

ASX ANNOUNCEMENT

4 April 2013

AGREEMENT TO ACQUIRE LARGE HYDROCARBON PLAY ONSHORE WESTERN UKRAINE

Highlights

- PTO has entered into an agreement pursuant to which it has agreed to acquire the Limnytska oil and gas licence (Limnytska Licence) located in Western Ukraine
- The Limnytska Licence is an onshore oil and gas project with a relatively low risk appraisal opportunity and significant upside resource potential
- Ownership interest of 100% to enable farm-in or debt financing capability
- Favourable commercial terms, significant growth potential and strong local partnerships
- Large deep and shallow structure potential with logs from an historic well indicating the likely presence of moveable hydrocarbons
- A total net pay of 130.6 m was interpreted across a 727.6 m gross interval on Pivdenna Grynivka #2 Well, with porosity up to 24% and oil saturation up to 83%
- Independent technical review has been completed which endorses potential - additional review underway to determine volumetric estimates

PTO Consolidated Limited (ASX:PTO) (PTO or the Company) is pleased to announce that it has entered into a share sale agreement (Agreement) pursuant to which it has agreed, subject to satisfaction of certain conditions, to acquire the entities that are the 100% owners of the Limnytska oil and gas licence (172km²) (Limnytska Licence) (Acquisition).

The Acquisition will be effected via the purchase of two interposed entities which have ownership of the Limnytska Licence.

The Chairman of PTO, Mr Peter Wall, stated:

"This is an exciting new acquisition for PTO that will result in the Company changing the nature and scale of its activities to an oil and gas explorer, and hopefully producer."

"The Limnytska Licence has a number of targets, which are supported by geological mapping and historical drilling of the licence area. This should enable the Company to

generate strong investor interest because of the near term potential for the licence to deliver production."

"Further, the local vendors have a vested interest in the success of the project via equity in PTO, meaning that their interests are aligned with other shareholders, a relatively unique position when dealing with Ukraine vendors."

Western Ukrainian Operations

The Limnystka Licence is located in Western Ukraine, south of Lviv.



Figure 1: Limnystka Licence is located south of Lviv



Figure 2: Limnytska Licence (highlighted with yellow boundary). Two historical wells are noted.

As set out in Figure 2 above, the Limnytska Licence is located within an area of significant oil and gas deposits (which are numbered in the figure above).

Overview of Licence

- The Limnytska Licence is a large licence (172km²) with both shallow and deep appraisal and exploration potential. It contains an untested Mesozoic hydrocarbon play, below the intensely folded and faulted tertiary Carpathian deep-water sedimentary section.
- There are known discoveries updip from the Limnytska Licence and in the overthrust Carpathian foldbelts.
- A portion of the licence area has been mapped with 2D seismic and there is a reasonable degree of confidence in the structures and isodepth contours for these areas.
- As part of its technical review, PTO engaged an independent technical adviser who endorsed the potential of the licence. An additional review is underway to determine volumetric estimates.
- Shallow zone:
 - o Well Pivdenna Grynivka #2 (PG-2) was drilled to 3400m and penetrated the Mesozoic section and reached total depth in Cambrian age rocks.

- Good oil saturation (avg 72%, max 83%) and excellent porosity (avg 15%, max 24%) indicated on logs over a large 60m pay interval from 3,250m to 3,400m. However, the well was not tested.
- A total net pay of 130.6 m was interpreted across a 727.6 m gross interval.
- At the time, the well was mothballed because the Lopushnyansky field was under development. Consequently, the well was not tested as it was kept in reserve to meet future Soviet central planning targets.

- Deep zone:

- The well Olkhovska-18 was drilled to 5216m with a planned depth of 5900m but did not reach the Mesozoic.
- Strong geological evidence of large structures that have been largely undrilled due to depth and technological limitations during Soviet ownership.
- Geological modelling from gravity mapped structure indicates potential for a significant quantity of gas in one of several structures in the deep section on the licence.
- Resource partially proven by log response on historic well terminated just short of primary target.
- Potential may be large enough to attract farm-out partner.

