



19 January 2015

ASX ANNOUNCEMENT / MEDIA RELEASE

## **Overview of Canadian Litigation**

Further to the announcement of 5 January 2015, the Board provides a detailed overview of the current status of the litigation concerning the Company (**MPO**) and its wholly owned Canadian subsidiary, Molopo Energy Canada Limited (**MECL**), as follows.

There are currently a series of legal actions in Canada concerning MPO and MECL, all of which relate to the sale by MECL of its interests in various oil and gas drilling joint ventures on 1 March 2011.

The current status of the legal actions is summarised as follows:

- 1 One of MECL's former joint venturers (**3105682 Nova Scotia ULC ("310 ULC")**) commenced legal action in 2011 against MECL claiming MECL breached various agreements relating to the relevant joint venture, including breach of fiduciary duties, trust and good faith. 310 ULC has sought declarations, accountings, damages of 25% revenue, C\$35 million general damages, C\$1 million punitive and aggravated damages, interest, GST and indemnity costs.

MPO itself is not a party to these proceedings.

Whilst the litigation commenced in 2011 it is still at an early stage and the matter is not likely to proceed to trial until 2016 at the earliest.

MECL has made a C\$8.4 million provision in its financial accounts in relation to this litigation as set out in MPO's consolidated 30 June 2014 accounts. The new Board is not aware of any information at this time to indicate that this provision is inadequate or inappropriate.

- 2 310 ULC also commenced legal action in 2013 against the purchaser of MECL's interests in the joint ventures (**Legacy Oil & Gas Inc. ("Legacy")**), as successor in title to MECL, claiming that Legacy continued some breaches allegedly committed by MECL and committed further breaches of the agreements relating to the relevant joint venture, including breaches of fiduciary duties, trust and good faith. 310 ULC has sought declarations, accountings, damages of 25% revenue, C\$90 million general damages, C\$1 million punitive and aggravated damages, interest, GST and indemnity costs.

Legacy has issued a third party notice to both MECL and MPO on the basis of indemnities provided by MECL to Legacy in the sale agreement between MECL and Legacy, and a guarantee provided by MPO to Legacy in relation to MECL's obligations under the sale agreement.

This litigation is also at an early stage and MECL and MPO have not yet been required to file defences to the third party claim.

The Company notes Legacy's statement in relation to the litigation in its 2013 Annual Information Form filed in Canada in the following terms:

“3105682 Nova Scotia ULC (“310 ULC”) has filed and served on Legacy a statement of claim (the “Statement of Claim”) dated February 27, 2013 in the Court of Queen’s Bench of Alberta naming Legacy as a defendant. The Statement of Claim was previously disclosed in Legacy’s Annual Information Form for the year ended December 31, 2012. The Statement of Claim relates to a suspension of 310 ULC’s rights under certain operating and other agreements respecting properties in which Legacy and 310 ULC have an interest at Pierson, Manitoba for the non-payment of amounts owing under the agreements by 310 ULC. As a result of such suspension, which was implemented by Legacy's predecessor in interest before it acquired the properties, Legacy issued to 310 ULC notices of non-consent election and noted 310 ULC to be in penalty with respect to wells drilled by Legacy on the properties until 310 ULC chose to cure its default under the agreements in early 2013. The Statement of Claim alleges that Legacy, in doing so, breached the agreements and certain other duties owed by Legacy to 310 ULC. The Statement of Claim also alleges that 310 ULC has an interest in certain of the properties at Pierson not recognized by Legacy. The Statement of Claim seeks, among other relief, declarations clarifying 310 ULC's interests in and rights respecting the properties, damages that would equal 310 ULC’s share of the net revenues from the disputed wells, punitive and aggravated damages of \$1,000,000 and general damages in the amount of \$90,000,000. Legacy believes that the Statement of Claim is without merit and will vigorously defend the action. Legacy believes that its exposure for damages under the Statement of Claim would not be material to it and that it would be entitled to claim indemnity from the third party from which it acquired the properties for any such damages. In addition, Legacy believes that the amount claimed in relation to general damages has been arbitrarily determined by 310 ULC to grossly exaggerate the value of any claim and does not represent a type of damages recoverable in the circumstances.”

- 3 310 ULC commenced legal action in 2013 against three former MECL employees, claiming they induced MECL to breach the joint venture agreements the subject of the proceedings referred to in point 1 above. 310 ULC has sought against each employee special damages, C\$65 million general damages, C\$2 million punitive damages, interest, GST and indemnity costs. MPO’s D&O insurers have been notified of the claim and are paying the legal expenses of the former employees.

Neither MPO nor MECL are parties to these proceedings.

- 4 310 ULC commenced legal action against MPO in December 2014 claiming that MPO is liable to 310 ULC for inducing a breach of contract and inducing breaches of other duties by MECL in relation to the joint venture agreements, the subject of the proceedings referred to in point 1 above. 310 ULC unsuccessfully sought an injunction against MPO in December 2014 in these proceedings to restrict MPO dealing with its assets.

Whilst MPO has only just been served with these proceedings, MPO's preliminary view is that the proceedings are without merit and accordingly MPO intends to seek to have the proceedings summarily dismissed.

- 5 Another of MECL's former joint venturers (**Shallow Gas Frilling Corp. ("Shallow Gas")**) commenced legal action in 2014 against MECL and Legacy claiming that MECL and Legacy breached the joint venture agreement with Shallow Gas in relation to the drilling of test wells. Shallow Gas also made related claims of negligence and breach of fiduciary duties, and an alternate unjust enrichment claim. Shallow Gas sought, jointly and severally against MECL and Legacy, C\$6 million damages, special damages, accounting, C\$1.05 million restitution, specific performance declarations and interest. These proceedings were summarily dismissed on 26 September 2014 at Legacy's instigation. Shallow Gas has appealed this decision.

MPO is not a party to these proceedings.

The new Board considers that it is a priority for MPO to seek to resolve the litigation with regard to the provisions made in MECL's accounts, although there is no assurance that this will be possible. If the litigation cannot be resolved, MPO and MECL will continue to defend the litigation to which they are parties. Whilst MPO believes that the amounts sought under the various legal actions grossly exaggerate any amount that would be awarded, until such time as a resolution of all or a majority of the litigation can be achieved the new Board's view is that it may not be in a position to make a decision for some time, as to whether it may or may not be appropriate to initiate a return of any cash to shareholders.

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