, Aurora has a high exposure to the most productive areas in the Eagle Ford shale trend.



Source: Aurora

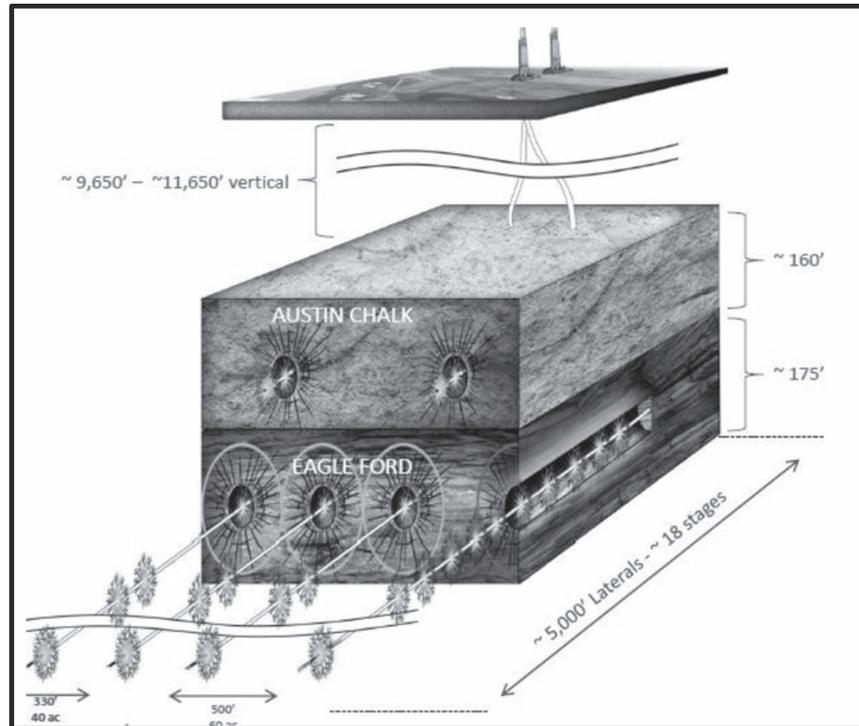
Note: Shaded areas represent leases in which Aurora holds an interest within the AMI boundary



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The required horizontal and vertical spacing are achieved below ground as illustrated below:



Source: Aurora

Each well can be developed independently of the others, which provides flexibility in terms of the development schedule. In particular, the development program has allowed Aurora and its partners to first develop the wells to secure the leases and then to focus on infill drilling to optimise production rates and ultimate recoveries. It will provide the ability to accelerate or slow down development in response to capital constraints or external economic factors (e.g. changes in oil price).

Because the Sugarkane Field is over-pressured, it benefits from high initial rates of production and high ultimate recoveries per well (although with production tails of several decades). The high oil and condensate yields further boost the economics of the wells as oil and condensate attract prices close to oil price benchmarks, by comparison with the much lower prices received for natural gas liquids and dry gas. These favourable production characteristics result in payback periods of one to two years on upfront capital costs of US\$6.5-10.5 million per well. Variations in the total depth and the length of lateral drilling of wells gives rise to the range in well costs.

The products extracted from the wells are transported through a network of pipelines to central processing facilities where oil/condensate, gas and water are separated, oil/condensate is treated to sales quality and gas is processed and compressed for export. Production will be underpinned by 11 processing facilities at the non-operated acreage, of which the final two are expected to be constructed in 2014, and two processing facilities at the operated acreage. The processing facilities are expected to be sufficient to support operations at currently anticipated full production rates. The liquids and gas are then piped to refineries through regional infrastructure, which is expected to support production growth at the field.

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**Reserves**

Reserves as at 31 December 2013 have been independently evaluated by Ryder Scott Company L.P. Aurora's working interests in the reserves (before royalties and after royalties) can be summarised as follows:

<b>Aurora Reserves (31 December 2013)<sup>3</sup></b>											
	Oil (mmbbl)		Condensate (mmbbl)		NGL <sup>4</sup> (mmbbl)		Gas (bcf)		Total (mmboe)		
	WI	Net	WI	Net	WI	Net	WI	Net	WI	Net	
Proved:											
- developed producing	14.1	10.4	6.7	4.9	6.5	4.8	42.9	31.7	34.4	25.4	
- developed non-producing	0.6	0.5	0.0	0.0	0.0	0.0	0.2	0.2	0.7	0.5	
- undeveloped	34.4	25.3	37.1	27.4	27.5	20.2	184.8	136.3	129.8	95.6	
<b>Proved (1P)</b>	<b>49.1</b>	<b>36.2</b>	<b>43.8</b>	<b>32.3</b>	<b>34.0</b>	<b>25.1</b>	<b>227.9</b>	<b>168.1</b>	<b>164.9</b>	<b>121.5</b>	
Probable	11.6	8.6	16.3	12.1	14.6	10.8	98.3	73.0	58.9	43.8	
<b>Proved + Probable (2P)</b>	<b>60.7</b>	<b>44.8</b>	<b>60.2</b>	<b>44.4</b>	<b>48.6</b>	<b>35.9</b>	<b>326.2</b>	<b>241.0</b>	<b>223.8</b>	<b>165.3</b>	
Possible	1.4	1.0	19.4	14.3	13.0	9.5	87.8	64.4	48.4	35.5	
<b>Proved + Probable + Possible (3P)</b>	<b>62.1</b>	<b>45.8</b>	<b>79.6</b>	<b>58.7</b>	<b>61.5</b>	<b>45.4</b>	<b>414.0</b>	<b>305.4</b>	<b>272.2</b>	<b>200.8</b>	

Source: Aurora

Note: Numbers may not add up due to rounding

Reserves have been delineated for all three horizons (the Eagle Ford, Austin Chalk and Pearsall) and are based on a five-year plan which contemplates the drilling of an additional 1,328 production wells in addition to the 393 existing wells:

<b>Aurora Reserves and Gross Well Count (31 December 2013)<sup>5</sup></b>								
	Eagle Ford		Austin Chalk		Pearsall		Total	
	mmboe WI	Well count Gross	mmboe WI	Well count Gross	mmboe WI	Well count Gross	mmboe WI	Well count Gross
Proved:								
- developed producing	33.6	386	0.9	5	-	-	34.4	391
- developed non-producing	0.7	2	-	-	-	-	0.7	2
- undeveloped	124.7	854	5.0	18	-	-	129.8	872
<b>Total proved</b>	<b>159.0</b>	<b>1,242</b>	<b>5.9</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>164.9</b>	<b>1,265</b>
Probable	19.9	83	39.0	162	-	-	58.9	245
<b>Proved + Probable</b>	<b>178.9</b>	<b>1,325</b>	<b>44.9</b>	<b>185</b>	<b>-</b>	<b>-</b>	<b>223.8</b>	<b>1,510</b>
Possible	2.8	17	42.9	159	2.7	35	48.4	211
<b>Proved + Probable + Possible</b>	<b>181.7</b>	<b>1,342</b>	<b>87.8</b>	<b>344</b>	<b>2.7</b>	<b>35</b>	<b>272.2</b>	<b>1,721</b>

Source: Aurora

Note: Numbers may not add up due to rounding

Reserve estimates as at 31 December 2013 reflect the fact that the Eagle Ford formation has been drilled and therefore proved over most of the Sugarkane acreage whereas only part of the Austin Chalk formation has been drilled and proven and the Pearsall horizon has had only limited drilling in some areas:

- proved reserves relate mainly to the Eagle Ford and require the ultimate development of 1,265 wells on 40 acre or greater units for the Eagle Ford and 60 acre units for the Austin Chalk;
- the development plan for probable reserves is based on the addition of 83 wells targeting the Eagle Ford formation to be developed subject to dual unit approval or pooling arrangements with owners of third party acreage, and the drilling of 162 wells targeting the Austin Chalk formation in locations adjacent to proved Austin Chalk reserve locations. The additional 83

<sup>3</sup> WI reserves correspond to Aurora's share of reserves before royalties. Net reserves correspond to Aurora's share of reserves after royalties.

<sup>4</sup> Natural Gas Liquids.

<sup>5</sup> Reserves shown correspond to Aurora's share before royalties. The well count reflects gross well count (i.e. total well count across the Sugarkane Field).

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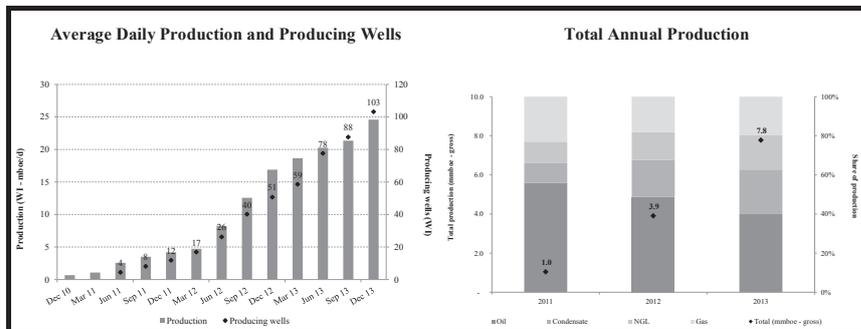


Eagle Ford wells are assumed to achieve higher recoveries than the wells required to produce proved reserves; and

- possible reserves mainly relate to additional well locations targeting the Austin Chalk formation. Estimated possible reserves also assume the development of nine wells over two 30 acre pilot units due to be evaluated in 2014 and eight wells to be developed subject to agreeing to pooling arrangements with third parties at Eagle Ford. A further 35 wells targeting the Pearsall formation are also assumed to be developed on 160 acre plots.

### **Production**

First production for the AMIs in which Aurora participates occurred in mid-2010. Production has increased steadily since then and is expected to continue to do so as development of the field continues. Aurora's share of production of natural gas liquids and gas, which attract relatively lower prices than oil and condensate, increased in 2013, resulting in a lower blended price than in 2012. Aurora's share of producing wells, average daily production and annual production (before royalties) is shown below:



Source: Aurora

### **Marketing**

Oil and condensate from the non-operated AMIs are sold under five-year contracts and piped to local refineries. Oil and condensate from the operated AMIs are delivered by truck to Corpus Christi, where they are sold against a seaborne marker (Louisiana Light Sweet) which has traded at a premium to WTI. Aurora's realised oil and condensate prices were at an average premium of US\$0.50-1.50 per barrel over the WTI benchmark for 2013.

Gas is sold as domestic gas under contracts expiring in 2016-2018 at prices based on the Houston Ship Channel Pricing and adjusted for processing and transport fees.

The NGLs are sold under the same contracts with pricing dependent on the composition of the gas and linked to a local benchmark (Mont Belvieu) adjusted for processing and transport fees.

Production from the non-operated AMIs is marketed by Marathon.

### **Fiscal regime**

The Sugarkane Field is subject to the following local, state and Federal taxes:

- Texas severance taxes levied on net production (i.e. after deduction of share of production attributable to lease holders) as follows:
  - 4.6% of the sale value of the oil and condensate;
  - 7.5% less an effective rebate of 2% on the well head net back value of gas; and
  - 7.5% on the well head net back value of natural gas liquids.



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### 4.3 Financial Performance

The financial performance of Aurora for the three years ended 31 December 2013 is summarised below:

<b>Aurora - Financial Performance (US\$ millions)</b>			
	Year ended 31 December		
	2011 actual	2012 actual	2013 actual
<i>Production statistics</i>			
Oil (mmbbl - gross)	-	1.9	3.1
Condensate (mmbbl - gross)	0.7	0.7	1.8
NGL (mmbbl - gross)	0.1	0.6	1.4
Gas (mmscf - gross)	1.4	4.2	9.1
<b>Total production (mmboe - gross)</b>	<b>1.0</b>	<b>3.9</b>	<b>7.8</b>
Average WTI spot price (US\$/bbl) <sup>6</sup>	95.1	94.1	98.0
<i>Financials</i>			
Sales revenue	75.1	294.9	565.5
Royalties	(20.1)	(77.6)	(149.4)
Net sales revenue	55.0	217.3	416.1
<b>EBITDAX<sup>7</sup></b>	<b>39.7</b>	<b>167.5</b>	<b>328.6</b>
Exploration and evaluation costs	(0.7)	(4.9)	(0.5)
Depletion, depreciation and amortisation	(4.4)	(39.2)	(83.6)
Other income	1.1	5.0	0.2
Other expenses	(4.1)	(4.4)	(5.4)
<b>EBIT<sup>8</sup></b>	<b>31.7</b>	<b>124.0</b>	<b>239.2</b>
Net financing costs	0.5	(27.8)	(59.4)
<b>Operating profit before tax</b>	<b>32.2</b>	<b>96.2</b>	<b>179.8</b>
Significant items	-	-	(0.3)
<b>Profit / (loss) before tax</b>	<b>32.2</b>	<b>96.2</b>	<b>179.4</b>
Income tax expense	(1.6)	(37.4)	(63.0)
<b>Profit / (loss) after tax</b>	<b>30.6</b>	<b>58.8</b>	<b>116.4</b>
Outside equity interests	-	-	-
<b>Profit after tax attributable to Aurora shareholders</b>	<b>30.6</b>	<b>58.8</b>	<b>116.4</b>
<i>Statistics</i>			
<i>EBITDAX margin</i>	52.9%	56.8%	58.1%
<i>EBIT margin</i>	42.2%	40.9%	41.3%
<i>EBITDAX per boe (US\$/bbl)</i>	38.09	42.85	42.25
<i>Basic earnings per share (cps)</i>	0.07	0.14	0.26

Source: Aurora and Grant Samuel analysis

<sup>6</sup> Average price over the period sourced from Bloomberg.

<sup>7</sup> EBITDAX is earnings before net interest, tax, depletion, depreciation and amortisation, investment income, significant and on-recurring items and exploration and evaluation expenses.

<sup>8</sup> EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

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Aurora's financial performance over the period under review reflects Aurora's growing attributable production as its Sugarkane interests have been progressively developed:

- the year ended 31 December 2011 was the first year Aurora generated meaningful production;
- the relative contribution of NGL to total production has increased over the period resulting in lower blended prices;
- depletion, depreciation and amortisation expense largely relates to the amortisation of the carrying value of oil and gas properties, the cost of which consists of capitalised exploration and evaluation expenditure; and
- although Aurora has reported accounting profits, the company has so far not paid any taxes, and does not expect to pay any taxes in the short term:
  - the US taxpaying entities are able to write-off the sub-surface capital costs of well developments in the year they are incurred and to use accumulated US tax losses to shield profits;
  - the company generates little or no profits in Australia.

**Outlook**

Aurora has released production, capital expenditure, and well spud guidance for the 2014 financial year as follows:

<b>Aurora – 2014 Guidance (\$ millions)</b>		
	2014 guidance range	
	Low	High
<b><i>Wells spud (net)</i></b>	<b>52</b>	<b>56</b>
Operated	5	5
Non-operated	47	51
<b><i>Wells brought into production (net)</i></b>	<b>50</b>	<b>54</b>
<b><i>Production</i></b>		
Average net daily production (boe/d)	21,500	23,500
Net total production (mmboe)	7.8	8.6
<b><i>Capital expenditure (US\$m)</i></b>		
Development drilling	415	451
Operated	47	49
Non-operated	368	402
Facilities, land and other	40	44
<b>Total capital expenditure</b>	<b>455</b>	<b>495</b>

Source: Aurora

Aurora is anticipating production growth of approximately 35-50% in 2014 through the addition of 50-54 producing wells (net), mostly on its non-operated acreage. Capital expenditure of US\$455 - 495 million, primarily relating to drilling in the non-operated acreage, is expected to be funded from cash reserves, a US\$300 million bank facility (undrawn as at 31 December 2013) and operating cash flows.





#### 4.4 Financial Position

The financial position of Aurora as at 31 December 2013 is summarised below:

<b>Aurora - Financial Position (US\$ millions)</b>	
	<b>As at 31 December 2013 actual</b>
Debtors and prepayments	73.0
Creditors, accruals and provisions	(206.4)
<b>Net working capital</b>	<b>(133.4)</b>
Property, plant and equipment (net)	156.2
Oil and gas properties	1,320.2
Tax assets (net)	(145.7)
Provisions	(2.8)
Other (net)	(5.6)
<b>Total funds employed</b>	<b>1,188.9</b>
Cash and cash equivalents	42.4
Bank loans, other loans and finance leases	(661.0)
<b>Net borrowings</b>	<b>(618.6)</b>
<b>Net assets</b>	<b>570.3</b>
Outside equity interests	0.0
<b>Equity attributable to Aurora shareholders</b>	<b>570.3</b>
<i>Statistics</i>	
<i>End of period no. of ordinary shares (million)</i>	<i>448.5</i>
<i>Net assets per share</i>	<i>1.3</i>
<i>Gearing<sup>9</sup></i>	<i>52.0%</i>

Source: Aurora and Grant Samuel analysis

The following should be noted in relation to Aurora's financial position as at 31 December 2013:

- Aurora's cash and cash equivalents are principally held with banks and financial institutions based in the United States;
- property, plant and equipment primarily relates to production facilities and field equipment;
- oil and gas properties relate to capitalised exploration and evaluation expenditure for producing and development projects. Producing assets accounted for US\$1,243 million of the total as at 31 December 2013; and
- Aurora's borrowings as at 31 December 2013 consisted of senior unsecured notes of US\$661 million. Aurora had access to an additional US\$300 million under an undrawn senior secured revolving credit facility.

As at 1 January 2014, Aurora had entered into hedge contracts totalling approximately 2.1mmbbl of oil/condensate for 2014 and 0.3mmbbl from January 2015. The 2014 hedges cover approximately 39% of expected oil and condensate production (net of royalties) based on the mid-point of Aurora's 2014 production guidance. The table below presents a summary of Aurora's hedge book as at 1 January 2014:

<sup>9</sup> Gearing is net borrowings divided by net assets plus net borrowings.

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<b>Aurora – Hedging Summary as at 1 January 2014</b>									
	Swaps - WTI			Zero cost collars - WTI				Total	
	Oil hedged mbbls	Hedge price US\$/bbl	Gross value US\$m	Oil hedged mbbls	Floor price US\$/bbl	Cap price US\$/bbl	Gross value US\$m	Oil hedged mbbls	Gross value US\$m
2014	1,834	92.97	170.5	270	80.0	98.7	21.6	2,104	192.1
2015	258	91.72	23.6	-	-	-	-	258	23.6
<b>Total</b>	<b>2,092</b>	<b>92.81</b>	<b>194.1</b>	<b>270</b>	<b>80.0</b>	<b>98.7</b>	<b>21.6</b>	<b>2,362</b>	<b>215.8</b>

Source: Aurora

#### 4.5 Cash Flow

Aurora's cash flows for the three years ended 31 December 2013 are summarised below:

<b>Aurora - Cash Flow (US\$ millions)</b>			
	Year ended 31 December		
	2011 actual	2012 actual	2013 actual
Receipts from oil and gas sales	62.3	221.5	579.3
Payments to suppliers and employees	(27.4)	(67.4)	(243.0)
<b>Cash flows from operations</b>	<b>34.9</b>	<b>154.1</b>	<b>336.2</b>
Payments for oil and gas assets	(64.5)	(452.6)	(482.3)
Payments for property, plant and equipment	(12.2)	(51.4)	(89.1)
Payments for acquisition of subsidiary	-	(98.8)	-
Acquisition costs	-	(4.9)	-
<b>Cash flows from investing</b>	<b>(76.7)</b>	<b>(607.7)</b>	<b>(571.4)</b>
Net interest and other finance costs	(1.6)	(22.5)	(59.2)
Other items	(1.6)	0.9	(0.7)
Net proceeds from share issues	38.9	115.0	0.0
Net proceeds from borrowings	30.0	355.6	270.0
<b>Net cash generated (used)</b>	<b>23.9</b>	<b>(4.6)</b>	<b>(25.1)</b>
<i>Net cash (borrowings) – opening</i>	<i>46.0</i>	<i>70.2</i>	<i>67.6</i>
<i>Effects of movements in foreign exchange</i>	<i>0.4</i>	<i>1.9</i>	<i>(0.1)</i>
<i>Net cash (borrowings) – closing</i>	<i>70.2</i>	<i>67.6</i>	<i>42.4</i>

Source: Aurora and Grant Samuel analysis

Aurora's cash flows over the three years ended 31 December 2013 reflect the company's transition to producer status, its continued investment in the development of its operations and resulting increase in production, and the acquisition of additional acreage.

#### 4.6 Taxation Position

At 31 December 2013, Aurora had carried forward income tax losses of:

- US\$580 million for the US taxpaying entities. These losses are fully available to offset future profits of the US taxpaying entities although a change of control in Aurora would trigger restrictions on the amount of losses that can be used in any given year; and
- approximately A\$1 million for the Australian taxpaying entities.

Aurora had no carried forward US or Australian capital losses.

As Aurora does not pay tax in Australia, it has no accumulated franking credits.



## 4.7 Capital Structure and Ownership

### 4.7.1 Capital Structure

As at 14 April 2014, Aurora had the following securities on issue:

- 448,785,778 ordinary shares;
- 7,050,000 unlisted options over unissued ordinary shares. The options have expiry dates that range from 30 April 2015 to 15 May 2020 and exercise prices in the range A\$1.60 to A\$5.00 per share. Each option on issue is exercisable into one ordinary share and has no dividend entitlement or voting right; and
- 2,404,823 performance share rights over unissued ordinary shares.

Employee options and performance rights generally lapse on termination of employment or on the expiry date and director options lapse on the expiry date.

### 4.7.2 Ownership

At 14 April 2014, there were 2,663 registered shareholders in Aurora. Other than Jonathan Kingsley Stewart and Trevor and Rhonda Nairn, the top twenty registered shareholders are nominee companies.

As at 14 April 2014, Aurora has received the following substantial shareholder notices:

<b>Aurora – Substantial Shareholders as at 14 April 2014</b>		
Shareholder	Number of Shares	Percentage
Harbour Advisors (a business unit of CI Investments Inc)	35,300,000	7.9% <sup>10</sup>
Public Sector Pension Investment Board	27,477,815	6.1%
Stirling Global Value Fund Inc.	27,469,900	6.1%

Source: Aurora

## 4.8 Share Price Performance

### 4.8.1 Share Price History

A summary of the price and trading history of Aurora since 1 January 2010 is set out below:

<sup>10</sup> The percentage has been adjusted for capital raisings since lodgement of the substantial notice in April 2011. Harbour Advisors' holding at the time of lodgement was 8.7%.



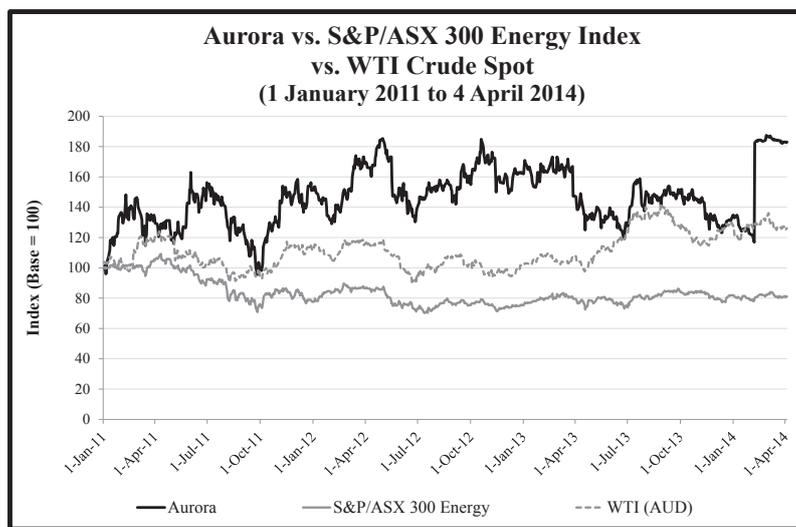
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Aurora has been a reasonably liquid stock, with the equivalent of the whole register turning over annually over the past three years.