Overview of operating in the Ukraine

Upon the basis that the Company proceeds with the Acquisition, it will be operating gas exploration and, potential production, activities in the former Soviet state of the Ukraine. The following is a brief overview of undertaking gas exploration activities in the Ukraine:

- the gas fields of the Ukraine are at the present significantly underdeveloped which provides significant opportunities for development and extraction of natural gas;
- there is good local infrastructure in place;
- there is strong national desire to increase foreign investment to improve domestic oil and gas production;
- the Ukrainian government has fostered development of oil and gas resources by providing favourable commercial terms on the sale of oil and gas to foreign companies proposing to undertake exploration and production activities (gas margin circa 45%, oil margin circa 30%);
- there is strong product pricing, with gas at circa USD\$11.80 gross / mcf and oil at circa USD\$100 per bbl; and
- the presence of strong local partners with a proven ability to obtain licences and foster facilitative relationships.

Agreement Terms

Pursuant to the Agreement, the Company has the right to acquire 100% of the issued share capital in the entities that own the Limnytska Licence. The material terms of the Agreement are as follows:

1. Cash Consideration

The Company agrees to pay the following cash consideration to the vendors:

- (a) a non refundable cash payment of USD\$150,000 on satisfaction of legal and technical due diligence investigations;
- (b) USD\$500,000 at settlement;
- (c) following completion by the Company of either a 2D or 3D seismic program on the Limnytska Licence, USD\$800,000 upon an independent report on the Limnytska Licence confirming that there is a minimum of 25 million barrels of oil equivalent (recoverable) at P50 contingent resource level (to SPE-PRMS standards);
- (d) USD\$1 million upon re-entry of the Pivdenna Grynivka #2 Well; and
- (e) USD\$1 million on spud of a new well on the Limnytska Licence (other than the Pivdenna Grynivka #2 Well).

2. Consideration Shares

Subject to satisfaction or waiver of conditions to the Acquisition, at settlement of the Acquisition, the Company has agreed to allot and issue 40,000,000 fully paid ordinary shares in the capital of the Company (on a post consolidation basis) (**Shares**) in consideration for the Acquisition.

3. Deferred Consideration Shares and Royalties

Subject to satisfaction or waiver of conditions to the Acquisition and the fulfilment of certain performance milestones in relation to the Limnytska Licence, following settlement, the Company has agreed to allot and issue (on a post consolidation basis):

- (a) 6,000,000 Shares if, within three years from settlement, the Pivdenna Grynivka #2 Well is re-entered and production from that well is at least 400 barrels of oil equivalent per day (50 tonnes) (based on a 30 day average of continuous flow rate, within 90 days of production from the well commencing) (**Class A Milestone**);
- (b) 6,000,000 Shares if, within three years from settlement, a second well on the Limnytska Licence (not being the Pivdenna Grynivka #2 Well) (**Second Well**) is completed and production from that well is at least 400 barrels of oil equivalent per day (50 tonnes) (based on a 30 day average of continuous flow rate, within 90 days of production from the well commencing) (**Class B Milestone**); and
- (c) 7,000,000 Shares if, within three years from settlement:
 - (i) commercial flow rates have been achieved from two or more wells on the Limnytska Licence (i.e. >200bopd average per well for 90 days continuous flow within 180 days of each well commencing production); and

- (ii) an independent report on the Limnytska Licence (commissioned by the Company) confirms that there is a minimum of 20 million barrels of oil (recoverable) at P50 contingent resource level (to SPE-PRMS standards) (**Resource**),

(together, **Class C Milestone**),

with the number of Shares to be issued increasing to 8,000,000 Shares in the event that the Resource equals or exceeds 40 million barrels of oil (recoverable) at P50 contingent resource level.

