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SHAREHOLDER UPDATE

29 May 2012

COMPANY STRATEGY

At the Annual General Meeting ("AGM") of Larus Energy held on 1 May 2012, the Board and Management took the opportunity to outline the Company's strategy. The Presentations used and spoken to at the AGM are on the Company's website www.larusenergy.com.au under the "News/Presentations" tab.

There were a number of questions raised by various shareholders regarding the strategy outlined at the AGM and, given the fact that not all shareholders were able to attend the AGM, we felt it would be beneficial to briefly reiterate the Company's strategy in a Shareholder Update.

Strategy Going Forward

We have a clear forward strategy with a strong focus on our flagship asset in Papua New Guinea (PNG) PPL326. We have a two phase strategy for PPL326, in summary:

- Complete the pre-drilling seismic programs as soon as possible to enable Larus Energy to gain a greater understanding of PPL 326 and enhance its value to potential future funding partners; and then proceed to
- Lock-in sufficient capital (raised ourselves or by farm-out) to enable Larus Energy to work through a multi-well drilling program that will uncover the real value of PPL326 – without being unreasonably hostage to the results of individual wells as we progress through the drilling program.

Typically in the oil and gas industry, as compared to the other resource sectors, this is done with joint venture partners in order to lay off some of the risk associated with drilling wells. The support of a joint venture partner would enable larger capital expenditure required for these exploration activities.

Capital Management a Focus

In the past, capital has not always been available to us in the amounts we needed at the times required to implement the desired exploration programs. So, while a large sum of private capital has been raised over the life of the Company, it has come in slowly and spasmodically, largely due to global financial conditions. Coping with this funding uncertainty has been a significant challenge for Management. Where previously our capital resources have driven our exploration, we are looking to change that.

The Company's financial position is strong. We have nearly \$3 million in cash – the most that the Company has ever had in the bank – and no debt. We remain focused on keeping costs low so as to preserve capital for operating activities. This focus extends to executive remuneration, where the Board believes our key executives are remunerated fairly, but not excessively, relative to industry standards.



Despite our robust cash position, the Board recognises that Larus Energy' current cash balance is insufficient for the next planned phase of work. As such, the Board is in the process of working through a number of initiatives to address the capital requirements of the Company, including a capital raising program which is underway.

While the global financial markets continue to be difficult, there is a healthy degree of interest in the Company and the potential of its assets. The Board is encouraged by this continuing interest and remains very focused on enhancing and maximising shareholder value.

Growing Potential of PPL 326

As mentioned at the AGM, we recently became aware of the very promising results which emerged from the interpretation of the Abau Shallow Water Survey. The significant potential that was indicated following the survey justified a re-pricing and convinced us to close off the 20 cent capital raising. Having said that, it is now necessary to educate potential investors of the burgeoning potential of PPL326.

The Board is acutely aware of shareholders' desire for liquidity. We continue to assess the viability of an Initial Public Offering ("IPO") and we hope to execute this within the current calendar year. However, market conditions for new listings remain depressed and we must ensure that any listing, and associated raising, is executed on terms which are deemed favourable for the Company and in the best interests of current shareholders.

Communication with our shareholders is of vital importance to the Board and we will endeavour to communicate the encouraging progress of the Company to shareholders on a timely basis.

The Board and Management wish to thank shareholders for their continued support of the Company and we look forward to sharing in the Company's exciting future with shareholders.

For any enquiries please contact:

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