**4.8.2 Relative Performance**

Aurora is a member of various indices including the S&P/ASX 100 index and the S&P/ASX 300 Energy index. At 4 April 2014, its weighting in these indices was 0.14% and 1.93% respectively. The following graph illustrates the performance of Aurora shares since 1 January 2010 relative to the S&P/ASX 300 Energy Index and the Bloomberg WTI Cushing Crude Oil spot price expressed in Australian dollars:



Source: IRESS

The Aurora share price increased from A\$0.28 to A\$2.24 during 2010, as the reserve potential of its Sugarkane interests became increasingly apparent. Since then, shares in Aurora have largely traded in line with the oil price.



## 5 Valuation of Aurora

### 5.1 Summary

Aurora has been valued in the range US\$1,520-1,734 million which corresponds to a value of A\$3.76-4.29 per share at an exchange rate of A\$1.00 = US\$0.90. The valuation represents the estimated full underlying value of Aurora assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Aurora shares to trade on the ASX in the absence of a takeover offer.

The value for Aurora is the aggregate of the estimated market value of Aurora's interests in the Sugarkane Field and other assets less external borrowings and non-trading liabilities. The valuation is summarised below:

Aurora - Valuation Summary					
	Report Section Reference	Value Range			
		US\$ million		A\$ million	
		Low	High	Low	High
Sugarkane	5.4	2,200	2,400	2,444	2,667
Eaglebine	5.5	11	15	12	17
Other assets and liabilities	5.6	(7)	(7)	(7)	(7)
Head office costs (net of savings)	5.7	(65)	(55)	(72)	(61)
<b>Enterprise value</b>		<b>2,139</b>	<b>2,353</b>	<b>2,377</b>	<b>2,616</b>
Net borrowings at 31 December 2013	5.8	(619)	(619)	(688)	(688)
<b>Value of equity</b>		<b>1,520</b>	<b>1,734</b>	<b>1,689</b>	<b>1,928</b>
Fully diluted shares on issue (millions)		449	449	449	449
<b>Value per share (\$)</b>		<b>3.39</b>	<b>3.86</b>	<b>3.76</b>	<b>4.29</b>

The principal approach to valuing Aurora's operating business was by discounted cash flow analysis. Three valuation scenarios were developed by Grant Samuel for Aurora's Sugarkane assets based on production rates, operating costs and capital costs developed by the independent technical specialist RISC. RISC's operating assumptions are summarised below and set out in detail in RISC's report in Appendix 4.

The model uses as its starting point the balance sheet of Aurora as at 31 December 2013 and projects US\$ denominated cash flows from 1 January 2014 to 31 December 2060. Projected ungeared after tax cash flows were discounted to a present value using a nominal after tax discount rate of 9.5-10.5%. Appendix 1 sets out a detailed analysis of the selection of this discount rate. Estimated US\$ values were translated to A\$ equivalents at the spot exchange rate of A\$1.00=US\$0.90.

The valuation reflects the particular attributes of Aurora and takes into account factors such as:

- its ownership of acreage in the "sweet spot" of one of the world's best tight oil plays. Aurora's Sugarkane Field interests exhibit highly favourable economics;
- the high level of confidence in reserve estimates for Aurora's interests (and therefore in ultimate recoveries), given that approximately 60% of the reserves are in the proved category and an additional 20% in the probable category;
- the favourable development characteristics of the Sugarkane Field. Nearly 400 wells (gross) have already been drilled in Aurora's AMIs and its Sugarkane Field interests are therefore relatively well understood. Well technology has matured rapidly and development of the wells can be easily replicated across the field. The processing and transport facilities are substantially completed and have sufficient capacity to support operations at full production rates; and

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- the funding profile for the Sugarkane Field interests. Although capital investment of approximately US\$2.4 billion (Aurora's share) is required over the next five years to fully unlock the value of the reserves, the project is expected to be self-funding from 2014 onwards.

On the other hand:

- the majority of Aurora's acreage (and production) is non-operated. Aurora does not control the development of its non-operated acreage and has only relatively limited information on the operator's development program for those AMLs. The fact that an acquisition of Aurora will not confer operator status for the bulk of its interests may reduce the attractiveness of Aurora to potential acquirers;
- although much of the development risk associated with the Sugarkane Field has been resolved, there remains a non-trivial level of development risk. Notwithstanding that nearly 400 wells have been drilled in the Sugarkane Field, this represents no more than around a quarter of the ultimate number of wells that will be required for a full field development;
- there appears to be limited reserve upside potential; and
- Aurora's corporate structure (with US assets ultimately held through an Australian holding company) may create tax inefficiencies from the perspective of the natural acquirers of Sugarkane Field interests (i.e. North American companies seeking exposure to unconventional plays), thus reducing the value realisable for Aurora and its interests.

### 5.2 Methodology

Grant Samuel's valuation of Aurora has been estimated by aggregating the estimated market value of its Sugarkane Field interests and the estimated value of its exploration interests, and deducting external borrowings and non-trading liabilities as at 31 December 2013. The value of the Sugarkane Field interests has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of Aurora represents Grant Samuel's assessment of the full underlying value of the company. It is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Aurora could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

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Grant Samuel's primary approach to the valuation of Aurora's oil and gas assets has involved the application of the DCF methodology. The discounted cash flow methodology involves the calculation of net present values by discounting expected future cash flows. Projected cash flows are discounted to a present value using discount rates that take into account the time value of money and risks associated with the cash flows. The discounted cash flow methodology is particularly appropriate for assets such as oil and gas projects where reserves are depleted over time and significant capital expenditure is required. By contrast, capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology is in particular not suitable for the valuation of Aurora's business operations which have high upfront capital expenditure requirements and substantial variations in cash flows and earnings in the early years.

Grant Samuel developed a cash flow model for Aurora's Sugarkane Field interests on the basis of operating scenarios developed by RISC, which were based on field development and production plans provided by Aurora. RISC reviewed each of the technical assumptions in Aurora's operating models, including those regarding reserve estimates, production profiles, operating costs, capital costs and the potential for reserve extensions, and made adjustments to these assumptions when appropriate. Grant Samuel determined the economic and financial assumptions used in the cash flow models. The net present value of the Sugarkane Field interests has been calculated on an ungeared after tax basis as at 1 January 2014.

Alternative valuation methodologies have been considered as secondary evidence of value as to the value of Aurora's Sugarkane acreage. In particular, the estimates of value have been reviewed to the extent possible and appropriate in terms of multiples of oil and gas reserves and of field acreage, which are metrics commonly used to assess values in the oil and gas sectors. The valuation metrics, while relatively crude, are useful in assessing the reasonableness of a discounted cash flow valuation since the discounted cash flow valuation is typically sensitive to the assumptions adopted.

The valuation of the Sugarkane Field interests represents Grant Samuel's overall judgement as to value. It does not rely on any one particular scenario or set of economic assumptions. The valuation has been determined having regard to the sensitivity of the DCF analysis to a range of technical and economic assumptions. It incorporates Grant Samuel's judgemental assessment of the impact on value of development status and optionality, to the extent not reflected in the DCF analysis.

The valuation is based on a number of important assumptions, in particular assumptions regarding future oil and gas prices, and reflects the technical judgements of RISC regarding the prospects for Aurora's Sugarkane operations. Oil and gas prices and expectations regarding future operating parameters can change significantly over short periods of time. Such changes can have significant impacts on underlying value. Accordingly, while the values estimated are believed to be appropriate for the purpose of assessing the Transaction, they may not be appropriate for other purposes or in the context of changed economic circumstances or different operational prospects for the oil and gas assets of Aurora.

### 5.3 Valuation Assumptions

The valuation of Aurora's Sugarkane Field interests has been determined by reference to DCF valuation analysis. This analysis involves making a number of general assumptions regarding future oil and gas prices, economic factors and discount rates. The DCF analysis results in the calculation of estimated net present value ("NPV") under a range of assumptions. The calculated NPVs are sensitive to the assumptions used in the analysis and relatively small changes in certain variables can cause significant changes in value. For this reason, DCF valuations should be treated with caution.



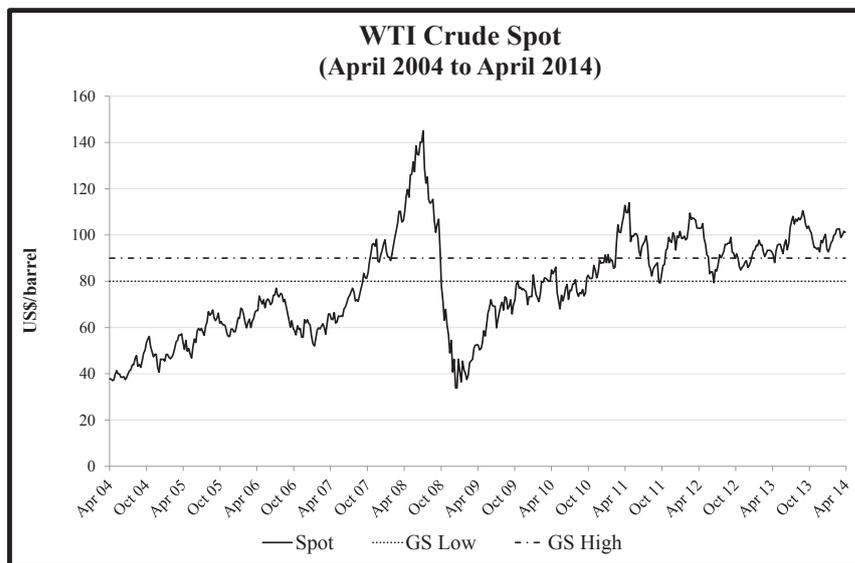
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The key assumptions are:

- WTI crude oil prices decreasing from the prevailing spot to a range of US\$80-90 per barrel from 2018 and flat thereafter;
- realised oil and condensate prices at a US\$1.00 net premium to WTI;
- natural gas prices of US\$4.25 per mscf (real);
- realised NGLs prices of approximately 30% of WTI;
- US inflation rates of 2.5% per annum;
- tax depreciation schedules determined on the basis of tax written down values for various asset categories. Accumulated carry forward expenditures deductible for tax purposes have been allowed for in the financial models;
- carry forward US tax losses as at 31 December 2013 of US\$580 million. US tax rules provide that an acquirer of Aurora can use Aurora’s pre-acquisition tax losses to shield assessable income of up to approximately US\$60 million per annum; and
- nominal discount rates for the discounted cash flow valuations in the range 9.5-10.5%. The discount rates represent estimates of the costs of capital for investors in oil and gas projects such as the Sugarkane Field, derived in the North American market. The rates are estimates of weighted average costs of capital and have been applied to expected future ungeared after-tax cash flows. The basis for the selection of the rates is set out in Appendix 1.

The valuation was based on current oil prices and expectations of future oil prices prevailing in late March 2014. Grant Samuel has assumed WTI crude prices (in real terms) in the range US\$80-90 per barrel from 2018 for valuation purposes. The WTI price assumptions compared to historical WTI prices is shown below:



Source: Bloomberg

Note: Historical prices are in nominal terms whereas Grant Samuel price assumptions are in 2014 dollars.



The WTI crude price assumptions adopted for the purposes of the valuation of Aurora's Sugarkane assets are broadly consistent with the range of forecast price assumptions used by market analysts. However, assumptions regarding future oil prices are inherently subject to considerable uncertainty as market evidence falls within a very wide range:

- the WTI oil price has been fairly volatile, with oil broadly trading in a range of US\$80-110 per barrel in the last three years and US\$90-110 per barrel in the last 12 months;
- although the majority of forecasts of WTI oil prices by industry analysts, commentators and corporate participants fall within a relatively narrow range of US\$80-90 per barrel (from 2018, real terms), there are widely varying views with some participants forecasting much lower or much higher prices than the range selected by Grant Samuel for valuation purposes; and
- the Nymex WTI Futures Contract curve in mid-March 2014 slopes down to approximately US\$80 per barrel by December 2022, which corresponds to approximately US\$65 per barrel in real terms<sup>11</sup>. Although prices of futures contracts are not necessarily directly correlated to forecast spot prices, they are used by some market participants for their investment decisions.

The value of Aurora's Sugarkane interests could vary significantly with changes in oil price expectations. The assumptions in relation to future oil prices adopted by Grant Samuel do not represent forecasts by Grant Samuel but are intended to reflect the range of assumptions that could reasonably be adopted by industry participants in their pricing of Aurora and its assets.

#### 5.4 Value of Aurora's Sugarkane Field Interests

Grant Samuel has valued Aurora's Sugarkane Field interests in the range US\$2,200-2,400 million.

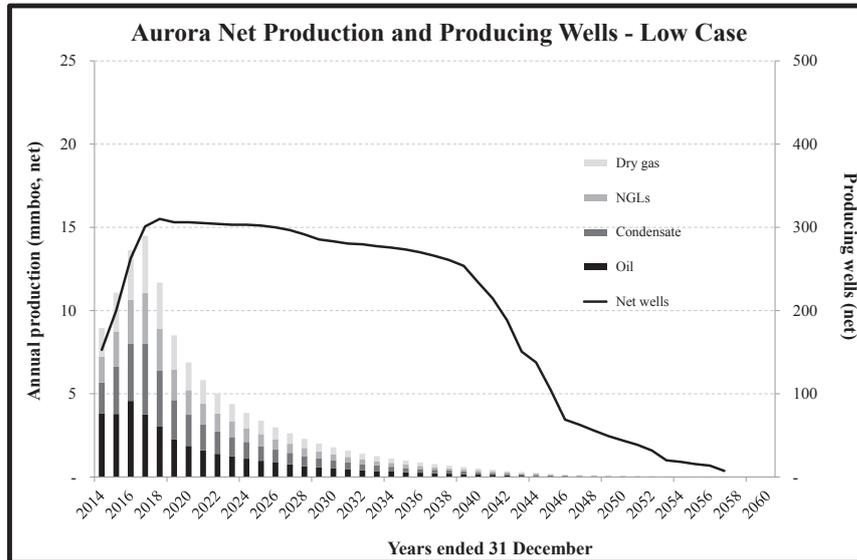
Grant Samuel developed a cash flow model for Aurora's Sugarkane asset based on operating scenarios developed by RISC using development and production plans provided by Aurora.

The Low Case is based on the development plan underpinning the proved reserves as at 31 December 2013. RISC has adopted Aurora's assumptions in relation to hydrocarbon inventory, number of wells, recoveries and capital and operating costs. RISC assumes a more rapid drilling schedule than reflected in the 1P reserves but in line with the drilling schedule of the 3P reserves development plan and consistent with Aurora's expectations. Case 1 adds 874 wells (gross) to the 391 wells (gross) already producing as at 31 December 2013. Of these, 38 wells (gross) were drilled in 2013 and are expected to start producing in 2014. Recovered volumes are equal to 1P volumes and are extracted mostly from the Eagle Ford formation. The following chart shows the breakdown of production by product (Aurora working interest, net of royalties) and net producing wells for the Low Case:

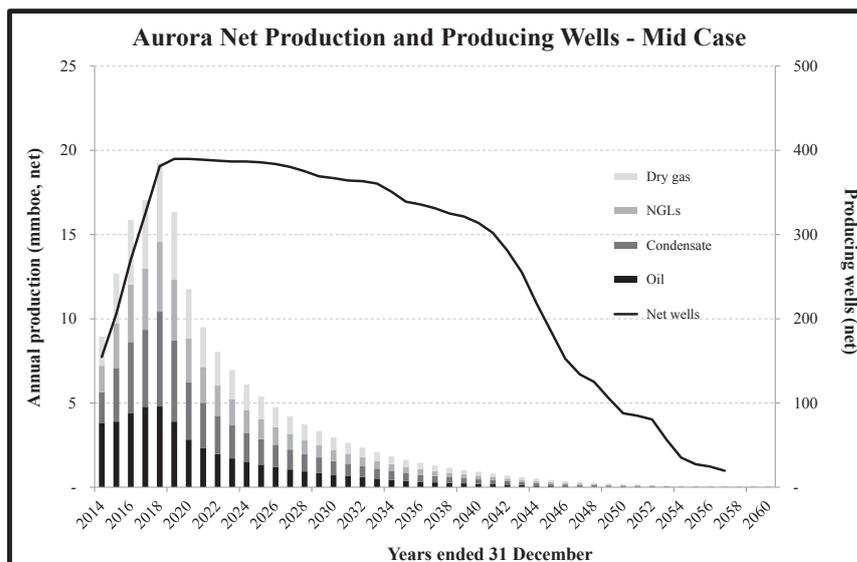
<sup>11</sup> Based on the Nymex WTI Futures Contract curve sourced from Bloomberg on 13 March 2014 and assuming US inflation around 2.5% per annum.



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The Mid Case is similarly largely consistent with the 2P reserves development plan, although with higher assumed recoveries for the proved wells and a faster drilling schedule, in line with that of the Low Case. The Mid Case assumptions result in the drilling of an additional 245 wells (gross) and the projected production of an incremental 56 mmboe (net or royalty interests) of hydrocarbons relative to volumes produced in the Low Case. Recovered volumes are 8% higher than 2P reserves volumes, reflecting the higher recovery factors applied to the proved wells. Furthermore, the combination of a faster drilling schedule and the application of higher recovery assumptions to the proved wells results in a faster ramp up of production than would occur in a 2P development scenario. Incremental volumes are sourced from both the Eagle Ford and Austin Chalk formations.





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<b>Aurora Sugarkane Field Interests – Model Parameters</b>								
	Year ended 31 December							Total
	2014	2015	2016	2017	2018	2019	2020+	
<b>Low Case</b>								
Producing wells (net)	153	200	263	301	310	306	-	-
Total production (mmboe, net)	9.0	11.1	13.6	14.5	11.7	8.5	53.2	121.5
Capex (US\$m, net)	435	435	490	283	33	-	18	1,694
Opex (US\$m, net)	48	60	73	83	73	59	686	1,082
<b>Mid Case</b>								
Producing wells (net)	155	206	270	325	381	390	-	-
Total production (mmboe, net)	8.9	12.7	15.9	17.0	19.3	16.3	88.1	178.3
Capex (US\$m, net)	427	404	500	470	415	47	23	2,285
Opex (US\$m, net)	48	69	86	94	108	98	1,002	1,504
<b>High Case</b>								
Producing wells (net)	158	222	293	372	444	455	-	-
Total production (mmboe, net)	9.1	14.5	17.7	19.6	23.6	20.2	108.9	213.6
Capex (US\$m, net)	471	507	581	662	565	55	27	2,867
Opex (US\$m, net)	49	78	95	108	132	121	1,223	1,807

Grant Samuel has calculated net present values for the three scenarios for a range of assumptions regarding future oil prices and discount rates:

<b>Aurora Sugarkane Field Interests – Results of Financial Analysis</b>				
	Discount rate	Oil Price Scenarios		
		US\$80/bbl	US\$85/bbl	US\$90/bbl
<b>Low Case</b>	9.5%	1,701	1,845	1,990
	10.0%	1,652	1,793	1,934
	10.5%	1,605	1,743	1,881
<b>Mid Case</b>	9.5%	2,281	2,479	2,677
	10.0%	2,209	2,401	2,594
	10.5%	2,140	2,328	2,516
<b>High Case</b>	9.5%	2,476	2,705	2,935
	10.0%	2,392	2,616	2,839
	10.5%	2,313	2,530	2,747

The results summarised above show the impact of relatively small changes in the future oil price assumption on the calculated NPVs: a US\$5.00 per barrel difference in the future oil price changes the calculated value for the Sugarkane Field interests by approximately US\$190 million or approximately A\$0.47 per share based on Mid Case operational inputs and a discount rate of 10.0%.

Relative to a future oil price assumption of US\$85 per barrel, adopting a future WTI oil price of US\$70 per barrel (i.e. a price broadly consistent with oil futures pricing) would reduce the calculated NPV for the Mid Case at a 10.0% discount rate by US\$470 million or A\$1.16 per share. Similarly, a future WTI assumption of US\$100 per barrel (i.e. a price consistent with the current spot price) results in an increase in NPV of US\$498 million, which corresponds to A\$1.23 per share.

Grant Samuel has also assessed the sensitivity of the mid case scenario (Mid Case operational inputs, US\$85/bbl WTI and 10.0% discount rate) to changes in the following variables:

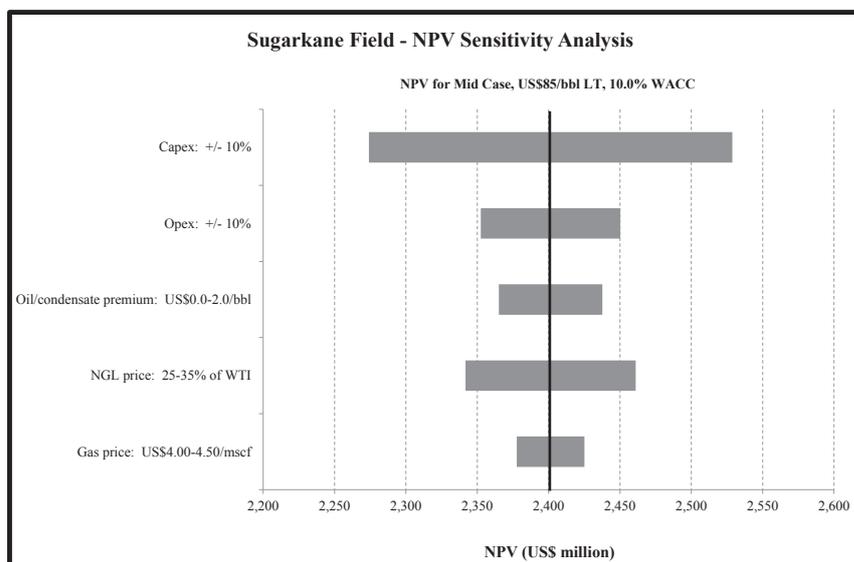
- variation of +/- 10% in capital costs (of which approximately 98% relates to well costs) to capture the uncertainty relating to well costs and well recovery performance:



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The outcome of the sensitivity analysis is summarised below:



These sensitivities do not, and do not purport to, represent the range of potential value outcomes for Aurora’s Sugarkane Field interests. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF analysis. In this regard, the net present value outcomes show a relatively wide range across the different scenarios, highlighting the sensitivity to relatively small changes in assumptions.

DCF based assessments of the value of Aurora’s Sugarkane Field interests are subject to considerable uncertainty given the sensitivity of the value of the Field to even relatively small changes in oil price assumptions, and the wide range of views held by market participants as to future oil prices. Accordingly, Grant Samuel has also considered valuation evidence based on acreage and reserve multiples. These benchmarks, while only crude indicators of value, do provide a useful cross-check of calculated NPVs.