Refer to Schedule 1 for details of royalties that will be payable to the Vendor.

4. Conditions

The Acquisition is subject to a number of conditions, including;

- (a) the Company have completing financial and legal due diligence in relation to entities that own the Lymnytska Licence;
- (b) the Company obtaining all necessary board and shareholder approvals required in relation to the Acquisition;
- (c) the Company lodging a prospectus with the ASIC, raised a minimum of \$3,000,000 under that prospectus (**Capital Raising**) and the Company being satisfied it will re-comply with the new listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules (**Listing Rules**);
- (d) the local Ukraine company that owns the Lymnytska Licence entering into a joint activities agreement with a third party pursuant to which the third party will be entitled to the rights to 99% of all production generated from a second licence owned by the local Ukraine company (the **Cherlyanska Licence**) and, in return, the third party nominee will assume all liabilities relating to the Chertlanska Licence; and
- (e) the Company being satisfied that there are not material adverse changes between the date of entering into the Agreement and settlement.

Corporate Advisor

The Company has engaged Energy Capital Partners to provide corporate advisory and equity raising services in relation to the proposed change of nature and scale and re-compliance with Chapters 1 and 2 of the Listing Rules.

Change of Activities

As the proposed Acquisition of the Limnytska Licence constitutes a change in the nature and scale of the Company's activities from a consumer durables and apparel focused company to an oil and gas exploration/production company, the Company will be required, pursuant to Listing Rule 11.1.3, to obtain approval from PTO's shareholders at a general meeting and re-comply with Listing Rules 1 and 2. The indicative timetable to achieve this is set out below.

If the transaction is approved by PTO's shareholders, the Company's securities will remain suspended from trading following the general meeting until the requirements of Chapters 1 and 2 of the Listing Rules have been satisfied.

Further information regarding the acquisition and the change of activities will be available in the notice of meeting convening the general meeting, to be dispatched to shareholders in due course.

Consolidation

As part of the Company's proposes re-compliance with Chapters 1 and 2 of the Listing Rules, the Company will be required to consolidate its issued Share capital to facilitate a Share price of \$0.20. Accordingly, the Company proposes to consolidate its share capital on a 1:17 basis (**Consolidation**). Shareholder approval to undertake the Consolidation will be sought at a meeting of members indicatively set for May 2013.

Proposed management and change of name

The Company is in the process of seeking to appoint a Managing Director and a Technical Director to oversee the Company's proposed change in activities.

In addition, and in line with its change in activities, the Company will be seeking to change its name to "Cossack Energy Limited".

Indicative Timetable

Action	Target Dates
Dispatch of notice of meeting to approve change of activities, the Acquisition, the issue of consideration, the Consolidation and the director appointment	Mid April 2013
General Meeting of Shareholders	Late May 2013
Lodgement of Prospectus with ASIC	Early June 2013
Reinstatement to Official List of the ASX	Late July 2013

Indicative Capital Structure

Set out below is the indicative capital structure of the Company following completion of the Acquisition and the Capital Raising.

	Shares	Performance Shares
Current issued capital (pre-Consolidation)	325,877,006	-
Current issued capital (post 1:17 Consolidation)	19,169,236	-
Issue of shares – Acquisition	40,000,000	-
Issue of shares – Capital Raising	15,000,000	-
Issue of Class A Performance Shares	-	6,000,000
Issue of Class B Performance Shares	-	6,000,000
Issue of Class C Performance Shares	-	7,000,000
Total	74,169,236¹	19,000,000

¹ In the event that all the performance milestones are met in accordance with the Agreement, a further 19,000,000 Shares will be issued, thereby increasing the total number of Shares on issue to 93,169,236.

² The Company also has 100,000,000 Options on issue with an exercise price of \$0.01 each and an expiry date of 29 February 2016. These Options will also be consolidated on a 1:17 basis.

Pro-forma balance sheet

A pro-forma balance sheet is set out in Schedule 2 showing the financial impact of the Acquisition and the Capital Raising on the Company.