Grant Samuel’s valuation of Aurora in the range US\$2,200-2,400 million implies the following multiples:

Aurora – Implied Valuation Parameters			
	Variable	Implied Multiples	
		Low	High
<b>Acreage (working interest)</b>	<b>Acres</b>	<b>US\$000’s/acre</b>	<b>US\$000’s/acre</b>
- Sugarkane	22,200	99.1	108.1
<b>Oil and gas reserves ( working interest net of royalties)</b>	<b>mboe</b>	<b>US\$/boe</b>	<b>US\$/boe</b>
- 1P	121.5	18.1	19.8
- 2P	165.3	13.3	14.5
- 3P	200.8	11.0	12.0

**Transaction Evidence**

Grant Samuel has reviewed the reserves and acreage multiples implied by its valuation of Aurora’s Sugarkane Field interests relative to the multiples implied by transactions involving companies

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with interests in the Eagle Ford. The following table summarises the analysis for transactions of greater than US\$50 million in the past three years:

<b>Recent Transaction Evidence – Eagle Ford</b>					
Date	Seller/Target	Transaction	Consid- eration <sup>12</sup> (US\$ millions)	IP Reserve Multiple <sup>13</sup> (US\$/boe) <sup>14</sup>	Net Acreage Multiple (US\$000's/acre)
Dec-13	Abraxas Petroleum Corporation	Eagle Ford interests acquired by undisclosed buyer	73	19.7 <sup>15</sup>	60.8
Nov-13	GeoSouthern	GeoSouthern's Eagle Ford assets acquired by Devon Energy	6,000	23.1	73.2
Jul-13	Chesapeake	Eagle Ford and Haynesville formations acquired by Exco	997	24.2	15.4
Apr-13	Magnum Hunter Corporation	Eagle Ford shale assets acquired by Penn Virginia	401	33.4	21.1
Mar-13	Hess Corporation	Hess Corporation's Eagle Ford assets acquired by Sanchez Energy	265	19.8	6.2
Mar-13	Heard Ranch and Axle Tree	Eagle Ford properties acquired by Aurora Oil & Gas	118	17.5	42.0
May-12	Paloma Partners II LLC	Acquired by Marathon Oil	750	n.a.	43.9
Apr-12	Eureka Energy Limited	Acquired by Aurora Oil & Gas	112	35.3	16.2
Jan-12	Hunt Oil Company	35% working interest in Eagle Ford shale oil and gas play acquired by Marubeni Corporation	1,300	n.a.	19.9 <sup>16</sup>
Jul-11	Petrohawk Energy Corporation	Acquired by BHP Billiton	12,073	28.0	15.9
Jun-11	Hilcorp Resources Holdings	Hilcorp's Eagle Ford shale assets acquired by Marathon Oil	3,500	35.0 <sup>17</sup>	24.8

Source: Grant Samuel analysis<sup>18</sup>

Further details on these transactions are set out in Appendix 2. The transactions set out above reflect a wide range of multiples reflecting factors such as reserve upside potential, field development status, mix of hydrocarbons produced, expectations in relation to oil and gas prices and well costs at the time of transaction, whether the target company was the operator of the acreage acquired and expected synergy benefits, among others. Although some of these transactions implied relatively high multiples of reserves based on certified IP estimates, multiples based on internal estimates of reserves at the time of acquisition were in some cases significantly lower (e.g. US\$11.1/mmboe for the Chesapeake acquisition and US\$15.4/mmboe for the Magnum Hunter acquisition). Overall, Grant Samuel believes that the multiples set out above provide broad support for its valuation of Aurora's Sugarkane Field interests.

<sup>12</sup> Relates to asset price or implied equity value if 100% of the company or business had been acquired.

<sup>13</sup> Represents gross consideration divided by certified proven reserves. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

<sup>14</sup> Multiples are based on the most recent publicly available information prior to the transaction announcement date.

<sup>15</sup> Multiples based on internal estimates of IP reserves.

<sup>16</sup> Multiple based on the total consideration of US\$1.3bn assumed to be paid over five years and discounted using a 10% discount rate.

<sup>17</sup> Multiple based on potential proved reserves by year end estimated by the company at the time of transaction.

<sup>18</sup> Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



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### *Sharemarket Evidence*

The following table sets out the implied reserves and acreage multiples for a range of listed comparable companies with a strong focus on the Eagle Ford based on share prices as at 4 April 2014:

<b>Sharemarket Ratings of Selected Listed Companies</b>			
<b>Entity</b>	<b>Market Capitalisation (US\$ millions)</b>	<b>1P Reserve Multiple<sup>19</sup> (US\$/boe)<sup>20</sup></b>	<b>Net Acreage Multiple (US\$000's/acre)</b>
SM Energy Company	4,938	14.6	n.a.
EP Energy Corporation	4,678	16.5	20.6
Rosetta Resources, Inc.	2,959	15.3	14.9
Carrizo Oil & Gas Inc.	2,385	30.8	18.2
Matador Resources Company	1,701	36.6	13.6
Sanchez Energy Corporation	1,538	33.5	12.4
Penn Virginia Corporation	1,100	17.3	12.3

Source: Grant Samuel analysis

A detailed analysis of these entities is set out in Appendix 3. The multiples for the listed entities are based on share prices and therefore do not include a premium for control. The companies in the sample trade on multiples in a wide range, reflecting differences in development status (share of developed reserves range from one third to almost half of 1P reserves), oil to gas ratios (share of condensate in the 1P reserves estimates ranges from c.25% to approximately 75% of total 1P reserves) and production and reserve growth prospects. Nonetheless, Grant Samuel believes that the multiples set out above provide general support for the valuation of Aurora's Sugarkane Field acreage.

### *Analysis and Commentary*

Grant Samuel's valuation of Aurora's Sugarkane Field interests in the range US\$2,200-2,400 million reflects the results of the DCF analysis and is broadly consistent with the multiple analysis summarised above.

The DCF analysis yields a very wide range of values for Aurora's Sugarkane Field interests. At a discount rate of 10% and for an oil price assumption of US\$85/bbl, the NPVs range from approximately US\$1.8 billion for the Low Case to approximately \$2.6 billion for the High Case. This range of values represents approximately \$1.78 per share.

The range of values appears to suggest that the distribution of values around the Mid Case valuation is skewed towards the downside. However, the cases do not purport to provide a full range of possible outcomes and RISC's analysis does not imply that the Low and High Cases should be given equal weighting. In Grant Samuel's view the Low Case represents a particularly conservative case, given that it assumes no recoveries beyond current Proven reserves. In particular, the Low Case is based on well recovery assumptions that, while consistent with historical performance, do not reflect more recent well performance and current estimates of most likely recoveries. An alternative "low case" outcome, based on improved well performance for the Proven well numbers, would also be credible and would yield NPVs closer to the Mid Case NPVs.

Conversely, the High Case demonstrates that additional production beyond the Mid Case is likely to add only limited additional value, given the incremental capital expenditure required and the fact that the incremental production will effectively only be achieved some time in the future, thus

<sup>19</sup> Represents gross consideration divided by certified proven reserves. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

<sup>20</sup> Multiples are based on the most recent publicly available information prior to the transaction announcement date.

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minimising the positive effect on present value. RISC has advised Grant Samuel that the Mid Case represents a best estimate outcome and can be thought of as approximating a “P50” outcome.

Accordingly, Grant Samuel has adopted a valuation range that is centred around net present values estimated for the Mid Case, with a modest downward adjustment to reflect the following factors that are not explicitly captured in the DCF analysis:

- the fact that the majority of Aurora’s Sugarkane Field interests are non-operated and so acquisition of Aurora would not deliver control of its underlying assets (with the exception of the operated AMIs);
- the modest, but non-trivial residual development risks associated with the relatively early stage of the Sugarkane Field’s development; and
- possible tax inefficiencies that may reduce the value available to potential acquirers.

The valuation reflects the following positive attributes of the project:

- Aurora’s acreage is within the “sweet spot” of one of the best tight oil plays in the world, with a high liquids to gas ratio and good well performance resulting in very favourable economics in general and very high operating margins;
- with approximately 60% of the reserves in the proved category and an additional 20% in the probable category, the Sugarkane Field’s reserves have been estimated with a fairly high level of confidence, underpinning confidence in ultimate gas recoveries;
- the Sugarkane Field has favourable development characteristics. Whilst only one around quarter of the wells expected to be developed in the Mid Case have been drilled, the characteristics of the Eagle Ford, which contributes the bulk of the value, are well understood. Development is highly replicable across the field. Furthermore, each well is essentially a standalone project, costs only US\$6.5-10.5 million and has a payback period of one to two years. Finally, development can be accelerated or slowed down in response to economic factors, providing valuable real optionality in the development of the Field; and
- although capital investment in excess of US\$2.3 billion is forecast over the next five years (Mid Case), the operations are expected to be self-funding from 2014 and generate substantial surplus cash flows from 2015 onwards.

On the other hand:

- the vast majority of Aurora’s acreage and project value is non-operated. Aurora does not control the development of the Marathon-operated AMIs. The fact that Aurora’s assets principally comprise passive interests may reduce their attractiveness to some potential acquirers;
- while development risk in relation to the Sugarkane Field is not material, it remains the case that fewer than 400 wells have been drilled out of a total ultimate well inventory of approximately 1,700 wells. Accordingly, there is clearly more risk associated with the development of the Field than there will be in two or three years’ time when the drilling programme has been materially advanced;
- there appears to be relatively limited resource upside at the Sugarkane Field. The Eagle Ford formation is well drilled and understood and the Austin Chalk and Pearsall horizons are unlikely to yield sufficient additional resources to have a meaningful impact on value. Ultimate recoveries are unlikely to be substantially higher than currently expected. Furthermore, it is likely that any additional resources would be developed towards the end of the existing development plan and, given the time value of money, would therefore contribute only marginally to value;
- the ownership structure for the Sugarkane Field interests (held through a US structure that in turn is a subsidiary of an Australian holding company) is likely to result in tax inefficiencies for potential North American acquirers of Aurora, which would otherwise presumably be the





natural acquirers of Aurora and/or its assets. These tax inefficiencies may discourage potential acquirers and reduce the value that is realisable in a change of control transaction for Aurora; and

- there is some risk that Aurora will be subject to US Alternative Minimum Tax (“AMT”). This is a tax levied on taxable income calculated by disregarding certain tax allowances that would otherwise be available, and is effectively a pre-payment of federal income tax that would otherwise be payable in later periods. The quantum of any AMT payable is not certain and has not been reflected in the DCF analysis. The net value impact is not considered material (given that any AMT payable is essentially a pre-payment of tax that would in any event be paid in subsequent periods).

#### **5.5 Exploration Assets**

Aurora’s only exploration asset is its interest in the Eaglebine where it holds approximately 14,000 acres. A vertical exploration well drilled since Aurora acquired the asset has intercepted an oil and gas bearing formation in the gas condensate window to be tested for flow rates. Aurora has incurred total costs of US\$11 million to date (including acquisition and well costs). Nearby acreage has recently been acquired for approximately US\$100,000 per acre. RISC has attributed a value of US\$11-15 million to Aurora’s Eaglebine interests.

#### **5.6 Other Assets and Liabilities**

Aurora’s other assets and liabilities consist of the company’s hedge book, which had a pre-tax mark-to-market value as at 28 February 2014 of US\$(10.1) million. Grant Samuel has attributed a post-tax value of US\$(6.5) million to Aurora’s hedge book for the purposes of this valuation.

#### **5.7 Corporate Costs**

Aurora’s corporate overheads for the 2014 calendar year are expected to be around US\$27.8 million. These consist of:

- US\$18.3 million of costs at the Houston office not included in the valuation of Aurora’s Sugarkane asset. Approximately half of these costs relate to geology, engineering, operations, land and planning and commercial costs. The balance mostly relates to corporate, accounting and finance costs;
- US\$8.3 million of mainly corporate, accounting and finance costs incurred at Aurora’s Perth office; and
- US\$1.1 million of corporate and legal costs relating to Aurora’s listing on the Toronto Stock Exchange.

Any acquirer of Aurora would be able to save the costs associated with the Perth and Toronto offices as well as a portion of the costs incurred in the Houston office. Grant Samuel has assumed residual corporate costs of US\$13 million per annum for the purposes of the valuation (i.e. Houston office costs remaining after an acquirer has realised the available savings). Furthermore, Grant Samuel has assumed that further cost savings would be possible once development of the Sugarkane Field interests has been completed and production commences to decline. An allowance of US\$55-65 million has been made in the valuation for the capitalisation of the residual corporate costs.

#### **5.8 Net Borrowings**

Aurora’s net borrowings as at 31 December 2013 were US\$618.3 million. This amount is based on cash of US\$42.7 million and total debt of US\$661.0 million as at 31 December 2013.



## 6 Evaluation of the Proposal

### 6.1 Conclusion

Grant Samuel has concluded that the Proposal is fair and reasonable. The Proposal Consideration represents a substantial premium to the price at which Aurora shares were trading before the Proposal was announced. In the short term, in Grant Samuel's view, Aurora shareholders are unlikely to be able to realise value comparable to the Proposal Consideration, either through trading their shares on market or through some alternative acquisition proposal. Accordingly, in Grant Samuel's opinion, the Proposal is in the best interests of Aurora shareholders.

### 6.2 Fairness

Grant Samuel has valued Aurora in the range A\$3.76-4.29 per share. The Proposal Consideration of A\$4.10 cash per share falls within this valuation range. Accordingly, the Proposal is fair.

### 6.3 Reasonableness

Because the Proposal is fair, it is by definition reasonable. However, there are other factors that also suggest that the Proposal is reasonable.

#### 6.3.1 Premium for Control

The Proposal Consideration of A\$4.10 cash per share represents a 56% premium to the price at which Aurora shares last traded prior to the announcement of the Proposal:

<b>Aurora – Implied Premiums over Pre-announcement Share Prices</b>		
Period	Share Price	Premium
Closing pre-announcement price	A\$2.62	56%
1 week prior to 6 February - VWAP <sup>21</sup>	A\$2.69	52%
1 month prior to 6 February - VWAP	A\$2.80	46%
3 months prior to 6 February - VWAP	A\$2.89	42%
12 months prior to 6 February - VWAP	A\$3.18	29%

The level of premiums observed in takeovers varies depending on the circumstances of the target and other factors (such as the potential for competing offers) but tends to fall in the range 20-35%. In the case of the Proposal, the premium implied by the Proposal Consideration is significantly higher than the premiums generally paid in Australian market change of control transactions. The quantum of the premium is broadly consistent with Grant Samuel's conclusion that the Proposal Consideration falls within the valuation range for Aurora. The quantum of the premium also suggests that, in the absence of the Proposal, shares in Aurora are likely to trade at prices well below the Proposal Consideration of A\$4.10.

#### 6.3.2 Alternatives

The quantum of the premium implied by the Proposal Consideration suggests that, absent the Proposal, it is unlikely that shareholders would be able to realise value comparable to the Proposal Consideration through selling their shares on market.

There is, theoretically at least, an opportunity for shareholders to realise greater value than that offered under the Proposal, through some potential alternative acquisition proposal. Given the quantum of the premium offered under the Proposal, and the time that has passed since the announcement of the Proposal, it appears unlikely that there will be a counter-

<sup>21</sup> VWAP is volume weighted average price.



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proposal for Aurora. However, there is nothing to prevent a counter-bidder from making a superior proposal (although a break fee would be payable to Baytex if Aurora chose to pursue a counter-proposal). By the time of the Scheme Meeting at which Aurora shareholders will vote on the Proposal, more than three months will have passed since the announcement of the Proposal, so there will have been ample opportunity for any potential counter-bidder to consider its position and formulate an alternative. In the absence of a higher offer from a third party before the Scheme Meeting, it will be reasonable to conclude that the Proposal represents the highest value currently realisable for Aurora. On one view this would by definition mean that the Proposal represents full underlying value.

### **6.4 Taxation Issues**

Details of the taxation consequences of the Proposal for Australian resident and foreign shareholders are set out in the Scheme Booklet. In any event, the taxation consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

### **6.5 Shareholder Decision**

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposal is in the best interests of Aurora shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposal, the responsibility for which lies with the directors of Aurora.

In any event, the decision whether to vote for or against the Proposal is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Aurora or Baytex. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.



**7 Qualifications, Declarations and Consents**

**7.1 Qualifications**

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 490 public independent expert and appraisal reports.

The person responsible for preparing this report on behalf of Grant Samuel is Stephen Cooper BCom (Hons) ACA ACMA. Stephen has a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA and Aditya Chibber BCom (Hons) assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

**7.2 Disclaimers**

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Aurora shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Aurora and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

**7.3 Independence**

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Aurora or Baytex or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.

Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of A\$475,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

**7.4 Declarations**

Aurora has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be



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primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Aurora has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Aurora are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Aurora and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

**7.5 Consents**

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Aurora. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

**7.6 Other**

The accompanying letter dated 14 April 2014 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

14 April 2014

*Grant Samuel & Associates*



## Appendix 1

### Selection of Discount Rate

#### 1 Overview

A discount rate in the range of 9.5-10.5% has been selected as appropriate to apply to the forecast nominal ungeared after US\$ denominated tax cash flows for Aurora's business.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses and investors use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome of any particular theoretical model.

The discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models. The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

The cost of equity has been derived from application of the capital asset pricing model ("CAPM") methodology. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;
- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;
- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and





- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a “classical” tax system. Australia’s system of dividend imputation has a significant impact on the measurement of net returns to investors.

The cost of debt has been determined by reference to the pricing implied by the debt markets in North America. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over this forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel’s determination of the discount rates for Aurora’s business and the factors which limit the accuracy and reliability of the estimates.

## 2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company’s weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicity of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less



than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta (Rm - Rf)$$

Where:

<i>Re</i>	=	the cost of equity capital;
<i>Rf</i>	=	the risk free rate;
<i>Beta</i>	=	the beta factor;
<i>Rm</i>	=	the expected market return; and
<i>Rm - Rf</i>	=	the market risk premium.

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

<i>E/V</i>	=	the proportion of equity to total value (where $V = D + E$ );
<i>D/V</i>	=	the proportion of debt to total value;
<i>Re</i>	=	the cost of equity capital;
<i>Rd</i>	=	the cost of debt capital; and
<i>t</i>	=	the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

#### ■ Risk Free Rate

Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.



#### ■ Market Risk Premium

The market risk premium ( $R_m - R_f$ ) represents the “extra” return that investors require to invest in equity securities as a whole over risk free investments. This is an “ex-ante” concept. It is the expected premium and as such it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study<sup>1</sup> which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error<sup>2</sup>. More recently, the Officer Study has been updated to 2011<sup>3</sup> with the long term average declining to around 6%. However, due to concerns about the earlier market data, Officer now places emphasis on the average risk premium since 1958 which is estimated to be 5.9% ignoring the impact of imputation<sup>4</sup>.

In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, prior to 2008 there were arguments being put forward that the risk premium was lower than it had been historically while today there is evidence to indicate that current market risk premiums are above historical averages. However, there is no accepted approach to deal with changes in market risk premia for current conditions.

In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the effects of expected inflation differentials. Accordingly, it is reasonable to assume similar market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom and various western European countries.

#### ■ Beta Factor

The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company’s relative risk does change over time.

The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

<sup>1</sup> R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., “Share Market and Portfolio Theory: Readings and Australian Evidence” (second edition), University of Queensland Press, 1989 (“Officer Study”).

<sup>2</sup> The “true” figure lies within a range of approximately 2-10% at a 95% confidence level.

<sup>3</sup> Dr. S. Bishop and Professor R.R. Officer, “Review of Debt Risk Premium and Market Risk Premium” (February 2013), prepared for Aurizon Holdings Limited.

<sup>4</sup> Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is around 6.5%.



However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. There is no “correct” beta. For example:

- over the last three years Aurora’s beta as measured by the Australian Graduate School of Management (“AGSM”) has varied between 0.70 and 1.73 and was measured at 1.06 in December 2013; and
- the standard error of the AGSM’s estimate of the Aurora beta has generally been in the order of 0.17 meaning that for a beta of, say, 1.5 even at a 68% confidence level, the range is 1.33 to 1.67.

■ **Debt/Equity Mix**

The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

The measured beta factors for listed companies are “equity” betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel’s view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

■ **Specific Risk**

The WACC is designed to be applied to “expected cash flows” which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.





### 3 Calculation of WACC for Aurora

#### 3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM. Grant Samuel has adopted a cost of equity capital in the range 11.2-12.4%.

- **Risk Free Rate**

Grant Samuel has adopted a risk free rate of 2.8%. The risk free rate approximates the current yield to maturity on ten year United States ("US") Government bonds.

- **Market Risk Premium**

Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

- is not statistically significantly different to the premium suggested by long term historical data; and
- is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%).

- **Beta Factor**

Grant Samuel has adopted a beta factor in the range 1.4-1.6 for the purposes of valuing Aurora.

Grant Samuel has considered the beta factors for a wide range of North American shale oil exploration and production companies in determining an appropriate beta for Aurora. The betas have been calculated on two bases relative to each company's home exchange index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole.

A summary of betas for selected comparable listed companies is set out in the table below:

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Equity Beta Factors for Selected Listed North American Shale Companies						
Company	Market Capitalisation <sup>5</sup> (US\$ millions)	Monthly Observations over 4 years			Weekly Observations over 2 years	
		AGSM / Barra <sup>6</sup>	Bloomberg <sup>7</sup>		Bloomberg	
			Local Index	MSCI <sup>8</sup>	Local Index	MSCI
<b>Aurora</b>	<b>1,050</b>	<b>1.06</b>	<b>1.50</b>	<b>1.60</b>	<b>1.37</b>	<b>1.13</b>
<b>North American Shale</b>						
Whiting Petroleum	8,737	2.32	1.90	2.01	1.80	1.78
SM Energy	4,935	1.43	1.32	1.38	1.60	1.61
EP Energy	4,694	1.01	0.90	0.80	0.95	1.14
Penn West Petroleum	4,617	1.59	1.60	1.01	1.87	1.59
Enerplus	4,404	1.34	1.51	0.87	2.22	1.85
Ultra Petroleum	4,441	1.12	1.01	1.08	1.14	1.18
Newfield Exploration	4,397	1.71	1.40	1.45	1.88	1.88
WPX Energy	3,912	1.34	1.34	1.21	1.47	1.41
Laredo Petroleum,	3,868	1.01	1.02	1.01	1.34	1.36
Rice Energy	3,461	n.a.	(2.19)	(1.95)	(0.75)	(0.99)
Rosetta Resources,	2,985	2.06	1.83	1.91	1.72	1.72
Breitburn Energy	2,395	0.39	0.58	0.65	0.81	0.82
Vanguard Natural Resources	2,374	1.08	1.11	1.19	0.92	0.90
Carrizo Oil & Gas	2,385	2.15	2.14	2.31	1.91	1.86
PDC Energy	2,131	1.64	1.77	1.92	2.46	2.36
Bonanza Creek Energy	1,746	2.72	2.78	2.83	2.57	2.51
Stone Energy	2,123	2.94	2.62	2.70	2.36	2.33
EV Energy Partners	1,644	0.80	0.70	0.71	1.10	1.08
Halcón Resources Corporation	1,837	1.03	1.53	1.81	1.91	1.91
Atlas Resource Partners	1,386	0.17	0.52	0.38	0.86	0.77
Matador Resources	1,703	0.60	0.60	0.45	1.26	1.24
Sanchez Energy	1,538	0.63	0.61	0.48	1.24	1.16
EXCO Resources	1,604	1.48	1.07	0.99	1.33	1.36
Magnum Hunter Resources	1,461	1.56	1.98	2.02	2.83	2.85
Clayton Williams Energy	1,393	2.18	2.60	2.60	2.21	2.22
Rex Energy	1,027	1.89	0.84	0.83	1.47	1.42
Comstock Resources	1,118	1.42	1.58	1.67	1.92	1.86
<i>Minimum</i>		<i>0.17</i>	<i>(2.19)</i>	<i>(1.95)</i>	<i>(0.75)</i>	<i>(0.99)</i>
<i>Maximum</i>		<i>2.94</i>	<i>2.78</i>	<i>2.83</i>	<i>2.83</i>	<i>2.85</i>
<i>Median</i>		<i>1.42</i>	<i>1.34</i>	<i>1.19</i>	<i>1.60</i>	<i>1.59</i>
<i>Mean</i>		<i>1.45</i>	<i>1.28</i>	<i>1.27</i>	<i>1.57</i>	<i>1.52</i>

Source: AGSM, Bloomberg, Barra

<sup>5</sup> Based on share prices as at 4 April 2014, except Aurora, which is based on its share price as at 6 February 2014 (being the day prior to the announcement of the proposed acquisition by Baytex Energy).

<sup>6</sup> The Australian beta factors calculated by the Australian Graduate School of Management ("AGSM") as at 31 December 2013 over a period of 48 months using ordinary least squares regression. Other beta factors are calculated by MSCI Barra, Inc. ("Barra") as at 28 February 2014 over a period of 60 months using ordinary least squares regression of the Scholes-William technique (including lag) where the stock is thinly traded.

<sup>7</sup> Bloomberg betas have been calculated up to 4 April 2014. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "raw" betas.

<sup>8</sup> MSCI is calculated using local currency so that currency changes do not affect the performance of the index.



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The table shows outcomes that suggest it is extremely difficult to determine a reliable beta for Aurora:

- Aurora's beta varies between approximately 1.0 and 1.6 depending on the measurement source (AGSM, Bloomberg etc) and, as discussed earlier, has varied significantly over time;
- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year MSCI betas generally range from 0.70 (EV Energy Partners LP) to 1.83 (Rosetta Resources, Inc.) and up to 2.62 (Stone Energy Corp.) although this should be treated as an outlier;
- some individual company betas vary significantly depending on which market index is utilised (Local or MSCI);
- gearing levels vary significantly but this is not always consistent with beta factors.

The table indicate that North American based shale oil exploration and production companies generally have betas of more than 1.0 (indicating more risk than the overall market).

Aurora's beta factor is 1.06 as measured against the Australian sharemarket by the Australian Graduate School of Management ("AGSM"), 1.50 as measured against the Australian sharemarket by Bloomberg and 1.60 as measured against the MSCI by Bloomberg. All of these betas have been calculated using monthly observations over a four year period. In addition, Aurora's median beta factor as measured by AGSM over the last three years is 1.27.

Aurora's business operations are most comparable to those companies which have unconventional oil operations primarily focused on the Eagle Ford formation. The historical beta of each comparable company is also inextricably linked to the gearing level of that company. The companies that are most comparable to Aurora have a wide range of betas as measured against the American sharemarket by Barra of between 0.60 (Matador Resources) and 2.15 (Carrizo Oil & Gas). This, in part, reflects gearing levels in the wide range of 11.5-58.8%.

Taking all of these factors into account, Grant Samuel believes that a beta in the range 1.4-1.6 is a reasonable estimate of the appropriate beta for Aurora.

### ■ Calculation

Using the estimates set out above, the cost of equity capital can be calculated as follows:

Low	High
$Re = Rf + Beta (Rm - Rf)$	$Re = Rf + Beta (Rm - Rf)$
$= 2.8\% + (1.4 \times 6.0\%)$	$= 2.8\% + (1.6 \times 6.0\%)$
$= 11.2\%$	$= 12.4\%$

### 3.2 Cost of Debt

A cost of debt of 7.0% has been adopted, representing a margin of 4.2% over the risk free rate. This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt.

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### 3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to the gearing levels of Aurora and the peer group companies used in the beta analysis.

Gearing levels for these companies for the past five years are set out below:

<b>Gearing Levels for Selected Listed North American Shale Companies</b>								
	Net Debt/(Net Debt + Market Capitalisation)					Current <sup>9</sup>	4 Year Average	5 Year Average
	Financial Year Ended							
	Historical 5	Historical 4	Historical 3	Historical 2	Historical 1			
<b>Aurora</b>	(9.5%)	(5.5%)	(2.9%)	16.1%	33.8%	33.1%	10.4%	6.4%
<b>North American Shale</b>								
Whiting Petroleum	17.4%	10.2%	19.9%	25.6%	21.0%	18.3%	19.2%	18.8%
SM Energy	17.5%	8.1%	20.6%	29.3%	19.1%	21.1%	19.3%	18.9%
EP Energy	na	na	na	na	50.0%	48.2%	50.0%	50.0%
Penn West Petroleum	30.9%	20.1%	25.3%	34.2%	16.5%	17.8%	24.0%	25.4%
Enerplus	10.2%	11.8%	16.1%	29.2%	20.5%	18.6%	19.4%	17.5%
Ultra Petroleum	9.4%	17.0%	29.5%	39.7%	42.6%	35.6%	32.2%	27.6%
Newfield Exploration	23.4%	19.0%	36.6%	44.9%	51.8%	45.0%	38.1%	35.1%
WPX Energy	na	na	21.1%	30.6%	30.2%	31.2%	27.3%	27.3%
Laredo Petroleum,	na	na	17.6%	33.7%	17.8%	18.1%	23.0%	23.0%
Rice Energy	na	na	na	na	(3.9%)	(0.8%)	(3.9%)	(3.9%)
Rosetta Resources	18.3%	13.7%	8.2%	13.5%	27.9%	25.9%	15.8%	16.3%
Breitbart Energy	49.7%	32.5%	41.7%	41.2%	43.8%	44.1%	39.8%	41.8%
Vanguard Natural Resources	23.7%	28.8%	36.3%	44.6%	29.5%	29.0%	34.8%	32.6%
Carrizo Oil & Gas	38.5%	29.2%	39.7%	52.1%	26.7%	23.8%	36.9%	37.3%
PDC Energy	38.5%	19.6%	38.7%	40.1%	19.6%	17.9%	29.5%	31.3%
Bonanza Creek Energy	na	na	0.9%	12.1%	15.8%	15.8%	9.6%	9.6%
Stone Energy	37.1%	30.5%	31.4%	39.0%	29.2%	24.7%	32.6%	33.5%
EV Energy Partners	28.5%	33.2%	26.9%	26.2%	38.9%	41.3%	31.3%	30.8%
Halcón Resources Corporation	60.9%	57.7%	71.1%	45.9%	66.5%	63.4%	60.3%	60.4%
Atlas Resource Partners	na	na	na	23.2%	40.2%	37.5%	31.7%	31.7%
Matador Resources	na	na	na	24.5%	8.3%	7.3%	16.4%	16.4%
Sanchez Energy	na	na	na	(11.3%)	6.6%	5.2%	-2.4%	(2.4%)
EXCO Resources	20.0%	27.2%	45.0%	55.0%	61.4%	53.4%	47.2%	41.7%
Magnum Hunter Resources	11.2%	5.8%	23.6%	na	31.5%	29.2%	20.3%	18.0%
Clayton Williams Energy	47.2%	26.9%	35.7%	62.1%	38.1%	30.6%	40.7%	42.0%
Rex Energy	3.8%	0.0%	24.4%	23.1%	28.0%	28.8%	18.9%	15.9%
Comstock Resources	13.1%	27.0%	60.8%	64.1%	47.7%	41.6%	49.9%	42.5%
<i>Minimum</i>	3.8%	0.0%	0.9%	(11.3%)	(3.9%)	(0.8%)	(3.9%)	(3.9%)
<i>Maximum</i>	60.9%	57.7%	71.1%	64.1%	66.5%	63.4%	60.3%	60.4%
<i>Median</i>	23.4%	20.1%	28.2%	33.9%	29.2%	28.8%	29.5%	27.6%
<i>Mean</i>	26.3%	22.0%	30.5%	34.3%	30.6%	28.6%	28.2%	27.4%

Source: Capital IQ, Bloomberg, Grant Samuel analysis

<sup>9</sup> Current gearing levels are based on the most recent balance sheet information and on sharemarket prices as at 4 April 2014, except Aurora which is based on its share price as at 6 February (being the day prior to the proposed acquisition by Baytex Energy).

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The selection of gearing levels is highly judgemental. The table shows a wide range of gearing levels. The debt levels should actually be the weighted average measured over the same period as the beta factor rather than just at the current point in time. Moreover, these do not always bear any relationship to the betas of the individual companies. In some cases lowly geared companies still have equity betas towards the higher end of the range (e.g. Bonanza Creek Energy or Whiting Petroleum Corporation).

Aurora's gearing has varied considerably over the last five financial years reflecting its change from being largely an exploration and development company to having begun production and generating positive cash flow. Over the last two years, Aurora's gearing has been between approximately 15% and 30%.

Having regard to the above, the debt/equity mix has been estimated as 70-80% equity and 20-30% debt.

**3.4 WACC**

On the basis of the parameters outlined and assuming a corporate tax rate of 35% to reflect US tax rates, the nominal WACC is calculated to be in the range 9.5-10.5%.

**Low**

$$\begin{aligned} WACC &= (Re \times E/V) + (Rd \times (1-t) \times D/V) \\ &= (11.2\% \times 70\%) + (7.0\% \times 65\% \times 30\%) \\ &= \mathbf{9.2\%} \end{aligned}$$

**High**

$$\begin{aligned} WACC &= (Re \times E/V) + (Rd \times (1-t) \times D/V) \\ &= (12.4\% \times 80\%) + (7.0\% \times 65\% \times 20\%) \\ &= \mathbf{10.8\%} \end{aligned}$$

This is an after tax discount rate to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a very crude calculation based on statistics of limited reliability and involving a multitude of assumptions.

Having regard to these matters and the calculations and data set out above, a discount rate range of 9.5-10.5% has been selected for application in the discounted cash flow analysis.



## Appendix 2

## Market Evidence - Transactions

Set out below is a summary of transactions over the last three years involving assets located in the Eagle Ford shale trend in Texas, United States, and for which there is sufficient information to calculate meaningful valuation parameters:

Recent Transaction Evidence – Eagle Ford					
Date	Seller/Target	Transaction	Consideration <sup>1</sup> (US\$ millions)	1P Reserve Multiple <sup>2</sup> (US\$/bbl) <sup>3</sup>	Net Acreage Multiple (US\$000's/acre)
Dec-13	Abraxas	Eagle Ford interests acquired by undisclosed buyer	73	19.7 <sup>4</sup>	60.8
Nov-13	GeoSouthern	GeoSouthern's Eagle Ford assets acquired by Devon Energy	6,000	23.1	73.2
Jul-13	Chesapeake	Eagle Ford and Haynesville assets acquired by Exco	997	24.2	15.4
Apr-13	Magnum Hunter	Eagle Ford shale assets acquired by Penn Virginia	401	33.4	21.1
Mar-13	Hess Corporation	Hess Corporation's Eagle Ford assets acquired by Sanchez Energy	265	19.8	6.2
Mar-13	Heard Ranch and Axle Tree	Eagle Ford properties acquired by Aurora	118	17.5	42.0
May-12	Paloma Partners	Acquired by Marathon	750	n.c.	43.9
Apr-12	Eureka Energy	Acquired by Aurora	112	35.3	16.2
Jan-12	Hunt Oil	35% working interest in Eagle Ford shale oil and gas play acquired by Marubeni	1,300	n.c.	19.9 <sup>5</sup>
Jul-11	Petrohawk	Acquired by BHP	12,073	28.0	15.9
Jun-11	Hilcorp	Eagle Ford assets acquired by Marathon	3,500	35.0 <sup>6</sup>	24.8

Source: Grant Samuel analysis<sup>7</sup>

A brief summary of each transaction is set out below:

***Abraxas Petroleum Corporation/Undisclosed buyer***

On 5 December 2013, Abraxas Petroleum Corporation (“Abraxas”) announced that it had entered an agreement to sell the company’s Eagle Ford interests in McMullen county for a consideration of US\$73 million to an undisclosed buyer. The assets sold were interests over 1,200 net acres with an estimated 3.7 mboe in proved reserves (76% oil).

***GeoSouthern Energy Corporation/Devon Energy Corporation***

On 20 November 2013, Devon Energy Corporation (“Devon”) and GeoSouthern Energy Corporation (“GeoSouthern”) announced that they had reached an agreement for Devon to acquire GeoSouthern’s assets in the Eagle Ford for a cash consideration of US\$6.0 billion. The assets comprised interests over 82,000 net acres

<sup>1</sup> Relates to asset price or implied equity value if 100% of the company or business had been acquired.

<sup>2</sup> Represents gross consideration divided by certified proved reserves. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

<sup>3</sup> Multiples are based on the most recent publicly available information prior to the transaction announcement date.

<sup>4</sup> Multiple based on internal estimates of 1P reserves.

<sup>5</sup> Multiple based on the total consideration of US\$1.3bn assumed to be paid over five years and discounted using a 10% discount rate.

<sup>6</sup> Multiple based on potential proved reserves by year end estimated by the company at the time of transaction.

<sup>7</sup> Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and transaction documentation.

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with proved reserves of 260 mmboe and a total risked resource estimated at 400 mmboe. The acquired acreage is located in DeWitt and Lavaca counties, in the 'sweet spot' of the Eagle Ford trend, and is largely contiguous. Devon estimated that production from the acquired assets would increase by an average annual growth rate of approximately 25% from 53 mboe/d at the time of transaction to 135-145 mboe/d by 2017.

### ***Chesapeake Energy Corporation/EXCO Resources***

On 3 July 2013, EXCO Resources, Inc. ("Exco") announced that it had entered into agreements with Chesapeake Energy Corporation ("Chesapeake") to acquire oil and gas assets in the Eagle Ford and Haynesville shale formations for a total consideration of approximately US\$1.0 billion. The Eagle Ford assets comprised interests over 55,000 net acres across the Zavala, Dimmit, Frio and LaSalle counties and were acquired for US\$681 million. The Haynesville assets consisted of 9,600 acres (operated and non-operated) and were acquired for US\$320 million. At the time of the transaction, combined proved reserves had been estimated at approximately 41 mmboe which implied an acquisition multiple of US\$24.2/boe. However, internally estimated reserves were approximately 90 mmboe, which would result in a reserve multiple of US\$11.1/bbl. The agreement also included a farm in option over 147,000 acres in the Eagle Ford.

### ***Magnum Hunter Resources Corporation/Penn Virginia Corporation***

On 3 April 2013, Penn Virginia Corporation ("Penn Virginia") announced that it had entered into an agreement with Magnum Hunter Resources Corporation ("Magnum Hunter") to acquire leasehold interests in the Eagle Ford for approximately US\$400 million. Magnum Hunter had an interest in 19,000 net acres in Gonzalas and Lavaca counties with certified proved reserves of approximately 12.0 mmboe (37% developed), implying an enterprise value to 1P reserve multiple of US\$33.4/boe. However, the implied multiple based on Penn Virginia's reserve estimate of 26.2 mmboe at the time of transaction was US\$15.3/bbl.

### ***Hess Corporation /Sanchez Energy Corporation***

On 18 March 2013, Sanchez Energy Corporation ("Sanchez") announced it had entered into an agreement to purchase assets in the Eagle Ford trend from Hess Corporation ("Hess") for a cash consideration of approximately US\$265 million. Hess' Eagle Ford assets comprised interests over 43,000 net acres in the Dimmit, Frio, LaSalle and Zavala counties. Approximately 13.4 mmboe of proved reserves (70% oil), of which approximately half were developed reserves, had been estimated at the time of transaction.

### ***Heard Ranch and Axle Tree/Aurora Oil & Gas Limited***

On 1 March 2013, Aurora Oil & Gas Limited ("Aurora") announced the acquisition of a 100% working interest in the Heard Ranch and Axle Tree properties in the Eagle Ford trend for a consideration of US\$117.5 million. The properties were near or adjacent to Aurora's existing Sugarkane Field acreage and covered 2,800 acres. At the time of the transaction, Aurora estimated proved reserves of 6.7 mmboe (net of royalties) of which 30% were developed.

### ***Paloma Partners II, LLC/Marathon Oil Corporation***

On 9 May 2012, Marathon Oil Corporation announced the acquisition of privately owned Paloma Partners II, LLC ("Paloma") for US\$750 million. The acquisition added 17,100 net acres in the Eagle Ford trend to Marathon's portfolio. Paloma was a Houston based company which engaged in the exploration and development of oil and gas reserves in south Texas.

### ***Eureka Energy Limited/Aurora Oil and Gas Limited***

On 30 April 2012, Aurora announced an on-market cash offer for all the issued ordinary shares in Eureka Energy Limited ("Eureka") it did not already own. The offer valued Eureka at approximately A\$107 million (US\$111 million based on the exchange rate at the time of announcement). Eureka was an ASX-listed company with interests over 6,742 net acres in the Eagle Ford trend and a 6.25% working interest in the c.24,000 acre Sugarloaf area of mutual interest, in which Aurora had a 21.8% working interest prior to the acquisition.

### ***Hunt Oil Company/Marubeni Corporation***

On 6 January 2012, Marubeni Corporation ("Marubeni") announced it had entered into an agreement with Hunt Oil Company ("Hunt") to acquire a 35% working interest in the Eagle Ford shale oil and gas play which covered

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approximately 52,000 net acres of oil and gas leases located in Texas. The total consideration was US\$1.3 billion, comprising acquisition costs and development costs to be incurred over five to 10 years.

***Petrohawk Energy Corporation/BHP Billiton Limited***

On 15 July 2011, BHP Billiton Limited (“BHP”) announced that it had entered into an agreement to acquire all the outstanding shares of Petrohawk Energy Corporation (“Petrohawk”) for an equity consideration of approximately US\$12.1 billion. Petrohawk had interests over approximately 1,000,000 net acres and proved reserves of approximately 3.4 Tcfe and a total risked resource base of approximately 35 Tcfe across the Haynesville and Eagle Ford shale plays and the Permian Basin in Texas.

***Hilcorp Resources Holdings, LP/Marathon Oil Corporation***

On 1 June 2011, Marathon Oil Corporation (“Marathon”) announced that it had reached an agreement to purchase the Eagle Ford assets of Hilcorp Resources Holdings, LP (“Hilcorp”) for a consideration of US\$3.5 billion. At the time of the transaction, Hilcorp’s assets comprised interests over approximately 141,000 net acres (90% operated) primarily in Atascosa, Karnes, Gonzales and DeWitt counties, and the right to acquire approximately 14,000 additional net acres through tag-along rights and other leasing arrangements. In the transaction announcement, Marathon stated that 100 mmoeb of proved reserves could be booked by year end and that there was a total net risked resource potential of 400-500 mmoeb. This implied enterprise value to potential proved reserves multiples of US\$35/boe and enterprise value to net risked potential resources of US\$7.0-8.7/boe.





### Appendix 3

#### Market Evidence - Comparable Listed Companies

The sharemarket ratings of selected listed North American unconventional oil and gas companies with a significant presence in the Eagle Ford formation are set out below:

Sharemarket Ratings of Selected Listed Companies			
Entity	Market Capitalisation (US\$ millions)	1P Reserve Multiple <sup>1</sup> (US\$/bbl)	Net Acreage Multiple <sup>2</sup> (US\$000's/acre)
SM Energy Company	4,938	14.6	n.c.
EP Energy Corporation	4,678	16.5	20.6
Rosetta Resources, Inc.	2,959	15.3	14.9
Carrizo Oil & Gas Inc.	2,385	30.8	18.2
Matador Resources Company	1,701	36.6	13.6
Sanchez Energy Corporation	1,538	33.5	12.4
Penn Virginia Corporation	1,100	17.3	12.3

Source: Grant Samuel analysis<sup>3</sup>

The multiples shown above are based on sharemarket prices as at 4 April 2014 and do not reflect a premium for control. All of the companies have a 31 December year end.

A brief description of each company is set out below:

#### ***SM Energy Company***

SM Energy Company (“SM Energy”) is listed on the New York Stock Exchange (“NYSE”) and has a market capitalisation of approximately US\$4.9 billion. SM Energy focuses on four main regions: Mid-Continent (focus on the Anadarko Basin in Texas), Rocky Mountain (mainly Bakken and Three Forks formations in North Dakota), Permian, and South Texas & Gulf Coast (Eagle Ford). As at 31 December 2013, SM Energy had estimated proven reserves of 428.7 mmbbl (49% developed).

#### ***EP Energy Corporation***

EP Energy Corporation (“EP Energy”) is a NYSE-listed company with a market capitalisation of approximately US\$4.7 billion. EP Energy operates in the Eagle Ford shale, Altamont, Haynesville shale, and Wolfcamp shale. As at 31 December 2013, EP Energy had interests over approximately 440,000 net acres and had delineated 550 mmbbl of proven reserves, of which 365 mmbbl were undeveloped. The Eagle Ford accounted for approximately 20% of EP Energy’s acreage but more than half of its proved reserves.

#### ***Rosetta Resources, Inc***

Rosetta Resources, Inc (“Rosetta”) is an oil and gas exploration and production company listed on NASDAQ with a market capitalisation of approximately US\$3.0 billion. Rosetta’s focus areas are the Eagle Ford and the Permian Basin. As at 31 December 2013, Rosetta held interests over approximately 65,000 net acres (45% developed) in the Eagle Ford shale trend and 55,000 net acres (29% developed) in the Permian Basin. In addition, Rosetta held approximately 168,500 net acres of new venture opportunities outside the Eagle Ford and Permian Basin. Rosetta has an estimated proved reserve as at 31 December 2013 of 278.5 mmbbl, of which 253.0 mmbbl related to Eagle Ford and 24% was oil.

<sup>1</sup> Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by certified proven reserves.

<sup>2</sup> Represents gross capitalisation divided by net acres.

<sup>3</sup> Grant Samuel analysis based on data obtained from IRESS, Capital IQ and company announcements.



#### ***Carrizo Oil & Gas Inc.***

Carrizo Oil & Gas Inc. (“Carrizo”) is an oil and gas exploration and production company listed on NASDAQ with a market capitalisation of approximately US\$2.4 billion. As at 31 December 2013, Carrizo held interests over 172,300 net acres in the Eagle Ford shale, Niobrara formation in Colorado, the Marcellus shale in Pennsylvania and the Utica shale in Ohio and had proved reserves of 101.5 mmboe (38% developed and 61% oil). With 65,500 net acres and 74.0 proved reserves as at 31 December 2013, the company’s Eagle Ford interests accounted for in excess of 85% of the NPV calculated in the context of its reserve estimation process.

#### ***Matador Resources Company***

Matador Resources Company (“Matador”) is a NYSE-listed oil and gas exploration and production company with a market capitalisation of approximately US\$1.7 billion. Matador’s principal areas of operation are the Eagle Ford shale in South Texas (27,100 net acres), Delaware and Midland basins in Southeast New Mexico and West Texas (50,100 net acres), Haynesville shale in East Texas and Northwest Louisiana (26,200 net acres), and Meade Peak shale in Wyoming, Utah and Idaho (36,000 net acres)<sup>4</sup>. The majority of Matador’s 51.7 mmboe proved reserves (33% developed) related to the company’s Eagle Ford and Haynesville assets with approximately 18.0 mmboe and 26.0 mmboe respectively.

#### ***Sanchez Energy Corporation***

Sanchez Energy Corporation (“Sanchez”) is an oil and gas exploration and production company listed on the NYSE with a market capitalisation of approximately US\$1.5 billion. Sanchez operates primarily in the Eagle Ford shale and Tuscaloosa Marine shale where it holds interests over 120,000 net acres and 40,000 net acres respectively. As at 31 December 2013, Sanchez had 59.0 mmboe of proved reserves, all at Eagle Ford (49% developed and 77% relating to crude oil). Sanchez has rapidly increased production from 1.3 mboe/d in 2012 to 10.6 mboe/d in 2013 and is expecting production in the range 21 – 23 mboe/d in 2014.