- Ends -

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SCHEDULE 1 – NET PROFIT ROYALTIES

On and from settlement of the Acquisition, the following royalties will be payable to the Vendor:

- (a) on and from satisfaction of the Class A Milestone, a 50% net profit royalty from production generated from the Pivdena Grynivka #2 Well until such time that the Vendor has received a total of USD\$3,000,000 (with the total royalty payments increasing to USD\$6,000,000 in the event that production from the Pivdena Grynivka #2 well averages in excess of 800 bopd (100 tonnes) (based on a 30 day average of continuous flow rate within 90 days of production from the well commencing) (after which time the royalty shall cease to be payable to the Vendor); and
- (b) on and from satisfaction of the Class B Milestone, a 50% net profit royalty from production generated from the Second Well until such time that the Vendor has received a total of USD\$3,000,000 (with the total royalty payments increasing to USD\$6,000,000 in the event that production from the Second Well averages in excess of 800 bopd (100 tonnes) (based on a 30 day average of continuous flow rate within 90 days of production from the well commencing) (after which time the royalty shall cease to be payable to the Vendor); and
- (c) on and from satisfaction of the Class C Milestone, a 50% net profit royalty from production generated from the Pivdena Grynivka #2 well and the Second Well until such time that the Vendor has received a total of USD\$5 million (with this total royalty payment increasing to USD\$8 million if the resource equals or exceeds 40 million barrels of oil (recoverable) at P50 contingent resource level) (after which time the royalty shall cease to be payable to the Vendor).

Calculation of net profit royalties:

- (a) the net profit royalty will be paid on a quarterly basis;
- (b) the net profit royalty calculations will be undertaken by the Company's auditors; and
- (c) the net profit royalty calculations will be based on gross revenue less allowable deductions.

SCHEDULE 2 – PRO-FORMA BALANCE SHEET

The balance sheets have been prepared to provide information on the Company's assets and liabilities and pro-forma assets and liabilities as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

		Historical (Reviewed) 31 Dec 2012	Pro-forma (Settlement of Acquisition) 31 Dec 2012
	Notes	\$	\$
Current Assets			
Cash & cash equivalents	1-3	1,343,598	3,221,867
Trade & other receivables		14,647	14,647
Total Current Assets		1,358,245	3,236,514
Non-Current Assets			
Other assets		9,986	9,986
Investment accounted for using the equity method		-	-
Exploration & evaluation expenditure	2-4	-	8,621,732
Total Non-Current Assets		9,986	8,631,718
TOTAL ASSETS		1,368,231	11,868,231
Current Liabilities			
Trade & other payables		31,279	31,279
Total Current Liabilities		31,279	31,279
TOTAL LIABILITIES		31,279	31,279
NET ASSETS		1,336,952	11,836,952
Equity			
Contributed equity	1&4	11,058,427	21,558,427
Reserves		1,000	1,000
Accumulated losses		(9,722,475)	(9,722,475)
TOTAL EQUITY		1,336,952	11,836,952

Notes: The historical information as at 31 December 2012 is based on the half year report as reviewed by the Company's auditors. The pro-forma information has been included for illustrative purposes to reflect the position of PTO Consolidated Limited on the assumption that the following transactions in relation to the Acquisition had occurred as at 31 December 2012:

- | | |
|--|--------------|
| 1. \$3 million prospectus capital raising (net of costs of \$500,000) | \$ 2,500,000 |
| 2. The payment of a deposit upfront (USD \$150,000) | \$ 143,477 |
| 3. The payment of consideration funds at Settlement (USD\$500,000) | \$ 478,255 |
| 4. The allotment of 40 million consideration shares at 20cents at Settlement | \$ 8,000,000 |

In addition, the pro-forma balance sheet assumes that no liabilities will be assumed as part of the acquisition. This will be investigated during the due diligence process.