#### ***Penn Virginia Corporation***

Penn Virginia Corporation (“Penn Virginia”) is a NYSE listed oil and gas exploration and production company with a market capitalisation of approximately US\$1.1 billion. Penn Virginia operates in five key regions (Granite Wash, East Texas, Marcellus, Eagle Ford, Selma Chalk), with the majority of its total 136.3 mmboe of proved reserves (40% developed and 61% oil condensate) held in Eagle Ford (75.6 mmboe) and East Texas (35.9 mmboe)<sup>5</sup>. The Eagle Ford accounts for approximately 40% of Penn Virginia’s acreage (77,900 net acres from a total of 191,200 net acres) and is the primary source of production (approximately 60% of total average daily production of 18.7 mboe/d). Penn Virginia expects production to increase to 25.0-26.8 mboe/d in 2014, primarily driven by growth in production at Eagle Ford.

<sup>4</sup> 31 December 2013 figures adjusted for the 5,300 net acres acquired in Southeast New Mexico and West Texas between 1 January and 12 March 2014.

<sup>5</sup> As at 31 December 2013



GRANT SAMUEL



**Appendix 4**  
**RISC Operations Pty Ltd Report**



INDEPENDENT TECHNICAL SPECIALIST  
REPORT ON THE PETROLEUM PROPERTIES  
OF AURORA OIL & GAS LIMITED

Strictly Confidential

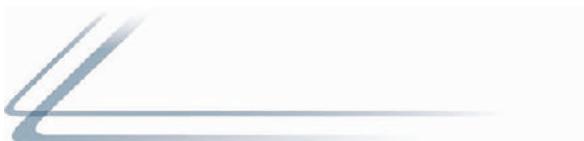
March 2014

A large, light green circular graphic with white diagonal lines, partially overlapping the text "DECISIONS WITH CONFIDENCE".

*DECISIONS WITH CONFIDENCE*

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## 1. SUMMARY

The purpose of this Independent Technical Specialists Report is to assist the Independent Expert in valuing Aurora Oil & Gas Limited (Aurora) in relation to the proposed acquisition by Baytex Energy Corp. (Baytex).

Aurora's main petroleum property is the Sugarkane Field in the Eagle Ford Shale play in South Texas (Figure 1-1). Aurora has non-operated interests in the Longhorn, Sugarloaf, Excelsior and Ipanema AMLs (Area of Mutual Interest) with a net acreage of approximately 19,380 acres. Marathon is operator of these contiguous blocks. Aurora also has a 100% interest and operates the Axle Tree and Heard Ranch areas with a net 2,800 acres. Aurora's working interests are shown in Table 1-1.

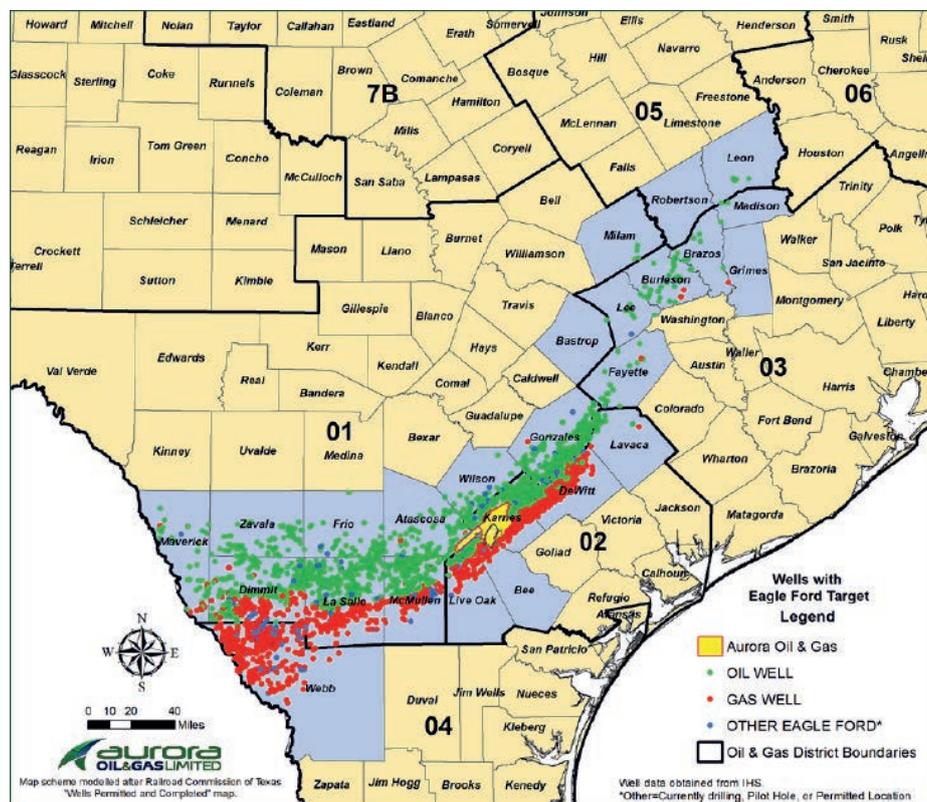


Figure 1-1 Aurora Sugarkane Location Map



Property	Aurora Working Interest %	Gross Acres	Net Acres	Operator
Sugarloaf	28.0	24,075	6,749	Marathon
Longhorn	31.9	28,473	9,070	Marathon
Ipanema	36.4	4,727	1,721	Marathon
Excelsior	9.1	20,155	1,842	Marathon
Axle Tree Ranch	100.0	1,148	1,148	Aurora
Heard Ranch	100.0	1,659	1,659	Aurora
<b>Total</b>		<b>80,237</b>	<b>22,189</b>	

Table 1-1 Aurora Sugarkane Petroleum Property Working Interests

Aurora's petroleum resources are contained within 3 separate formations:

- The Eagle Ford Shale, which contains 96%, 81% and 69% of Aurora's Sugarkane 1P, 2P and 3P boe reserves.
- The Austin Chalk which contains 4%, 19% and 30% of Aurora's Sugarkane 1P, 2P and 3P boe reserves.
- The Pearsall Shale which contains only 1% of Aurora's Sugarkane 3P boe reserves.

Development of all the formations is planned using horizontal wells completed with multiple stages of hydraulic fractures.

Production is gathered in a number of field processing centers. The oil and condensate is exported via trucks or infield pipelines through to the Hilcorp's Three Rivers or Falls City oil pipeline. Gas is exported via three separate pipelines and contracts for further processing at third party processing facilities. The Axle Tree Ranch area produces high levels of H<sub>2</sub>S and the sour gas is sold and exported through sour facilities to the north. Off site third party processing facilities are used to optimise all oil, condensate and NGL yields and deliver pipeline specification sales gas.

Sugarkane started production in January 2010 and at end 2013 had gross cumulative production of 24 MMbbl oil, 13 MMbbl Condensate and 80 Bcf gas. 391 wells were producing at end 2013 including 5 in the Austin Chalk and none in the Pearsall.

An additional 836 to 1292 gross wells are required to develop the asset. Aurora's net share is 205 to 328 wells. Aurora's share of the total mid-case development and operating costs are US\$3.8 billion; 59% for wells, 1% for facilities and 40% operating costs.

#### 1.1. DEVELOPMENT SCENARIOS

RISC has reviewed the development well plans and is able to support the number of development wells estimated by Aurora which is consistent with Ryder Scott's independent reserve certification. Well locations are classified as proved, probable and possible.

- 836 proved undeveloped locations have been mapped. 2% are Austin Chalk wells and 98% Eagle Ford. In addition 38 wells drilled in 2013 are awaiting start-up.
- An additional 245 probable locations are identified including:
  - Eagle Ford locations on production unit boundaries that will require agreement with adjacent lease holders.
  - Extended areas of Austin Chalk wells. 66% of the probable well locations are Austin Chalk wells.



- An additional 211 possible locations are identified consisting of:
  - Further expansion of Austin Chalk development. 75% of the probable well locations are in the Austin Chalk.
  - 35 Pearsall wells.

RISC has developed low, mid and high case scenarios for the estimation of the Sugarkane project value by the Independent Expert. The scenarios are:

- The low case uses the proved well numbers and locations with low case well performance.
- The mid case uses the proved+probable well number and locations with the best estimate for well performance.
- The high case uses the proved+probable+possible well number and locations with the best estimate for well performance.

The pace of development is largely directed by Marathon as operator of most of the acreage. RISC and Aurora estimate that approximately 200 development wells will be drilled in 2014, largely in Marathon operated acreage. The pace of development is estimated to increase at 10% per year. RISC has used this pace of development in all scenarios with development drilling completed in 2017 in the low case and in 2018 in the mid and high case.

RISC tested the sensitivity of the project NPV to the development drilling pace. A 30% reduction in wells drilled per year resulted in only a 2% reduction in the low case NPV10. The delayed wells were drilled at the end of the program extending development drilling into 2018.

## 1.2. RESOURCES

Table 1-2 shows Aurora net resources in the Sugarkane Field estimated by RISC.

Scenario	Low	Mid	High
Oil (MMbbl)	36.2	46.6	47.7
Condensate (MMbbl)	32.3	49.4	63.6
NGL (MMbbl)	25.1	38.8	48.3
Gas (Bcf)	168.1	260.5	324.4
Total (MMboe)	121.5	178.3	213.6

*RISC and Aurora convert gas to boe at 6Bcf/MMboe*

**Table 1-2 Net after Royalty Aurora Resources at 1/1/2014 in RISC Low, Mid and High Case Scenarios**

- The low case resources are the same as Aurora's 1P reserves as estimated by Ryder Scott
- The mid case resources are 8% greater than Ryder Scott's 2P
- The high case resources are 6% greater than Ryder Scott's 3P

Figure 1-2 shows Aurora net production after royalty for the mid case scenario.





## 2. BASIS OF ASSESSMENT

Grant Samuel (Grant Samuel & Associates Pty Ltd) in its capacity as the Independent Expert has engaged RISC Operations Pty Ltd ("RISC") to provide an Independent Technical Specialists Report on Aurora Oil & Gas Limited ("Aurora")'s oil and gas interest in Texas, USA.

The data and information used in the preparation of this report were provided by Aurora, supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review and audit of existing interpretations and assessments as supplied by Aurora making adjustments as necessary.

RISC has reviewed the reserves/resources in accordance with the Society of Petroleum Engineers internationally recognised Petroleum Resources Management System (PRMS)<sup>1</sup>.

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<sup>1</sup> SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System



181 of the 381 production wells drilled at year end 2013 are in the Longhorn AMI with less development to date in Axle Tree Ranch, Heard Ranch and Ipanema - Figure 3-4.

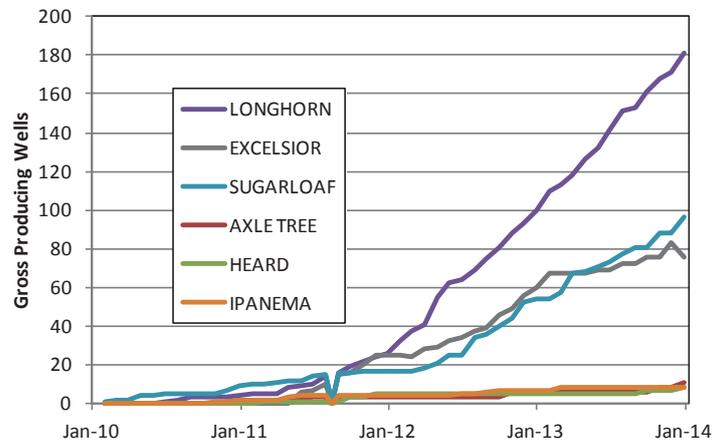


Figure 3-4 Gross Sugarkane Production Wells

Five Sugarkane development wells have produced from the Austin Chalk which overlies the Eagle Ford. There has been no Sugarkane development from the deeper Pearsall shale formation.

Aurora estimate their reserves, production and cost forecasts using the ARIES Modeler software and ARIES Economic System provided by Landmark. The input data consists of permit and production unit details, well locations, single well production typecurves and unit costs. The software collates the input for a given drilling sequence generating production and cost profiles. Aurora's evaluation was reviewed by Ryder Scott and adjusted where necessary to provide independently reserves certification at 31/12/2013. RISC has reviewed the work and models to generate low, mid and high case realizations for the valuation of Aurora.

The horizontal wells are stimulated with multiple hydraulic fractures. Significant volumes of frac fluid is pumped into the formation to stimulate the wells and this is partially back produced during the life of the production well. Artificial lift is used to assist production. Gas lift is used in the high gas production wells and ESP's or sucker-rod pumps used in the lower GOR oil wells. Individual well production forecasts are cut-off when operating costs exceed revenue which is typically after about 15 years of production.

Reserves certified by Ryder Scott at 31/12/2013 are shown in Table 3-1.

Aurora Resource (net after royalties)		Proved				2P	3P
		PDP	PDNP	PUD	Total		
Oil	mstb	10,430	457	25,277	36,164	44,807	45,843
Condensate	mbbl	4,921		27,388	32,309	44,421	58,689
NGL	mbbl	4,771	31	20,250	25,052	35,898	45,395
Gas	MMscf	31,650	170	136,256	168,076	241,034	305,408
Total Liquid	MMbbl	20.1	0.5	72.9	93.5	125.1	149.9
boe	MMbbl	25.4	0.5	95.6	121.5	165.3	200.8

Table 3-1 Independent Sugarkane Reserve estimate at 31/12/2013 by Ryder Scott



- Ryder Scott's 2P boe reserve is 36% larger than the 1P due to 34% higher liquid volumes and 43% higher gas volumes. The 3P boe reserve is 21% greater than the 2P reserve due to 20% higher liquid volumes and 27% higher gas volumes.
- The 2P boe reserves are 20% oil, 28% condensate, 25% NGLs and 28% gas equivalent.

Aurora's reserves estimate are consistent with Ryder Scott numbers in Table 3-1.

Table 3-2 and Figure 3-5 shows the number of gross wells estimated by Aurora to develop the Sugarkane reserves.

AMI	Aurora interest	PRODUCING	NON PRODUCING	DRILLING	UNDEVELOPED			TOTAL
					PROVED	PROBABLE	POSSIBLE	
IPANEMA	36.4%	8	0	0	75	4	38	125
LONGHORN	31.9%	181	13	4	281	72	90	641
EXCELSIOR	9.1%	86	10	2	241	0	20	359
SUGARLOAF	28.0%	97	3	2	229	162	44	537
AXLE TREE RANCH	100%	11	0	0	8	0	8	27
HEARD RANCH	100%	8	2	0	7	7	8	32
<b>Total</b>		391	28	8	841	245	208	1721

Aurora interest is approximate as it varies from production unit to production units.

Table 3-2 Estimated Gross Wells required to develop Sugarkane Reserves (Aurora)

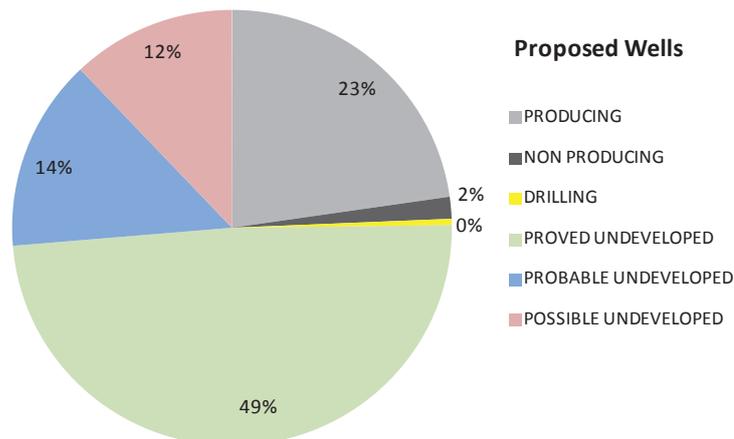


Figure 3-5 Gross Sugarkane wells required to develop Reserves (Aurora)

- Aurora estimate 1721 gross wells are required to develop the Sugarkane Field. At YE2013, 23% of the well required (391 wells) were producing and 38 awaiting start-up, awaiting completion or being drilled.
- 49% of the wells are required to develop the proved undeveloped reserves, with lesser quantities required to develop the probable and possible reserves.
- 1342 or 78% of the wells are in the Eagle Ford Shale formation.
- 344 or 20% of wells including 5 current producers are in the Austin Chalk located directly above and in communication with the Eagle Ford. They are located in parts of the Longhorn, Sugarloaf, Ipanema AMIs and Axle Tree Ranch where the Austin Chalk is estimated to be more productive. Lower clay content is estimated in this area and result in a more brittle



chalk, more natural fracturing and more effective hydraulic fracturing. RISC supports the locations although Austin Chalk well productivity carries uncertainty.

- 35 or 2% of wells are in the Pearsall Shale, a marine shale similar to and 2000 ft below the Eagle Ford. All Pearsall wells are in the possible undeveloped category and located in the Longhorn and Excelsior AMI.

The Eagle Ford formation is at depths between 10,000 and 12,500 feet TVDSS. The Pearsall Shale is estimate to be a viable possible development where is exists above 12,500 feet TVDSS. This is based on regional experience and analogous depths to successful Eagle Ford development. The small proportion of the Pearsall Shale above this depth cut-off is included in the 3P development.

Table 3-3 shows the average well drainage area per wells proposed for the Eagle Ford Shale formation (area divided by number of wells).

Region	Acres	Average Drainage per Well (acres/well)		
		1P	2P	3P
IPANEMA	4728	58	57	57
LONGHORN	28473	60	55	55
EXCELSIOR	20155	59	59	59
SUGARLOAF	24075	75	69	69
AXLE TREE RANCH	1147	60	60	60
HEARD RANCH	1659	98	39	33

Table 3-3 Average Drainage Area per Well in Sugarkane, Eagle Ford (Aurora)

In general, 60 acre or 500 foot spacing between horizontals is planned. The apparent low well spacing in Heard Ranch is misleading because in the 2P and 3P scenarios 8000 foot wells extending into adjacent acreage. Aurora have a reduced equity in the wells shared with the adjacent permit holder.

### 3.2. INFRASTRUCTURE

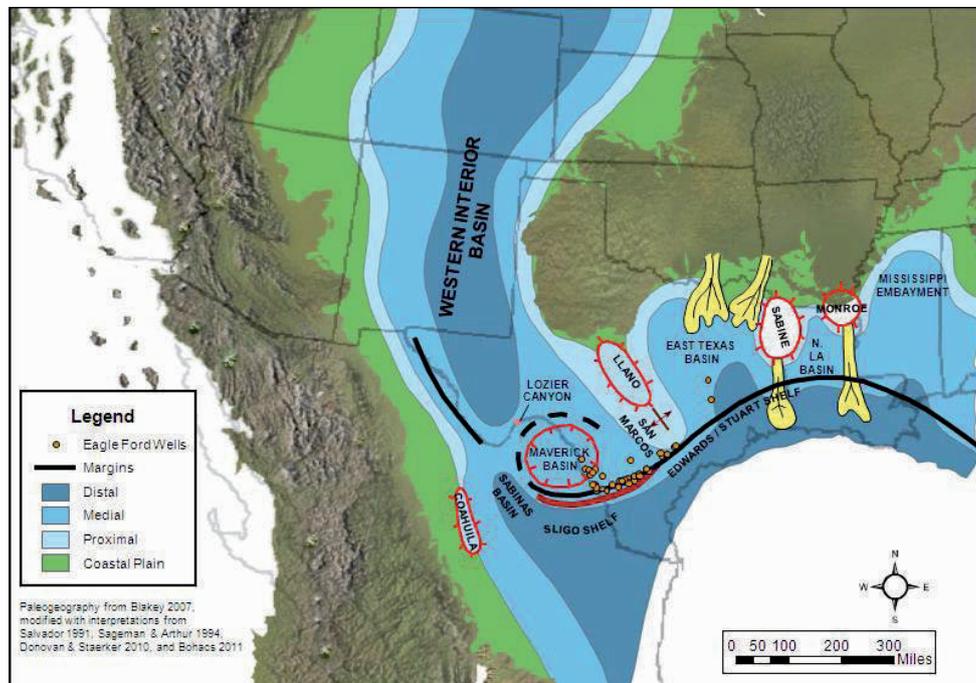
Production is gathered in a number of field processing centers. The oil and condensate is exported via pipeline or trucking to the Hilcorp's Three-Rivers or Falls City oil pipeline.

Gas is exported via three separate pipelines and contracts for further processing at third party processing facilities. The Axle Tree Ranch area produces high levels of H<sub>2</sub>S and the sour gas is sold and exported through sour facilities to the north. Amine units are used at a few non-operated wellheads to remove elevated levels of H<sub>2</sub>S prior to gas export and to remove H<sub>2</sub>S from fuel gas in Axle Tree Ranch. Off site third party oil and gas processing facilities are used to optimise oil, condensate and NGL yields and deliver pipeline specification sales gas.



Figure 3-7 North American Cretaceous paleogeography (modified from Blakey, 2014)

The Seaway was created as the ancient oceanic Farallon tectonic plate began subducting under the west coast of the North American Plate which at the time was located in modern Utah. As plate convergence proceeded, the shallowly subducting slab exerted traction on the base of the lithosphere, pulling it down and producing dynamic topography at the surface that caused the opening of the Western Interior Seaway. This depression and the high eustatic sea levels existing during the Cretaceous allowed waters from the Arctic Ocean in the north and the Gulf of Mexico in the south to meet and flood the central lowlands, forming a sea that split the continent of North America into two landmasses, Laramidia to the west and Appalachia to the east. The sea transgressed (grew) and regressed (receded) over the course of the Cretaceous resulting in depositional cycles of distal and proximal sediments. Figure 3-7 is a palaeogeographic reconstruction at the time of Eagle Ford deposition in the Late Cenomanian. The Eagle Ford Shale layer occurs within medial to distal offshore facies (Figure 3-8).



Modified from Sugarkane well Core Analysis Report

Figure 3-8 Eagle Ford Late Cenomanian Palaeogeography

At its largest, the Western Interior Seaway stretched from the Rockies east to the Appalachians. Two great continental watersheds drained into it from east and west, diluting its waters and bringing in eroded sediments that formed shifting delta systems along its low-lying coasts. There was little sedimentation on the eastern shores of the Seaway; the western boundary, however, consisted of a thick clastic wedge eroded eastward from the Sevier Orogenic belt. The western shore was thus highly variable, depending on variations in sea level and sediment supply. Widespread carbonate deposition indicates that the Seaway was warm and tropical, with abundant calcareous algae.



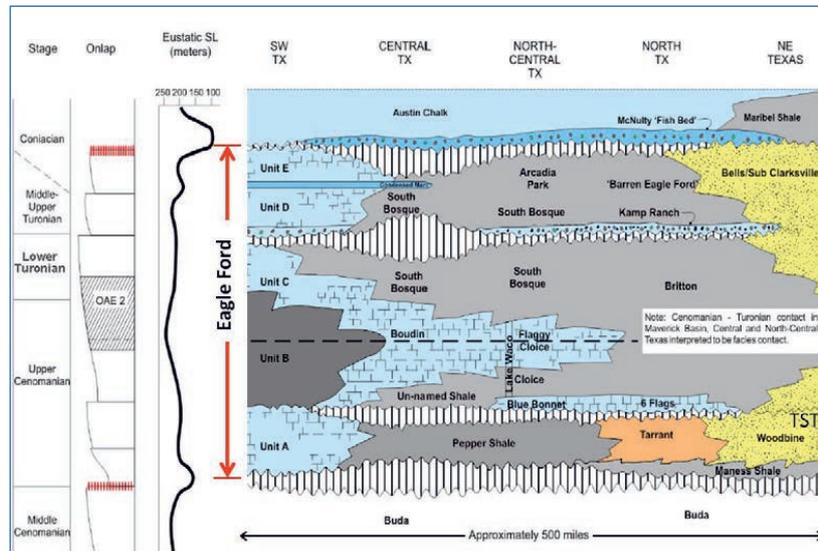


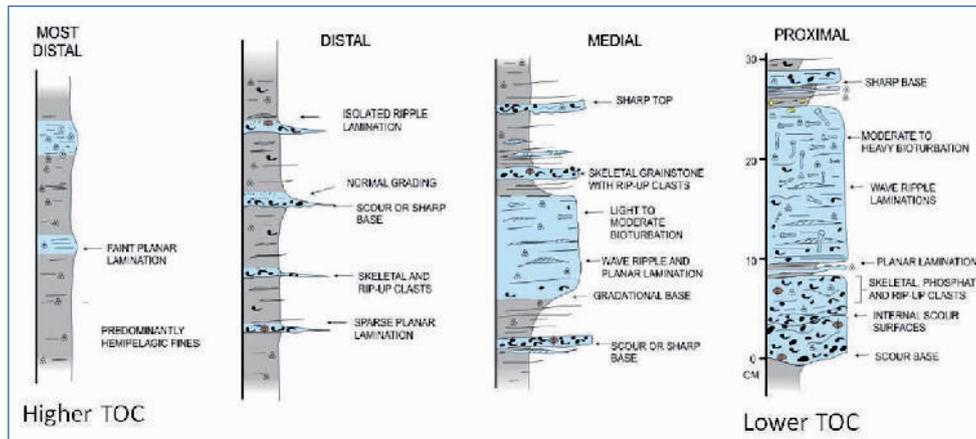
Figure 3-10: Eagle Ford Sequence Stratigraphy (modified from Sugarkane well Core Analysis Report)

The Eagle Ford outcrops from the Mexican border north of the Maverick Basin through San Antonio, Austin and Dallas. From outcrop it dips south-east towards the Gulf of Mexico. The main area of the Eagle Ford Shale trend is between 1,500 ft TVDSS and 14,000 ft TVDSS and the thickness varies between 50 ft on the northeastern side to approximately 330 ft on the southwestern side of the trend.

Within Aurora’s Sugarkane Field the depth to top of the Eagle Ford varies from approximately 10,000 ft TVDSS to 12,500 ft TVDSS, dipping to the south-east.

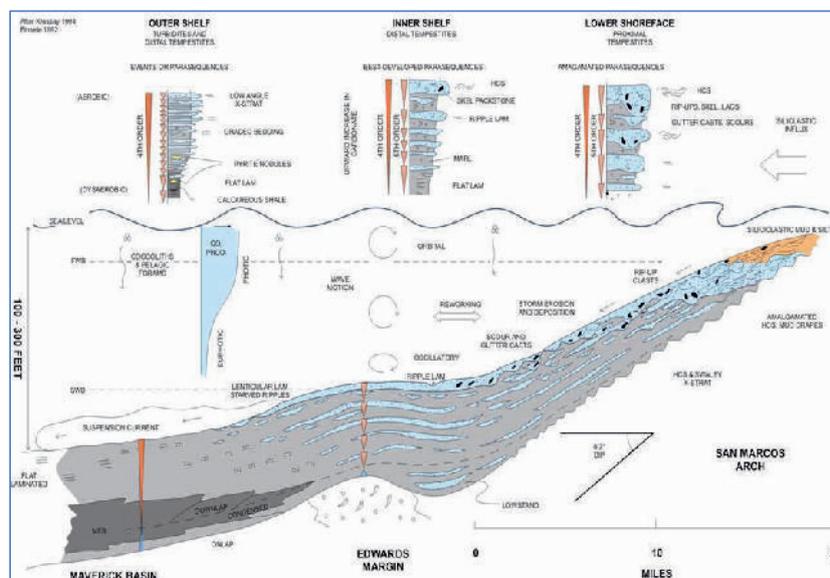
The gross thickness of the Eagle Ford increases towards the south-east and the isopach ranges from approximately 150 feet to 200 feet, across the Sugarkane Field.

Sedimentological facies analysis of outcrop and cored intervals indicate a variety of sedimentological features that relate to the depositional setting and result in vertical and lateral heterogeneity within the Eagle Ford. This heterogeneity results in variation of source, reservoir and seal quality across the play. Figure 3-11 shows these differences from the most distal (furthest from the shore line) to the most proximal and the interpretation of these facies associations has been used to construct the regional depositional model for the Eagle Ford. A schematic cross section showing the regional facies variation due to increasing water depth affected by palaeotopography is shown in Figure 3-12.



Modified from a Sugarkane well Core Analysis Report

Figure 3-11 Eagle Ford sedimentology – distal to proximal facies



Modified from Sugarkane well Core Analysis Report

Figure 3-12 Eagle Ford Depositional Model

Figure 3-13 is a schematic block view of this depositional model. The Eagle Ford section was continuously cored in one of the Sugarkane wells and extensive use of this dataset has been made to characterise the Eagle Ford reservoir in the Sugarkane area. The cored section is interpreted to span the transition from the distal inner shelf to outer shelf environments as shown in Figure 3-12 and Figure 3-13.

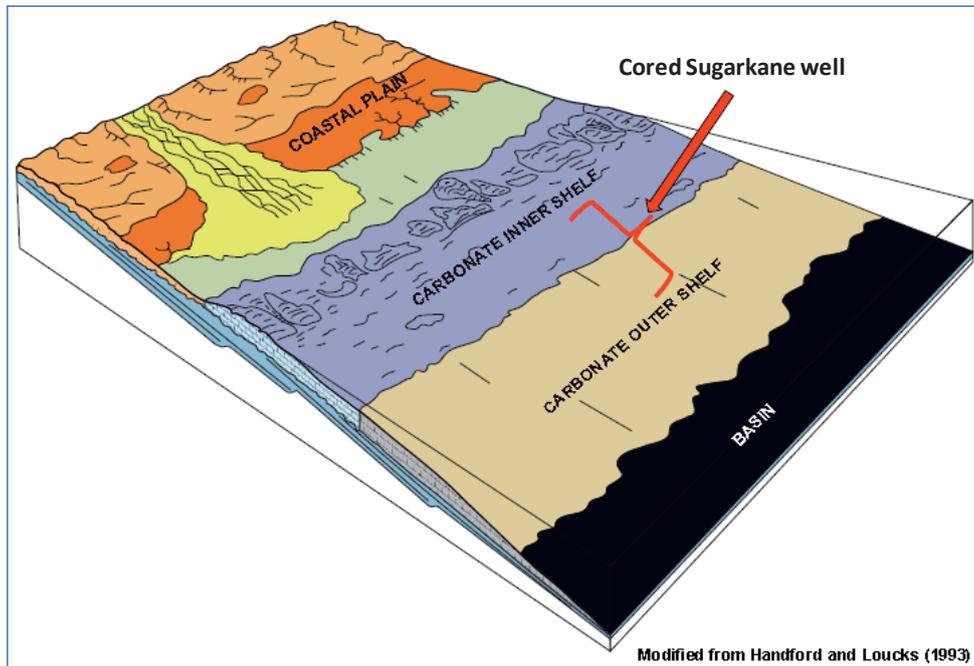


Figure 3-13 Schematic block diagram of the regional Eagle Ford depositional model showing cored well position

Within these environments dark grey massive to faintly laminated marls are interbedded with foraminifera packstone beds with gradational contacts that form coarsening upward parasequences that are typically 2 to 8 feet thick. Thick bentonite laminae and lenses also occur and calcareous concretions are common. Occasional grainstone beds are present which are interpreted to be the result of intermittent storm events.

Calcite is the most abundant mineral accounting (on average) for over 50% of the volume and occurs in several forms: as fossils, as part of the matrix, as sparry cement filling the chambers of foraminifera and as crystals due to recrystallization. It is the high carbonate content of this sequence that provides the brittleness required for effective fracture stimulation placement. Other common minerals include quartz (~ 20%), clay (~15%) and kerogen (~9%). Lesser volumes of plagioclase, pyrite, dolomite and marcasite are locally present. The clay is a mixture of illite/smectite and illite with chlorite and kaolinite occurring in the lower parts of the Eagle Ford. Figure 3-14 is a plot summarising the average mineralogy of the major North American shale plays<sup>2</sup>. The dominance of calcite within the Eagle Ford is apparent.

<sup>2</sup> Hall, C. D., 2010, A comparison of gas shale reservoir properties – Muskwa, Marcellus, Barnett, Montney, Haynesville and Eagle Ford, Core Lab Integrated Reservoir Solutions Division a presentation to the 4<sup>th</sup> B.C. Unconventional Gas Technical Forum, April 9, 2010, Victoria, British Columbia



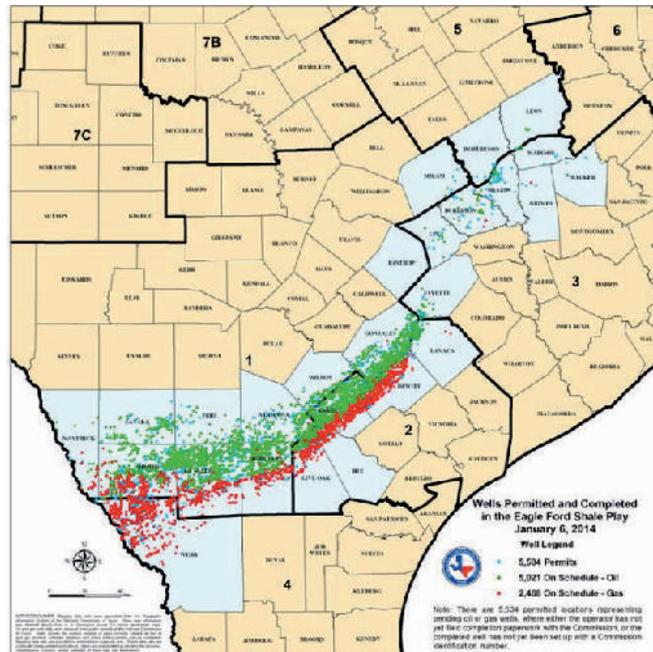


Figure 3-15 Wells permitted and completed in the Eagle Ford Shale Play (Texas Railroad Commission, 2014)

Due to field consolidations the number of Eagle Ford fields has been reduced to 22 active fields with 17 inactive within the Railroad Commission Districts 1 to 6. The fields cover 26 counties. The play extends for 102 miles parallel to the Gulf Coast and has an average width of 60 miles. The depth (pressure and temperature) variation from north east to south west has resulted in oil-condensate-dry gas hydrocarbon composition “windows” from north east to south west. The wells in the deeper part of the play deliver a dry gas, but moving northeastward out of District 1 and updip, the wells produce more liquids.

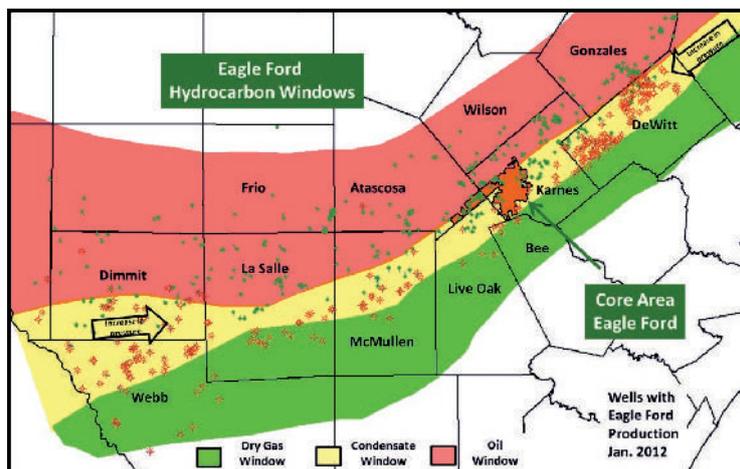


Figure 3-16 Eagle Ford Hydrocarbon composition “windows” (Aurora)



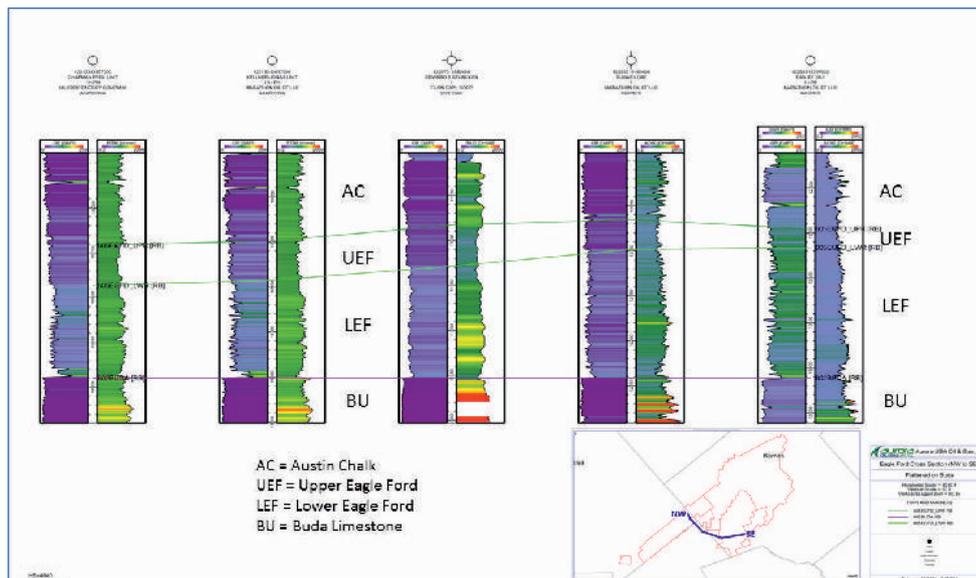


Figure 3-18 North-west to south-east well section showing subdivision of the Eagle Ford into Lower and Upper Units

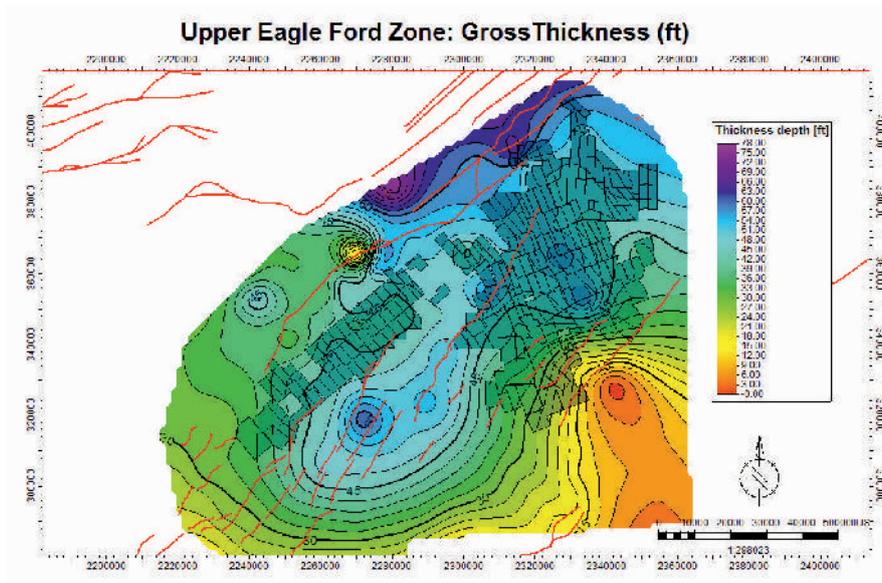


Figure 3-19 Upper Eagle Ford gross thickness map

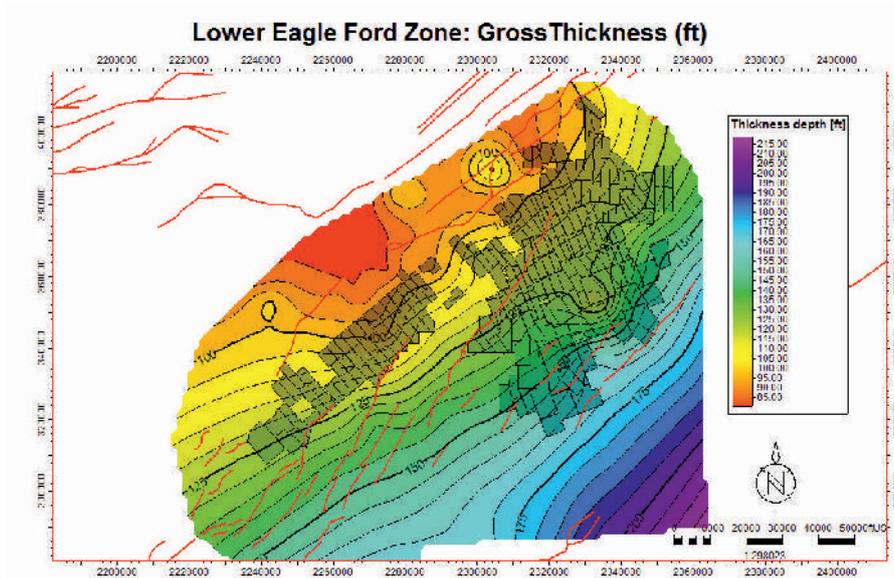


Figure 3-20 Lower Eagle Ford gross thickness map

The Eagle Ford petrophysical properties of total organic carbon (TOC), porosity and water saturation have been calculated by STXRA from well log petrophysical models that have been calibrated to core analysis results<sup>2</sup>. Figure 3-21 shows the wireline log response for a typical Eagle Ford well<sup>3</sup>.

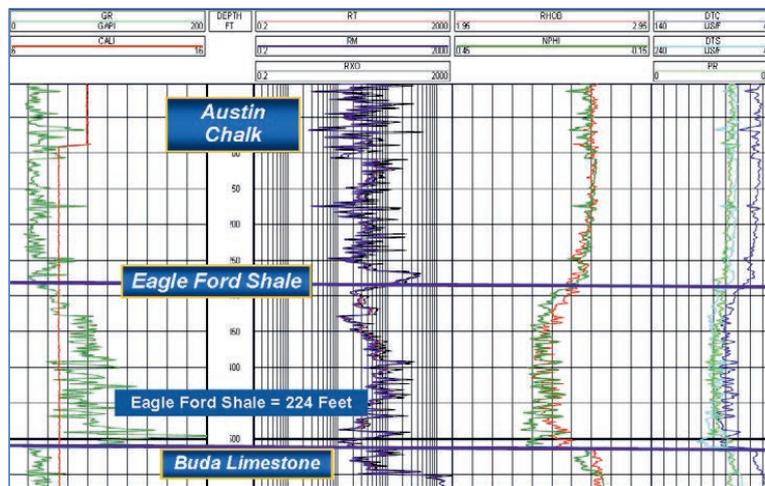


Figure 3-21 Typical Eagle Ford log response

<sup>3</sup> Hall, C. D., 2010, A comparison of gas shale reservoir properties – Muskwa, Marcellus, Barnett, Montney, Haynesville and Eagle Ford, Core Lab Integrated Reservoir Solutions Division a presentation to the 4<sup>th</sup> B.C. Unconventional Gas Technical Forum, April 9, 2010, Victoria, British Columbia



TOC values estimated for the Sugarkane Field range from 3.8 to 5.8 % (mean value of 4.5 %) and are within the regional TOC range of 3 - 7%. The mapped Eagle Ford TOC distribution is relatively uniform across the majority of the area.

Average total porosity determined from the petrophysical analysis range from 8.0 to 9.9 % (mean value 8.7 %) which is within the regional porosity range of 6 – 11%. The higher porosity intervals are dominated by the carbonate lithologies.

Water saturation was estimated by STXRA from a resistivity based model similar to Simondoux. The values within the Sugarkane Field vary from 26% to 38% (mean value of 31 %). Water saturation decreases to the south-east correlating with the increasing deepening and thickening trends of the Eagle Ford.

Adsorbed and free oil and gas saturations were also calculated by STRXA. The adsorbed component was calculated from the observed regional relationship between measured TOC data and isotherm in-situ gas storage capacity data using the Langmuir Isotherm estimated from core analysis<sup>4</sup>. Isotherms show methane storage capacities of up to 100 scf/ton with an average closer to 80 scf/ton.

Good Eagle Ford production is related to stratigraphy, structure and thickness. The best oil-producing area in the Eagle Ford Shale is in the Karnes Trough region. The best gas producing area is near Hawkville<sup>5</sup>. Many of the best practices being used in the Eagle Ford play today were first developed in other semi-analogous play areas (e.g. Bakken, Marcellus, Haynesville, Barnett).

An understanding of the regional and local stress variation and geomechanical rock properties is fundamentally important to the identification of sweet spots within unconventional reservoirs and the effectiveness of their exploitation. The present day *insitu* stress direction varies along the Eagle Ford trend. The Sugarkane Field is located within a normal stress regime ( $S_v > S_H > S_h$ ) so that fracture stimulation will result in vertical growth of fractures with an azimuth parallel to the maximum horizontal stress azimuth which is approximately 40 degrees east of north. Faults and natural fractures also trend north-east, and to maximize the chance of intersecting open fractures horizontal wells within the Sugarkane Field are drilled in a north-west azimuth, orthogonal to this trend.

3D seismic is routinely used to locate structural features within the Eagle Ford such as faults and to plan development well trajectories. Aurora is investigating the use of 3D seismic attributes from high frequency inversion volumes to identify production sweet spots within the Eagle Ford. Regional and local relationships between density and TOC have been established between bulk density and TOC. Using this relationship geobodies can be extracted from the seismic volume that are interpreted to represent connected areas of high TOC and possible drilling targets for horizontal wells. Figure 3-22 shows an example of some seismically extracted geobodies in Axle Tree Ranch.

<sup>4</sup> Hilcorp Energy (wellname) Sugarkane Field Karnes County, Texas., Eagle Ford Shale Evaluation, Core Laboratories Integrated Reservoir Solutions

<sup>5</sup> Pearson, K., 2012, Geologic Models and Evaluation of Undiscovered Conventional and Continuous Oil and Gas Resources – Upper Cretaceous Austin Chalk, U.S. Gulf Coast, Scientific Investigations Report 2012 -5159, U.S. Department of the Interior U.S. Geological Survey



to approximately 15,000 ftVDSS, dipping to the south east, as shown in Figure 3-23. Similar to the Eagle Ford, the Pearsall Shale thickens regionally to the south west with local thickening associated with depo-centres such as the Maverick Basin, Figure 3-24.

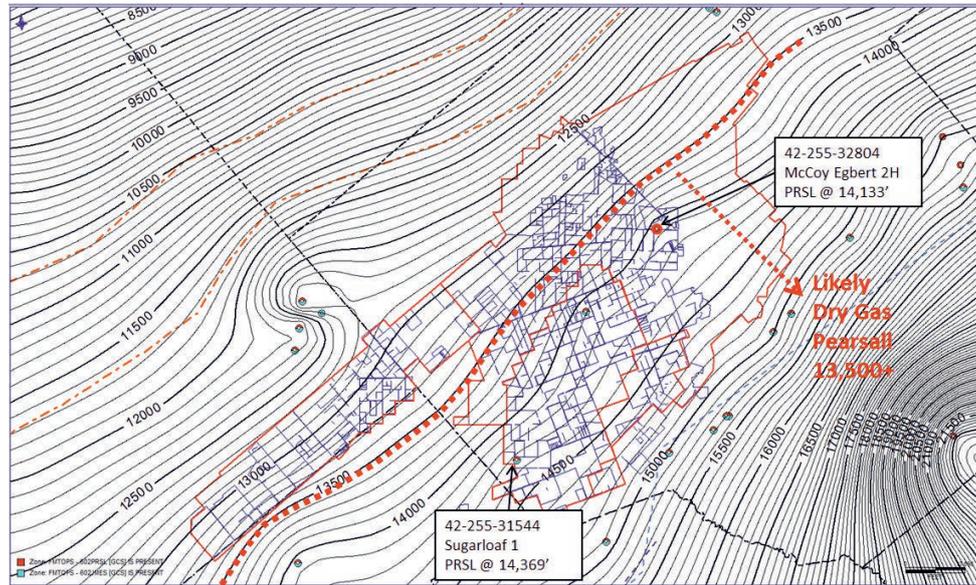


Figure 3-23 Top of Pearsall depth structure map (Aurora)

The Pearsall Shale is a mixed siliclastic and carbonate system consisting predominately of limestone and calcareous mudstone intervals which are subdivided into the Bexar, Cow Creek, and Pine Island Members, Figure 3-9. It was deposited on a distally steepened ramp over a period of 11.75 million years (Hull, 2011)<sup>6</sup> in a range of depositional environments encompassing shallow water to deeper offshore settings. Outer ramp oceanic anoxic event facies are dominated by siliclastics, rich in TOC, and have little bioturbation. Conversely the outer ramp facies deposited under normally oxygenated paleo-environmental conditions tend to be dominated by carbonates, with low TOC content, and are more prominently bioturbated. As a result it is the outer ramp facies that is the unconventional petroleum system in that it is simultaneously the reservoir, source and seal. Based on mineralogy, TOC and maturity three potential unconventional reservoir zones are identified: Pine Island Shale Member, Lower Bexar Shale Member and Upper Bexar Shale Member. Only the Lower Bexar Shale Member is currently being exploited and produced (Hull, 2011).

There is considerable vertical and lateral variability of rock textures and original porosity owing to the wide variety of depositional environments. Porosity preservation, destruction, and creation have been impacted by depth of burial, fluid flow, temperature and pressure gradients, diagenesis, hydrocarbon generation, and tectonic faulting and fracturing.

Early well tests in the Maverick Basin (Figure 3-24) on the western end of the trend established the existence of producible hydrocarbons in the Pearsall. It was long assumed that the Pearsall

<sup>6</sup> Hull, D.C., 2011, Stratigraphic Architecture, Depositional Systems, and Reservoir Characteristics of the Pearsall Shale-Gas System, Lower Cretaceous, South Texas, Master of Science in Geological Sciences The University of Texas at Austin August, 2011

contained only natural gas until Oklahoma-based Cheyenne Petroleum Co. drilled a Pearsall well in 2011 that produced crude oil. Data from 43 recent producing wells drilled since 2011 have demonstrated that like the Eagle Ford, oil, gas condensate, and dry gas zones exist within the Pearsall trend<sup>7</sup>, Figure 3-25. Geological and engineering analysis of production from the wells illustrated the importance of intersecting natural fracture trends with the horizontal well bore and landing the well in the correct stratigraphic section.

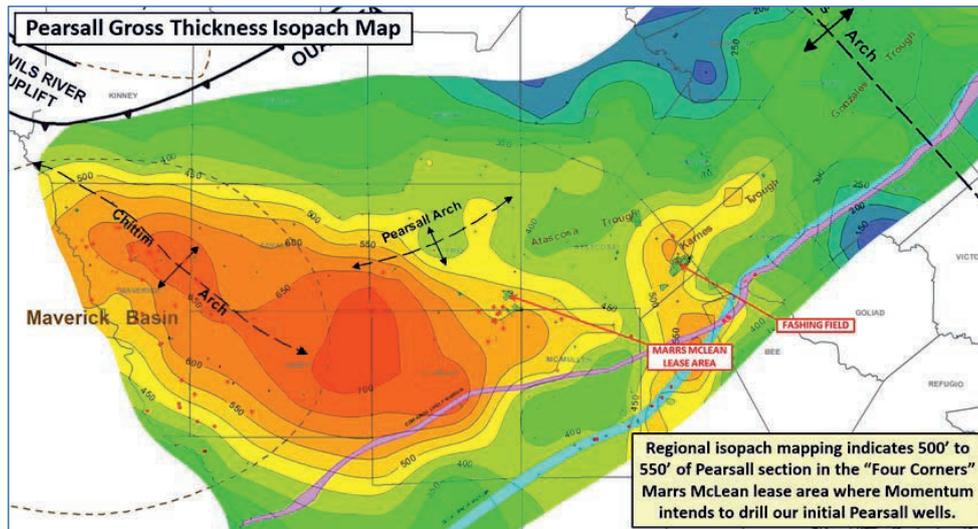


Figure 3-24 Pearsall Shale gross thickness map (Momentum Oil and Gas LLC, 2014)

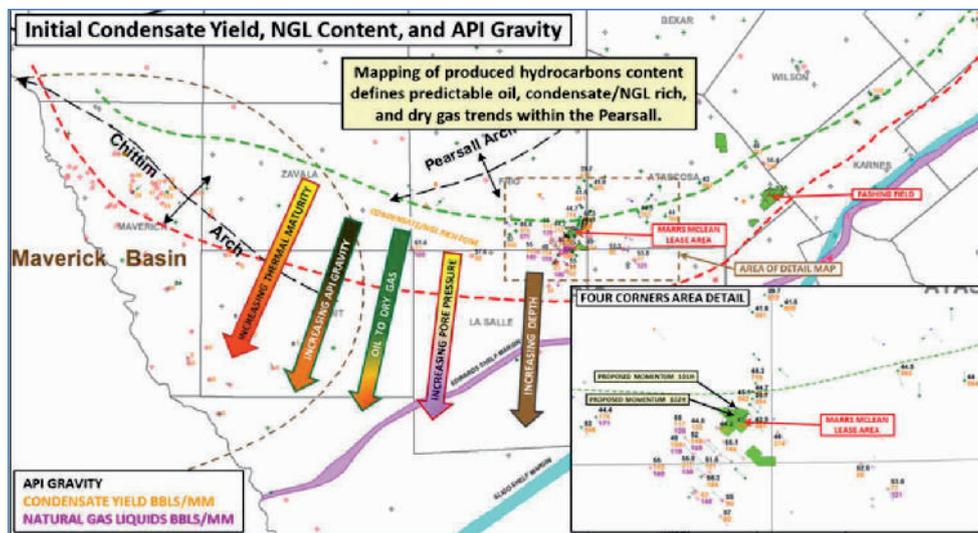


Figure 3-25 Pearsall Shale hydrocarbon yield trends (Momentum Oil and Gas LLC, 2014)

<sup>7</sup> Momentum Oil and Gas LLC website, 2014 [www.momentumog.com](http://www.momentumog.com)



The Indio Tanks (Pearsall) field started as primarily a gas reservoir in Maverick and Dimmit counties along the U.S.- Mexico border and has evolved into a horizontal liquids-rich play as drilling moves eastward. In 2011, field output totaled 3.2 billion cu ft of gas and just 15,458 bbls of oil. However, by the end of June 2013, reported field production totaled nearly 200,000 bbls of oil and 2.9 bcf of gas.

Aurora's McCoy-Egbert 2H pilot hole was drilled in 2012 to test the potential of the Pearsall Bexar Shale member and James Limestone Member in an area that is likely to contain dry gas due to the depth of the Pearsall. The surface location of the well is shown in Figure 3-24. Encouraging gas shows were observed whilst drilling in the Pearsall Shale.

The Pearsall Shale is a new play and it will be necessary to monitor production results and integrate the technical information gathered from this play to determine if it is a viable play within Aurora's leases.

#### 3.3.4. Austin Chalk

The Upper Cretaceous Austin Chalk is a low-porosity, low-permeability reservoir and is found onshore in Texas and Louisiana paralleling the Gulf Coast<sup>8</sup>. It is named from an outcrop near Austin, Texas and overlies the Eagle Ford Shale and is itself overlain by the Anacacho or Upson formations of South Texas. The Tokio and Eutaw Formations of Arkansas, Mississippi, Louisiana, and Florida are partial age equivalents of the Austin Chalk and represent a facies change from an environment of chalk deposition in the west to a sandier, more clastic-rich sedimentary environment in the east.

Before horizontal drilling became popular in the mid-1980s, numerous vertical wells were drilled from the 1920s in the fields discovered along the Gulf Coast. The Austin Chalk consists of interbedded chalks, volcanic ash and marls deposited in a shallow marine setting in water depths of less than 30 ft to 300 ft<sup>9</sup>. The overall thickness varies between 150 ft and 800 ft.

In the Sugarkane Field the Austin Chalk is at depths between 10,000 ft to 12,500 ft TVDSS and the formation dips to the south east, as shown in Figure 3-26. Unlike the lower Eagle Ford which thickens to the south east, the Austin Chalk thins in this direction similar to the upper Eagle Ford. Figure 3-27 shows that the thickness varies from approximately 50 ft in the south of the Sugarkane Field to approximately 250 ft in the north east.

<sup>8</sup> Pearson, K., 2012, Geologic Models and Evaluation of Undiscovered Conventional and Continuous Oil and Gas Resources – Upper Cretaceous Austin Chalk, U.S. Gulf Coast, Scientific Investigations Report 2012 -5159, U.S. Department of the Interior U.S. Geological Survey

<sup>9</sup> Martin, R., Baihly, J., Malpani, R., Garrett, L., Atwood, K., 2011, Understanding production from Eagle Ford – Austin Chalk System, SPE 145117



quality can be inconsistent throughout the region, this marine shale contains dominantly oil-prone kerogen and is thermally mature across much of the region.

Generation of hydrocarbons from the Eagle Ford probably started sometime in the early Miocene. Migration of oil and gas into the Austin Chalk requires only direct upward migration. Hydrocarbons that migrated updip likely followed bed-parallel routes moving through either the Eagle Ford or the Austin Chalk. Fracture generation predates the generation and migration of oil and gas allowing for the movement of hydrocarbons into reservoirs. Figure 3-28 is a cartoon showing possible hydrocarbon migration pathways from the Eagle Ford source to the Austin Chalk reservoir<sup>9</sup>.

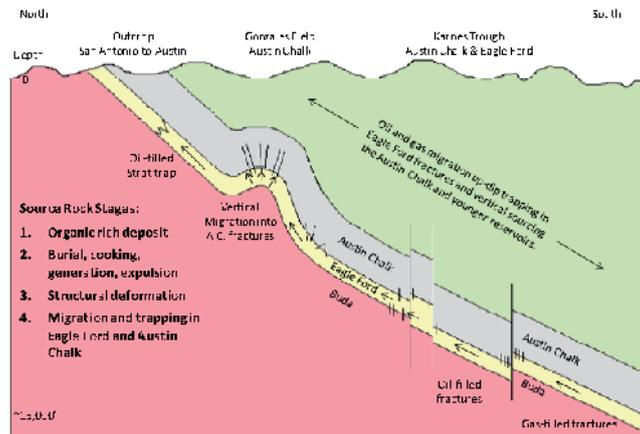


Figure 3-28 Cartoon showing possible migration pathways from Eagle Ford source to Austin Chalk reservoir

Regionally the chalk layers have a matrix permeability that varies between 0.03 and 2 mD. The marls that are layered throughout the Austin Chalk terminate or impede growth of natural fractures from one chalk layer to the next. Major producing fractures are both open and closed and parallel to the Lower Cretaceous shelf edge.

The presence of brittle lithologies and proximity to faults and fracture-creating structures is critical to good production from the Austin Chalk. Higher producing areas occur where the chalk is densely fractured and for long term production to occur an extensive fracture system must be connected to the well. The downwarping of the Gulf Coast basin during the Oligocene and early Miocene created large strike-parallel fracture systems in association with faulting and localized arching over uplifts. Movement of the Jurassic Louann Salt also contributed to fracture genesis where fractures form in association with salt-related structures. Large-scale fracture networks lead to continuous accumulations, and structures, such as broad anticlines, improve the production potential of continuous reservoirs.

In the Sugarkane Field, the Fashing Arch structure is a gentle northwest-south east trending feature that could enhance the presence of natural fractures in the Sugarkane area. The approximate location of this feature is shown in Figure 3-29.



### 3.4. PRODUCTION ANALYSIS

#### 3.4.1. Single Well Typecurves

The Sugarkane Field is divided into nine regions and single well typecurves have been developed for each region. Typecurves for oil/condensate production and for gas production have been developed for each region.

Figure 3-31 shows the seven typecurve regions in the non-operated areas.

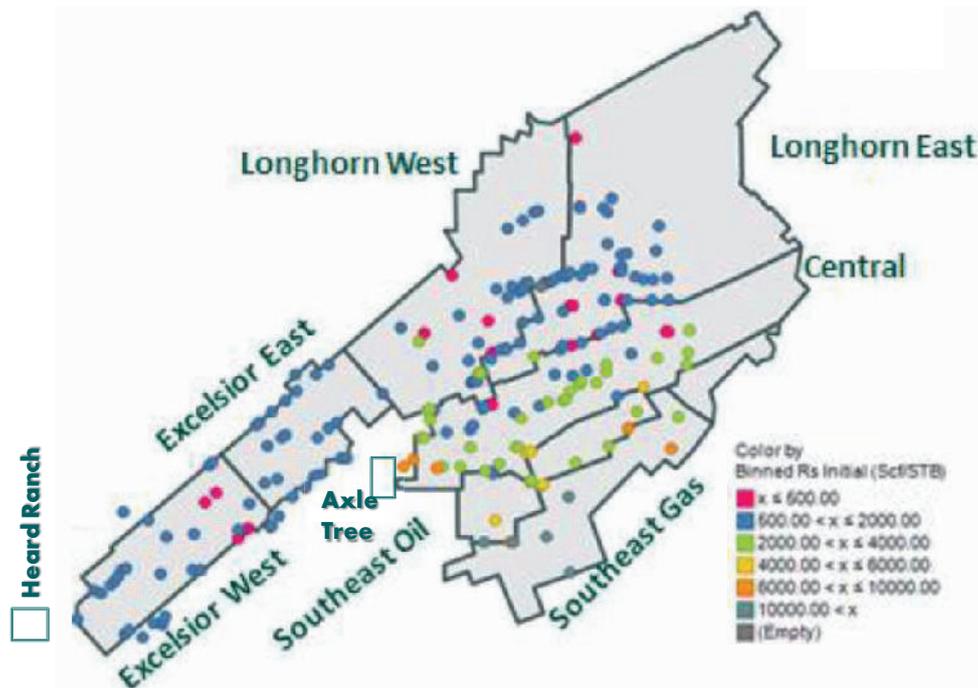


Figure 3-31 Typecurve Regions

- The regions are largely based on the GOR (Gas Oil Ratio) with higher GOR (>2000 scf/stb) in the southeast where the gas-condensate fluid is in the gas window and low GORs (<600 scf/stb) in the northwest where the volatile oil fluids are in the oil window.
- The Excelsior AMI is divided into an east and west region with better well performance in the west. Similarly Longhorn is divided into an east and west with improved performance in the east.
- The Sugarloaf and Ipanema AMI are covered by the Central, Southeast Oil and Southeast Gas typecurves.
- Operated regions Axle Tree and Heard Ranch have their own typecurves.

The typecurves are based on:

- History matching wells drilled in that region in the last 18 months.
- Initial hyperbolic decline ( $n=1.2$ ) to reflect the initial linear flow period.
- Exponential decline in the longer term to reflect semi-steady state radial flow. 11% exponential decline is estimated in the low case and 6% in the high case.



- Approximately half the well recovery occurs in the first three years (36 months)
- The well changes to exponential decline after seven years (84 months) when it has produced approximately 70% of its ultimate recovery.

RISC has reviewed the production data. Findings from three key areas are discussed below.

Figure 3-34 show the oil production from 55 wells drilled in one of the key gas-condensate areas in the last 18 months.

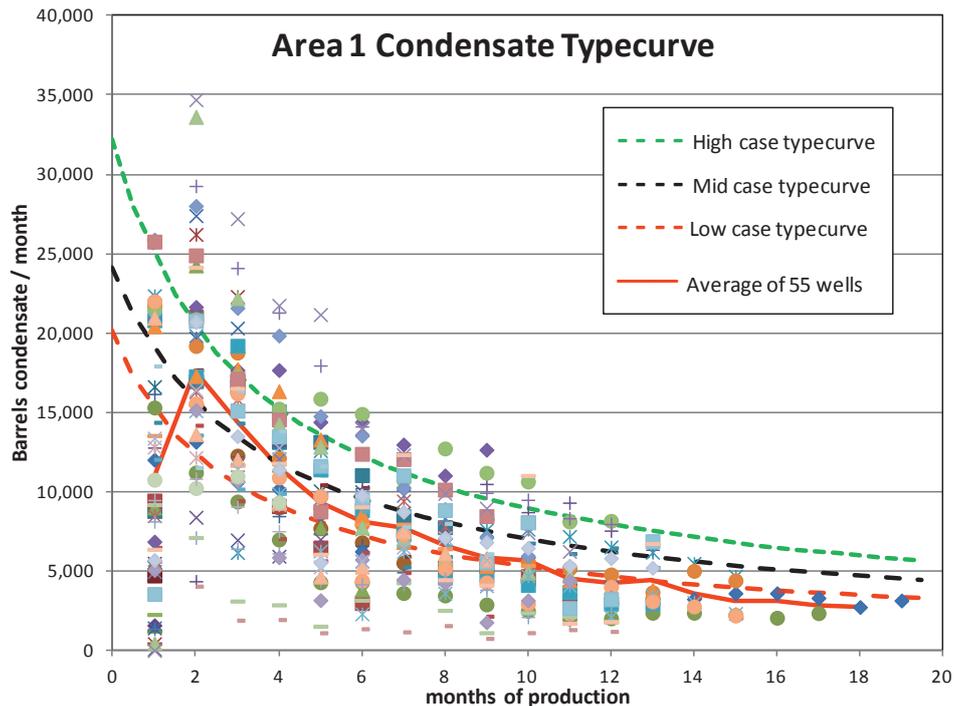


Figure 3-34 Gas-condensate Area Well Performance

- The different markers are actual production from the different wells.
- The solid red line is the average production of the 55 wells in their 1st, 2nd, 3rd month of production etc.
- The dashed lines are Aurora's the single well typecurve for this region representing a low, mid and high case outcome.

Well performance has steadily improved over time due to optimisation of well length, and stimulation techniques. Therefore only wells that started production in the last 18 months are considered representative and used to fit typecurves. All wells in the last 18 months have data for the first month of production but only 18 month old wells have data for the 18<sup>th</sup> month of production. Improved performance in the last 18 months means that the later months production data is conservative and the apparent rate of decline over-estimated. Therefore the average curve is estimated to be a low case typecurve and the mid and high case are weighted more to most recent wells.

Figure 3-35 and Figure 3-36 show similar data for two more key areas.



Figure 3-37, Figure 3-38 and Figure 3-39 show RISC's analysis of gas production in the three key areas.

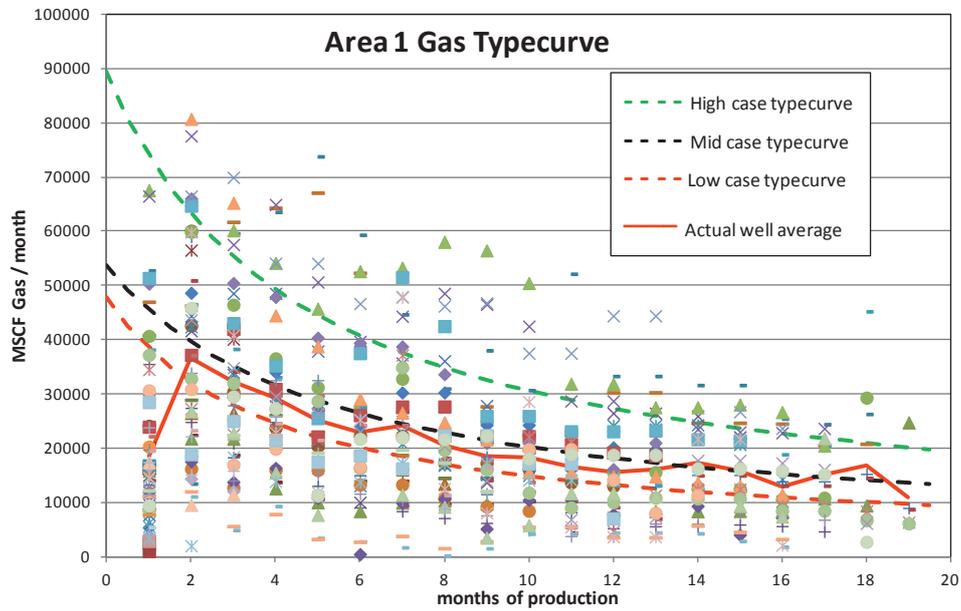


Figure 3-37 Area 1 Well Performance (Gas)

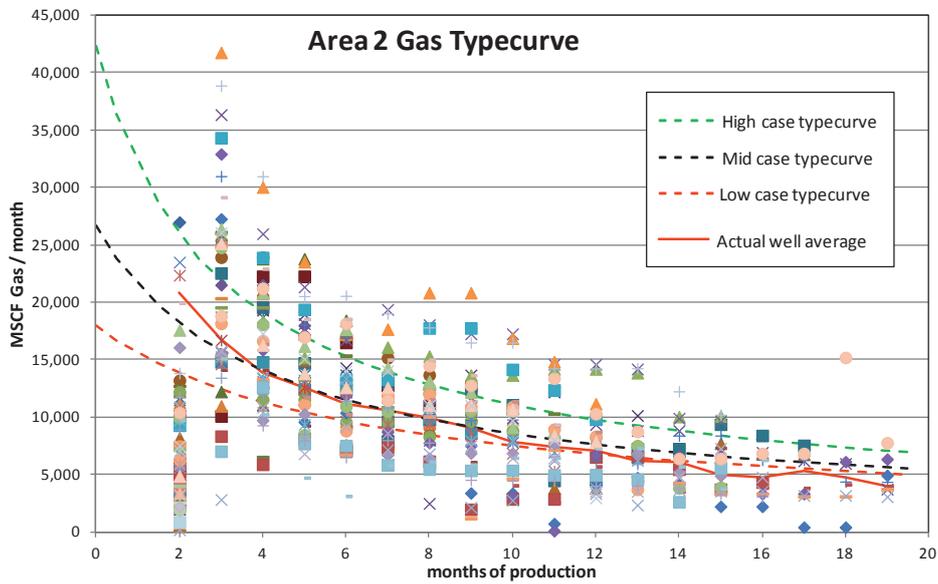


Figure 3-38 Area 2 Well Performance (Gas)

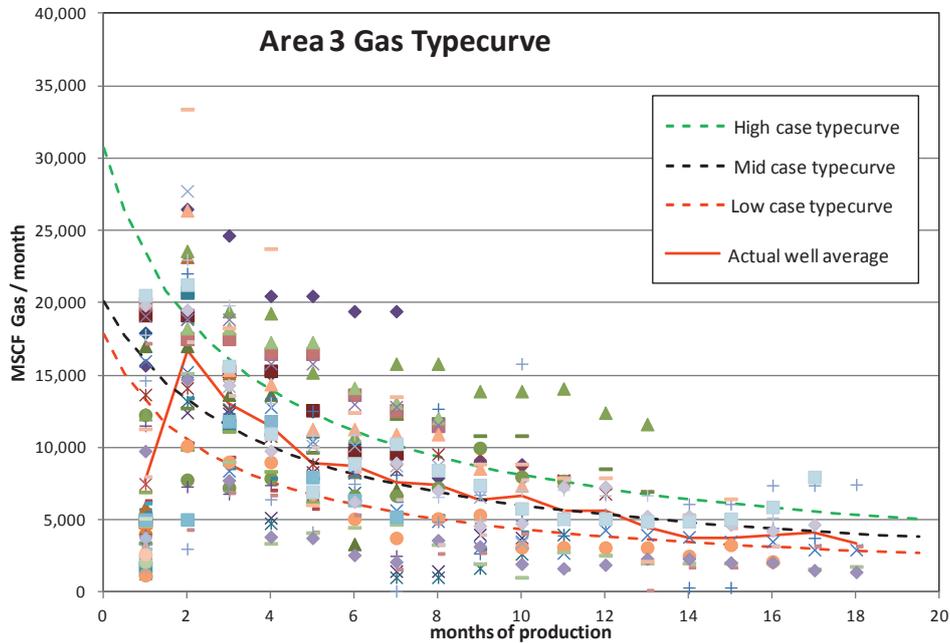


Figure 3-39 Area 3 Well Performance (Gas)

From this analysis, RISC supports the low and mid case typecurves used by Aurora and have used them for production forecasting. RISC considers that the high case typecurves represent the uncertainty in individual well performance. However, they are too high to be applied to all wells in a high case outcome and will generate an overly-optimistic result.

### 3.4.2. Well Numbers and Drilling Schedule

Table 3-4 shows the drilling sequence proposed by Aurora to develop the proved, probable and possible reserves.

Year	Proved			Probable			Possible				Total 3P
	EF	AC	Total	EF	AC	Total	EF	AC	Pearsall	Total	
2013	38		38								38
2014	137	4	141		40	40		21		21	202
2015	152	4	156	4	28	32	4	31		35	223
2016	170	6	176	28	35	63	11	8		19	258
2017	145	2	147	5	45	50	2	59	18	79	276
2018	214	2	216	46	14	60		40	17	57	333
<b>Total</b>	<b>856</b>	<b>18</b>	<b>874</b>	<b>83</b>	<b>162</b>	<b>245</b>	<b>17</b>	<b>159</b>	<b>35</b>	<b>211</b>	<b>1330</b>

EF = Eagle Ford, AC = Austin Chalk formation

Table 3-4 Non-producing and Undeveloped Well Schedule (Aurora)

Well locations are classified as proved, probable and possible.



- 836 proved undeveloped locations have been mapped. 2% are Austin Chalk wells and 98% Eagle Ford. In addition 38 wells drilled in 2013 are awaiting start-up.
- An additional 245 probable locations are identified including:
  - locations on production unit boundaries that will require agreement with adjacent lease holders
  - Closer spaced Austin Chalk wells. 66% of the probable well locations are Austin Chalk wells.
- An additional 211 possible locations are identified consisting of:
  - Further Austin Chalk development. 75% of the probable well locations are in the Austin Chalk
  - 35 Pearsall wells.

Typecurves have been used to estimate production for the undrilled and not-yet producing wells in Table 3-4. 38 Eagle Ford wells drilled in 4Q 2013 had not started production at the time of the evaluation. They were being drilled, awaiting completion or awaiting start-up.

Aurora and Ryder Scott have applied the low case typecurve to the non producing and proved undeveloped wells, the mid case typecurve to the incremental probable wells and the high case typecurve to the incremental possible wells. Therefore, in the 2P reserve evaluation 856 or 91% of the Eagle Ford wells are assigned low case typecurves. RISC does not support this methodology. We estimate that:

- The low case typecurve should be used for proved wells to estimate 1P reserves as done by Aurora and Ryder Scott.
- The mid case typecurve should be used for all proved and probable wells to estimate 2P reserves.
- The high case typecurves should be applied to all proved, probable and possible wells to estimate 3P reserves. Although as discussed we do not support the high case typecurves.

RISC supports well numbers in Table 3-4. The proved well locations are mapped and estimated to be firm. The probable well locations carry some uncertainty. Probable Eagle Ford locations are on production unit boundaries and will require agreement with the adjacent production unit land owners. The brittleness and degree of natural fracturing is uncertain in the Austin Chalk. Probable and possible Austin Chalk locations will be confirmed by the performance of earlier Austin Chalk wells. The possible well locations are largely further expansion of the Austin Chalk development and wells in the Pearsall Shale which need additional production data to support the economics of these locations.

RISC supports the 3P drilling sequence shown in Table 3-4, with approximately 200 gross wells drilled in 2014, increasing by 10% per year. However only 141 of the proposed locations in 2014 are proved locations. If only the proved locations are drilled the drilling sequence is likely to be accelerated to a similar drill rate as the 3P scenario. This results in the proved locations being completed in 2017. Similarly in the 2P scenario the 2P well locations would be accelerated to match the 3P drill rate and the 2P locations would be completed in 2018.

### 3.5. HYDROCARBONS IN PLACE AND RECOVERY FACTORS

Owing to the large geographical areas and large reservoir heterogeneity characteristic of these reservoirs hydrocarbon-in-place estimates for unconventional reservoirs are usually based on probabilistic monte-carlo simulation methods that capture the volumetric uncertainty range. The resource density (in-place volume/unit area) is a useful metric to compare different unconventional plays.



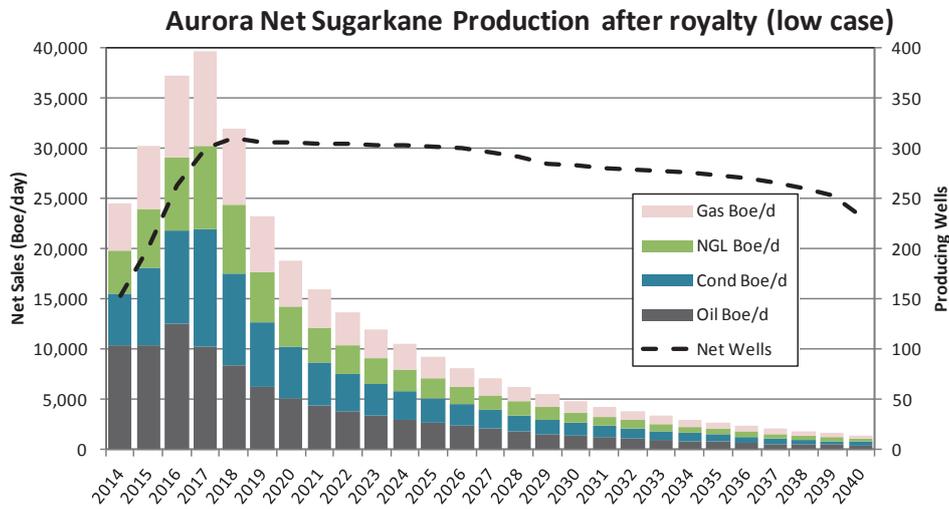


Figure 3-41 Aurora Net Sugarkane Production after Royalty: Low case

Figure 3-42 and Figure 3-43 the gross and net mid case production forecast estimated by RISC.

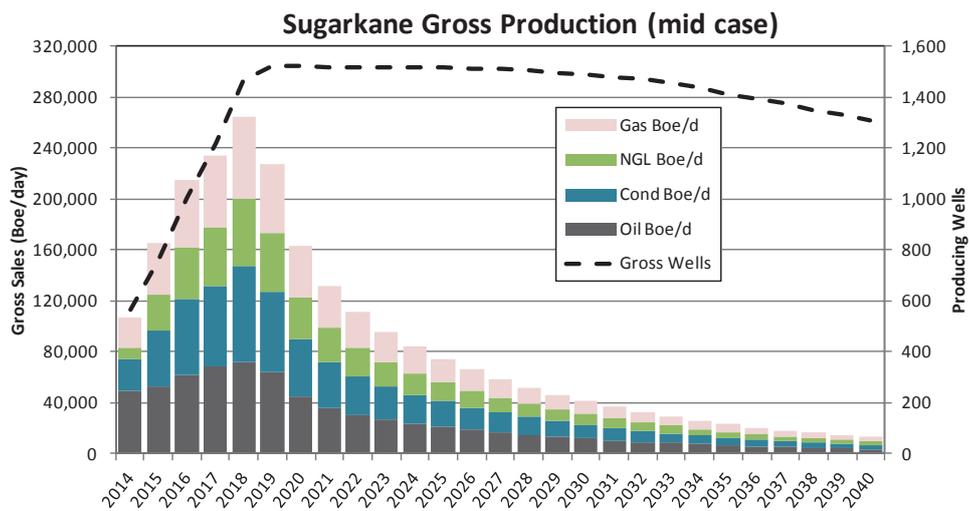


Figure 3-42 Gross Sugarkane Production Forecast: Mid case



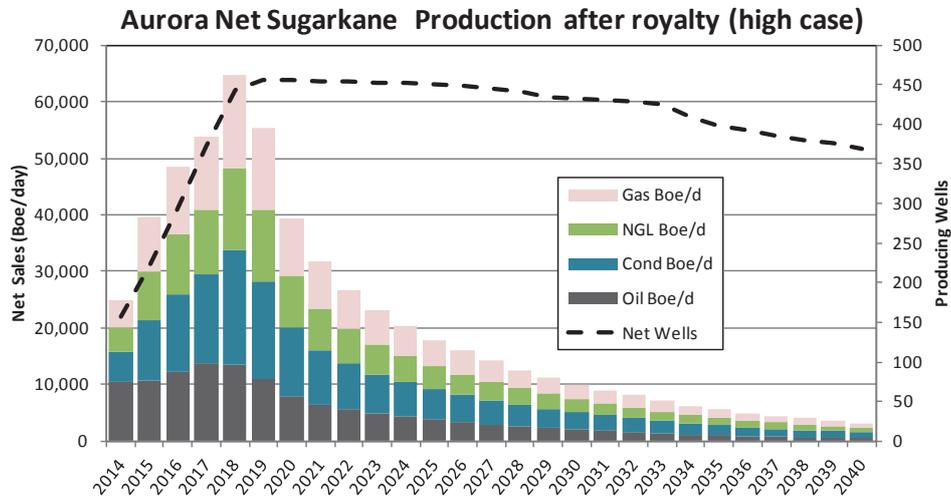


Figure 3-45 Aurora Net Sugarkane Production after Royalty: High case

### 3.6.1. Drilling Schedule

The drilling schedule used by RISC for the low, mid and high case is shown in Table 3-5

Year	Low Case		Mid Case		High Case	
	Wells drilled	Wells start production	Wells drilled	Wells start production	Wells drilled	Wells start production
2013	38		38		38	
2014	200	188	200	188	202	190
2015	220	215	220	215	223	218
2016	242	237	242	237	258	249
2017	174	191	266	260	276	272
2018		43	153	181	333	332
2019				38		69
Total	874	874	1119	1119	1330	1330

Table 3-5 Spud and On production Well Sequence

The low and mid drilling schedule is based upon an estimate 200 wells being spudded in 2014 increasing at a rate of 10% per year. Wells are assumed to start production three months after spud. Therefore the 38 non producing wells drilled in 2013 are forecast to start production in 2014. Similarly wells drilled in the last quarter start production the following year. RISC accepted Aurora's estimated 3P drilling sequence for the high case.

RISC determined that the project NPV has low sensitivity to the development drilling rate but is sensitive to the total number of wells drilled and recovery per well. Reducing the low-case



development drilling rate by 30% with the delayed wells being drilled in 2018 reduced the project NPV10 by only 2%.

### 3.6.2. Resource Estimate

RISC low, mid and high case production forecasts result in the following net after royalty resources being produced from 1/1/2014.

Scenario	Low	Mid	High
Oil (MMbbl)	36.2	46.6	47.7
Condensate (MMbbl)	32.3	49.4	63.6
NGL (MMbbl)	25.1	38.8	48.3
Gas (Bcf)	168.1	260.5	324.4
Total (MMboe)	121.5	178.3	213.6

Table 3-6 Aurora Net after Royalty Resources at 1/1/2014 in RISC Low, Mid and High Case Scenarios

- The low case resources are effectively the 1P resources determined by Ryder Scott.
- The mid case resources are greater than Ryder Scott's 2P reserves because RISC has applied to most likely type curve to both proved and probable undeveloped well locations.
- The high case resources are greater than the Ryder Scott's 3P reserves because RISC does not use the low case type curve for 66% of well locations (proved locations).

### 3.7. COST FORECASTS

RISC has reviewed the Aurora basis for both capital and operating costs, and supports the basis for the costs. All costs are in US\$ real terms at an effective date of 1 January 2014.

#### 3.7.1. Well Capital Costs

The cost of drilling between 900 and 1300 wells over the next 5 years account for over 95% of the forward looking capital costs for Aurora.

The majority of these wells are in non-operated acreage, and Aurora well costs are therefore based on information provided by Marathon Oil, the operator of the Sugarloaf, Longhorn, Excelsior and Ipanema AMIs.

RISC notes that Marathon has achieved class leading results in terms of drilling times, time from spud to production and overall well costs.

Anticipated well costs are based on a cost of \$7.5 million for a standardized well with a 5000ft lateral. Costs are then adjusted up or down based on actual planned lateral length.

This cost compares with the 2013 average well cost of \$9 to 9.5 million for wells with an average lateral length approaching 6000ft.

RISC notes that well costs have reduced significantly over the last 2+ years, and although there will be further cost reductions RISC believes that the most significant improvements have already been achieved, and that further cost reductions are likely to be relatively small. Adopting an average cost of \$7.5 million per well therefore represents a realistic view, allowing for some further improvements to be made, but assuming that the impact of these improvements are limited.

Marathon have indicated that they intend to increase the Eagle Ford drilling spend/activity by over 20% year in 2014. Aurora estimate that drilling activity will increase by 10% per year from a base of approximately 200 wells in 2014. As noted in Section 3.6.1 RISC considers that a 10% growth per

year from a base of approximately 200 wells in 2014 is reasonable, and we have based our forecasts on this.

	Low Case	Mid Case	High Case
Total Number of Wells Drilled (excluding 38 PDNP wells)	836	1081	1292
Total Net Cost of Aurora Well Investment, US\$ Million	1642	2229	2811

Table 3-7 Aurora Well Capital Investment

### 3.7.2. Facility Capital Costs

There are currently 9 central production facilities in the non-operated areas, and 2 in the operated areas. All have some remaining (currently unused) capacity and all have proposed expansion works to cater for increased production. Non-operated production is at approximately 60% of facility capacity although this varies from facility to facility. Two additional facilities are planned the non-operated area with start-up in June 2014.

Given the low costs involved, and the active management of facility expansion by Marathon, RISC does not foresee any problems due to lack of facility capacity. Costs for facility modifications are relatively minor, and have been allowed for in each AMI. RISC supports the approach of assigning forward looking costs across the central production facilities. This will enable facilities to be upgraded as required dependent upon drilling sequence.

	Low Case	Mid Case	High Case
Net Cost of Aurora Facilities Investment, US\$ Million	52	56	56

Table 3-8 Aurora Facilities Capital Investment

### 3.7.3. Operating Costs

Unit operating costs in the AMI's has been reduced over time as production has increased. Marathon Oil has presented a reduction in AMI unit operating costs to \$5.05/boe in 2013 through a combination of increased production and cost saving initiatives.

Forward looking costs for Aurora are based on an overall initial unit operating cost of just under \$5.50/boe. This is based on Marathon's \$5.05/boe and the higher unit operating costs experienced at in the operated AMI's. RISC notes that the Aurora operated AMI's incur higher operational costs due to the need to generate power on site, and also the increased complexity of dealing with H<sub>2</sub>S in the Axle Tree operations (where unit operating costs are >\$9.00/boe).

\$5.50/boe also includes anticipated improvements in Marathon operations due to the installation of water disposal pipelines, and the corresponding reduction in trucking operations and costs.

Further increases in production do not produce significant further reductions in the unit operating costs, but as production declines unit operating costs are anticipated to increase significantly (see Figure 3-46). RISC has reviewed the basis for these operating costs and considers this a reasonable representation of the likely increase in unit costs as production declines.



#### 4. EAGLEBINE EXPLORATION ACREAGE

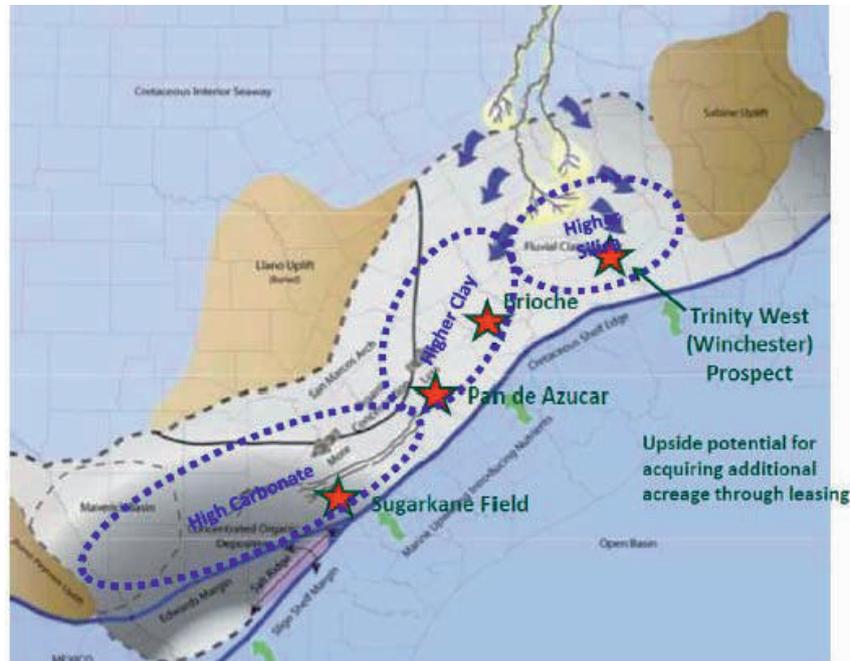


Figure 4-1 Location of Eaglebine Play, Winchester Prospect

In 2013 Aurora has acquired 15,249 net acres containing the Eaglebine exploration play, East Texas. 95% of the acreage is in the Trinity West AMI and Trinity West ATW. The Eaglebine play is the thick Upper Cretaceous sandy shale sequence where the Eagle Ford Shale transitions into the Woodbine Sands. It extends from the base of the Austin Chalk to the top Buda formation. The play is a time equivalent eastward extension of the Eagle Ford Shale play. Aurora has targetted acreage where the lower Eaglebine is in the gas/condensate window at depths of 10,000 to 12,000 feet.

Activity in the area has increased with EOG Resources, SM Energy and ZaZa Energy interests in the surrounding acreage. ZaZa Energy announced in their 3Q 2013 release that they had divested about 20,000 acres of Eaglebine to its JV partner for a cash consideration of \$17 million and approximately \$3 million of interests in producing wells. This values Eaglebine acreage at \$1000/acre.

Aurora drilled a vertical exploration well in 2013 (Timber-1) in the Trinity West AMI. 57 feet of core was recovered from the Eaglebine Shale and a lateral target identified for a follow-up horizontal well. Geochemical analysis confirmed the prospect to be within the gas-condensate window. Clay content, formation brittleness and hydraulically fractured well performance remains the key uncertainties. These vertical well results are inconclusive and a hydraulically fractured horizontal well proposed in 2014 is required to determine reservoir productivity.

RISC estimate the acreage to have a similar value to that paid by Aurora. Aurora has informed RISC that the spend to date has been US\$11 million acquiring the leasehold, on the vertical well and buying out of other owners. It therefore represents a small value component in Aurora's portfolio. RISC estimate the acreage value at approximately US\$ 11 to 15 million.



## 5. KEY RISKS AND OPPORTUNITIES

- Well costs carry some uncertainty and represent the major cost item. RISC estimate and recommend that Grant Samuel test value with +/-5% uncertainty in well costs.
- Operating costs are RISC estimate and recommend that Grant Samuel test value with +/-10% uncertainty in operating costs.
- We have already indicated that we don't see drilling program as a key sensitivity provided that they remain drilling the sort of numbers they have been drilling over the past year or 2.
- Well performance is one of the larger uncertainties and captured with the low case typecurves in the low case scenario. Alternatively additional wells may be required to recover the mid and high case resources and this could be tested using an increase in CAPEX.
  - RISC recommends that mid case economics are tested with a development cost uncertainty of +/-10% . This represents a combination of cost uncertainty and well performance uncertainty with more or less wells being required to recover the mid case resources.
- Alternatively well performance could be better than currently estimated – covered by high case scenario – but could (also) be represented by mid case recovery with less wells/cost.



## 6. DECLARATIONS

### 6.1. QUALIFICATIONS

RISC is an independent oil and gas advisory firm. All of the RISC staff engaged in this assignment are professionally qualified engineers, geoscientists or analysts, each with many years of relevant experience and most have in excess of 20 years. The preparation of this report has been prepared under the supervision of Mr. Peter Stephenson. Mr. Stephenson is a member of the Society of Petroleum Engineers, a Member of the of the Institute of Chemical Engineers and holds a B.Sc. (Engineering), Nottingham University, 1982 and a M.Sc. (Petroleum Engineering), Herriot Watt University, 1984 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules. Mr. Stephenson has over 30 years' experience evaluating oil and gas fields.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration / portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert / Expert Witness;
- Strategy and corporate planning.

### 6.2. RELIANCE

This Report is to be relied upon by Grant Samuel acting as the Independent Expert. RISC acknowledges that Aurora and Grant Samuel will use and place reliance on this Report in determining whether due and careful enquiry has been taken by the Directors of Aurora in relation to the proposed acquisition by Baytex Energy Corp.

### 6.3. VALMIN CODE

This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("The VALMIN Code").



#### 6.4. PETROLEUM RESOURCES MANAGEMENT SYSTEM

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

#### 6.5. REPORT TO BE PRESENTED IN ITS ENTIRETY

RISC has been advised by Aurora that this report will be presented in its entirety without summarisation.

#### 6.6. INDEPENDENCE

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Aurora and Grant Samuel and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and BDO Corporate for the provision of this report RISC will receive a fee, based on time expended and our current standard terms and conditions, payable by Target Energy. The payment of this fee is not contingent on the outcome of any transaction between Target Energy and other party;
- The Directors and staff of RISC involved in the preparation of this report hold not interest in Aurora or Grant Samuel.

#### 6.7. LIMITATIONS

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Grant Samuel and Aurora as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Aurora staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. In particular, we have not independently verified property title, encumbrances or regulations that



apply to this asset(s). RISC has also not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

#### 6.8. CONSENT

RISC has consented to this report, in the form and context in which it appears, being included in the Notice of Annual General Meeting and Explanatory Statement for Aurora Oil & Gas Limited. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Stephenson, RISC Partner. Mr. Stephenson is a member of the Society of Petroleum Engineers, a Member of the of the Institute of Chemical Engineers and holds a B.Sc. (Engineering), Nottingham University, 1982 and a M.Sc. (Petroleum Engineering), Herriot Watt University, 1984 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

A handwritten signature in black ink, appearing to read "Peter Stephenson".

Peter Stephenson  
Partner



Abbreviation	Definition
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
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 as defined in the SPE-PRMS.
CO2	Carbon dioxide
CP	Centipoise (measure of viscosity)
CPI	Consumer Price Index
DEG	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
EG	Gas expansion factor. Gas volume at standard (surface) conditions / gas volume at reservoir conditions (pressure & temperature)
EIA	US Energy Information Administration
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
ESP	Electric submersible pump
EUR	Economic ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front End Engineering and design
FID	Final investment decision



Abbreviation	Definition
m	Metres
Marathon	Marathon Oil Corporation
MDT	Modular dynamic (formation) tester
mD	Millidarcies (permeability)
MJ	Mega (10 <sup>6</sup> ) Joules
MMbbl	Million US barrels
MMscf(d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
MOU	Memorandum of Understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10 <sup>6</sup> ) pascal (measurement of pressure)
mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
OGIP	Original Gas In Place
OOIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.



Abbreviation	Definition
PVT	Pressure, volume & temperature
QA/QC	Quality Assurance/ Control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
SPE-PRMS	Petroleum Resources Management System, approved by the Board of the SPE March 2007 and endorsed by the Boards of Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers.
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
stb	Stock tank barrels
STOIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting
Tcf	Trillion (10 <sup>12</sup> ) cubic feet





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